Connect Group PLC
Annual Report and Accounts
2017

Further

Easier

Connected logistics.

Earlier

Connected logistics.

Connect Group PLC is a leading specialist distributor operating in **early distribution** and **mixed freight.** We connect suppliers to customers in an efficient, knowledgeable and service oriented way.

We go ***further*** to make customer deliveries ***easier*** and ***earlier***

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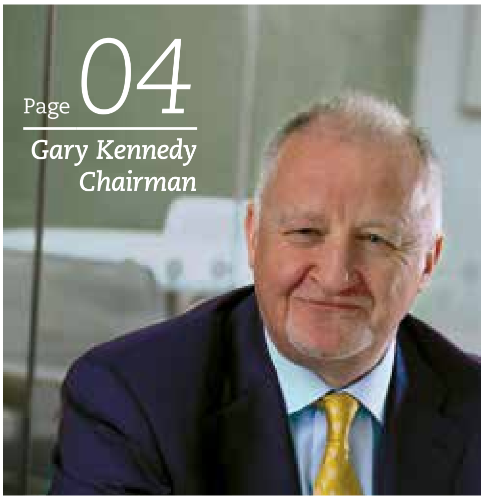
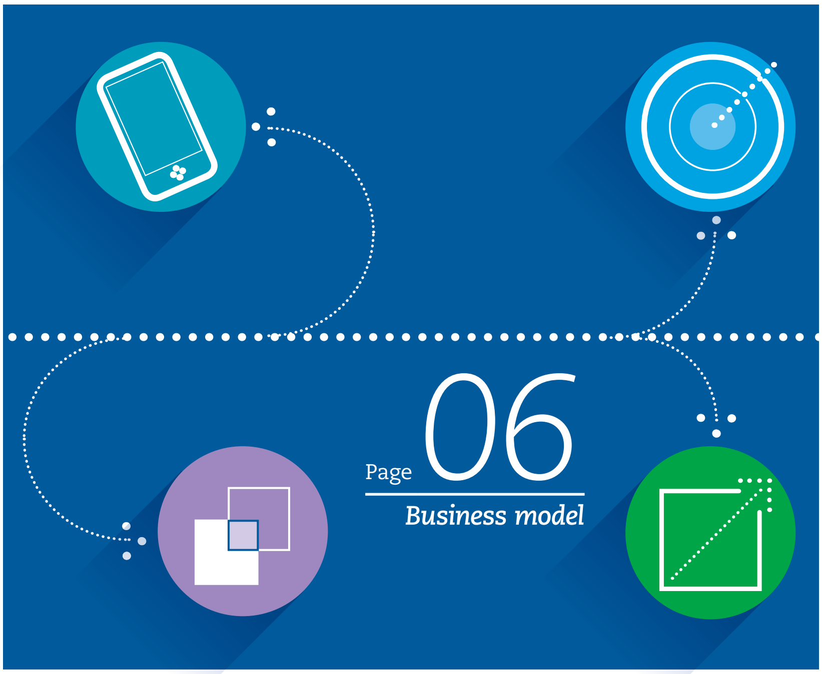




Company overview

Financial highlights

Continuing Operations:

£48.0m

Adjusted Profit Before Tax

15.5p

Adjusted Earnings Per Share

£28.7m

Free Cash Flow to Equity

9.8p

Dividend Per Share

Alternative performance measures presented throughout the Annual Report, including adjusted profit and free cash flow to equity, are defined in Note 1 to the financial statements.

Our core markets

Our networks are focused on serving high drop density early morning deliveries, and the demands of mixed and irregular sized freight nationwide. We operate in two markets, leveraging our skills and infrastructure to add value for clients and customers.

Early Distribution

News Distribution

Smiths News, the UK's largest news wholesaler reaches more than 27,000 retailers across England and Wales. Operating seven days a week, we deliver supplies, collect and process returns and use technology to forecast demand and manage products efficiently. Serving a fixed but fragmented customer base, the density of our coverage is unprecedented, and the speed of turnaround is critical to one of the world's fastest physical supply chains.

Media

DMD serves the needs of airlines and travel points in the UK and worldwide, supplying printed and digital media. Delivering to strict time windows with security accreditation, we are one of the world's leading providers in this specialist sector.

Click and collect Services

Pass My Parcel's 'click & collect' services leverage our combined networks to provide efficient solutions for leading online and high street retailers. In this growing market, we have the infrastructure and know-how to reach customers overnight or even faster, using integrated technology that links directly to clients. Our network of parcelshops provides national consumer reach for deliveries and returns. Bespoke services for larger clients, serving their early morning and instore requirements are a recent development in this rapidly evolving sector.

Mixed Freight

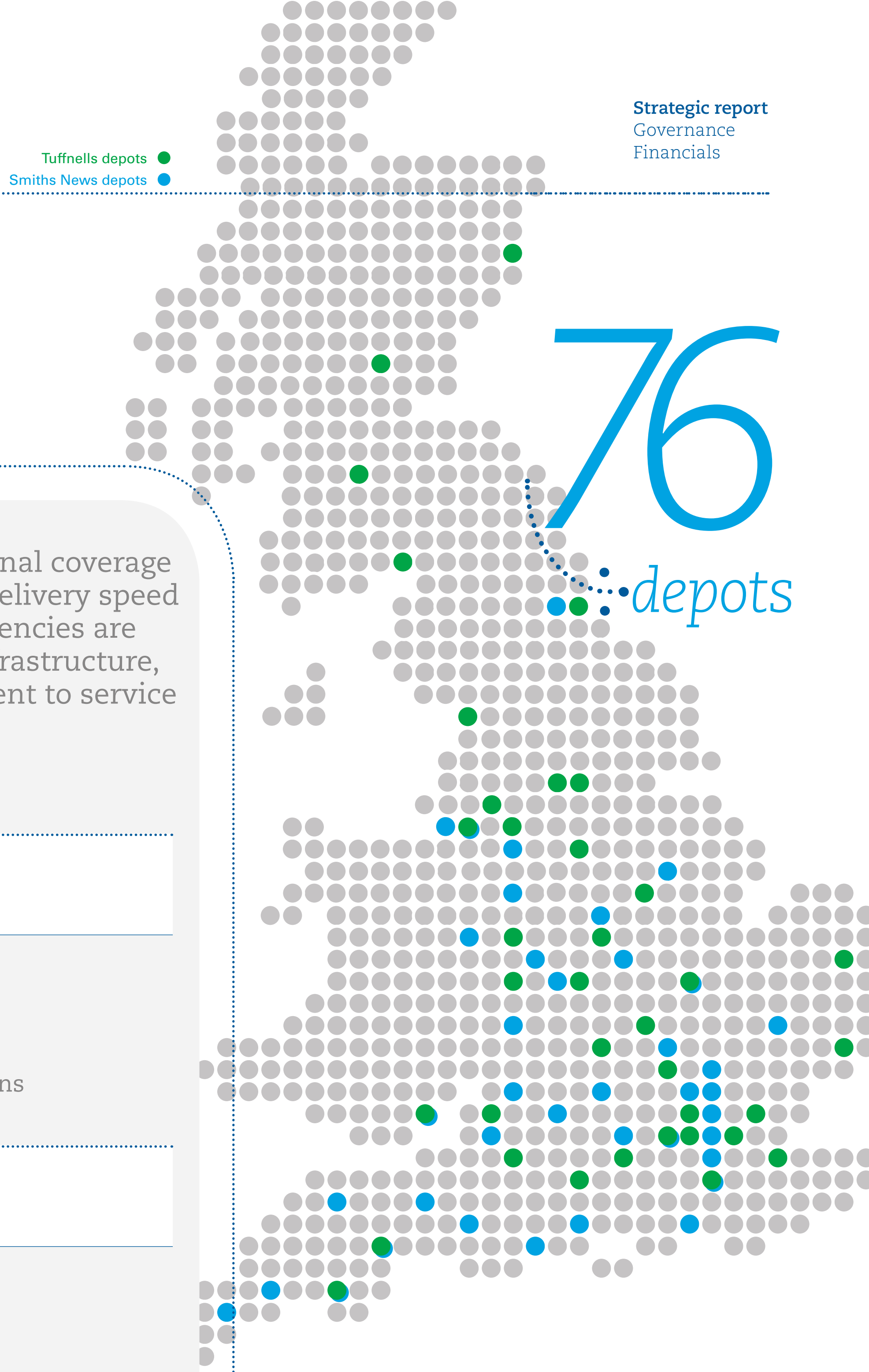
Tuffnells is a leading specialist in mixed and irregular freight, serving over 5,000 small and medium-sized enterprises across the UK. Whether it's a parcel or a pallet load, we have easy solutions for the deliveries that others find difficult to make. With a mix of local and national clients the Tuffnells network completes up to 75,000 daily drops, offering a range of timed deliveries that complements our capability in early morning distribution.

SmithsNews

Tuffnells Parcels Express

pass my parcel

dmd



Integrated capability

Our networks combine national coverage with unique capabilities in delivery speed and drop density. Scale efficiencies are built on shared skills and infrastructure, underpinned by a commitment to service that is second to none.

Network

- 76 depots
- Hub and spoke combinations
- Collections and returns
- Irregular weights and dimensions

Deliveries

- 3,500 delivery rounds
- 27,000 pre-6.00am deliveries
- 75,000 daily deliveries
- 3,500 daily collections

Adding value

- Track & trace
- Integrated technology
- Recycling
- Sales forecasting and information
- Security accredited

Further going the extra mile for our customers

Easier making complex deliveries simple

Earlier delivering overnight and early morning, every day

Chairman's statement

The change programme is now well underway. We are moving at pace and our approach is driven by a commitment to medium to long-term value creation

In a challenging year the Group's financial performance has been impacted by tough markets and the backdrop of establishing a more focused strategy that will transform the operating model of the Group. After careful review of our capabilities and market opportunity, management has taken steps to restructure for the future, combining assets and capabilities into an integrated business model that will underpin continued efficiency savings and deliver new and more cohesive services to our customers.

Group Adjusted profit before tax for Continuing Operations of £48.0m is down by 4.6% (FY16: £50.4m) and Adjusted earnings per share is down 4.3% to 15.5p. Statutory continuing profit before tax of £34.2m is down by 2.8% (FY16: £35.2m), and Statutory earnings per share is down 2.7% to 11.0p (FY16: 11.3p). The Statutory results are impacted by the sale of the Education & Care division in June 2017 for an enterprise value of £64.4m and cash proceeds of £58.2m, and the planned disposal of the Books division consequent to effecting the integration of the Group's core businesses.

Statutory continuing & discontinued profit after tax of £36.6m is up by 9.6% (FY16: £33.4m), and Statutory continuing and discontinued earnings per share is up 8.8% to 14.9p (FY16: 13.7p).

The Group's operational teams have again demonstrated their ability to deliver sustainable efficiency improvements while maintaining service standards. The recently announced integration of Smiths News and Tuffnells will more fully leverage these skills and assets, building on the already well-established positions in our chosen markets.

News Distribution returned Adjusted operating profit of £40.4m (FY16: £40.0m), a good performance after allowing for the impact of increased losses in growing the Pass My Parcel business. The robustness of our largest business continues to underpin investment that allows for further efficiency and support growth opportunities elsewhere in the Group. Newspapers and magazines sales have continued to demonstrate resilience, with declines in line with long-term trends, being broadly offset by a well-established programme of efficiency improvements. The opening of the News Distribution 'super-hub' in Hemel Hempstead, serving over one quarter of our customer base, is a new benchmark for the scale of operations.

Pass My Parcel has made strategic progress, increasing its number of clients, the scope of its services, and growing volume. There remains much to do to deliver the full potential of Pass My Parcel. Meanwhile, the emerging demand for bespoke overnight and early morning business to business delivery, is an exciting organic growth opportunity that leverages the capability and drop density of our network.

Tuffnells' Adjusted operating profit of £12.0m was down 19.9% (FY16: £15.0m), despite revenue increasing by 5% to £183.2m (FY16: £174.4m). Profitability was impacted by increased costs in addressing legacy issues, including changes to management and contractor rates and improvements to Health & Safety compliance. The second half of the year was especially challenging, when despite strong volumes the operation struggled to maintain efficiencies.

The Group's Media business delivered Adjusted operating profit of £2.3m, down 2.9% (FY16: £2.4m) as a consequence of variations in the award and renewal of airline and publisher contracts that are a feature of the industry. A review of its management structure and support services has delivered efficiency savings that will flow through to next year.

Our Discontinued Operations contributed £2.0m to Adjusted discontinued profit before tax. The sale of the Education & Care division, essential to simplifying the Group structure, concluded in June 2017. As a result of our strategy to focus on opportunities in the integrated businesses, we have determined that Connect Books is no longer core to the Group's future and therefore plan to sell the business. We are now working to secure a purchaser that achieves a positive outcome for all stakeholders.

The integration of Smiths News and Tuffnells is arguably the most significant strategic and operational change in the Group's history, clarifying our role and purpose as a specialist distributor in the Early Distribution and Mixed Freight sectors. In the three years since acquiring Tuffnells we have carefully assessed the opportunities to leverage their respective competencies. The time is now right to move at pace and with clear intent. Headed by a single Executive Leadership Team, we are establishing the structures, strategies and culture that will be the foundations of a stronger business. Our efficiency target of £15m over 2 years is just the first step in a journey–by working as one business we will enhance overall capability, improving service for existing customers and opening up new opportunities for growth.

I am conscious that change on this scale brings uncertainty for many of our employees and am grateful for their professionalism and persistence in pursuit of our goals over recent months. As always, our achievements are ultimately down to the daily efforts of a workforce which strives tirelessly, often in difficult conditions, to deliver an exceptional service. I would like to thank them for their essential contribution, and reiterate our commitment to ensuring the highest standards of communication and consultation as the integration and the consequent changes to working arrangements are put in place.

The Group's underlying financial position is strong. Continuing Free Cash Flow to equity of £28.7m (FY16: £36.2m) was generated in the year, and net debt of £82.1m is down by £59.6m following the sale of Education & Care, representing 1.2x EBITDA. In October 2017 the Group renewed its banking facilities, securing total facilities of £175m to January 2021. In the light of these factors, and having carefully considered the prospects for the integrated Group, a final dividend of 6.7p, up 3.1%, has been proposed, making a full year dividend of 9.8p up 3.2% on last year.

As ever, my colleagues on the Board and Executive Leadership Team have provided essential support and challenge; in a year that is in many ways defined by strategic review, their willingness to consider all options supported a framework for decision making that is a tribute to their professionalism. In September 2017 we welcomed Mark Whiteling to the Board. Mark will also be Chair of the Audit Committee, replacing Colin Child who left the Group in March 2017; I would like to thank Colin for his contribution during his time with the Group.

The change programme is now well underway. We are moving at pace and our approach is driven by a commitment to medium to long-term value creation.

Looking ahead, we are at the start of what we anticipate being a two year transformation of the business. I am confident that our work over this period will enhance our position as a leading specialist distributor with a purpose and operating model that capitalises on our strengths and delivers sustainable growth.

Gary Kennedy
Chairman

Business model

Inputs

Propositions
In response to demand we offer market-leading propositions that use our skills and infrastructure to deliver value in our chosen markets. We specialise in complex, fragmented and time-critical supply chains – typically, markets that require insight and expertise as well as physical distribution capability.

Contracts
Long-term customer relationships are central to our business model. We have individual contracts with the vast majority of our customers, ensuring a degree of predictability in the product flows and service requirements which underpin efficiency. Working closely with key customers we become central to their supply chains, tailoring our services to meet shared strategic goals.

Colleagues
Every day our people demonstrate extraordinary commitment to serving customers. Their embedded knowledge, hard-won from years of experience, is what lifts our service from good to great.

Investment
We are committed to investing for leadership, enhancing its capabilities in ways that deliver value for customers and investors. Our profits and cash flows provide funds for investment in the network, its processes, technology and colleagues. The inherent synergies in the Group mean we can leverage investments across our different customer propositions and operating models – this in turn improves returns for all stakeholders and allows for further investment as we strive to continually improve.

Adding Value

Technology
Our technology adds value across the supply chain. From 'track & trace' and route planning to invoicing and demand forecasting, our systems drive efficiency and accountability, for us and customers. We invest for continual improvement and work with customers to develop solutions that integrate with theirs; in so doing, we strengthen our partnerships and mutual commitment to service and its delivery.

Service
Service is in our DNA – it's what allows us to achieve outstanding results in even the most demanding of circumstances. We measure performance at every stage of the journey, using transparent KPIs that benchmark standards nationally, locally and by customer grouping. And if things occasionally go amiss, we act swiftly to put them right, identifying solutions that drive down future mistakes. This commitment to improving standards means we work and succeed together with our customers, adding value across their supply chains too.

Expertise

The Group's businesses are acknowledged experts in their markets – meaning that in many cases we deliver insight as well as physical parcels. Our technology links to that of our customers, highlighting trends and forecasting demand. The knowledge and skills of our colleagues is just as essential to the specialist sectors they serve.

Efficiency

By combining specialism, scale and a shared route to market, the model delivers high levels of efficiency for suppliers and customers alike.

Leverage

We leverage our skills and capabilities, offering a compelling range of services, backed by the knowledge and expertise which sets us apart.

Scale

The scale capability of our combined networks increases the scope and reach of our propositions for customers.

Meanwhile, synergies across the operations support cost efficiencies that help to underpin our competitive advantage.

Outcomes

Strong returns

Our chosen markets require specialist skills that deliver tangible value to customers. As a result, our margins are typically stronger than those earned from more generic distribution. Our portfolio benefits from relatively predictable revenues, controllable costs and positive cash generation. This provides funds for future investment as well as supporting strong returns to shareholders.

Partnerships

Our embedded role in the supply chains of key customers supports the development of long-term partnerships. Working together for shared success means we can each plan and invest with greater confidence. In news distribution, for example, our territorial contracts are typically awarded for five years; however, our trading relationships with leading publishers can be traced back for over two centuries. Mixed freight, contracts are often locally managed, with trust built from the quality of service and commitment of colleagues.

Growth opportunities

By leveraging our capabilities we aspire to attract new business and grow in new sectors, with propositions that respond to emerging trends and new opportunities. The growth of click & collect services offers an exciting opportunity, as is the growing demand for business to business early morning delivery. With a simple integrated operating model we are well placed to capitalise on these opportunities.

Careers

We aim to ensure that colleagues at every level have the opportunity to improve their skills and develop their career. Our national network and central support services provide a range of opportunities for personal growth, and we are proud that so many of our colleagues are long-serving and acknowledged by customers as leaders in their field. The integrated Group structure will encourage cross-functional working and provide even more opportunity for those with the ambition to progress.

Integration of the Group

Leveraging strengths

The Group already has impressive distribution capability: our specialist networks, supporting infrastructure and embedded skills are what differentiate us from less focused competitors.

The move to an integrated businesses model will leverage these strengths, transforming the scope and reach of our customer propositions as much as the efficiency and structure of our physical operations.

Central efficiencies

The move to a single business structure will unlock efficiencies in leadership, central support services and operational structures. Systems and process will be aligned with a relentless focus on cost and service. Our experience and expertise in driving continual improvement, garnered from more than ten years of success in Smiths News, will be deployed across the network and corporate centre.

Network optimisation

There is clear opportunity for consolidation and efficiency in the network. The 76 depots of Smiths News and Tuffnells serve overlapping territories, operating with similar processes and hours of business. Service and efficiency will drive progress, with the integration taking full account of our capability and its match to customer needs.

Ongoing review will identify where investment in new and improved facilities can unlock further efficiencies and increase our capacity for growth.

Customer propositions and service

The integration will create opportunities by leveraging the reach, density and time sensitivity of our combined operations. Working as one business will strengthen our capabilities in both early morning and mixed freight distribution. We plan to bring new and exciting propositions to market, specialising in the business to business and business to consumer markets.

Further

Early Distribution

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Depots

The news distribution network underpins one of the UK's fastest daily supply chains, supplying a high density of customers in efficient fixed location routes – from city centres to remote rural locations, 364 days a year. Pass My Parcel offers national coverage using a network of local retailers.

Mixed Freight

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Depots

With depots across the UK, the Tuffnells network combines national reach with a local knowledge and tailored services. With facilities specifically designed for mixed deliveries, we specialise in the collection and delivery of those awkward and out-size items which others find difficult to handle.

Easier

- Time windowed deliveries
- Tracking and scanning
- Returns collections
- Order management
- Local and national call centres

Earlier

6am

We are experts in ultra-fast early morning delivery. Every day of the year we reach more than 27,000 retailers before most people have had breakfast!

7am

Pass My Parcel deliveries nationwide from 7.00am.

- Outsize products
- Mixed consignments
- Tracking and scanning
- Collections and deliveries
- Online parcel tracking
- Local call centres

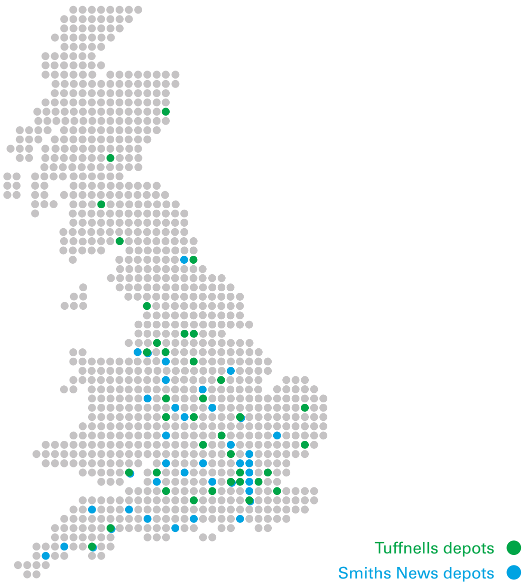
9.30am

We make an average of 36,000 daily deliveries on behalf of our customers with arrival guaranteed from as early as 9.30am. Working round the clock, our depots collect and deliver on behalf of our customers who trust us to meet the needs of theirs.

One business; one team

The senior leadership team is now established and working to collective goals.

- Executive Leadership Team
- Senior leadership roles
- Integrated operations management
- Centralised sales management
- Combined central support services
- Network optimisation plans
- Standard operating procedures
- Cross-functional action plans
- Initial £15m of savings over two years
- KPIs across the combined operation



Key performance indicators

Total Group Revenue
£m

2017 continuing	**1,594.3**
2016 continuing	1,645.8
2015 – reported	1,875.1
2014 – reported	1,808.5
2013 – reported	1,810.8

Description We aim to combine organic growth and acquisitions to offset the expected reduction in newspapers and magazines.

Adjusted Profit Before Tax
£m

2017 continuing	**48.0**
2016 continuing	50.4
2015 – reported	56.5
2014 – reported	50.0
2013 – reported	49.9

Description We aim to grow profitability by combining revenue growth, delivering efficiencies and acquisitions.

Adjusted EPS
Pence

2017 continuing	**15.5**
2016 continuing	16.2
2015 – reported	19.7
2014 – reported	19.6
2013 – reported	19.0

Description We aim to return value to shareholders by growing earnings per share in line with underlying profit growth.

DPS
Pence

2017	**9.8**
2016	9.5
2015	9.2
2014	8.8
2013	8.4

Description We aim to return value to shareholders by growing DPS in line with underlying profit growth.

Free Cash Flow
£m

	Free cash flow to equity	Free cash flow
2017 continuing	**28.7**	**35.0**
2016 continuing	36.2	43.8
2015 – reported	34.1	39.8
2014 – reported	36.1	37.2
2013 – reported	31.2	32.6

Free cash flow to equity   Free cash flow

Description We aim to continue investing in our businesses to achieve profit growth, whilst being able to generate increasing free cash flow.

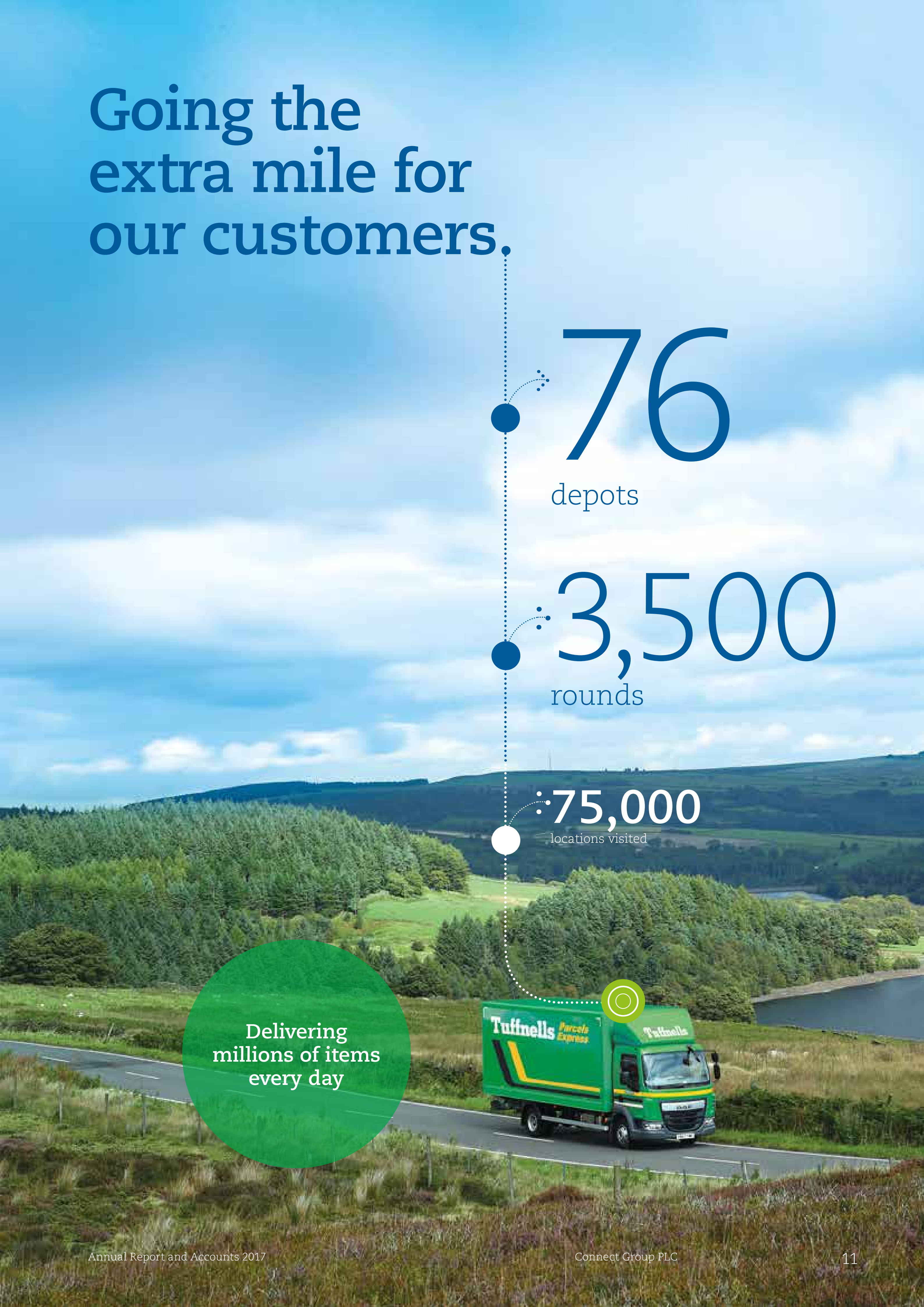
Net Debt Ratio
%

2017	**1.2**
2016	1.7
2015	1.9
2014	1.4
2013	1.5

Description We aim to continue investing in our businesses to achieve profit growth and return cash to shareholders, whilst maintaining our target leverage.

Adjusted measures, Free cash flow to equity and Free cash flow are defined in Note 1c on page 81 of the financial statements.

Going the extra mile for our customers.



76
depots

3,500
rounds

75,000
locations visited

Delivering millions of items every day

Chief Executive's review

A challenging year with significant strategic progress

In what were challenging conditions the Group had a difficult year, concurrently managing a period of tough trading while also disposing of the Education & Care division and refocusing the Group for the future. The decline of £2.7m in Adjusted continuing operating profit is particularly disappointing in the light of the underlying progress we have made to transform the Group and improve our long-term prospects.

Statutory continuing profit before tax was £34.2m (FY16: £35.2m), and Adjusted profit before tax for Continuing Operations was £48.0m, (FY16: £50.4m). Statutory continuing and discontinued profit after tax was £36.6m (FY16: £33.4m). The Group continued to generate strong Free Cash Flow to equity of £28.7m from Continuing Operations (FY16: £36.2m) supporting a proposed full year dividend of 9.8p, up 3.2%. The renewal of our banking facilities to January 2021 was concluded in October 2017; this provides further surety for the Group's underlying financial position as we start the process of business transformation.

In June 2017, we completed the sale of the Education & Care division for an enterprise value of £64.4m and cash proceeds of £58.2m, delivering an Internal Rate of Return of 10.0% over our period of ownership. Proceeds of the sale have reduced the Group's net debt, and its completion this year was critical to creating the management bandwidth for the introduction of a fully integrated Group structure that we had been planning for some time.

In the light of enhanced capabilities following the Group's acquisition of Tuffnells, we conducted a review of the Group's operating model and customer propositions. The result is a comprehensive integration of our largest businesses, encompassing all aspects of their operations and support services, which will unlock efficiencies, and facilitate growth in new and complimentary markets.

In September 2017 we established a single leadership team and announced efficiencies in roles and services across the combined business. A two year programme to accelerate cost reduction is targeting an initial £15m of sustainable savings. This will lay the foundations for the three pillars of our integration strategy: savings, service and growth.

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Using proven skills and experience, gained over many years of delivering efficiencies across the Smiths News operations, we will optimise the combined network – reviewing the location and capability of each of our depots. The integration will be guided by a vision of improving quality and process compliance in parallel with cost reduction – this approach takes time, but our experience has shown that progress is best sustained by delivering improvements to service while also realising cost efficiencies.

The priority for the year ahead is therefore to build on the robust and simpler operating model that we have determined is right for our future. In doing so, we will focus on our core strengths, leveraging our capabilities in Early Distribution and Mixed Freight. Our goal – in going further and making deliveries easier and earlier for customers – is to be the acknowledged leader in bringing simple solutions to the most demanding of supply chains.

News distribution

Revenue in News distribution was £1,383.4m (FY16: £1,443.8m) and Adjusted operating profit was £40.4m (FY16: £40.0m), up 0.9% after increased investment in supporting the growth of Pass My Parcel, which incurred a loss of £6.3m (FY16: £4.0m). Sales and profit were also impacted by the absence of a major international football championship in 2017, materially reducing the sales of sticker collections this year.

In line with recent years the Smiths News operation achieved £5m of efficiency savings from network restructuring and process changes, broadly offsetting the anticipated decline in sales. The capabilities of our news business, including its track record in managing costs while driving service, are key strengths of the Group that will be central to our integrated operating model.

Newspaper and magazine sales have continued to perform in line with long-term trends. Newspaper sales of £875.6m were down 4%, with price increases helping to offset volume declines. Combined sales of all magazine categories, including Partworks and One-shots, were down by 10.4%.

The relative predictability of the market, together with our long term contracts, means we can plan future operating efficiencies with a high degree of confidence and, by responding pro-actively to long term trends, we can deliver these efficiencies without impact on service. We continue to work closely with publishers to understand and forecast sales, and to plan accordingly. We are also confident that, should there be a deterioration of trends, we have the flexibility to adapt our network accordingly. Meanwhile, our medium term efficiency savings across the integrated business are expected to more than offset the decline in newspaper and magazine sales.

The opening of the new warehouse at Hemel Hempstead was a step change in the scale of our hub depots, with capacity to serve 7,650 customers, equivalent to 28% of our total customer base. The Smiths News network now has six magazine hub locations, supported by 33 smaller 'last mile and newspaper packing' depots which operate for limited hours each day. The integration of the News Distribution and Mixed Freight networks will, over time, create a host of new opportunities for efficiencies across our operation.

For the 10th year running, in independently conducted surveys, Smiths News has been ranked the best in industry for service to customers and publishers. We remain committed to improving service by constantly reviewing our processes, communication and technology; this in turn drives efficiency improvements and ensures any changes are beneficial to all stakeholders.

In what was anticipated to be a quiet year for contract renewals we secured a three year agreement with Johnson Press for the distribution of the 'I' newspaper and gained a number of smaller regional titles. Over 94% of publisher revenues for the year were generated from contracts secured until at least 2019, with a number of contracts running to 2021 and beyond.

Click and Collect services

Pass My Parcel continues to grow volume and develop new services in response to emerging opportunities and growing demand for rapid overnight and early morning delivery. Total volume of outbound and returns parcels was 1m units (FY16: 500k) building in the second half, such that the annual run rate prior to the seasonal peak, in October 2017, was circa 2m units. The increased investment in supporting the business resulted in a loss of £6.3m (FY16: £4.0m) including the cost this year of IT development to support future service propositions. We aim for volumes to increase significantly in FY18 and losses to reduce as a result.

As the Click & Collect market grows, a range of models are emerging and it is clear that a 'one size fits all' approach will not be sufficient to meet the needs of retailers and their online customers. Although progress has been slower than anticipated, we continue to believe that the Group's distribution footprint has unique capabilities that can secure a significant share of this growing sector. In addition to our network of parcel shops, we now offer a range of propositions that leverage the drop density and speedy distribution capabilities of our depots in the business to business market.

Overall volume growth through parcel shops has been lower than was expected, a consequence of weaker than predicted volumes in outbound and returns, and delays to implementing contracts that require clients to adopt and integrate supporting technology. The introduction of returns' services for Amazon in February 2017 has contributed to increased volume in the second half, supporting momentum for further growth as we approach the Christmas and New Year peak. Adding to the range of services available at our national network of parcel shops, in March 2017 we launched a world-wide consumer to consumer delivery service targeted at eBay and Marketplace users. Our contract with UK Mail to handle returns and failed household deliveries is now scheduled to commence in 2018, following the implementation of supporting IT.

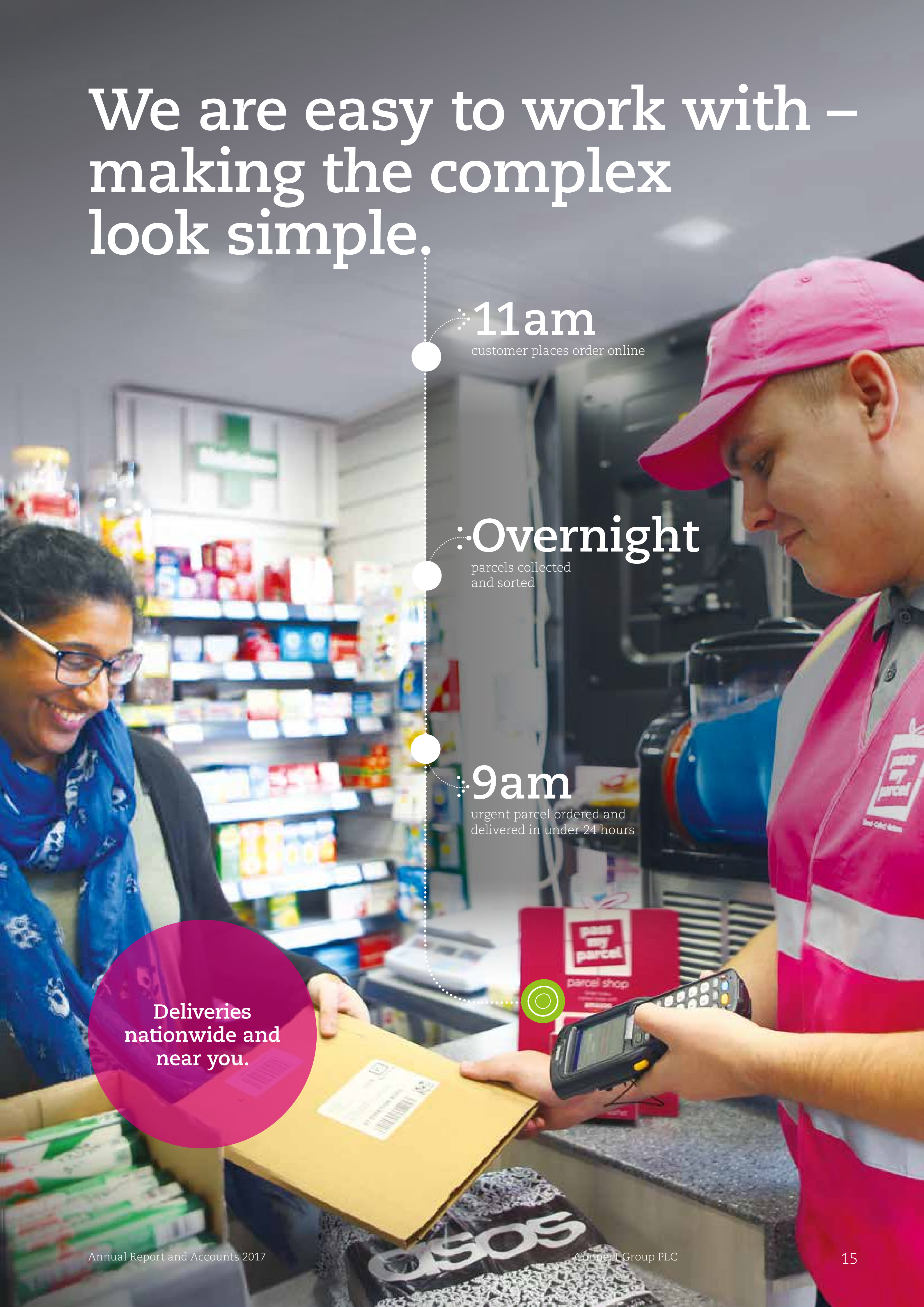
Using the capability of the Connect Group network we are also responding to a growing demand for pre-10am business to business delivery. Progress this year included a trial direct to store delivery service for clothing retailer H&M, supporting their Click & Collect offering to customers; the trial has since been expanded with a view to rolling out the service across the UK in 2018. A further small scale trial with Hovis, delivering fresh supplies to smaller retail stores early morning, has now been extended to some additional areas.

The growth of our Click & Collect propositions has taken longer than anticipated and there remains much to do, but we are pleased with the direction of travel and see many related opportunities for the integrated Group. Customer satisfaction and feedback from clients and consumers remains excellent, and the acceleration of volume increases will substantially increase the scale and efficiency of operations. These developments reinforce our belief that there is significant opportunity to serve a wider range of customers, with a range of propositions in the Early Distribution market. The potential for new revenue growth will be further enhanced by the combining of the Group's network and operations, providing a seamless UK wide customer offer. Although there remains uncertainty regarding volume projections, we expect a significant reduction in losses as the business builds, and are maintaining a break even target in FY19.

Mixed Freight

Tuffnells had a challenging year, achieving total revenue of £183.2m (FY16: £174.4m) and Adjusted operating profit of £12.0m (FY16: £15.0m). Operationally, the move from a highly decentralised model to more standardised procedures and controls has taken longer than we anticipated, impacting on consistency of profitability across the business. In what was an increasingly tough market as the year progressed, performance was also impacted by increased costs from planned investments that have delivered a slower return than anticipated.

We are easy to work with – making the complex look simple.



11am
customer places order online

Overnight
parcels collected and sorted

9am
urgent parcel ordered and delivered in under 24 hours

Deliveries nationwide and near you.

Despite these challenges we have maintained our commitment to putting in place the people and structures that we believe are necessary to deliver longer term improvement. At acquisition the business was decentralised with highly variable infrastructure and standards which compromised our overall capability and were not compatible with our vision for the Group. The increase in overhead this year included the introduction of new and standard operating procedures to improve KPIs, reviewing pay frameworks for general managers and other key roles, health & safety improvements and additional resources in training, sales, marketing and leadership. In retrospect, introducing this level of change during a period of toughening markets has impacted performance in the year.

The integration will directly address these issues, spearheaded by an operational management team, primarily drawn from Smiths News, with a track record of delivering a combination of efficiency savings and service leadership. Over a 15 year period the operational team has completed more than 80 closures, relocations and mergers, opening a further 20 depots of varying sizes in response to contract changes and efficiency opportunities. Bringing this expertise to bear across the combined operations will unlock a wealth of sustainable opportunities encompassing both cost efficiency, process compliance and service improvement.

Capital expenditure amounting to £8.4m cash outflow (FY16: £5.4m) has included the upgrading of depot facilities, and a major relocation of the Sheffield operation and central support office, which opened in September 2017.

Our focus on improving health & safety and transport compliance has been relentless. Many of the lessons we have learned at Smiths News, in reducing accidents over a 10 year period, are now being applied to Tuffnells. The introduction of new procedures, together with encouraging a culture of greater awareness and attention to safety concerns has led to an increased reporting of incidents. This spike is to be expected and we remain both confident and resolute in our plans.

The spring peak saw Tuffnells handling record daily volumes, but with significant spikes in demand that put pressure on efficiencies. The shortage of qualified drivers is an industry challenge and during peak demand we had to use a greater percentage of agency drivers and less efficient vehicle configurations. Inevitably, the volume increases were not uniform which led to increased variable costs and pinch points in the network, particularly in the South East, resulting in further erosion of returns.

Over the course of the year we have continued to embed services that leverage synergies with the news distribution network. In the short term, the sharing of capabilities has centred on last mile business to business parcel distribution and supplying the network of parcel shops served by Pass My Parcel. The lessons learned have reinforced our vision, confirming that the similarities in operation are more compelling than any differences. Looking ahead, a priority for new revenue streams will be capitalising on the opportunity to provide a unique and wider range of services for customers, underpinned by scale efficiencies that competitors in our specialist markets will struggle to match.

Media

DMD is our specialist distributor of printed and digital media to airlines and travel points. Revenue of £28.8m (FY16: £27.6m) and Adjusted operating profit of £2.3m (FY16: £2.4m) reflected a mix of new and renewed contracts partially offsetting reductions in order values from some established customers; such variations in demand are normal in this marketplace.

Major contract renewals and extensions this year include Eurostar for London, Paris and Brussels, Delta Airlines global contract and Qatar Airways global contract. Geographically we have successfully introduced our services in Australia and are now supplying customers at six airports. The airport 'media wall' concept continues to grow; our contracts with Gatwick and Luton have been extended until 2019 and a new contract agreed for Birmingham. An internal restructure in the second half of the year delivered efficiency savings and repositioned management resources on those markets which offer the best prospects for growth.

On the digital side of our business we extended agreements with Virgin Trains and Eurostar and won contracts for a wide range of magazine content to airlines including Cathay Pacific, Air Astana and Singapore Airlines.

A focus on growth

This year we conducted a thorough review of our strategy in the light of market developments and the opportunities for growth presented by the evolution of the Group since the acquisition of Tuffnells in December 2014.

Externally, the distribution market is experiencing opportunity and challenge as a result of changes on many fronts. These include changing consumer expectations, the growth of click & collect and home delivery alternatives, the need for more flexible and speedy solutions, a trend of SMEs supplying direct to consumers, and wider developments such as restricted access to city centres and environmental charging. In this environment we concluded there is clear opportunity for specialist distributors with the most agile and flexible customer propositions.

Within the Group, the acquisition of Tuffnells in 2014 has transformed the scale and reach of our distribution capability, creating opportunities for synergies and new revenue streams by collaborating more closely with Smiths News. Our other divisions, though leaders in their markets did not offer the same opportunity for synergy and growth. We have therefore taken decisive action to concentrate our activities on opportunities that will best leverage our core strength of specialist third-party distribution, linking suppliers to their customers in efficient and service oriented ways.

The focused strategy will address two market opportunities. Firstly, our expertise in high drop density, Early Distribution – every night the Smiths News network delivers to 27,000 customers, a phenomenal operation that was built on the news industry, but is capable of serving other customers. Secondly, our leadership in business to business Mixed Freight – we specialise in the difficult, outsize parcels that don't fit standard hubs, but we also have strengths in the growing demand for business to consumer delivery, and for the multitude of specialist requirements from small to medium sized enterprises which form the majority of our customer base.

Integration progress

In July 2017 we announced plans to integrate the Group's News & Media and Parcel Freight divisions, combining our operational networks, sales and marketing, and central support services under a single leadership team. This followed the detailed strategic review of the Group's opportunities for growth, which we determined was best implemented after the sale of our Education & Care division.

The strategy is clear: by uniting the skills and capabilities of the Group, we can be more innovative in our customer propositions, operate more efficiently, and, over time, strengthen our ability to deliver new revenue streams. The absolute focus on opportunities in the Early Distribution and Mixed Freight markets will leverage our strengths and clarify the role and purpose of the Group for its customers.

As a result of our focus, the integration is moving at pace. A single Executive Leadership Team is now in place across the combined business, and we are committed to delivering a two year programme of scale efficiencies amounting to £15m across the Group. The previous divisional structures have been replaced with a single sales function and the merger of the divisional and central support functions such as Finance, Technology, Services and People. In operations, we have introduced an integrated regional management structure, with responsibilities for these senior roles encompassing Tuffnells and Smiths News depots.

As a consequence of the integration, we have announced plans for a reduction of 340 roles (equivalent to 6% of the workforce) across the combined business in FY18; employee consultation is underway and a provision of £4.0m has been made for costs associated with the change programme.

The immediate opportunities for network efficiencies are relatively clear, giving confidence that the cost reductions we have delivered over the last decade can be sustained. In parallel to this, we plan to use the skills and capabilities of the unified network to deliver new revenue streams in the Mixed Freight and Early Distribution markets. We are excited about these and other opportunities that the integration will bring, and mindful of managing the transformation in a sustainable way.

Integration milestones

	Complete /in progress	FY 2018–2019 targets
Leadership	Executive Leadership Team Senior leadership roles Operations and sales teams	Integrated business management Growth focused culture
Operations	Leveraging Smiths News experience Network optimisation plans Operations process review	Optimised network Flexible operating model Common processes and controls Service leadership
Efficiencies	Cost savings plans confirmed Headcount consultation Cap-ex and non-payroll review	£15m savings Headcount reduced by 6% Lean support services Cost leadership in our markets
Growth	Developing customer propositions News contract discussions B2B pre-10am delivery trials	New propositions to market Leveraged network News contracts renewed Pass My Parcel break-even

Discontinued Operations

In June 2017 the Group completed the sale of the Education & Care division and in August 2017 the Board resolved to divest of the Books division, classifying it as held for sale at year end; we expect the Books division to be sold in the next 12 months.

The combined Adjusted discontinued profit before tax contributed £2.0m over the full year compared to £10.3m adjusted profit from both divisions in FY16. A profit of £19.0m arose on the disposal of the Education and Care division on 30 June 2017. Books division's carrying value was written down to a fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017.

The decision to dispose of the Books division followed a strategic review, which determined it was no longer core to the Group's future direction. We are currently taking steps to find a purchaser who can provide the necessary focus and investment to take the business forward. Connect Books is a leading player in its market with strengths and prospects that are not dependent on ownership by the Group. Although potentially unsettling for colleagues in the short term, we believe that being transparent in our intentions is in the best interests of all stakeholders. Meanwhile, we are grateful for the continued efforts and professionalism of colleagues in the business.

People

Our people are central to both the operational delivery that underpins service today and the development of new propositions that will ensure we continue to prosper. The Group has long held a commitment to providing opportunities at all levels, taking pride in the careers of our people and developing talent to ensure a high proportion of management positions can be filled from within. As we enter a period of change to the structure and strategy of the Group we will therefore be increasing our efforts to support colleagues.

The integration of the Group will inevitably bring with it some short term uncertainty for colleagues. In balance, we plan to manage the transition in a way that builds on existing skills and provides opportunity across the organisation. As our plans progress we will review our organisational design, refreshing our training and development to meet future requirements, and seek to underpin improvements with a culture and values that involve and respond to the aspirations of colleagues.

This year we have increased our efforts to improve the quality of safety and compliance in the workplace, with a combination of training, communication, infrastructure improvements and more regular and detailed reporting of KPIs across the entire organisation. Our commitment to what will always be a living and evolving process remains steadfast, and we will ensure that throughout the change process we continue to improve the safety of our working environments.

As always, I am grateful for the support of colleagues on the Board, Executive Team, and other senior leaders across the Group. In what has been a particularly difficult year on a number of fronts, their contribution has been essential to our coming through, better positioned to address the challenges and opportunities of the future. I know they will all join in my appreciation and words of thanks to our frontline people for their outstanding dedication to serving customers and unwavering commitment to the company and its goals.

We expect to return to growth in FY18. Achieving this will be both challenging and exciting in equal measure, but we have a superb opportunity to shape our future and lay down the foundations for continued success.

Mark Cashmore
Chief Executive Officer

More than half our deliveries are completed by 9.30am.

39,000,000
newspapers and magazines delivered each week

364
days' distribution

27,000
customers across the UK

Financial review

In a challenging year for trading, we have significantly reduced net debt and delivered strong free cash flow.

Adjusted continuing results

Group

Continuing Adjusted results £m	2017	2016 restated	Change
Revenue	**1,594.3**	1,645.8	(3.1%)
Operating profit	**54.7**	57.4	(4.7%)
Net finance costs	**(6.7)**	(7.0)	4.3%
Profit before tax	**48.0**	50.4	(4.6%)
Taxation	**(9.9)**	(10.8)	8.0%
Tax rate	**20.8%**	21.5%	
Profit after tax	**38.1**	39.6	(3.7%)

(Note: FY16 has been restated to remove Discontinued Operations to aid comparability with FY17)

Continuing adjusted operating profit for the year was £54.7m, down 4.7% on the prior year (FY16 restated: £57.4m), benefitting from a solid performance from News & Media, but adversely impacted by tougher trading market conditions at Mixed Freight.

Net finance charges of £6.7m (FY16: £7.0m) were down on prior year. Included within net finance charges are: interest costs on borrowing incurred in the period of £4.4m (FY16: £4.9m), lower year-on-year as the drawn borrowing facility requirement was favourable from cash flow generation and cash proceeds from the Education & Care disposal; finance lease interest of £1.0m (FY16: £0.7m); amortisation of bank arrangement fees £0.9m (FY16: £0.7m); and pension interest costs £0.3m (FY16: £0.6m).

Adjusted profit before tax was £48.0m, down 4.6% on last year.

Taxation of £9.9m resulted in an effective tax rate of 20.8%, which was slightly lower than last year in line with the reduction in UK corporation tax rate.

Statutory continuing & discontinued results

Statutory continuing profit before tax of £34.2m is down by 2.8% (FY16 restated: £35.2m) and Statutory continuing earnings per share is down 2.7% to 11.0p (FY16 restated: 11.3p), primarily driven by network and reorganisation costs of £8.0m (FY16: £3.2m), £4m of the increase relates to a year end provision for the reduction in 340 roles as a consequence of the announced integration programme.

Statutory continuing & discontinued profit after tax of £36.6m is up by 9.6% (FY16: £33.4m), and Statutory continuing & discontinued earnings per share is up 8.8% to 14.9p (FY16: 13.7p). The Statutory continuing & discontinued results are impacted by: the sale of the Education & Care division in June 2017 for an enterprise value of £64.4m and a profit of £19.0m; the Board's decision to sell the Books division with amortisation and impairment of acquired intangibles charges of £11.2m (FY16: £2.9m); and the consequence of integrating and reshaping the Group's core businesses.

Earnings per share

	Continuing Adjusted		Continuing Statutory	
	2017	2016	**2017**	2016
Earnings attributable to ordinary shareholders (£m)	**38.1**	39.6	**27.0**	27.4
Basic weighted average number of shares (millions)	**245.4**	243.4	**245.4**	243.4
Basic EPS	**15.5p**	16.2p	**11.0p**	11.3p
Diluted weighted number of shares (millions)	**247.0**	247.2	**247.0**	247.2
Diluted EPS	**15.4p**	16.0p	**10.9p**	11.1p
Dividend per share (paid & proposed)	**9.8p**	9.5p	**9.8p**	9.5p
Dividend per share (recognised)	**9.6p**	9.3p	**9.6p**	9.3p

Earnings attributable to shareholders on a continuing adjusted basis of £38.1m resulted in an adjusted EPS of 15.5p, a decrease of 4.3% on last year, driven by the more challenging trading conditions in Mixed Freight.

The fully diluted weighted number of shares was 247.0m (FY16: 247.2m). Fully diluted shares includes 1.6m shares for employee incentive schemes (FY16: 2.3m) and nil shares (FY16: 1.5m) relating to the remaining deferred consideration arising from the Tuffnells acquisition in December 2014.

Including Adjusted items; statutory continuing earnings per share is down 2.7% to 11.0p (FY16 restated: 11.3p). Statutory continuing and discontinued earnings attributable to shareholders of £36.6m (FY16: £33.4m) resulted in an EPS of 14.9p, up 8.8% on FY16, benefiting from profit on disposal of the Education and Care division.

Dividend

The Board is proposing a final dividend of 6.7p, taking the full year dividend to 9.8p, an increase of 0.3p or 3.2% (FY16: 9.5p). The proposed final dividend for the year ended 31 August 2017 of 6.7p is subject to approval by shareholders at the Annual General Meeting on 23 January 2018 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 9 February 2018 to shareholders on the register at close of business on 12 January 2018.

News distribution

Adjusted figures – £m	2017	2016	Change
Revenue	**1,383.4**	1,443.8	(4.2%)
Operating profit	**40.4**	40.0	0.9%
Operating margin	**2.9%**	2.8%	

Revenue in News Distribution was £1,383.4m (FY16: £1,443.8m) down 4.2%. Newspaper and magazine sales have continued to perform in line with long term trends, with the relatively stronger performance than expected from newspapers helping to offset weaker magazine sales. Newspaper sales of £875.6m were down 4.0%, with price increases helping to offset volume declines. Combined sales of all magazine categories were down by 10.4%.

Adjusted operating profit was £40.4m (FY16: £40.0m) up 0.9%. In line with recent years the News Distribution operation achieved £5m of efficiency savings from network restructuring and process changes, broadly offsetting the anticipated decline in sales. This performance includes the sales and costs of Pass My Parcel, the net loss of which was £6.3m (FY16: £4.0m). Sales and profit were also impacted by the absence of a major international football championship in 2017, materially reducing the sales of sticker collections this year.

Mixed freight

Adjusted figures – £m	2017	2016	Change
Revenue	**183.2**	174.4	5.0%
Operating profit	**12.0**	15.0	(19.9%)
Operating margin	**6.6%**	8.6%	

Tuffnells had a challenging year, achieving total revenue of £183.2m (FY16: £174.4m), up 5.0%.

Adjusted operating profit of £12.0m (FY16: £15.0m) is down 19.9%. In what was an increasingly tough market, as the year progressed, disruptive price competition for larger customers particularly in the second half of the year, impacted margins. Operationally, the move from a highly decentralised model to more standardised procedures and controls has taken longer than we anticipated, impacting on consistency of profitability across the business as has regional cost control to handle spikes in volumes. Performance was also adversely impacted by increased costs from planned investments that have delivered a slower return than anticipated.

Media

Adjusted figures – £m	2017	2016	Change
Revenue	**28.8**	27.6	4.4%
Operating profit	**2.3**	2.4	(2.9%)
Operating margin	**8.0%**	8.6%	

DMD is our specialist distributor of printed and digital media to airlines and travel points. Revenue of £28.8m (FY16: £27.6m) is up 4.4% reflecting a mix of new and renewed contracts partially offsetting reductions in order values from some established customers. Adjusted operating profit of £2.3m (FY16: £2.4m) is down 2.9% as a result of internal restructuring of management operations in the second half of the year.

Adjusted items

Continuing Operations

£m	2017	2016 restated
Network and re-organisation costs	**(8.0)**	(3.2)
Property	**(0.6)**	-
Acquisition and disposal related profits & costs	**2.2**	(3.2)
Amortisation of acquired intangibles	**(7.3)**	(7.3)
Pension credit	**0.7**	–
Legal provision	**–**	(1.5)
Settlement of interest rate swap	**(0.8)**	–
Total before taxation	**(13.8)**	(15.2)
Taxation	**2.7**	3.0
Total after taxation	**(11.1)**	(12.2)

The Continuing Operations profit impact of adjusted items charged in the year was £13.8m before tax (FY16: restated £15.2m).

Network and reorganisation costs of £8.0m (FY16: £3.2m) includes a balance sheet provision of £4m relating to future costs for the integration of News & Media and Mixed Freight divisions as announced in July 2017. Separately, staff rationalisation costs to drive efficiency savings in News & Media of £3.5m (FY16: £3.1m) were incurred in the period.

Property provisions of £0.9m (FY16: £nil) were charged in respect of three onerous depot leases in FY17 offsetting a release of £0.3m which related to reversionary leases.

Acquisition & disposal related credit of £2.2m (FY16: £3.2m charge) includes £0.5m incurred on external fees relating to disposal activity in the period. This was offset by a net deferred consideration release of £2.7m as Tuffnells FY17 performance fell below the earn-out performance targets.

The non cash amortisation of intangibles from past acquisitions was £7.3m (FY16: £7.3m.) The net book value of acquired intangibles of £40.5m (excluding those held for sale) will continue to be amortised over future years.

Pension past service credit of £0.7m (FY16: £nil) relates to the Smiths News section of the WH Smiths Pension Trust and is a commutation of trivial benefits accrued to members.

Legal provision charge £nil (FY16: £1.5m) represents a provision for a HSE investigation and legal costs.

Interest costs of £0.8m (FY16: £nil) relates to the settlement of interest rate swaps, terminated as a result of a change in Treasury policy.

Discontinued Operations

The statutory continuing and discontinued profit impact of Adjusted items charged in the year was £6.3m before tax (FY16: £18.8m). (Adjusted Discontinued Operations charges are shown in Note 4).

Profit on disposal of the Education & Care division was £19.0m on completion of the sale on the 30 June 2017.

Reorganisation/other costs of £0.3m (FY16: £1.1m) relates to legal and restructuring costs incurred in the Books division.

Pension past service credit of £nil (FY16: £1.1m). The pension credit from last year relates to the Trustees decision to cease payment of discretionary increases on pre-1997 pension rights within the Consortium Care scheme which resulted in past service credit.

Amortisation and impairment of acquired intangibles £11.2m (FY16: £2.9m) includes impairments of £9.9m which result in a fair value less costs to sell of £15.0m for the Books division.

The total cash impact of Adjusted items was £49.7m. Cash receipts on the disposal of Education & Care were £58.2m. The key components of Adjusted cash costs were the deferred consideration in relation to Tuffnells of £1.1m paid in December 2016, network reorganisation and other restructuring costs.

Continuing free cash flow

Free cash flow generation remains one of the Group's key strengths. We have changed the alternative performance measure on free cash flow to better reflect the cash generation available to pay dividends. Free cash flow now includes finance leases, Adjusted items, interest and tax; it excludes pension deficit recovery payments.

£m	2017	2016 restated
Adjusted operating profit	**54.7**	57.4
Depreciation & amortisation	**11.7**	10.3
Adjusted EBITDA	**66.4**	67.7
Working capital movements	**0.4**	3.8
Capital expenditure	**(13.8)**	(10.7)
Finance lease payments	**(4.2)**	(3.5)
Net interest and fees	**(4.4)**	(4.9)
Taxation	**(9.1)**	(7.6)
Other	**0.3**	0.3
Free cash flow to equity (excluding adjusted items)	**35.6**	45.1
Adjusted items	**(6.9)**	(8.9)
Free cash flow to equity	**28.7**	36.2

We have focused on a strong cash performance in the period, with the Group generating £28.7m in continuing free cash flow, a decrease of £7.5m (20.7%) on the prior year.

Adjusted EBITDA of £66.4m compared to (FY16: £67.7m), is down by 1.9%, although the increase in capital expenditure since acquiring Tuffnells in December 2014 is now resulting in higher depreciation and amortisation charges of £11.7m (FY16: £10.3m).

The increase in working capital in the period was £0.4m (FY16: increase £3.8m) driven largely by timing of weekly receipt and payment cycles at year end.

Capital expenditure in the year was £13.8m (FY16: £10.7m) an increase of £3.1m, of which new and existing depot and network investments represented £5.9m, technology and equipment investment of £5.2m.

Cash tax costs have increased in the year reflecting the full impact of moving Tuffnells to a quarterly payment profile and the prior year including a one-off £0.9m refund of overpaid tax.

Net interest and fees of £4.4m (FY16: £4.9m) is down on the prior year as the drawn down bank facility requirement was lower following the cash receipt from the disposal of Education & Care in June 2017.

The total net cash impact of Adjusted items was £6.9m (FY16: £8.9m). This comprised £1.1m (FY16: £5.1m) deferred consideration payments relating to Tuffnells, with the remainder being network reorganisation, other restructuring costs and professional fees relating to the disposal of Books.

Therefore, prior to pension deficit recovery payments and disposal proceeds, cash flow available for dividends, acquisitions or repayment of debt was £28.7m.

A reconciliation of Free cash flow to equity and the net movement in cash and cash equivalents is shown in Note 35 of the financial statements.

Net debt

£m	2017	2016 restated
Opening net debt	**(141.7)**	(153.4)
Free cash flow to equity	**28.7**	36.2
Finance lease creditor movement	**2.2**	(1.3)
Pension deficit recovery	**(4.8)**	(4.8)
Dividend paid	**(23.6)**	(22.7)
Disposal proceeds	**58.2**	–
Discontinued Operations cash flow	**(1.1)**	4.3
Closing net debt	**(82.1)**	(141.7)

Net debt closed the period at £82.1m, of which £8.5m (FY16: £10.7m) relates to finance leases.

Net debt improved on the prior year and our Net debt/EBITDA ratio of 1.2x, (down from FY16 1.7x) improved year on year as a result of disposal proceeds from the sale of Education & Care, and free cash flow generation from trading, even after Adjusted items. This has enabled a £59.6m reduction in net debt while delivering £23.6m (FY16: £22.7m) in dividend payments.

Pension funding remained consistent at £4.8m (FY16: £4.8m). Pension deficit repair payments are considered as a non-free cash flow item.

We were comfortably within our bank facilities of £230m and our covenant ratios at year end. We made two loan amortisation payments of £10m each in the year reducing our existing facility from £250m. Our previous bank facility ran to November 2018. Following the disposal of Education & Care we agreed in October 2017 a new bank facility commitment of £175m with six relationship banks which runs from October 2017 to January 2021. The new facility comprises of a term loan of £50m with no amortisation and an RCF for £125m on a higher interest margin, but similar covenant terms to the previous facility.

Pension

The Group operates two defined benefit schemes, both closed to new entrants and WH Smith Pension Trust closed to future accrual.

The Smiths News section of the WH Smith pension trust has assets of £609.9m and had an actuarial deficit of £17.5m as at 31 March 2015. As at 31 August 2017 the IAS19 surplus of £149.3m (FY16: £151.3m) was not recognised in the accounts as the amount available on a reduction of future contributions is £nil.

The Group recognises the present value of the agreed schedule of future contributions as a pension liability of £8.7m on the balance sheet (FY16: £10.3m).

As at 31 August 2017 the Tuffnells defined benefit scheme had assets of £10.2m and an IAS19 deficit of £2.8m (FY16: £3.0m). The actuarial deficit was £4.3m as at 1 April 2016.

The total cash contribution of defined benefit schemes and expenses in the cash flow statement for FY17 was £5.2m (FY16: £5.3m).

The assets and liabilities of the 'Consortium CARE' and 'Platinum' defined benefit schemes were disposed of as part of the sale of the Education & Care division.

Discontinued Operations

In June 2017 the Group completed the sale of the Education & Care division and in August 2017 the Board agreed to divest the Books division resulting in the classification of the division as held for sale based on an expectation that the business will be sold in the next twelve months.

The Books division's carrying value was written down to a fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017. The carrying value less costs to sell of the Books division represents an estimate based on a range of factors and scenarios.

The Education & Care division was sold in June 2017 for an enterprise value of £64.4m and cash proceeds of £58.2m. A profit of £19.0m arose on the disposal of the Education and Care division delivering an Internal Rate of Return of 10.0% over our period of ownership.

The combined Discontinued Operations contributed £2.0m operating profit before tax during the year for the period they remained part of the Group (FY16: £10.3m).

Going concern

The Group meets its day-to-day working capital requirements through its new bank facilities of £175m, agreed in October 2017, with a term to January 2021. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities.

Considering the principal risks discussed in this report, the directors have a reasonable expectation that the Group has adequate resources to continue in operation and meet its liabilities as they fall due for both the foreseeable future and for the period of the three year viability assessment. Thus, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

David Bauernfeind
Chief Financial Officer

Principal risks

The Group has a clear framework in place to continuously identify and review the principal risks.

The Corporate Governance section describes how we manage risk from the Board level, its respective sub-committees and throughout the organisation. Further details can be found on page 36. Key risks are plotted on risk maps with descriptions, owners, and mitigating actions, reporting against a level of materiality consistent with its size. These risk maps are reviewed and challenged by the Executive Leadership Team and Audit Committee. Additional risk management support is provided by external experts in areas of technical complexity to complete our bottom-up and top-down exercises.

As part of the Board's ongoing assessment of the principal risks, the Board has considered the performance of the Group, its markets, the changing regulatory landscape and future strategic plans. Principal risks previously reported have been reviewed in detail and they have been refined and made more specific. Compared to the principal risks reported in the 2016 Annual Report the risk relating to Non-Adherence to Transport Operator Licence Conditions is new, and the risk relating to a breach of airside security within the Media business has been removed as it is no longer considered sufficiently material to be considered a principal risk. This risk is however still subject to ongoing monitoring and appropriate mitigation.

The table below details each principal business risk, those aspects that would be impacted were the risk to materialise, our assessment of the current status of the risk and how it is mitigated.

Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
Health & Safety The risk of failing to provide employees with appropriate training and a safe environment results in serious injury to employees and/or the public. Combined with the risk that the Group fails to comply with relevant Health and Safety legislation.	No change	The impact of a Health and Safety failure negatively impacts operations, profitability and/or corporate reputation, together with the risk of possible enforcement action.	Safety is a key priority of the Group. Health and Safety performance is reviewed at Board Meetings, Audit Committee, and Executive Meetings and at business unit level. Dedicated Health and Safety teams exist throughout the business, executing improvement programs and promoting a safety culture. Significant continued investment in Health and Safety improvements were made during FY17 and further planned targeted investment in FY18.
Non-Adherence to Transport Operator Licence Conditions The risk of failing to adhere to external laws and regulations by employees, sub-contractors and third parties resulting in a breach of our Transport Operator Licence conditions.	**New**	The impact of poor adherence to Operator licence conditions results in sanctions which may curtail our ability to operate and/or increase operating costs.	The Group maintains a comprehensive governance framework. Dedicated Transport Compliance teams exist specifically focused on transport-related compliance. Improvement programs exist to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Applicable legislation is diligently tracked and monitored and any changes reflected in policies and controls within required timeframes.
Changing Consumer Behaviour The risk of new technologies and demographics drive change in customer behaviour and/or supply chain dynamics that result in structural market changes being deeper and quicker than predicted, including migration from print to digital, reducing demand for our services.	No change	Sales decline in newspapers and magazines are worse than expected (forecasted expectation of a -3% to -5% range) and there may be a 'tipping point' where some titles cease to publish rather than slowly decline. The Books market is impacted resulting in lower profit and negative market sentiment related to printed media.	Historical price increases in newspapers and magazines have consistently offset a large part of the impact of falling volumes. Major publishers continue to commit to print distribution, given the superior advertising revenue from print over digital (lack of intermediaries) and the slow take-up of digital paid subscriptions. Management continues to identify efficiencies to compensate for market declines. Tuffnells is a significant financial contributor toward the overall results, mitigating market declines for newspapers, magazines and books. The strategy, including "Early" delivery propositions (including Pass My Parcel), seeks to further protect the organisation from over-exposure to individual market risks.
Optimising Contract Renewals and Tendering The risk of failing to retain major contracts at acceptable rates and /or win new contracts in competitive markets affected by aggressive pricing strategies impacts current and projected business performance.	No change	Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In Smith News, publishers typically award five year contracts supporting the market structure. Tuffnells and Books operate in fragmented markets with fewer key suppliers or customers. Strong relationships across the supply chain help the business to understand and demonstrate its strengths for the benefit of its suppliers and customers.

No change Decreased Increased **New** New Risk

Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
Increased Labour Costs The risk of legislative changes or interpretation impact the engagement of employees and delivery contractors resulting in an increase in the number of employees and/or liabilities and cost.		In the event of any legal claim as to worker status by consultants, sub-contractors or agency workers the business could be liable for increased costs (national insurance contributions) and liabilities (such as employee rights). The inability to pass on such statutory increases to our customers could impact profitability, and affect the cost of future efficiency programmes.	The Group regularly reviews its legal terms of engagement with contractors and has appropriate contractual and operational arrangements in place. Self-employed delivery contractors have clearly articulated agreements defining tasks they are contracted to provide whether personally or by a substitute. Increasing employment cost associated with National Living Wage/Apprentices Levy/ Auto Enrolment has been factored into latest budgets. Future impact of Brexit on employment risks are unknown at the date of this report and therefore no change. Legal developments are monitored to ensure that the business maintains compliance with legislation and best practice.
Network and IT Robustness The risk of Network and IT disruptions in key infrastructure facilities leads to an inability to deliver according to customer expectations and contractual obligations.		Any material failure resulting from systems' outages, process failures, location access or employee/ contractor disputes may lead to an adverse impact on operations, financial performance and reputational impact.	Disaster recovery and business continuity plans exist and are reviewed periodically. Investment is made to provide disaster recovery capability for all essential systems. Protections are in place to defend IT systems against cyber attacks.
Failure to execute strategy The risk of failing to deliver business plans and/or financial returns in line with the planned strategic evolution of the Group, impacts external confidence and shareholder perception, bringing into question the future strategic direction and confidence in its delivery.		Sales and/or profit expected from acquisitions / organic growth may not be met and/or the Company's reputation and support for future acquisitions are challenged. Cultural change required for diversification / restructuring may result in reduced performance and financial returns.	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made. Performance to plans is reviewed monthly with post investment analysis undertaken. Detailed integration process, governance and support framework ensures effective and timely adoption of standards and process into acquisitions and restructuring activity.
Constraints on capacity and/or failure to execute restructuring and other change management programmes The risk of failing to re-engineer the business to create a platform for future growth combined with excessive demands on new and existing resources and capability results in loss of customers or key people impacting both current and future business prospects.		The impact of the inability of warehousing / operational / IT and support systems to meet growth expectations creates poor customer experience, increased investment costs and reduced profitability. Management's focus on current business operations and performance is distracted by organisational change and new initiatives. Management leave the business taking valuable skills and knowledge with them.	The annual business and strategic planning process ensures appropriate investment is budgeted to ensure growth targets are achieved. Organisational and cultural change is a key imperative, leading to investment in resources and skills that are required to deliver the successful integration and development of new businesses and business critical initiatives, including investment in expert skills in change management and project management.
Deterioration of the Macro Economic Environment The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with Brexit, impacts current and/or projected business performance above that included in the business planning and review process.		Reductions in discretionary spending may impact sales of newspapers, magazines or books and/or see a reduction in parcel volumes. Uncertainty from Brexit may affect the business in both the short and medium term on trade arrangements, future capital investment strategies and resourcing costs.	Annual budgets and quarterly forecasts take into account potential macro market and competitive impacts when setting expectations internally and externally, allowing for or changing objectives to meet short and medium term financial targets.

Corporate responsibility

The Group continues to operate to a well-established foundation of responsible practice, embracing an awareness of our impact on the workplace, industry stakeholders, the wider communities in which we operate, and the environment.

Across the Group we focus our Corporate Responsibility (CR) activity and targets on four areas: Environment, Workplace, Marketplace, and Community. In line with our governance policy we set targets and establish focus areas across the business, reviewing progress throughout the year, with regular updates to the Executive Leadership Team and Board. In addition to Group-wide initiatives, each business has a programme that relates to its particular workplace and market.

At an operating level, we continue to integrate responsible best practice and pro-active CR initiatives into our tangible business plans and objectives. The central support functions provide support for areas of expertise such as emissions and energy reduction, and we respond to changes in legislation, developments in our markets and industry best practice, to encourage and participate in responsible processes across our supply chains.

Our community link-up programme continues to flourish, driven by the enthusiasm and commitment of frontline colleagues who volunteer and raise funds for charities and good causes that are important to them. A highlight of the year was the Pass It On campaign providing help to homeless people at Christmas. The initiative, spearheaded by colleagues at Smiths News, involved volunteers collecting and distributing warm clothing and food to 17 locations across the country. Other highlights included the Jack's Beans Christmas cup campaign, which raised £16k for charities and the staging of 'Woo Fest', a local music festival run entirely by volunteering colleagues, with proceeds donated to a local hospice in Worcester.

Environment

The installation of LED energy efficient lighting has continued over the year with 24 Tuffnells sites now converted to the new technology. The ongoing programme of network upgrades and relocations takes close account of environmental impacts, ensuring that new and more energy efficient infrastructure and processes are integral to our plans. This has contributed to the 12.4% reduction in the Group's scope 2 emissions on a like for like basis.

This year, in pursuit of our focus areas, we made significant progress with improvements to waste management at Tuffnells, building on progress made in FY2016. Following the successful waste management trial at Tuffnells' Sheffield site, we have now extended our contract with Biffa and our best practice waste management strategies to cover the full Tuffnells estate. Waste and recycling has consistently improved, ensuring over 60% of operational waste is now recycled and we are making rapid progress towards our medium term target of 75% target by the end of FY18.

In July, The Group's Carbon Reduction Commitment (CRC) 2016/17 Annual Report was submitted ahead of the deadline and the appropriate numbers of allowances have been ordered to satisfy our compliance obligation. The reduction of our CRC allowances over the last 5 years demonstrates the progress the Group has made in reducing energy consumption:

CRC Year	Allowances
2012-13	9,698
2013-14	8,141
2014-15	7,854
2015-16*	8,389
2016-17	7,647

* The increase attributable to the acquisition of Tuffnells.

Carbon Emissions data

The Carbon Emissions data now includes our Tuffnells business providing clarity on the carbon emissions from the wider group. We will continue to roll forward the base line such that 2016-17 will become our future base-line year.

Fuel Type/Scope	1 March 2015 – 28 Feb 2016 Tonnes of CO_2e (Excluding Parcel Freight)	1 March 2016 – 28 Feb 2017 Tonnes of CO_2e (Including Parcel Freight)
Scope 1	3,616	43,045
Scope 2	4,778	5,793
Scope 3	14,549	38,879
TOTAL	22,943	87,717

Efficient lighting and recycling

We've introduced LED energy efficient lighting at 24 Tuffnells sites as well as making improvements to waste management.

Introduction of new lighting has contributed to the 12.4% reduction in scope 2 emissions. And our extended contract with Biffa and best practice waste management strategies now cover the full Tuffnells estate. 60% of operational waste is now recycled and we are making rapid progress towards our target of 75% by the end of FY18.

Greenhouse Gas Emissions Intensity Ratios

Intensity Ratios	Reporting Year	CO_2e tonnes per £1m turnover	CO_2e tonnes per employee	CO_2e tonnes per square metre of premises
	1 March 2015 – 28 Feb 2016	13.25	6.22	0.15
	1 March 2016 – 28 Feb 2017	47.00	15.07	0.41

Notes:
The data collected for this report is in respect of the period 1 March 2016 to 28 February 2017, being the period that the Group previously reported for the Carbon Trust Standard certification. The carbon emissions data now includes the Tuffnells and the data includes all material emissions (sources representing over 1% of footprint).

Using an operational control approach, the Group has assessed its boundaries to identify activities and facilities for which it has responsibility for the greenhouse gas (GHG) emissions from Scope 1 and 2. The Group reports on selected Scope 3 emissions, namely, the subcontracted mileage of Smiths News and Tuffnells (where possible to obtain) and employee business travel. Total GHG emissions were calculated following ISO-14064-1:2006 methodology and using DEFRA (2016 and 2012) emissions factors.

Scope 1 (gas and fuel) emissions relate primarily to the consumption of gas to heat the Group's distribution locations and the fuel consumed by our company cars and commercial vehicle fleet. Scope 2 emissions consist of the electricity used in our offices and depots.

Pass It On

Last Christmas Pass My Parcel pledged to spread some warmth during the festive season, and partnered with Jack's Beans coffee company in a campaign to help homeless communities across the UK.

Pass It On called on colleagues across Connect Group to donate their preloved winter clothing, which was then handed out with free coffee at 17 locations nationwide. The response to the campaign demonstrates the commitment of our colleagues; in just four weeks the Pass It On team distributed over 5000 items of clothing and 3000 hot drinks from the Jack's Beans barista van, and volunteered around 500 hours of their time.

Managing Director Jonathan Bunting joined his colleagues to help give out the items and spoke to local TV crews and the press about the campaign:

"The success of Pass It On is largely down to the generosity of our colleagues. It is humbling to think that a simple idea can have such an incredible impact – every person we spoke to valued not only what we were giving them but the time we spending with them as well."

The campaign helped over 1000 homeless and vulnerable people and plans are under way for this Christmas.

Workplace Responsibility, Diversity and Human Rights

The Group is committed to responsible practice throughout the workplace and embeds this in its policies and procedures. Regular reviews ensure that updates are made in response to business initiatives and legislation; any significant changes are noted and discussed with the Executive Leadership Team and the Board. Health and Safety performance is reviewed regularly by the Board and Executive Leadership Team throughout the year.

The Group works to ensure a culture that is free from discrimination and harassment in any form. Proper consideration is given to people with disabilities and, should employees develop a disability while working for the Group, every effort is made to continue their employment and provide retraining if required. We are committed to a culture and environment in which workplace concerns can be raised and addressed without recrimination; we supplement this with confidential whistleblowing procedures that are well communicated throughout the organisation.

The Group actively supports diversity in the workplace in all its forms and is committed to improving the balance of gender composition over time. The current gender composition is:

	Male	%	Female	%
All employees*	4,410	75%	1,497	25%
Board of Directors	6	86%	1	14%
Senior Managers **	39	74%	14	26%

* Including Connect Books employees

** Senior Managers comprises the Executive Leadership Team (excluding the Executive Board Directors) and other senior managers inclusive of Connect Books, with responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company.

The Group fully supports the human rights of our employees and our policies are built on a commitment to mutual respect, fairness and integrity throughout the Group. These principles are reflected in our Company Values, which are integral to our Employee Relations policies and, more broadly, to the ways in which we work together. The Group has in place ethical trading standards and a commitment to combatting modern slavery, each of which are endorsed by the Board, which we expect our supply chain partners to adhere to in our commercial relationships. To encourage staff to raise any matters of concern across what we do, the Group operates a confidential 'speak-up' line.

Woo Fest

After a successful launch in 2015, this annual family oriented music festival has now raised over £24,000 for a Worcester hospice.

Organised by colleagues, this year's event was sponsored by Pass My Parcel and featured a variety of music plus a flyover from an RAF Lancaster bomber.

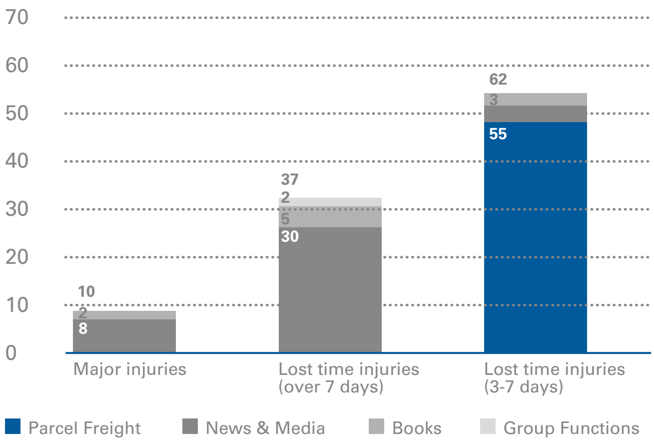
Health & Safety

The Group is committed to maintaining the highest standards of health and safety, and to the continual improvement of our health and safety culture, performance and practice. Each operating business is responsible for the management of health and safety risks, supported by specialist Health & Safety teams that provide guidance, training and support in relation to the particular risks and priorities of each business. A Group Health & Safety report is provided to the Board each month and the Audit Committee and Board each conduct regular reviews of incidents, trends and overall performance. The result is a clear focus on health and safety throughout the Group.

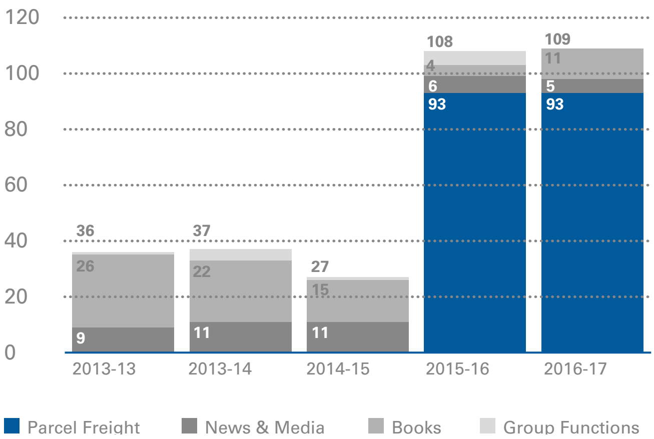
Since 2016 the Group has invested over £3.5m in upgrading the network and developing a stronger health and safety culture at Tuffnells, addressing legacy issues which came with our acquisition of the business in December 2014. Each site in the Tuffnells estate was assessed for safety standards and a schedule of improvements prioritised the areas requiring immediate attention – once actions have been completed we will continue to assess and upgrade the network on an ongoing basis. Among the range of improvements we have erected safety barriers at the entrance to all depots, installed an average of 13 dock edge protection barriers at each site and a total of over 747 metres of Armco barriers. Over 740 CPC driver training sessions have been held, and we have invested over £100k in vehicle cameras to improve safety and compliance. Transport and safety training plans are in place at all locations across the Group supported by specialist software which improves reporting and compliance. This year our actions have increased awareness of health & safety issues and procedures, resulting in an increase in the reporting of incidents, which allows for follow up action. We are confident that, over time, these actions will result in a substantial reduction the number of serious incidents. To ensure we maintain progress and further improve the process and culture we have invested £0.4m p.a. in additional safety focused roles, ensuring that health and safety is embedded in the business culture and expertise is accessible by everyone.

2017	News & Media	Books	Parcel Freight	Group
Major Injuries	2	0	8	10
Injuries resulting in over 3 days absence from work/hospitalisation	9	5	85	99
All RIDDORs[1]	11	5	93	109

2016/17 YTD RIDDORs by severity and division



YTD Total RIDDOR Reportable Incidents by month and financial year



	2016	2015	2015 LFL[2]	2014	2013	2012	2011	2010	2009
Major Injuries	10	12	3	4	4	0	2	1	2
Injuries resulting in over 3 days absence from work/hospitalisation	98	78	24	33	32	45	53	70	40
All RIDDORs[1]	108	90	27	37	36	45	55	71	42

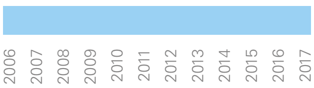
1 RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.
2 LFL: adjusts for the impact of the acquisition of the Parcel Freight division in 2014 to compare on a like for like basis with previous years.

Approval

This Strategic Report has been approved by the Board and signed on its behalf by:

Gary Kennedy
Chairman
7 November 2017

Board of Directors

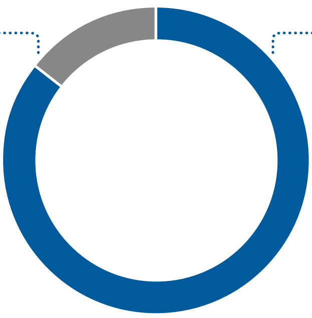
			
	Gary Kennedy Chairman **A** **N** **R**	Mark Cashmore Chief Executive Officer	David Bauernfeind Chief Financial Officer
Year of appointment	2015	2006	2016
Background and experience	Gary was formerly Group Director of Finance and Enterprise Technology at Allied Irish Banks plc from 1997 to 2005, following executive positions at Nortel Networks (1985 to 1997) and Deloitte (to 1985). He has also previously been a non-executive director of Elan Corporation plc and Irish Bank Resolution Corporation Limited, as well as having served on the Board of the Industrial Development Authority of Ireland for ten years.	Mark started his career with Pernod Ricard before moving to United News & Media in 1989. Between 1989 and 1999 he held senior positions in a number of news distribution businesses, including Sales Director of United Magazine Distribution, USM and Seymour. He joined WH Smith News in 1999 and was appointed Magazine Sales Director in 2001 and Managing Director in June 2006.	Prior to joining Connect Group, David was Chief Financial Officer and executive director at Xchanging PLC, a position he held from 2011 until its takeover and delisting in June 2016. Before joining Xchanging in 2001, David held management roles in BAE Systems PLC and Johnson Matthey PLC.
Other current appointments	– Greencore Group plc, Chairman – Green REIT plc, Chairman	None	– Gooch & Housego PLC, non-executive director and Chair of Audit Committee Note: Nick Gresham previously served as Chief Financial Officer and stepped down from the Board on 1 October 2016. David Bauernfeind was appointed as Chief Financial Officer on the same date.
Length of tenure:			

Chairman
Chief Executive Officer
Executive director
Non-executive director
Non board role

Key to Committee membership:

A Audit and Risk
N Nominations and Governance
R Remuneration
Bold denotes Committee Chairman

Balance of Directors



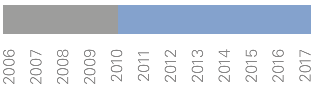
Jonathan Bunting

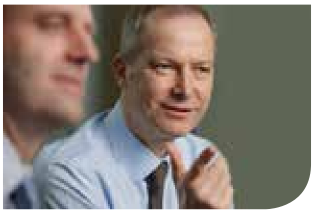
Chief Operating Officer

2010

Jonathan joined WH Smith News in 1994. He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001. In April 2014, Jonathan became Managing Director of the Connect News & Media division. With effect from 1 September 2017, Jonathan assumed the role of Chief Operating Officer, with responsibility for leading operations across the Group.

None





Andrew Brent

Senior independent non-executive director A N R

2008

Andy was most recently Chief Customer and Marketing Officer at Barclays Bank and prior to that held senior marketing positions in a number of leading companies including BSkyB, Alliance Boots Plc, Burger King Inc., Iceland Frozen Foods Plc and Proctor and Gamble Inc.

None

Denise Collis

Independent non-executive director A N **R**

2015

Denise was Chief People Officer at Bupa, the global healthcare business, from May 2010 until December 2014. Prior to that, she held senior HR roles at a number of leading organisations including 3i Group plc, EY, Standard Chartered Bank and HSBC.

- SThree PLC, non-executive director, Chair of Remuneration Committee and member of Nominations Committee
- British Heart Foundation, Chair of Remuneration Committee and member of Nominations Committee and Advisory Council

Mark Whiteling

Independent non-executive director **A** N R

2017

Mark was appointed as an independent non-executive director and Chair of the Audit Committee on 1 September 2017. Mark is currently the Chief Financial Officer of Interserve PLC and formerly was the Deputy CEO and former CFO of Premier Farnell plc (until June 2016), and has considerable senior international operational and finance experience with a number of diverse organisations including Autobar Group Limited, Communisis plc, Tibbett & Britten Group plc and Enodis plc. He was also a non-executive director of Future plc until December 2014 and Chairman of its Audit Committee.

- Hogg Robinson Group PLC, Senior Independent Director, Chair of Audit Committee and a member of the Nominations and Remuneration Committees
- Interserve PLC, Chief Financial Officer and executive director

Stuart Marriner

Company Secretary & General Counsel

Stuart joined the business in October 2008 in order to establish a new legal function and to provide business, legal and regulatory support. He joined from TLT Solicitors in Bristol where he had spent four years as a Corporate Finance Solicitor, including extensive periods on secondment with Somerfield Stores and Punch Taverns. Stuart was appointed as Company Secretary and General Counsel on 1 September 2011 and continues to lead the legal and company secretariat teams.

Executive Leadership Team

Max Livingstone-Learmonth
Strategy & Proposition Director

Year of appointment
2011

Background and experience
Max joined the business in March 2011 as Head of Corporate Development. Max has 15 years of strategy and corporate acquisitions experience and before joining he was a director at PricewaterhouseCoopers. He was appointed Strategy Director and joined the executive management committee on 1 September 2014.

Richard Webb
Technology & Services Director

Year of appointment
1987

Background and experience
Richard Webb joined WH Smith News as a graduate recruit in 1987. Richard worked in a variety of roles at warehouse locations and regional level before moving to head office in 1994 to join the Information Systems Department. He was appointed Information Systems Director in 2004 and Information Technology Director on 1 September 2011, assuming responsibility for Group Services on 1 May 2013.

Jane Storm
People Director

Year of appointment
2017

Background and experience
Jane joined the business from Tesco PLC in May 2017, after holding earlier positions at Prudential and JP Morgan. She brings a wealth of experience in organisational change and will be responsible for creating a one team approach, ensuring the business makes the most of its talent pool and creates opportunities for continuing professional development.

Stephen Scott
Commercial Director

Year of appointment
2017

Background and experience
Stephen joined the business in June 2017, with a 20-year career in sales, corporate development and strategy. He has expertise in commercial contracts and their delivery in customer focused environments. Stephen is responsible for sales and marketing, developing a range of offers to customers that make the most of our unique capabilities.

Mark Horrobin
Interim Integration Director

Year of appointment
2017

Background and experience
Mark joined the business in August 2017 on an interim basis and is focused on establishing structures and working practices that are necessary to create one organisational design and philosophy. Mark is a specialist in transformational change and has deep knowledge of the transport and distribution sectors.

Executive Leadership Team

Mark Cashmore
Chief Executive Officer

Jonathan Bunting
Chief Operating Officer

David Bauernfeind
Chief Financial Officer

See previous page for biographies.

Nick Gresham stepped down from the former executive management committee (then known as the 'Group Executive' Committee) on 1 October 2016, at the same time as he was replaced by David Bauernfeind as Chief Financial Officer.

Corporate governance

Introduction by the Chairman

I am pleased to present this year's report on the governance of our Board. As a Board, we remain committed to implementing and driving good corporate governance practices throughout our business and embedding these principles into the culture of our organisation.

Last year we reported on the successful refreshing of our Board membership. We were sad to see Colin Child, non-executive director and Chair of the Audit Committee, retire from the Board in March 2017. In his role as Audit Committee Chair, Colin was active in promoting the strengthening of our Health & Safety strategy and our ongoing Operating Environment Upgrade project. We thank him for his contributions and continue to wish him well for the future. Following the resignation of Colin Child, the Board nominated and approved my appointment as interim Chair of the Audit Committee (having recent and relevant financial and business planning experience), until such time as a replacement was found. I am pleased to report, after an extensive and diligent search, that we have now appointed Mark Whiteling as independent non-executive director and Audit Committee Chair with effect from 1 September 2017. Mark's experience and expertise with a number of diverse organisations stand him in good stead for being able to continue the good work of the Audit Committee and enriching discussions at the Board and its Committee meetings.

Our efforts in relation to Board succession and changes in our Board membership however continue as we plan for the succession of Andrew Brent, our Senior Independent Director, who has been on the Board for nine years. In line with best practice, it is intended that Andrew will retire from the Board at the conclusion of the 2018 Annual General Meeting and I remain confident that the composition of the Board will encapsulate the core competencies, skills and experience that we need as we target integrating Smiths News, Tuffnells and our corporate centre into one, leveraging the combined strengths of our two specialist distribution networks, as well as a more diverse insight into our Board discussions. Diversity was one of the key considerations in our recruitment process and accordingly, we are pleased to have maintained our Statement of Ambition to retain 25% female non-executive directors on our Board. We acknowledge, however, that there is further work to be done on diversity in our Executive Leadership Team and senior management population (as disclosed in our Corporate Responsibility report on page 28) which we will continue to keep under review.

Like many companies, this year the Board has tackled the developing risk profile and financial and non-financial implications of cyber-related incidents and manifestations of other data security breaches. Whilst we have not been impacted by the well-publicised global ransomware cyber-attacks, we have nevertheless made significant strides in our compliance framework. We have taken a robust approach and ensured our capability has been enhanced and deployed to enable a full review of systems, including a deeper risk assessment and a swift response plan in the event of future vulnerability events. Our teams' reaction to these global incidents has, again, been a tremendous example of teamwork, speed of response and professionalism which is a credit to all those involved. The energies we have expended here will continue as cyber-security becomes ever more embedded into the ways in which we (and our customers) do business, as well as our wider endeavours to ensure compliance with, amongst others, the General Data Protection Regulation (which will replace the UK's Data Protection Act 1998 when it comes into force on 25 May 2018) and other related legislation.

As part of the Board's responsibility to maintain sound risk management, we have considered matters within our risk matrix as reflected in our principal risks section of this report set out on pages 24 and 25. The Committee also reinforced its commitment to auditor independence as explained further in the Audit Committee report on page 44 and will welcome Jane Makrakis as the new audit partner at Deloitte LLP, as Anna Marks (current audit partner) completes five years' service as an auditor (and audit partner) of the Company. Jane will take over from Anna with effect from October 2017 and following the conclusion of the audit of this year's Annual Report.

I am pleased to report that this year we also undertook an internally evaluated review of the Board, the effectiveness of its Committees' and individual director's contributions. We remain committed to implementing and driving good corporate governance practices, as demonstrated last year when we participated in an externally facilitated evaluation. We are pleased that this year's review acknowledged progress on the outcomes from the previous evaluation review together with the consideration of a small number of noteworthy highlights in areas of particular importance to the Board's current focus, such as succession, diversity and the consideration of the Internal Audit function's current co-sourced operating model. Furthermore, we are pleased this review concluded that ours is a highly functional Board, with a team of people who will support or challenge where appropriate, drive change, and who are committed to doing the right things for all its stakeholders. I am confident that the Board possesses the skills needed in its task of promoting the future direction and long-term interests of the Company.

Good governance principles are evident in our corporate culture and expressed through our Company Values, which are cascaded within the business. We are committed to strengthening governance, enabled through improved systems and processes, and by further integrating our businesses towards one common culture, strategy and vision. We look forward to maintaining this focus for the coming year and reporting in next year's Annual Report on the progress we intend to achieve.

Gary Kennedy
Chairman

Governance framework

We operate within a clear governance framework, which is outlined in the diagram below. Our risk management framework along with the principal risks is described in the Strategic report on pages 24 to 25.

Chairman
Gary Kennedy

Responsible for running the Board

As set out in the division of responsibilities between Chairman and Chief Executive

Chief Executive Officer
Mark Cashmore

Responsible for managing our businesses and implementing strategy

As set out in the division of responsibilities between Chairman and Chief Executive

Board
The Board is responsible for overall strategy and performance and manages business requirements through a formal schedule of matters reserved for its decision. Such matters include:

- overall strategic direction and management, including acquisitions and disposals;
- approval of long-term objectives and commercial strategy;
- approval of the annual operating and capital expenditure budgets;
- approval of major capital expenditure;
- approval of material agreements;
- changes relating to the Company's capital structure;
- approval of the financial statements and accounts;
- dividend and treasury policies;
- control, audit and risk management;
- remuneration of directors and senior managers; and
- corporate responsibility.

The Schedule of Matters Reserved for the Board is available on our website www.connectgroupplc.com

Executive Leadership Team
The Executive Leadership Team focuses on the development and implementation of strategy, financial and operational performance, commercial developments, succession planning and organisational development.

Audit Committee
- promotes governance and accuracy of financial reporting
- monitors the internal and external auditors

Pages 41 to 44 for report

Nominations Committee
- makes recommendations to the Board for appointments and succession planning

Pages 45 to 46 for report

Remuneration Committee
- determines directors' remuneration strategy and policy
- reviews the implementation of remuneration policy

Pages 47 to 63 for report

Approvals Committee
- responsible for approving delegated Board matters

Disclosure Committee
- monitors and oversees Market Abuse Regulation and the inside information procedures and disclosures

Board activities

Board meetings

Board meetings are structured to facilitate the fulfilment of the Board's responsibilities; this is achieved by way of an annual agenda planner which is reviewed and updated at each Board meeting. In preparation for meetings, supporting papers are circulated in a timely manner, with a sufficient level of detail and supplementary information for the Board to take decisions. The Board receives regular updates on matters such as strategy, financial, operational and management reporting, Health & Safety, investor relations and corporate governance, in addition to ad hoc matters for consideration such as material transactions.

Directors' attendance

The following table shows the attendance of directors at Board and Committee meetings held during the year.

	Scheduled Board meetings	Additional Board meetings[1]	Committee meetings: Audit	Nominations	Remuneration
Number of meetings	8	7	4	4	2
Gary Kennedy	8	7	4	4	2
David Bauernfeind[2]	7	7			
Jonathan Bunting	8	7			
Mark Cashmore	8	7			
Nick Gresham[3]	1	0			
Andrew Brent	8	7	4	4	2
Colin Child[4]	4	4	2	1	2
Denise Collis	8	7	4	4	2

1 The seven additional Board meetings held during the year were held by conference call, four of which were in relation to corporate activity, one in relation to the Brierley Hill fatality in the Tuffnells business and which was reported in the 2016 Annual Report, one in relation to trading performance, and one in relation to key accounting judgements and proposed refinancing.
2 David Bauernfeind was appointed on 1 October 2016 and has attended all Board meetings since that date.
3 Nick Gresham resigned from the Board on 1 October 2016 and attended the Board meeting prior to that date.
4 Colin Child resigned from the Board and its Committees on 21 March 2017. He attended all scheduled Board and Committee meetings prior to that date, with the exception of one Additional Board meeting. He did not attend two unscheduled Nominations Committee meetings in relation to his resignation, and resigned prior to one of the scheduled Nominations Committee meetings.

Board evaluation, induction and training

Board evaluation

The Board has a formal process for evaluating both its effectiveness and the effectiveness of its Committees and of individual directors and, in line with the UK Corporate Governance Code 2016 (the '2016 Code') (albeit not mandatory for 'smaller companies'), aspires to carry out an externally facilitated evaluation every three years. The last external evaluation was conducted in 2016 by EquityCommunications.

Building on the outcomes from last year's evaluation, this year, an internal evaluation of the Board and its Committees was facilitated by the Company Secretary, by way of a suite of extensive and tailored questionnaires for each of the Board and its Committees. Having considered this year's feedback, the Board concluded that both it and its Committees continue to operate effectively and in accordance with good corporate governance principles. The main areas of constructive feedback identified by the evaluation process related to challenges experienced in the delivery of the Internal Audit work plan for FY17 and, specifically, the current co-sourced operating model deployed in FY17. Further, the Board identified a small number of noteworthy highlights in other important areas of the Board's current focus, such as succession and diversity.

Each individual director's performance was also assessed by their peers. One-to-one discussions were subsequently held between the Chairman and each director to discuss their contribution and performance during the year along with any training needs. A meeting of the non-executive directors was led by the Senior Independent Director, in which the performance of the Chairman was discussed. Each director was confirmed as committed and effective in performing their duties.

Induction & training

On joining the Board, all new directors receive induction training which is tailored to meet the needs of the individual. Both David Bauernfeind and Mark Whiteling received a fully tailored induction on joining the Company which included a comprehensive induction pack covering pertinent information on our business, an overview of the structure of the Board and its Committees and information on the Company's key policies; meetings with the Executive Leadership Team; and informal visits to key operational sites without the executives being present.

The directors' induction programme is supplemented by ongoing training and development, the need for which is regularly assessed by the Board. In addition to the directors taking advantage of external Continuing Professional Development ('CPD') opportunities over the course of the year, ongoing training resources available to the directors included:

- membership of the Deloitte Academy, a training and guidance resource for boards and directors;
- a programme of head office and business visits;
- a dedicated Health & Safety briefing and reference site visit at one of Tuffnells' depots;
- annual reviews with the Chairman to identify any training and development needs;
- advice and regular updates from the Company Secretary on governance, regulatory and legislative changes affecting the business and/or their duties as a director; and
- access to independent professional advice at the Company's expense.

Directors' conflicts of interest

The Board confirms that a formal system for directors to declare their interests and for the independent directors to authorise situational conflicts continues to be in place. Any authorisations given by the Board are recorded in the board minutes and in a register of directors' conflicts which is reviewed annually by the Board.

Shareholder engagement

The Board is responsible for, and recognises the importance of, communicating with the Company's shareholders to ensure that both strategy and performance are understood. This is achieved principally through the Company's website, www.connectgroupplc.com, and the Annual General Meeting. The website provides investors with a range of information about the Company, including the Annual Report and Financial Statements, regulatory news releases, share price data and the Company's financial calendar, and incorporates a Shareholder Centre containing Annual General Meeting and other useful information.

Following the announcement of the Company's full year and interim results, formal presentations are made to institutional shareholders by the Chief Executive Officer and Chief Financial Officer covering a range of key issues affecting the Company's performance. The presentations are available to view on the Company's website at www.connectgroupplc.com.

All shareholders have the opportunity to ask questions at the Annual General Meeting, which is normally attended by all of the directors. The notice of the Annual General Meeting is given to shareholders at least 20 working days before the meeting and includes notice of the availability of the Annual Report on the Company's website. At the Annual General Meeting, separate resolutions are proposed on each separate issue and shareholders vote on each resolution by way of a poll (rather than on a show of hands). This ensures that the final result is more democratic as the proxy votes are added to the votes of shareholders present, who vote all their shares (rather than one vote per shareholder). Proxy forms allow shareholders to vote for or against, or to withhold their vote on each resolution, and the results of the poll are announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Chief Executive Officer and Chief Financial Officer update the Board following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers.

Internal control and risk management

The Board has overall responsibility for our system of internal control, including risk management and for reviewing its effectiveness. The Group's risk management and internal control system is designed, however, only to manage or mitigate rather than eliminate risk, as taking on manageable risk is an inherent part of undertaking the Group's commercial activities, and can only provide reasonable and not absolute assurance against material misstatement or loss.

We have an established framework of internal controls including financial, operational and compliance controls. In addition, there is an ongoing process for identifying, evaluating and managing the principal business risks we face, including those that would threaten our business model, future performance, solvency or liquidity. This process was in place throughout the year under review and up to the date of approval of this report and accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'FRC Guidance'). In light of the risk management process and review work undertaken by the Board and the Audit Committee, the Board is satisfied that it has carried out a robust assessment of the principal risks we face as required by the 2016 Code. Further details of our risk management framework, along with our evaluation of the principal risks and how they are being monitored are set out in the Strategic report on pages 24 and 25.

Framework of Internal control and risk management

The Board is responsible for the overall strategic direction and management and undertakes an annual review of its risk appetite, outputs of which are considered when conducting the annual business planning and strategy process. Full details of the Board's responsibilities are set out in the formal schedule of matters reserved for its decision, which are summarised on page 34.

The Board has established an organisational structure with clearly defined reporting lines and controls at all levels of management, identifying transactions requiring approval by the Board or by the Approvals Committee.

The Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper systems of risk management and internal control.

The Approvals Committee, which comprises the Chief Executive Officer and Chief Financial Officer, and for commercial transactions the relevant member of the executive management, is authorised by the Board to approve routine matters within agreed financial limits.

The Internal Audit function assists in maintaining adequate financial controls by reviewing the design and operational effectiveness of core financial processes and controls as part of the internal audit plan approved by the Audit Committee annually.

Internal Audit annually discusses the effectiveness of internal controls with all senior executives in order to co-ordinate their formal certifications in respect of the effectiveness of those internal controls. These certificates are made available to the Audit Committee in order to assist the Board with conducting its annual review of the effectiveness of internal controls in compliance with the FRC Guidance.

The system of financial control also includes:
- a comprehensive system of budgeting and planning, together with monitoring and reporting the performance of the businesses to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- appraisal of all major investment projects;
- key controls over major business risks, including reviews against performance indicators and exception reporting;
- monthly reporting of treasury activities and risks, for review by senior executives; and
- annual reports covering treasury policy, tax compliance, pensions, information and cyber security and insurance, each for review by the Board or the Audit Committee.

Additional operational and compliance controls include:
- key performance indicators to monitor customer service levels;
- independent customer satisfaction surveys;
- monitoring employee engagement and sharing policy updates utilising our employee-wide intranet, obtaining feedback from local management meetings, and frequent site visits by the Executive Leadership Team to encourage open dialogue and exchange of good practice;
- a corporate responsibility programme which addresses the impact of the Company's activities on the environment, workplace, marketplace and community. This includes a Corporate Responsibility Committee responsible for reviewing delivery against corporate responsibility objectives, with annual updates provided to the Board;
- an internal risk committee in each of our businesses to assess key risks to the operations and financial controls and the mitigating actions to address them;
- regulatory and compliance policies (including an Environmental Policy, an Anti-Corruption Policy and an Ethical Trading Policy) each of which is reviewed annually by the Board;
- a Health and Safety Policy, the implementation of which is actively monitored at each Board meeting, and the policy is reviewed annually by the Board;
- Health and Safety Risk Management teams, working to assess health and safety risks and introduce systems to mitigate them. Details of major business incidents are reported to the Internal Risk Committees, Internal Audit and the Audit Committee, and all notified accidents are investigated;
- reports on health and safety matters including the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR) which are provided to the Board on a regular basis;
- a commitment by the Company to ensure that its personnel meet high standards of integrity and competence. The Company's systems cover recruitment, training and development of personnel, and the communication of Company policies and procedures throughout the organisation;
- business recovery plans to enable the businesses to continue with minimum disruption to customers in the event of a disaster event. These plans are assessed as part of the annual Key Controls Self-Assessment exercise, conducted across all functional teams, and reported through to the Executive Leadership Team and the Audit Committee. Periodically, business continuity planning is reviewed by Internal Audit as part of its annual audit planning process;
- an annual Compliance Statement process for the Executive Leadership Team and senior executive teams;
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties;
- a Code of Business Conduct which takes into account the interests of all stakeholders;
- a Whistleblowing Policy and associated speak up line whereby employees can report in confidence incidences of suspected fraud;
- oversight of our adherence to the requirements of the Modern Slavery Act, and annual approval of the Modern Slavery Statement; and
- a comprehensive Data Protection Policy setting strict guidelines for the use and retention of confidential customer and supplier data.

The Audit Committee has continued to monitor the effectiveness of the Company's systems of risk management and internal control during the year, including financial, operational and compliance controls. There have been no failings or weaknesses identified or advised which the Committee has determined to have had a significant or material impact to the Group.

Viability statement

In accordance with provision C.2.2 of the 2016 Code, the directors have assessed the prospect of the Company over a period of three years, which has been selected for the following reasons:
a) our strategic planning cycle covers a three-year period;
b) for major investment projects, three years is considered by the Board to be a reasonable time horizon for an assessment of the outcome; and
c) the business model can be evolved for significant changes in market structure or government policy over a three-year period.

The three-year plan review considers cash flows, dividend cover, bank covenant compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast, both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact of the principal risks we face actually occurring and assessing the risk, reporting and monitoring assumptions. The three-year review also makes certain assumptions about the normal level of working capital required and considers whether additional financing facilities will be required.

Based on the results of these analyses, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over both the period to November 2018 and the three-year period of their viability assessment.

Fair, balanced and understandable

During the year, the Board requested the Audit Committee to undertake a review of the Annual Report and the 2017 Group Financial Statements to ensure that, taken as a whole, it provided shareholders with a fair, balanced and understandable assessment of the Company's position and performance, business model and strategy. Following recommendation by the Audit Committee and discussion by the Board, the directors confirm that they consider that the Annual Report and the 2017 Group Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance and prospects.

Compliance with the 2016 Code

This section of the Annual Report, together with the Audit Committee report on pages 41 to 44, the Nominations Committee report on pages 45 to 46 and the Directors' remuneration report on pages 47 to 63, describes how the Company has applied the main principles contained within the 2016 Code. The 2016 Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

The Company confirms that, throughout the year ended 31 August 2017, it has complied with the 2016 Code, with the following exceptions:

- for the period 21 March 2017 to 1 September 2017, the Board and Committee compositions were not in strict compliance with the 2016 Code (Code Provision B1.2) following the resignation of Colin Child as independent non-executive director and Chair of the Audit Committee. As a consequence, at least half the Board, excluding the Chairman, did not comprise independent non-executive directors. This has been rectified following the appointment of Mark Whiteling as an independent non-executive director. However, given that the Company is a 'smaller company' under the 2016 Code, the Code requirement was nonetheless met for there to be at least two independent non-executive directors on the Board throughout the reporting period; and
- following Colin Child's resignation, Gary Kennedy, Chairman was appointed interim Chair of the Audit Committee on 21 March 2017 while a search was conducted for Mr Child's replacement. This appointment was not compliant with Code Provision C.3.1 which states that the Chairman may be a member of the committee, but not chair the committee, provided he was considered independent on appointment as Chairman. In the view of the Company, Gary Kennedy possessed relevant and recent financial and business planning experience, was independent on his appointment to the Board as Chairman, and continued to display the required diligence, independence of judgement and challenge necessary to fulfil the responsibilities as interim Chair of the Audit Committee following Colin Child's decision to step down. Again, this situation has been rectified by the appointment of Mark Whiteling as the new chair of the Audit Committee, with effect from 1 September 2017, while Gary Kennedy reverts to being a member of the Audit Committee, a position endorsed by the 2016 Code for a 'smaller company' – see Code Provision C3.1.

Set out in the following table, we provide cross-references to other parts of the Annual Report to assist with reviewing our compliance.

A. Leadership

A.1 – The role of the Board

A description of how the Board operates and an overview of the Matters Reserved for the Board is set out on page 34.
The Chairman, Chief Executive Officer, Senior Independent Director and respective Chair of the Committees are set out on pages 30 and 31.
The Board held eight scheduled meetings during the year as set out in the Directors' attendance table on page 35.
Appropriate insurance cover is in place in respect of legal action against the Directors.

A.2 and A.3 – Division of responsibilities and the role of the Chairman

The roles of the Chairman and Chief Executive Officer are set out on page 34 and are set out in writing and agreed by the Board.
The Chairman was independent on appointment.

A.4 – Non-executive directors

Andrew Brent became Senior Independent Director on 4 February 2016.
Both the Chairman and the Senior Independent Director make themselves available during the year to attend meetings with major shareholders.
The Chairman held three meetings during the year with the non-executive directors, without the executives being present.
The Senior Independent Director led the review of the Chairman as outlined on page 35.
No unresolved concerns about the running of the Company, or a proposed action were raised by any directors in the reporting period.

B. Effectiveness

B.1 – The composition of the Board

The Board considers all non-executive directors to be independent. Andrew Brent will have served on the Board for more than nine years from the date of his first election, and will therefore resign at the conclusion of the Annual General Meeting on 23 January 2018.

B.2 – Appointments to the Board

A description of the work of the Nominations Committee is set out on pages 45 to 46 which includes a description of the process for Board appointments and the Board's policy on diversity. Its terms of reference are available at www.connectgroupplc.com.

B.3 – Commitment

The Board is satisfied that the external commitments of the Chairman and the non-executive directors set out on pages 30 and 31 do not conflict with their duties and commitments to the Company and that any new commitments are disclosed to the Board. In the reporting period, David Bauernfeind took on a non-executive directorship in Gooch & Housego PLC, an AIM listed company with effect from 1 May 2017.
Details of the executive directors' service contracts and non-executive directors' letters of appointment are shown in the Directors' remuneration report on pages 52 to 54 and are available for inspection at the Company's registered office and at our Annual General Meeting.

B.4 & B.5 – Development and Information and support

A description of the process of induction, training and development as well as access to the Company Secretary and independent professional advice is set out on page 35.

B.6 – Evaluation

An overview of the Board, its Committees and individual director evaluation process is set out on page 35.

B.7 – Re-election

The Company's Articles of Association (the 'Articles') require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment. However, it is the Board's practice that all directors stand for re-election at the Annual General Meeting, notwithstanding that the Company, which is a 'smaller company' for the purposes of the 2016 Code, is not formally required to re-elect all directors on an annual basis.

C. Accountability

C.1 – Financial and business reporting
The Directors' responsibilities statement is set out on page 67.
The Fair, balanced and understandable assessment is set out on page 37.
The auditor's report is set out on pages 68 to 74.
The going concern statement is set out on page 23.

C.2 – Risk management and internal control
The assessment of principal risks, how they are being managed or mitigated is described on pages 24 and 25.
The Viability statement is set out on page 37.
An overview of the Company's risk management and internal control systems is described in full on pages 36 and 37.

C.3 – Audit Committee and auditors
A description of the work of the Audit Committee is set out in the Audit Committee report on pages 41 to 44. Its terms of reference are available at www.connectgroupplc.com.

D. Remuneration

D.1 and D.2 – The level of components of remuneration and procedure
A description of the work of the Remuneration Committee is set out in the Directors' remuneration report on pages 47 to 63. Its terms of reference are available at www.connectgroupplc.com.

E. Relations with Shareholders

E.1 and E.2 – Dialogue with shareholders and constructive use of General Meetings
An overview of engagement with shareholders and the use of General Meetings is included on pages 35 and 36.

Other key reporting requirements

The table below sets out compliance with certain key reporting requirements and provides cross-references to other parts of the Annual Report for ease of navigation.

Reporting requirement	Location
Description of our strategy and business model.	Strategic report See pages 2 to 29
Environmental impact, including data on greenhouse gas emissions.	Corporate responsibility report See pages 26 to 29
Employee diversity data and human rights.	Corporate responsibility report See pages 26 to 29
Statement that the directors consider that the Annual Report and the Group financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.	Corporate governance and Audit Committee report See pages 37 and 42
Identification of search consultancy used and any connections with the Company.	Nominations Committee report See page 45
Description of the significant issues that the Audit Committee has considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the external audit team.	Audit Committee report See pages 42 and 43
Confirmation that the directors have carried out a robust assessment of the principal risks facing the Company.	Principal risks and Corporate governance See pages 24, 25 and 36
Explanation of how the directors have assessed the prospects of the Company over the longer term and whether there is a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due.	Corporate governance and Audit Committee report See pages 37 and 43
Explanation of how the Audit Committee has monitored the Company's risk management and internal control systems and, at least annually, carried out a review of their effectiveness.	Audit Committee report See page 43
Explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor to enable shareholders to understand why it recommended reappointing or changing the auditor.	Audit Committee report See page 44
Remuneration policy report, including future policy tables and notes; performance scenario charts; and remuneration obligations in service contracts.	Directors' remuneration report See pages 50 to 54
Annual report on remuneration, including: single total figure tables; the link between pay and performance; directors' shareholdings and share interests; Chief Executive Officer pay comparison to Company performance; relative importance of spend on pay; remuneration paid to external advisers; and statement of shareholder voting on the FY16 Directors' remuneration report and our remuneration policy.	Directors' remuneration report See pages 55 to 63

Approval

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

Gary Kennedy
Chairman
7 November 2017

Audit Committee report

Mark Whiteling
Audit Committee Chair

Key objectives
To promote effective governance of the Group's financial accounting and reporting, including the adequacy of related disclosures; the performance of both the Internal Audit function and the external auditor; and to oversee the Group's risk management, internal control systems (including whistleblowing reporting processes), and compliance framework and activities.

Responsibilities
The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website www.connectgroupplc.com and from the Company Secretary on request. The terms of reference, which address all matters set out in Disclosure and Transparency Rule 7.1 and the 2016 Code, are reviewed annually by the Committee and referred to the Board for approval.

The principal responsibilities of the Committee are:

- monitoring the integrity of the financial statements of the Company, including its Annual and Interim Reports, trading statements, preliminary and interim financial results announcements and reviewing significant financial reporting issues and judgments which they contain;
- reviewing the content of the Annual Report and the Group Financial Statements and advising the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- keeping under review the effectiveness of the Company's internal financial controls and internal control and risk management systems including monitoring and reviewing the effectiveness of the Internal Audit function;
- considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing the policy on the engagement of the external auditor to supply non-audit services;
- ensuring the Company maintains suitable arrangements for employees, customers, contractors and other external parties to raise matters of concern in confidence (whistleblowing); and
- reviewing the regulatory compliance framework and the systems and controls for the prevention of fraud, tax evasion, modern slavery and bribery.

In addition, the Committee seeks to identify matters in respect of which we consider that action or improvement by the Company is needed, and appropriate recommendations are made to the Board as to the steps which should be taken to preserve and promote the integrity of the Company's internal controls framework.

Overview
I am pleased to present this year's report on the activities of the Audit Committee, my first report as Chairman of the Committee since my appointment on 1 September 2017.

Membership
I succeeded Gary Kennedy (Chairman of the Board) as Chairman of the Committee upon my appointment on 1 September 2017. Gary Kennedy had been appointed interim Chairman of the Committee on 21 March 2017 following Colin Child's resignation. This was an interim role only whilst a search was conducted for Mr Child's replacement. As highlighted on page 33, Gary Kennedy's temporary appointment as Committee Chairman was not compliant with the 2016 Code, which states that, for a 'smaller company' under the 2016 Code, the Chairman may be a member of the committee only, but not chair the committee, provided he was considered independent on appointment as Chairman.

In the view of the Committee, Gary Kennedy possessed relevant and recent financial and business planning experience, was independent on his appointment to the Board as Chairman, and continued to display the required diligence, independence of judgement and challenge necessary to fulfil the responsibilities as interim Chair of the Audit Committee following Mr Child's decision to step down. I am pleased to report that this non-compliance with the 2016 Code has now been rectified, upon my appointment, with effect from 1 September 2017.

All the members of the Committee are independent non-executive directors, with the exception of Gary Kennedy, who as Chairman of the Board is deemed by the 2016 Code not to be regarded as independent as referred to above. However, as the Company is a 'smaller company' for the purposes of the 2016 Code, the Chairman of the Board is permitted to be a member and, in the light of his extensive financial experience, the Committee believes that Gary Kennedy's membership is both beneficial to the functioning of the Committee and that he provides a valuable contribution.

Given my qualification as a chartered accountant and my extensive financial experience including, my role as Chief Financial Officer of Interserve PLC and formerly being the Chief Financial Officer of Premier Farnell plc until June 2016, I am considered by the Board to have recent and relevant experience to chair the Committee in accordance with the requirements of the 2016 Code. Each of the other members of the Committee has extensive business experience.

How the Committee operates
The Committee met four times during the year as part of our schedule to consider matters planned around the financial calendar. All Committee members, during the time of their appointment, were in attendance at each of the meetings and, at the invitation of the Committee, representatives of the external auditor, Deloitte LLP (Deloitte), attended meetings together with the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Head of Finance, Head of Internal Audit and the Company Secretary & General Counsel. Other members of the Company's executive management and functional teams also attended meetings from time to time to present reports specific to their areas of responsibility.

The Committee also seeks to meet regularly with both the external auditor and separately with the Head of Internal Audit without others being present. In the year, the Committee met twice with representatives from Deloitte without management present and held a separate private meeting with the Head of Internal Audit.

We believe that the activities of the Committee during the year have enabled the non-executive directors to gain a good understanding of the strategic priorities, the risks and challenges faced by each business as well as the adequacy and timeliness of appropriate actions being taken to address them. This has assisted the Committee in its review of the Annual Report and the Group Financial Statements, including a review of the effectiveness of our systems of internal control and risk management. Further, in carrying out our duties, the Committee has at all times acted in accordance with its terms of reference and ensured, through ongoing monitoring and review, the independence and objectivity of the external auditor.

Set out over the next pages is a summary of the major activities of the Committee in the year.

Financial reporting

During the year we reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to, and the content of, the financial statements for the half year to 28 February 2017 and the full year to 31 August 2017 to ensure that they included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position and performance, business model and strategy. In undertaking this review, we considered a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgments made in preparing the financial statements. The Committee concluded in its recommendation to the Board that it was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

The significant issues and key judgments considered by the Committee in relation to the FY17 Group Financial Statements included the following:

Significant issues and key judgements

Matter considered	Outcome
Carrying Value of Goodwill and Intangibles Assets The Committee considered the carrying value of Cash Generating Units (CGU) following a year of underperformance against budgets.	The Committee reviewed the forecast and sensitivity analysis which management had prepared to assess whether there had been any impairment in the value in use of the Group's CGUs. The Committee agreed with management's conclusion that the Books division should be impaired as it was held for sale at year-end. The Committee reviewed the assumptions regarding the net realisable value of the Books division and agreed it was reasonable. The Committee also reviewed the assumptions regarding the value in use of the other CGUs and agreed that they were appropriately recognised and measured and, although in some cases the headroom in the year had reduced significantly, the value in use remained above carrying value.
Strategic Disposal & Held For Sale The Committee considered the accounting treatment associated with the disposal of the Education & Care division in the period, and the decision to hold the Books division for sale at year-end.	The Committee reviewed the treatment and associated disclosure proposed and concluded it was fair, balanced and understandable.
Provisions The Committee reviewed the provisions as at year end and the appropriateness of the additions, utilisation and releases made in the year. The establishment of a restructuring provision following the development of the integration plans for Smiths News, Tuffnells and the corporate centre, and management's estimation of the exposure to operating and contingent leases associated with various real estate contracts.	The Committee agreed that the provisions held were appropriately recognised and measured and that releases were consistent with the manner in which the original provisions had been made.
Taxation The Committee reviewed the tax charge for the year, including credits in relation to the prior year and the treatment of historically held tax provisions.	The Committee was satisfied that the Group has adequately provided for known tax risks (both UK and overseas) and that the tax charge for the year was reasonable.
Retirement benefit obligation The Committee reviewed the assumptions used for the IAS 19 calculation of surplus/deficit and the total IFRIC 14 liability recognised on the balance sheet for future actuarial deficit reduction contributions.	The Committee satisfied itself that the assumptions used were reasonable.
Inventories and Trade Receivables The Committee reviewed the reasonableness of management estimates of carrying value of inventories and trade renewables, paying particular attention to slow moving inventory and aged receivables.	The Committee was satisfied that the provisions made for slow moving inventory and for doubtful receivables were reasonable.

Adjusted items The Committee considered the appropriateness of the measure of Adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as such.	The Committee was satisfied that the presentation of Adjusted profits provided a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of the items shown separately as adjusted items.
Revenue recognition The Committee reviewed the recognition of revenue across the Group.	The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with its contractual obligation during the period, paying attention to period end cut-off and the level of expected customer returns.

Going Concern and Viability Assessment

The Committee also reviewed a paper prepared by the Chief Financial Officer to support the Going Concern and Viability Assessment referred to on page 23 and concurred that the profit and cash forecasts supported the view that the business can meet its liabilities as they fall due for the foreseeable future and the three-year period of the Viability Assessment.

Internal control and risk management

The Committee is responsible for keeping under review the robustness and effectiveness of the Company's risk management and internal control systems.

At each meeting, the Committee has received updates from the Head of Internal Audit and various members of the Company's executive management on the principal risks we face. These risks are set out in risk maps, registers and various legal and regulatory risk reports. Executives responsible for key risk areas periodically also presented to the Committee their plans to monitor, control and mitigate these key risks and such actions being taken in their respective business area which included presentations and discussion on:

– Tuffnells' Health & Safety Strategy and ongoing Operating Environment Upgrade to improve working conditions and the protection of employees and contractors in undertaking their duties at the business' depots, relevant health and safety training and the ongoing compliance programme for staff and the prioritisation and monitoring of incident reporting;
– the impact of global cyber-attacks arising from the deployment of ransomware (i.e. malware that encrypts a user's data, then demands payment in exchange for unlocking the data) known as 'WanaCrypt0r 2.0' or 'Petya';
– the IT Information Security Improvement Plan which included PCI compliance against the payment card industry's data security standards; and
– common themes arising from the General Data Protection Regulation (which will replace the UK's Data Protection Act 1998 when it comes into force on 25 May 2018) and other related legislation.

During the year, the Committee also reviewed progress against the Internal Audit work plan approved by the Committee as well as reports on individual Internal Audit reviews which were completed. Progress on actions to address control risks highlighted within such internal audit reviews was also monitored and the Head of Internal Audit updated the Committee on the effectiveness of the Company's internal controls. The Committee also received and reviewed reports on the Company's legal, taxation, treasury, fraud prevention, whistleblowing and insurance activities and related policies and procedures for the promotion of the Committee's goals.

In the carrying out of these activities, the Committee considers that it has fulfilled its obligations under the 2016 Code in respect of risk management and internal controls. Further details of the principal risk and how they are managed and mitigated can be found on pages 24 and 25.

Internal Audit function

The Committee is responsible for monitoring and reviewing the effectiveness of the Internal Audit function in the context of our overall risk management system. The Group Head of Internal Audit is responsible for the overall management of Internal Audit and reporting of risk.

In fulfilling its responsibilities, in the year the Committee reviewed the following matters:

– the scope, resource and activities of the Internal Audit function and the adequacy of audit coverage;
– Internal Audit's strategy, work plans, status reports against planned activity and business incidents reports;
– a summary of the reports on the results of individual audit reviews, significant findings, management action plans, and timeliness of resolution; and
– the performance of the Internal Audit function, including the use of external partners to complete audit work, the findings of which are referred to above.

Whistleblowing, bribery and fraud

We operate a telephone hotline whereby employees can report in confidence suspected incidences of fraud, bribery or non-compliance with Company policies, practices or breaches of law. All such incidences are investigated by Internal Audit and/or management and the findings are reported to the Committee on completion of an investigation.

During the year, we reviewed and updated the Whistleblowing Policy and received reports on incidences of suspected fraud, bribery or other malpractices reported across the business.

External auditor

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the external auditor on an annual basis.

In accordance with Articles 16 and 17 of the EU Audit Regulation, the Company is required to complete a competitive tender process for the external audit every ten years and mandatorily rotate audit firm every 20 years. Following a tender process in 2013, Deloitte LLP was reappointed as external auditor. Whilst we have no current retendering plans, in accordance with the UK implementation of the EU Audit Regulation a new tender will be required following the conclusion of the FY23 audit and the audit firm should, at the latest, be rotated following the conclusion of the FY26 audit. The Committee continues to review the auditor appointment and the need to tender the audit, ensuring our compliance with the 2016 UK Corporate Governance Code and, whilst not applicable to the Company as a smaller company, with the reforms of the audit market by the UK Competition and Markets Authority (which are applicable to FTSE 350 companies). Furthermore, in line with professional standards, there is a regulatory requirement to rotate external audit engagement partners every five years. As the FY17 audit was the fifth overseen by Deloitte LLP's Anna Marks, this year will be the final year audit conducted under her oversight, and a new partner at Deloitte LLP, Jane Makrakis, has been appointed by the Committee to oversee the FY18 audit onwards.

The Company has a formal policy on its relationship with the external auditor which the Committee has reviewed and updated during the year. The policy includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed to ensure that the external auditor's objectivity is not impaired. My prior approval is required if the cost of non-audit work is likely to exceed £20,000 per annum or where the maximum combined spend is likely to exceed 70% of the annual audit fee for the financial year. Furthermore, various regulatory authorities, including the Auditing Practices Board and the Institute of Chartered Accountants of England and Wales, have identified common non-audit services which may present a high risk of conflict and threat to external auditor independence. Consequently, the Committee has adopted a mandatory prohibition on the external auditor's engagement in relation to the following services unless it can be clearly shown to present no threat to external auditor independence and it is in the best interests of the Group:

- work related to the maintenance of accounting records and the initial preparation of financial statements that will ultimately be subject to external audit;
- management of, or significant involvement in, internal audit services;
- financial information systems design and implementation;
- actuarial services;
- investment advice and banking services;
- secondments to management positions that involve any decision-making;
- legal services;
- custody of assets;
- tax advisory, including tax planning and compliance;
- valuation services of a public nature; and
- any work where a mutuality of interest is created that could compromise the independence of the external auditor.

The fees paid to Deloitte during the year in respect of non-audit services amounted to £7,500. The Committee considered, and was satisfied that, it was appropriate for Deloitte to undertake this work and that doing so did not affect their independence. Details of the fees paid to Deloitte during the year in respect of audit and non-audit services are shown in Note 3 to the Group Financial Statements.

Assessment of the effectiveness of the external auditor

The Committee has also undertaken a thorough review of the effectiveness of the external auditor. Each member of the Committee, the Chief Financial Officer, the Head of Finance and applicable senior finance executives across the business completed an extensive questionnaire covering matters such as the external auditor's processes for internal review of accounting judgments, including understanding of the key issues; the expertise and technical knowledge within the external audit teams to audit effectively the Company; the scope, delivery and execution of the audit plan; and the robustness and perceptiveness of the external auditor. The findings were reviewed by the Committee in the year and the Committee concluded that the external audit process had been effective and areas identified for improvement were also communicated to Deloitte for action.

The Committee is satisfied that Deloitte continue to provide an effective audit service and has recommended to the Board that they be reappointed. Accordingly, we have recommended to the Board that a resolution to reappoint Deloitte will be put to shareholders at the Annual General Meeting.

Approval

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

Mark Whiteling
Audit Committee Chair
7 November 2017

Nominations Committee report

Gary Kennedy
Nominations Committee Chair

Key objectives
To lead the process for Board appointments having due regard to Board diversity, to ensure orderly succession planning so as to maintain an appropriate balance of skills and experience on the Board and to maintain a progressive refreshing of the Board.

Responsibilities
The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website, www.connectgroupplc.com, and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee and then referred to the Board for approval.

The principal responsibilities of the Committee are:
- reviewing the structure, size and composition of the Board including the skills, knowledge, experience and diversity of the directors;
- ensuring plans are in place for orderly succession planning for directors and senior management; and
- identifying and nominating candidates to fill Board vacancies.

Overview
I am pleased to present this year's report on the activities of the Nominations Committee. This year, we have seen the departure of Colin Child, non-executive director and Chair of the Audit Committee on 21 March 2017 and the appointment of Mark Whiteling to replace Colin, with effect from 1 September 2017. Mark brings with him a wealth of commercial and financial expertise from a broad range of companies and industries, which will complement those of the rest of the Board.

Membership
During the year, Colin Child (until 21 March 2017), Andrew Brent and Denise Collis were members of the Committee. Mark Whiteling joined the Committee with effect from 1 September 2017.
All members of the Committee are independent non-executive directors, excluding myself as I am deemed by the 2016 Code, by virtue of my Chairmanship of the Board, not to be regarded as independent. I was, however, independent on my appointment as Chairman of the Board and permitted to act as Chair of the Committee.

How the Committee operates
The Committee met four times during the year. All Committee members were in attendance at each of the meetings, except for Colin Child who was absent from two unscheduled meetings where his departure was discussed, and who resigned on 21 March 2017, missing a subsequent scheduled Committee meeting. At the invitation of the Committee, the executive directors and the People Director attended the meetings from time to time.

Set out below is a summary of the major activities of the Committee in the year.

Succession planning
Following the departure of Colin Child, the Committee approached MWM Consulting, JCA Group and the Zygos Partnership to assist with the search to identify a suitable candidate to be non-executive director and Chair of the Audit Committee. The Committee prepared detailed role specifications, including the expected time commitment and duties to be performed, following a review of the required skills, knowledge, experience and diversity to enhance the composition of the Board.

Following a thorough process, which included considering comprehensive profiles prepared by the Zygos Partnership, initial and second interviews between shortlisted candidates and each member of the Board as well as considering detailed references in respect of the shortlisted candidates, the Committee recommended that Mark Whiteling be appointed to the Board. The Board accepted the recommendations and, accordingly, Mark Whiteling was duly appointed as non-executive director and Audit Committee Chair on 1 September 2017.

Executive recruitment
The Committee confirms that MWM, JCA Group and the Zygos Partnership have no other connection with the Company, that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory.

Diversity and inclusion

The Committee recognises the benefits of diverse skill sets, capabilities, backgrounds and experience to the effective functioning of the Board and the achievement of our objectives and longer-term strategy. Accordingly, the Board has approved a Statement of Ambition in relation to diversity and inclusion in its broadest sense, encompassing gender, experience and background. The Statement of Ambition sets out the Board's aspiration to increase female representation, in particular, at manager level and above, whilst continuing to ensure that all candidates are selected on merit against objective criteria rather than to meet specific quotas.

The Board considers itself diverse in terms of the background, skills and experience each director brings to the Board. As reported last year, the Committee maintained its aspiration to retain 25% female representation of the non-executive directors on the Board. The Board is, and has been, committed to targeting the recruitment of female Board members through executive search partners who are signed up to the Voluntary Code of Conduct on gender diversity, developed in response to the Davies Report. Accordingly, we encourage our recruitment partners to present more balanced candidate recommendations with at least one credible and qualified female candidate provided within the shortlist for the recruitment processes undertaken during the year. The Committee is also mindful of the recommendations of the Parker Review published in November 2016, when considering potential candidates.

The Committee has sought assurance from the Executive Leadership Team, who have confirmed that the reporting on gender pay differentials due to be reported in April 2018 is underway.

The Committee reviews the diversity progress report and analytics on an annual basis and adopts the approach outlined above to facilitate an increase in female representation on the Executive Leadership Team and senior management.

	Female Representation	
	2017	2016
Executive Leadership Team	**13%**	11%

Further information on gender diversity, including the proportion of women in senior management and within the organisation overall, is contained in the Corporate responsibility report on page 28.

Approval

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

Gary Kennedy
Nominations Committee Chair
7 November 2017

Directors' Remuneration report

Denise Collis
Remuneration Committee Chair

Shareholder letter from the Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report for the year ended 31 August 2017.

Directors' Remuneration Policy and operation in FY18

We received strong shareholder support for our current remuneration policy at the 2017 AGM, which was simpler, strengthened the link between reward and our business strategy and incorporated a number of best practice features. The Committee is grateful for the high level of support for our remuneration practices over recent years.

We are not proposing any changes to the policy approved by shareholders last year. In terms of the operation of the policy in FY18, there are no changes to the incentive opportunity or mix of performance measures.

There are some minor changes to the annual bonus for FY18, which are aimed at providing greater alignment with shareholder interests. We currently have an anomaly whereby the percentage of maximum pay-out for on-target performance is 32.1% for the financial performance element and 66.6% for the personal element (with the respective weightings giving an overall on-target payout of 42.5%). The Committee has decided to put greater weighting on rewarding financial performance by harmonising both on-target elements at 50% of the maximum opportunity. In addition, it has been decided to introduce a minimum financial underpin and personal performance underpin, by which no bonus payments will be made if a given threshold performance has not been achieved in either case.

The LTIP award will, again, be subject to stretching EPS and cash flow performance conditions, although we are moving from operating cash flow, as used for last year's award, to free cash flow, which includes outgoings such as capex. The rationale is that free cash flow provides a sharper focus on returns on investment and dividend cover, which is in line with the renewed strategy of the Group, as discussed elsewhere in this Annual Report. Whilst the EPS target range is lower than was set for last year's LTIP award, it remains equivalently challenging in the view of the Committee, being significantly above the EPS outturn for FY17 and taking account of the current business outlook.

Base salaries for the coming year for Executive Directors will be reviewed in April 2018 (at the same time as other employees) and it is currently anticipated that any salary increases would be in line with the average awarded to employees (with the possible exception of Jonathan Bunting, as detailed below).

On 1 September 2017, in line with our strategy to integrate the businesses of the News & Media and Parcel Freight divisions and to leverage the combined strengths of our two specialist distribution networks, Jonathan Bunting changed role from being Managing Director of the News and Media division to Chief Operating Officer with responsibility for leading operations across the Group. The Committee intends to review Jonathan Bunting's base salary during the year, once the scope and expected impact of the enhanced role is more fully defined and apparent. There will be full disclosure of any salary changes in next year's directors' remuneration report.

Performance in FY17 and incentive payments

In line with salary freezes across our management population in 2017, executive directors' base salaries were also frozen in 2017, concentrating pay rises at grades below management.

As highlighted elsewhere in this Annual Report, FY17 has been a challenging year, with the Group's executive directors required to address tougher than anticipated trading conditions, whilst concurrently disposing of the Education & Care division and restructuring the Group to deliver a more focused strategy that will transform the operating model of the Group. These set of circumstances impacted financial performance and are reflected in a much lower incentive pay for executives and lower overall remuneration.

The divestment of our Education & Care division part way through the year necessitated an adjustment to the target ranges for the FY17 annual bonus, and the three-year EPS performance period for the FY15-17 LTIP award, so as to exclude the profit contribution and sale proceeds from the Education & Care division for FY17. Similar adjustments have been made to the EPS and cash flow targets for the FY16-18 and FY17-19 LTIP awards to neutralise the impact of the sale of the Education & Care division to ensure that the targets remain equivalently demanding. All adjustments approved by the Committee have been reviewed and verified by the Audit Committee.

For the purposes of the annual bonus scheme, the Group Adjusted profit before tax of £49.6m for the Continuing Operations of the Group as well as the Books division for FY17 was below the minimum performance threshold so no bonus was payable in relation to Group PBT performance for David Bauernfeind, Jonathan Bunting and Mark Cashmore. The adjusted profit before tax of the News & Media Division for FY17 of £40.1m was between threshold and target performance and so a bonus of 15.40% of salary was payable in relation to divisional performance for Jonathan Bunting only. In relation to the assessment of the personal objectives, Jonathan Bunting and Mark Cashmore received 15% of salary and David Bauernfeind 10% of salary. All payments were below the on-target level of 20%, reflecting some strong areas of individual contribution, whilst factoring in the overall challenging financial performance of the Group.

The FY15-17 LTIP awards were measured for the three-year period up to FY17 against challenging aggregate EPS targets. Achieving three-year aggregate EPS of 55.0p within the Continuing Operations of the Group as well as the Books division versus a revised target range of 56.7p to 64.9p meant that these awards did not achieve the minimum performance threshold and so the awards lapsed.

The Committee is comfortable that the incentive outcome and overall reduction in remuneration this year shows a continued robust link between pay and performance of the Group.

In relation to incentive payments earned for prior years' performance, there are payments to Jonathan Bunting and Mark Cashmore under the legacy Economic Profit Plan (EPP). This is the first tranche of two annual deferred payments, with the final payment due next year.

Further details on pay and performance in FY17 are set out on pages 55 to 63.

Committee composition

During the year Colin Child resigned as a non-executive director with effect from 21 March 2017, and I thank him for his contribution to the Committee. I am pleased to welcome Mark Whiteling who joined as a non-executive director and a member of this Committee on 1 September 2017.

Concluding remarks

I hope that you find this to be a clear and thorough report that demonstrates the link between the Company's performance, strategy and approach to remuneration. The Committee is keeping abreast of the recently announced UK Government proposals for corporate governance reform and the evolving views of institutional shareholders and will factor these into the Committee's thinking. I welcome any feedback and to continuing to engage with investors in this important area. I look forward to seeing shareholders at the AGM in January 2018 and for your continued support of our pay arrangements.

Denise Collis
Remuneration Committee Chair

At-a-glance summary of the Directors' Remuneration Policy

A summary of the adopted policy is shown below with the full policy set out on pages 50 to 54.

Fixed pay	Salary + pension + benefits		
Variable pay	Short-term performance		Long-term performance
	Cash bonus	Deferred shares	LTIP
Performance measures	Profit before tax Personal objectives		EPS Aggregate Free Cash Flow

The tables below outline the policy and provide an explanation of how the policy aligns to business strategy.

How we align the policy with business strategy

Salary

FY18

Paid monthly

Summary of policy
To pay directors' salaries which are appropriate based on their skills, experience and performance, together with the scope of their role, Group performance and market levels of pay.

How it aligns with our strategy
Maintaining salaries at appropriate levels supports our ability to recruit, motivate and retain high calibre executives – allowing us to deliver **competitive advantage through our people**.

Short-term performance

FY18	FY19	FY20
Performance measured	50% paid in cash following year end and 50% deferred into shares for two years	

Summary of policy
Rewards the delivery of the annual business plan and near term strategy.

A portion is deferred in shares to provide longer-term alignment with shareholders.

Performance measures are currently profit before tax (70%) and personal objectives (30%).

How it aligns with our strategy
Profit before tax is a core KPI and measures the combined effect of how we have **driven top line revenue growth** while **delivering efficiencies** and the **integration of acquisitions**.

Personal objectives are directly linked to delivering the strategic plan as well as behavioural aspects such as leadership effectiveness.

Long-term performance

FY18	FY19	FY20
Awards delivered in nil cost options, which will only vest if performance conditions are met over the 3-year performance period		

Summary of policy
Rewards the delivery of long-term business objectives.

Made in nil cost options which on exercise provide alignment with shareholders.

Performance measures are based on long-term financial KPIs, currently EPS and aggregate free cashflow.

How it aligns with our strategy
Free cash flow aligns with our strategic objective to focus on, inter alia, **strong cash generation** and an **effective capex** programme, so as **to maximise returns** and support for our **progressive dividend policy**.

EPS measures our **long-term growth** which creates **long-term shareholder value**.

How we align the policy with shareholders' interests
The policy has the following features that align executives' remuneration with shareholders' interests:
- 75% of incentive payments are delivered in shares;
- Executives are required to build and maintain significant shareholdings;
- Half of any bonus payment is deferred; and
- Clawback and malus provisions can recover payments in certain circumstances.

Introduction

This report has been prepared on behalf of the Board by the Remuneration Committee in accordance with the relevant provisions of the Companies Act 2006 and on the basis prescribed in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Where required, data has been audited by Deloitte LLP and is indicated accordingly.

Directors' remuneration policy

The following section sets out the Company's policy on remuneration for executive and non-executive directors, which was approved by shareholders at the Annual General Meeting on 26 January 2017. It is intended that the directors' remuneration policy will apply for the maximum three years permitted by the regulations and so, in the absence of a new or amended policy or as otherwise required by law, will only be brought back to the shareholders at the Company's Annual General Meeting in 2020.

The aim of the policy remains to facilitate delivery of our long-term strategy through attracting, retaining and motivating high calibre directors with the necessary skills and experience. In forming the policy the Committee has adopted the principles set out in Section D of the 2016 Code (compliance with the 2016 Code is explained further in the Corporate Governance statement).

Executive directors

The table below sets out the Company's remuneration policy for executive directors.

Element	Purpose	Operation	Maximum	Performance conditions
Base salary	Provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: – The skills and experience of the individual; – The size and scope of the role; – Market data for similar roles in comparable companies; and – Performance of the individual and the business. Typically, salaries are reviewed annually, with any changes effective from 1 April each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases generally for employees. Larger increases may be awarded where the Committee considers it appropriate to reflect, for example: – Significant changes in the size and/or complexity of the Group and/or of the role; or – Individuals being moved to market positioning over time.	None.
Benefits		Executive directors are eligible to receive benefits which may include a company car (or cash equivalent), private medical insurance and permanent health insurance. Where relevant, other benefits to reflect specific individual circumstances, such as housing, relocation, travel or expatriate allowances may also be provided. Executive directors may participate in the Company's all employee share plans on the same basis as other employees.	There is no prescribed maximum monetary value of benefits. Benefit provision is set at a level which the Committee considers to be appropriate for the nature and location of the role. Participation in all-employee share plans is subject to statutory limits.	None.
Pension		Executive directors may participate in the Group's defined contribution pension plan, receive a salary supplement or a combination of the two. Under the terms of the Group's defined contribution pension schemes, executive directors may also receive death in service benefit.	Subject to the director making the minimum employee contribution (currently 5% of salary -unless an employee has reached either their life-time or annual allowance) the maximum aggregate employer contribution/salary supplement is 20% of salary.	None.
Annual bonus	To incentivise the delivery of the annual plan.	Pay-out levels are determined by the Committee after year-end based on performance against targets set at the start of the financial year. The Committee retains discretion to adjust bonus payments in the event that performance against targets does not properly reflect the underlying performance of the Group and/or the relevant businesses. Half of the bonus is deferred into shares for two years, subject to continued employment under the terms of the Deferred Bonus Plan (DBP). The Committee retains discretion to change the deferred amount and/or the deferral period. Clawback and dividend equivalent provisions apply (see notes below).	The maximum award in respect of a financial year is 150% of salary. The current level of award is 100% of salary. The threshold payment level for the financial performance condition is 0%.	Annual measures and targets will be set by the Committee at the start of the financial year. The majority of the bonus will be based on financial performance, with the remaining performance condition attributable to personal and/or team objectives as well as any behavioural aspects that require improvement or development, such as leadership effectiveness.

LTIP	To incentivise the delivery of long-term shareholder value.	When granting an award the Committee will determine the face value of the award and the performance conditions and targets attached to it. Awards are made in the form of nil-cost options, the vesting of which is conditional on the achievement of performance targets (as determined by the Committee). Clawback and dividend equivalent provisions apply (see the notes below).	The maximum award in respect of a financial year is 150% of salary. The current level of award is 100% of salary.	Vesting is based on the achievement of financial performance targets over a period of at least three years. For FY18 awards, the measures will be earnings per share (EPS) and cash-flow. For achievement of threshold performance target, a maximum of 20% of the award will vest.

Notes to the policy table

a) Participation in incentive plans is at the discretion of the Committee.

b) The Committee may at any time amend the rules of the 2016 Connect Group PLC Long Term Incentive Plan (subject to shareholders' approval if the proposed amendments are to the advantage of existing or new participants) or terminate the plan.

c) Legacy and mandated payments – the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above: (i) where the terms of the payment were agreed before the policy came into effect; or (ii) where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in contemplation of the individual becoming a director of the Company; or (iii) where the Company is mandated to make the payment as a result of an award issued by a competent court, tribunal or authority. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

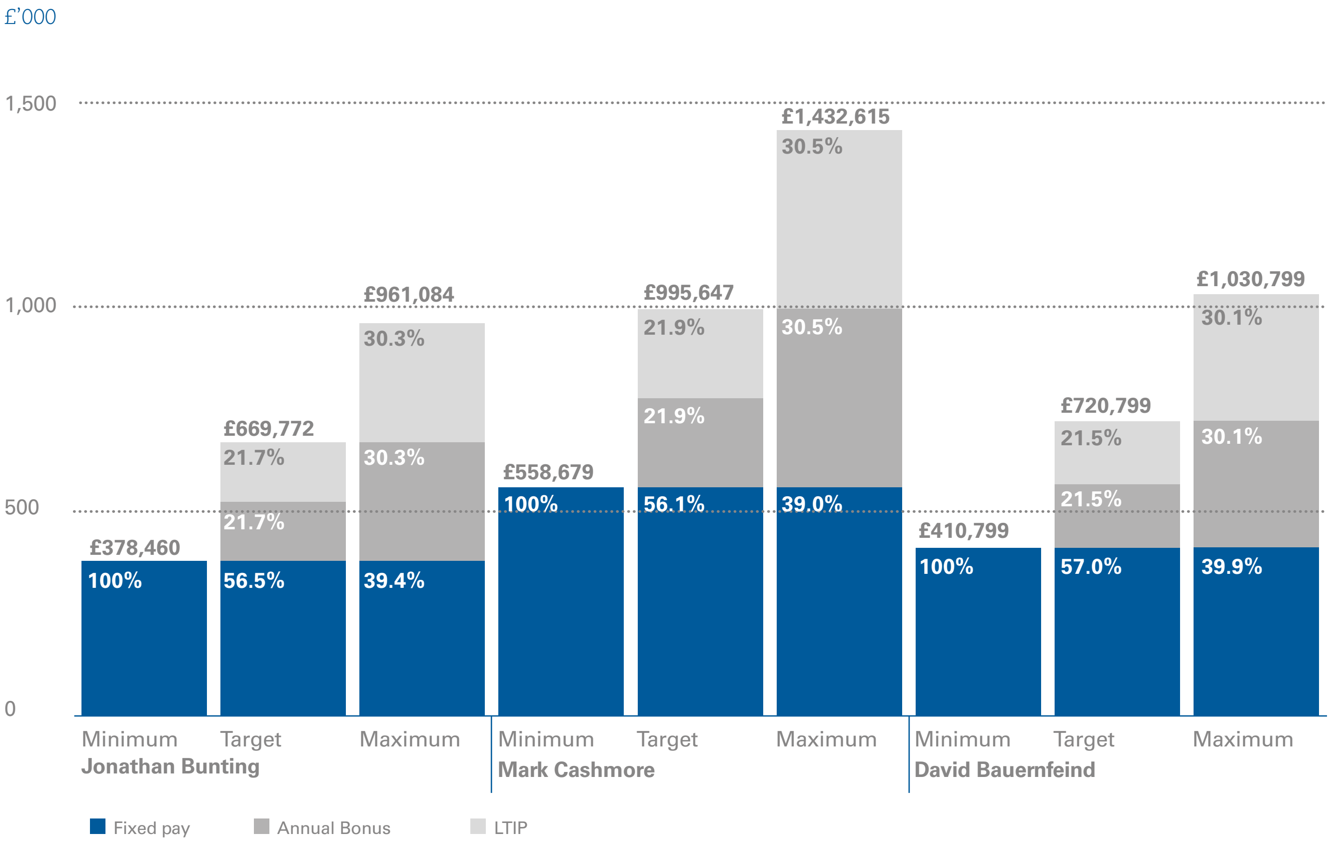
d) Dividend equivalents on share awards–the Committee may determine that participants be entitled to receive an amount equal to the value of dividends paid to shareholders during the deferral/vesting period, paid retrospectively at the end of the period, either in cash or shares, but only in respect of the number of shares that actually vest.

e) Clawback – the Company operates clawback and malus provisions across all of its incentive plans (annual bonus and LTIP). The Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in the same overall financial position as they would have been had certain circumstances (described below) not occurred. This includes a reduction or cancellation of vested or unvested share awards and/or a reimbursement to the Company of part or all of any cash or share payments within two years of payment. Such circumstances include, but are not limited to: (a) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (b) serious reputational damage of the Company, any member of the Group or the relevant business as a result of the participant's misconduct; or (c) gross misconduct by the participant; or (d) any other similar circumstance or event which has a serious adverse effect on the Company, any member of the Group or the relevant business.

f) As reported in FY16's directors' remuneration report, payments will continue to be made in respect of deferred entitlements under the legacy Economic Profit Plan (as set out in the 2013 Directors' Policy Report). The payments will be made in two annual tranches (commencing in FY17) subject to the Committee being satisfied that the overall level of profitability in the year prior to payment justifies such payment, and there being no malus or clawback circumstances arising. In the event that the Committee is not satisfied with the level of profitability in a year prior to payment the Committee may defer payment to a future year if profitability improves in the view of the Committee, but no payments may be made after 31 December 2020. No further amounts will be accrued under the scheme.

Application of the remuneration policy

The charts below illustrate the FY18 executive directors' remuneration packages at different levels of performance. Each element (as a percentage of total remuneration) and the total values have been set out:



Notes

a) Fixed pay comprises annual base salary, benefits and pension, as at 7 November 2017.

b) For Jonathan Bunting and Mark Cashmore, benefits are the value received in FY17. For David Bauernfeind, this is calculated as the annualised value of 11 months' worth of benefits received in FY17, not including the relocation allowance.

c) The on-target level of annual bonus and LTIP is 50.0% of the maximum opportunity.

d) The values for incentive pay do not include any share price appreciation or dividend equivalents on LTIP or DBP awards.

Approach to recruitment remuneration

On appointment of a new executive director, the Committee would seek to offer a remuneration package which can secure an individual with the necessary skills while seeking to pay no more than it believes is necessary to facilitate the appointment. Any remuneration package would be in line with the parameters set out in the directors' remuneration policy.

Where an individual forfeits outstanding incentive awards with a previous employer as a result of accepting the appointment within the Company, the Committee may offer compensatory awards to facilitate recruitment. These awards would be in such form as the Committee considers appropriate taking into account all relevant factors including the form, expected value, performance conditions, anticipated vesting and timing of the forfeited awards. The expected value of any compensatory awards would be no higher than the value forfeited. While cash may be included to reflect the forfeiture of cash-based incentive awards, the Committee does not envisage that 'golden hello' cash payments would be offered.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share and incentive plans. If necessary, awards may be granted outside of these plans as currently permitted under the UK Listing Authority's Listing Rules, but in accordance with the principles set out in this section.

Contracts of service

It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon twelve months' notice and upon nine months' notice by the executive director. The contracts of employment do not include any provisions for predetermined compensation for early termination.

The Committee may terminate the contract immediately by making a payment in lieu of notice consisting of base salary only for the unexpired period of notice. In normal circumstances, such a payment would be made in monthly instalments over the period, subject to a duty to mitigate, and will be reduced by the amount in respect of income receivable from alternative employment.

Loss of office policy

In the event that the employment of an executive director is terminated, any compensation payable will be determined in accordance with the terms of the service contract as well as the rules of any incentive plans. Incentives will normally be treated in the following way, although the Committee retains the discretion to vary the treatment of awards where it feels it is appropriate to do so:

Annual Bonus	Unless the Committee determines otherwise, executives will not participate in the Annual Bonus if they are under notice. If the Committee determines that the executive should be eligible to receive an annual bonus award, the maximum opportunity will normally be reduced to reflect the portion of the year they were employed. Any payment would remain subject to performance and will typically be paid following the normal year-end assessment process.
Deferred Bonus Plan (deferred annual bonus and EPP[2] awards)	If the Committee determines that an executive is a 'good leaver[1]' the deferred shares will normally be retained in full by the executive. If an executive leaves the Group for any other reason, the extent to which the shares vest will be determined at the discretion of the Committee but will normally be expected to be forfeited.
LTIP	If the Committee determine that an executive is a 'good leaver[1]' LTIP awards will normally be reduced to reflect the portion of the performance period that has elapsed on the date that employment ceases, and typically be subject to the original performance conditions. Treatment of these awards and timing of vesting of any pro-rated shares will be in-line with best practice, as dictated by the Plan Rules. If an executive leaves the Group for any other reason, outstanding awards will normally lapse.

1 Good leaver reasons are if an executive leaves the Group due to death, injury, ill-health, disability, redundancy, retirement by agreement with the Company, the employing entity no longer being part of the Group, or any other reason as determined by the Committee.
2 Unless the Committee determines otherwise, any future unpaid awards under the legacy EPP will be forfeited in the event of cessation of employment.

The Committee retains discretion to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment. The details and rationale for any such payments would be disclosed in the following annual report on remuneration.

External non-executive director appointments

It is the Company's policy to allow each executive director to accept one non-executive directorship of a publicly quoted company provided that it is not a chairmanship of a FTSE 100 company and it does not conflict with the interests of the Company. Executive directors may retain the fee for such an appointment.

On 1 May 2017, David Bauernfeind was appointed to the Board of AIM-listed Gooch & Housego PLC as a non–executive director and chair of their Audit Committee. In consideration of this role, David Bauernfeind is paid an annual fee of £40,000 which he retains.

Consideration of pay and employment conditions elsewhere in the Group

The Committee considers the general basic salary increase for employees throughout the Group when determining the annual salary increases. In addition, the Group/divisional performance targets used in the executive bonus plan are cascaded into broader-based annual bonus arrangements for all eligible employees to ensure alignment across the bonus plans and participating populations.

Employees have not been directly consulted on the executive directors' remuneration.

Consideration of shareholder views

The views of shareholders are very important to the Committee and feedback received from shareholders following publication of the Annual Report and at the AGM is welcomed. It is the Committee's policy to consult with major shareholders and investor representative bodies before proposing any material changes to the remuneration policy.

Non-executive directors

The table below sets out the Company's remuneration policy for non-executive directors.

Element	Purpose and link to strategy	Operation	Maximum
Chairman's and non-executive directors' basic fees	To attract and retain high calibre individuals to serve as non-executive directors.	Fee levels are set to reflect the time commitment, demands and responsibility of the role, taking into account fees paid by similarly sized companies. The Chairman's fee is determined by the Committee and the non-executive directors' fees are determined by the Chairman and executive directors. Fees are reviewed from time to time to ensure that they remain in line with market practice. Fees are paid in equal monthly instalments. The Chairman's fee includes his chairmanship of the Nominations Committee.	The maximum aggregate fee for non-executive directors, including the Chairman, is £500,000 per annum, as set out in the Company's Articles of Association.
Additional fees	To provide compensation to non-executive directors taking on additional Committee responsibility.	Non-executive directors (other than the Chairman) are paid an additional fee for their chairmanship of a Board committee.	
Benefits	To facilitate the execution of the role.	The Company reimburses reasonable travel and subsistence costs.	

The Chairman and non-executive directors do not participate in any pension or incentive plans.

Recruitment policy

The remuneration package for a newly appointed non-executive director would be in line with the policy outlined above.

Letters of appointment

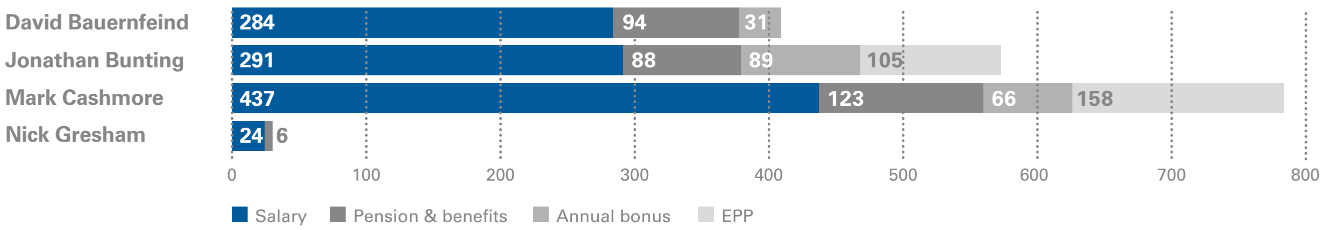
All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, subject to review thereafter; these are available for inspection at the Company's registered office during normal business hours and at the AGM. Appointments may be terminated by either party giving three months' notice. In line with the Company's aspiration to comply with the 2016 Code requirements for FTSE 350 companies notwithstanding that it is a FTSE Small Cap company only, all non-executive directors are subject to annual re-election by shareholders at the AGM.

Annual report on remuneration

Total remuneration in FY17 was based on the following elements:

Salary + Pension & benefits + Annual bonus (cash & shares) + Legacy deferred EPP (cash & shares) + LTIP vesting = **Single figure**

Based on performance in the year, the following payments were made to executive directors:



These were calculated in the following way:

Salary

The numbers shown are the total amounts paid to executive directors during the financial year:

Executive	Total salary paid in the year
David Bauernfeind (from 1 October 2016)	£284,166
Jonathan Bunting	£291,312
Mark Cashmore	£436,968
Nick Gresham (until 1 October 2016)	£24,276

Pension and benefits

Executives receive pension benefits equivalent to 20% of their base salary paid over the year. In FY17 they also received a car or cash allowance, private medical insurance and were eligible to participate in the SAYE. David Bauernfeind received a one-off relocation fee of £25,000 associated with his appointment.

Annual bonus

The annual bonus opportunity in FY17 was 100% of salary payable if targets on Group PBT, divisional PBT and personal objectives were met. Fifty percent of the total pay-out is then deferred into shares for 2 years.

Executive	Achievement against targets (% of bonus)	Bonus £	Cash payment £	Deferred shares £
David Bauernfeind	10.00%	31,000	15,500	15,500
Jonathan Bunting	30.40%	88,559	44,279	44,279
Mark Cashmore	15.00%	65,545	32,772	32,772
Nick Gresham	0%	0	0	0

Pages 57 and 58 for further details

Legacy Economic Profit Plan

As reported in FY16's directors' remuneration report, payments will continue to be made in respect of deferred entitlements under the legacy Economic Profit Plan (as set out in the 2013 Directors' Policy Report). This is the first tranche of two annual deferred payments, with the final payment due next year. No further amounts will be accrued under the scheme.

Executive	EPP payment £	Cash payment £	Deferred shares £
David Bauernfeind	0	0	0
Jonathan Bunting	105,006	52,503	52,503
Mark Cashmore	157,508	78,754	78,754
Nick Gresham	0	0	0

LTIP vesting (FY15–17)

In June 2015, we granted awards of nil-cost options to our executives which would normally have been granted in November 2014 but which were deferred in order to allow the Committee time to consider appropriate performance targets and to consult with major shareholders and investor bodies. These awards would only vest if the performance condition (aggregate EPS target) was met. These targets have not been achieved and therefore these options have lapsed.

Page 58 for further details

Consideration by the directors of matters relating to director's remuneration

Remuneration Committee

Gary Kennedy is non-executive chairman and was deemed independent on appointment. All other members of the Committee were independent non-executive directors. Colin Child resigned as a non-executive director on 21 March 2017 and has been replaced by Mark Whiteling (who joined the Committee and the Board on 1 September 2017).

In addition to the formal number of Committee meetings set out below, throughout the year the Committee also considered various other matters relevant to the Committee's terms of reference, with each Committee member able to contribute their respective views at such times.

	Meetings attended	Possible meetings
Andrew Brent	2	2
Colin Child	2	2
Denise Collis	2	2
Gary Kennedy	2	2

The Committee's terms of reference, which are available on the Company's website www.connectgroupplc.com and from the Company Secretary on request, set out the responsibilities of the Committee.

During the year, the Committee was supported in its work by its appointed external advisers, who are paid on a time and materials basis. Up to May 2017, the Committee was advised by New Bridge Street. Fees paid to New Bridge Street were £15,314. Following a review by the Committee, in May 2017 Korn Ferry Hay Group was appointed as independent advisers and were paid fees of £11,482. Based on its experience of working with the advisers the Committee is satisfied that the advice received has been, and continues to be, objective and independent. Korn Ferry Hay Group provides no other services to the Company that could potentially lead to a conflict of interest with the independent advice to the Committee.

Korn Ferry Hay Group is a founder member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

Mark Cashmore (Chief Executive Officer), Sarah Miles (former Group Human Resources Director) and Stuart Marriner (Company Secretary & General Counsel) also attended Committee meetings but were not present when their own remuneration was discussed.

Shareholder vote

At the 2017 Annual General Meeting, shareholders were asked to vote on a new remuneration policy and the FY16 directors' remuneration report. The votes received were:

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Total votes cast	Votes withheld
To approve the remuneration policy	165,987,901	94.21	10,203,503	5.79	176,191,404	1,832,869
To approve the directors' remuneration report	168,302,228	96.30	6,462,878	3.70	174,765,106	3,259,167

Remuneration and link to performance during the year (audited)

Fixed pay

In line with salary freezes across our management population in 2017, executive directors' base salaries were frozen in 2017 at the 2016 rates, concentrating pay rises at grades below management.

Executives also received pension benefits of 20% of salary and other benefits included a car or cash allowance and private medical insurance.

Annual bonus

In FY17, each executive had a maximum opportunity under the annual bonus of 100% of salary. Performance measures and actual performance for the FY17 bonus were as follows:

	Weighting (at maximum)			Targets (£m)				
Measure	Bunting	Cashmore	Bauernfeind	Threshold	Target	Max	Actual result (£m)	Bonus achievement
Group PBT	20%	70%	70%	52.6m	54.4m	56.2m	49.6	Zero
News & Media PBT	50%	–	–	38.9m	40.2m	41.5m	40.1	Partial
Individual objectives	30%	30%	30%	10% of max bonus	20% of max bonus	30% of max bonus	–	Partial

1 Threshold performance results in no pay-out under the Group PBT and News & Media PBT elements and one third of the maximum for that element for achievement against personal objectives (being 10 of the 30% opportunity).
2 Target performance results in 32.1% of the maximum pay-out under the combined Group PBT and News & Media PBT elements (being 22.5 of the 70% opportunity) and 66.6% of maximum for achievement against personal objectives (being 20 of the 30% opportunity).
3 The Group PBT performance targets and the PBT performance contribution were adjusted by the Committee to neutralise the impact of the disposal of the Education & Care business in FY17.
4 Reported Group PBT in the table above comprises adjusted Group PBT for the Continuing Operations and the Books division.

Bonus payable for the achievement of financial performance conditions

For the purposes of the annual bonus scheme, the Group Adjusted profit before tax of the Continuing Operations and the Books division for FY17 was £49.6m, which was below the minimum performance threshold and so no bonus was payable in relation to Group PBT performance for David Bauernfeind, Jonathan Bunting and Mark Cashmore. The adjusted profit before tax of the News & Media Division for FY17 of £40.1m was between threshold and target performance and so a bonus of 15.4% of salary was payable in relation to divisional performance for Jonathan Bunting only.

Bonus payable for the achievement of personal objectives

For the financial year under review the executive directors were each given a number of objectives against which the individual element of the annual bonus was assessed. For David Bauernfeind, these covered the successful refinancing of the Group's bank facilities; the development and application of an intrinsic value model; the transition to a new operating model for internal audit; and contribution to concluding the sale of the Education & Care division. For Jonathan Bunting, these covered the development and roll-out of new services within Pass My Parcel; delivery of a minimum of £6.7m cost savings within Smiths News; board approval of Smiths News' publisher contract strategy and engagement plan; delivery of Smiths News' network rationalisation plan; and delivery of financial performance for Dawson Media Direct, InStore and Martin-Lavell. For Mark Cashmore, these covered completion of the sale of the Education & Care division; progressing the formal process for the sale of the Books division; development of the strategy, following the repositioning and integration of the Group; and design and first stage implementation of the new, underpinning, operating model.

The above are key strategic objectives for the Company, with more detail provided in the Strategic Report set out on pages 2 to 29.

A rigorous and documented year-end review was conducted for each executive director against the objectives detailed above, with the outcomes discussed in depth by the Committee. For each executive director, a majority of their objectives were either met or exceeded. In determining individual bonus awards, the Committee decided to take into account the wider overall Group performance, most notably the challenging trading performance of Tuffnells. The Committee decided that all of the bonus awards should be below the on-target level of 20% of salary and determined that a bonus of 10% of salary for David Bauernfeind, 15% for Jonathan Bunting and 15% of salary for Mark Cashmore should be payable out of the maximum 30% opportunity.

Total bonus payments were therefore:

	Bonus (as % of maximum)	Bonus payable £ (split 50% cash, 50% deferred shares)
David Bauernfeind	10.00	31,000
Jonathan Bunting[1]	30.40	88,559
Mark Cashmore	15.00	65,545

Notes
1 including the financial PBT performance of the News & Media division.

The deferred shares will vest two years after grant, subject to continued employment.

Long-term incentive

Long-term incentive awards were granted to the executive directors in June 2015 and were subject to the achievement of three-year aggregate EPS targets (as defined by IAS33, before non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency).

FY15–17 Award	Threshold EPS	Maximum EPS	Actual performance/ Vesting level
Target	56.7p	64.9p	55.0p
Vesting level	20%	100%	0%

1 The EPS performance targets and the EPS performance contribution for FY17 were adjusted by the Committee to neutralise the impact of the disposal of the Education & Care business in FY17, the Audit Committee having verified the veracity of such financial adjustments.
2 Actual EPS performance represents aggregate EPS of the Continuing Operations and the Books division.

Total Remuneration payable in respect of FY17 (audited)

The payments set out above resulted in the following total remuneration for executives in respect of FY17:

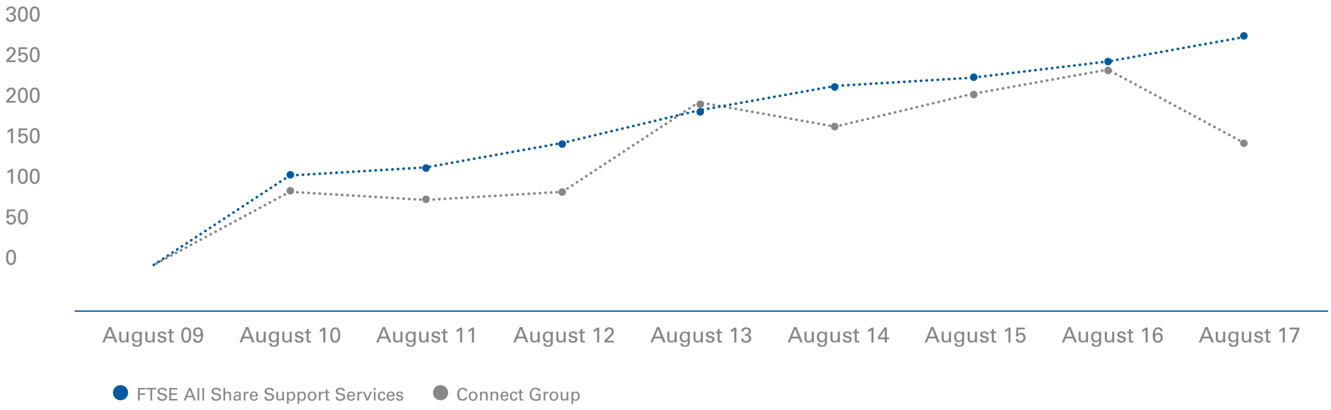
Executive	Year	Salary £000	Benefits(a) £000	Annual bonus(b) £000	EPP(c) £000	LTIP(d) £000	Dividend Equivalent Payments(e) £000	Pension benefits(f) £000	**Total £000**
David Bauernfeind (Director from 1 October 2016)	FY17	284	37(g)	31	0	0	0	57	**409**
	FY16	0	0	0	0	0	0	0	**0**
Jonathan Bunting	FY17	291	30	87	105	0	15	58	**588**
	FY16	289	29	165	105	0	0	58	**646**
Mark Cashmore	FY17	437	36	66	158	0	10	87	**794**
	FY16	434	34	169	158	0	0	87	**882**
Nick Gresham (Director until 1 October 2016)(h)	FY17	24	1	0	0	0	8	5	**38**
	FY16	289	13	49	53	0	0	58	**462**

Notes
a) Benefits include the taxable value of a company car or car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year, as applicable to each director and as described on page 55.
b) Half of any award will be deferred into Company shares for a period of two years. Further details of the FY17 Annual Bonus Plan are shown on pages 57 and 58.
c) Half of any award will be deferred into Company shares for a period of two years. Further details of the run down payment mechanism of the former Economic Profit Plan are shown on page 56.
d) The awards reported in FY17 were granted on 8 June 2015, the performance conditions of which were not achieved and therefore the options lapsed in full.
e) Dividend equivalent payments were made in respect of awards which were exercised in FY17, equal to the value of dividends paid to shareholders during the deferral/vesting period, paid retrospectively at the end of the period, either in cash or shares, but only in respect of the number of shares that actually vest.
f) Pension benefits comprise total pension supplement, whether taken as an addition to basic pay or pension contribution, and Company pension contribution.
g) David Bauernfeind received a one-off relocation fee of £25,000 associated with his appointment.
h) Nick Gresham resigned from the Board on 1 October 2016 but remained an employee of the Group until 31 December 2016. The sums stated in this table comprise emoluments for the period whilst Nick Gresham was a director only.

Performance graph and table

The graph below shows the Company's Total Shareholder Return ('TSR') performance against the FTSE Support Services Sector over the past eight years. The FTSE Support Services Sector was chosen because it represents a broad equity market index of which the Company is a constituent. The table below the graph sets out the total remuneration for the Chief Executive Officer during each of the last eight financial years (Mark Cashmore held this position for all eight years).

Total shareholder return



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	**FY17**
Chief Executive Officer total remuneration (£'000)	846	862	1,079	1,311	970	1,095	882	**794**
Annual bonus payment (% maximum)	100.0%	59.9%	83.1%	67.1%	12.5%	71.3%	38.9%	**15.0%**
EPP pay-out (% maximum)	84.1%	79.2%	89.4%	86.8%	55.1%	61.5%	72.0%	**72.0%**
LTIP vesting (% maximum)	0.0%	78.0%	100.0%	100.0%	100.0%	63.5%	0.0%	**0.0%**

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between FY16 and FY17, compared to the average of all UK-based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY16 – FY17		
	Base salary	Benefits	Annual bonus
Chief Executive Officer	0	0	-61
UK employees	4.9	16	55

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to profit before tax, corporation tax paid and distributions to shareholders by way of dividend payments.

	FY17 £m	FY16 £m	% change
Total employee pay – Continuing Operations	116.5	115.7	0.6
Adjusted Group profit before tax – Continuing Operations	48.0	50.4	-4.6
Corporation tax paid – Continuing Operations	9.1	7.6	19.9
Dividends paid	23.6	22.7	3.8

The figures above are principally set out in the Group income statement on page 75 and on pages 91 and 96 the Notes to the Group Financial Statements and page 13 of the Group Preliminary Results announcement. Total employee pay is the total pay for all Group employees within the Continuing Operations. Adjusted Group profit before tax for Continuing Operations has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance. Corporation tax paid and dividends paid have also been used as a comparison as these together indicate the sustainable after tax and dividends paid position of the Company for reinvestment.

Share Plans – grants in the year

LTIP awards granted in FY17 (audited)

On 7 February 2017, executive directors were granted the FY17–19 LTIP awards of 100% of salary:

Executive	Share price at date of grant[1]	Number of nil-cost options subject to award	Face value of award	Percentage of awards released for achieving threshold targets[2]	Performance period
David Bauernfeind	138p	224,638	£310,000	20%	FY17–19
Jonathan Bunting		211,096	£291,312		
Mark Cashmore		316,643	£436,967		

Notes
1 Based on the average closing price for the three dealing days prior to the date of grant, used to calculate the numbers of shares under award
2 100% for hitting maximum targets

Awards are subject 50% to a performance condition based on EPS achieved in FY19 (as defined by IAS33, before adjusted (previously, exceptional or non-recurring) items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency) and 50% to a performance condition based on aggregate operating cashflow.

Following the disposal of the Education & Care business in FY17, the performance conditions were revised by the Committee such that EPS in FY19 of 20.3p will result in threshold vesting (20%), increasing to full vesting for EPS of 23.8p and aggregate operating cash flow of £176.0m will result in threshold vesting (20%), increasing to full vesting for aggregate cash flow of £217.4m. The Committee satisfied itself in the accuracy and quantification of such adjustments, delegating to the Audit Committee the verification and integrity of the financial adjustments recommended by the Committee.

Deferred Bonus Plan awards granted in FY17 (audited)

On 7 February 2017, executive directors were granted DBP awards for the deferred shares element of the ABP and EPP schemes:

Executive	Share price at date of grant[1]	Number of nil-cost options subject to award	Face value of award
Jonathan Bunting	138p	97,649	£134,755
Mark Cashmore		118,576	£163,634

Notes
1 Based on the average closing price for the three dealing days prior to the date of grant, used to calculate the numbers of shares under award

These awards (which would usually have been granted within 42 days of the Company's preliminary financial results on 18 October 2016, as set out in best practice guidance published by The Investment Association) had been deferred pending shareholder approval of the remuneration policy. There are no further performance conditions attached to the DBP awards, which are exercisable subject only to continued employment to 18 November 2018, a deferral period of two years from the date that the associated cash part of the bonus and EPP was awarded.

Sharesave Scheme awards granted in FY17 (audited)

On 29 June 2017, David Bauernfeind was granted 17,857 shares at an option price of 100.80p per share (the face value of the award was £18,000).

The maximum amount which could be saved in FY17 was £500 per month, the total savings at the end of the term being used to purchase shares at 80% of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Employee Benefit Trust

The Company's Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company to satisfy awards granted under the Company's executive share schemes and Sharesave Scheme. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Company. The Trust waives its right to vote and to dividends on the shares that it holds.

The Trustee is Computershare Trustees (Jersey) Limited, an independent professional trustee company based in Jersey.

The number of shares held in the Employee Benefit Trust at 31 August 2017 was 2,241,459. The accounting treatment is shown in the Group statement of changes in equity on page 79.

Dilution of share capital by employee share plans

Awards granted under the Company's Sharesave Scheme have, in the past, been satisfied by the issue of new shares when the options are exercised. The Company monitors the number of shares issued under the Sharesave Scheme and as at 31 August 2017 had issued 3,513,709 new shares within the past ten year period, representing 1.42% of the issued share capital. This is well within our dilution limit of 10% in any rolling ten-year period in the Sharesave Scheme rules and in line with the guidelines set by the Investment Association.

Payments to former Directors

There have been no payments to former directors, other than those noted earlier in relation to Nick Gresham.

Executive directors' share interests (audited)

The table below sets out details of outstanding share awards held by executive directors under the LTIP and DBP (covering deferred annual bonus and EPP awards). Awards are structured as nil cost options.

	Share awards			
	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
David Bauernfeind	224,638	0	0	0
Jonathan Bunting	382,993	181,586	0	81,925
Mark Cashmore	574,489	248,858	0	54,669
Nick Gresham	0	0	0	43,268

Executive directors' shareholdings and Shareholding guidelines

The table below sets out the beneficial interests of the executive directors and their immediate families in the ordinary shares of the Company, together with the level held against the shareholding guidelines.

The shareholding guideline for executives is 150% of salary. Until this level is reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, the executives will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the Sharesave).

In exceptional circumstances, executive directors may seek permission from the Remuneration Committee to temporarily go below their target holding.

Shareholdings for the executive directors against the guideline are as follows:

Name	Target Shareholding	Salary	Holding at 31 August 2017	Holding at 31 August 2016	Valuation of current holding[1]	% of Target Shareholding reached
David Bauernfeind	150%	£310,000	20,000	–	£20,250	6.5%
Jonathan Bunting	150%	£291,312	319,236	275,894	£323,226	111.0%
Mark Cashmore	150%	£436,968	833,134	778,832	£843,548	193.0%
Nick Gresham[2]	–	–	211,409	211,409	–	–

1 Using share price of 101.25p as at 31 August 2017
2 At date of cessation of employment on 31 December 2016

Between 1 September 2017 and 7 November 2017, with the exception of David Bauernfeind completing a market purchase of an additional 20,000 ordinary shares on 26 October 2017, there has been no other change in the executive directors' shareholdings shown above.

Contracts of employment

Details of the contracts of employment for the current executive directors are as follows:

Executive	Date of contract	Notice period by Company	Notice period by director
David Bauernfeind	12 July 2016	12 months	9 months
Jonathan Bunting	1 April 2010		
Mark Cashmore	5 September 2013		

Implementation of the remuneration policy in FY18

Salaries

The salaries of the executive directors are reviewed annually, with any new salaries normally taking effect from 1 April. When conducting any review, the Committee takes into account a range of factors including business performance, changing size and complexity, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases across the Group.

The salaries for the coming year have not yet been determined but it is expected that they will be in line with the level of salary increases generally awarded to employees (with the possible exception of Jonathan Bunting, as detailed below).

On 1 September 2017, in line with our strategy to integrate the businesses of the News & Media and Parcel Freight divisions into one and to leverage the combined strengths of our two specialist distribution networks, Jonathan Bunting changed role from being Managing Director of the News and Media division to Chief Operating Officer with responsibility for leading operations across the Group.

The Committee intends to review Jonathan Bunting's base salary during the year, once the scope and expected impact of the enhanced role is more fully defined and apparent. There will be full disclosure of any salary changes in next year's directors' remuneration report.

Bonus
Bonus opportunity will remain at 100% of base salary. For all three executives, 70% of the bonus will be based on a range of adjusted Group Profit Before Tax targets and 30% of the bonus will be based on personal objectives linked to the strategy and leadership. 50% of the maximum will be paid out for both the financial and personal objectives for on-target performance. There will be a new Group Profit Before Tax threshold which must be achieved before any bonus under the personal element may be paid. There will also be a new requirement for a minimum personal performance rating to be achieved before the financial performance element may be paid. The performance targets are considered commercially sensitive so will not be disclosed in advance. However, there will be full disclosure of the targets that were set, the performance against them and the bonus payable, in next year's report.

LTIP
Awards will be granted under the LTIP covering the performance period FY18-20. Awards will have a face value of 100% of base salary and will be subject to stretching EPS and aggregate cash-flow targets, each with a 50% weighting.

The LTIP award will be subject to stretching EPS and cash flow performance conditions, consistent with last year's award, although there will be a change from operating cash flow to free cash flow. Free cash flow includes outgoings such as capex and so provides a sharper focus on return on investment and dividend cover, in line with the renewed strategy of the Group, as discussed elsewhere in this Annual Report. Whilst the EPS target range is lower than was set for last year's LTIP award, it remains equivalently challenging in the view of the Committee, being significantly above the EPS outturn for FY17 and taking account of the current business outlook.

The target ranges set for each measure are set out below:

Performance period	EPS in final year of performance period	Aggregate free cash flow over three years	Proportion exercisable
Three years ending 31 August 2020	Below 17.5p	£88.4m	Zero
	17.5p	£88.4m	20%
	Between 17.5p and 20p	Between £88.4m and £103.8m	20%-100%
	20p or more	£103.8m or more	100%

Non-executive directors

Letters of appointment
All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, which can be terminated by either party giving three months' notice, as set out in the table below.

Non-executive director	Date of appointment	Notice period/unexpired term
Gary Kennedy	2 March 2015	3 months/3 months
Andrew Brent	1 September 2008	3 months/3 months
Denise Collis	1 December 2015	3 months/3 months
Mark Whiteling	1 September 2017	3 months/3 months

Non-executive director fees
The fees paid to non-executive directors (excluding the Chairman) comprise a base fee of £40,000, with an additional fee of £10,000 for chairing the Audit or Remuneration Committee and an additional fee of £5,000 for the role of Senior Independent Director.

The following fees were paid to non-executive directors' for FY17 and FY16 (audited):

	Year	Base fee £000	Additional fees £000	Benefits[3] £000	Total fees £000
Gary Kennedy[1]	FY17	140	–	11	151
	FY16	140	–	22	162
Andrew Brent	FY17	40	5	1	46
	FY16	38	3	3	44
Colin Child[2]	FY17	30	8	3	40
	FY16	30	8	–	38
Denise Collis	FY17	40	10	2	52
	FY16	30	8	–	38

1 Gary Kennedy is paid a single fee which includes chairmanship of the Nominations Committee.
2 Colin Child resigned as a non-executive director on 21 March 2017.
3 The benefits disclosed in the table above (restated for FY16) relate to the reimbursement of travel and accommodation expenses incurred in attending Board meetings at the Company's premises around the UK. The grossed-up value has been disclosed and the tax arising is settled by the Company.

Non-executive directors' shareholdings (audited)

The beneficial interests of the non-executive directors and their immediate families in the ordinary shares of the Company are set out below:

	31 August 2017	31 August 2016
Gary Kennedy	**30,000**	20,000
Andrew Brent	**12,987**	12,987
Colin Child[1]	**–**	–
Denise Collis	**14,864**	14,864

1 At date of cessation on 21 March 2017

There has been no change in the non-executive directors' shareholdings shown above between 1 September 2017 and 26 October 2017.

Non-executive director fees in FY18

There are no changes to the non-executive director fees in FY18.

Approval

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

Denise Collis
Remuneration Committee Chair
7 November 2017

Other statutory disclosures

Directors' report

This Annual Report and Financial Statements includes the Directors' report and the audited financial statements of Connect Group PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 August 2017. The information required to be disclosed in the Directors' report is provided in the following sections of the Annual Report, which are incorporated into the Directors' report by reference:

– Strategic report on pages 1 to 29;
– Corporate governance on pages 30 to 40;
– Audit Committee report on pages 41 to 44;
– Nominations Committee report on pages 45 and 46;
– Remuneration report on pages 47 to 63;
– this section, Other statutory disclosures;
– Directors' responsibilities statement on page 67; and
– Notes to the Group Financial Statements as detailed in this section.

By their nature, the statements concerning the principal risks facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

The Directors' report has been drawn up and presented in accordance with, and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

Subsidiaries and branches

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 34 to the Group Financial Statements.

Post balance sheet events

In October 2017, the Company agreed new bank facilities of £175m with six relationship banks with a term which runs until January 2021. The new facility comprises a term loan of £50m with no amortisation and an RCF for £125m on a higher interest margin than the previous facility but with similar covenant terms to the previous facility.

Profit and dividends

The profit for the financial year, after taxation, from the Continuing Operations was £25.0m (FY16: £27.5m) and from the Discontinued Operations was £9.6m (FY16: £5.9m). In aggregate, profit for the financial year, after taxation, from both the Continuing Operations and Discontinued Operations was £34.6m (FY16: £33.4m).

The directors recommend the payment of a final dividend for the year of 6.7p per ordinary share (FY16: 6.5p) to be paid on 9 February 2018 to members on the Register at the close of business on 12 January 2018.

This final dividend, together with the interim dividend of 3.1p per ordinary share paid on 7 July 2017, makes a total dividend of 9.8p per ordinary share for the year ended 31 August 2017 (FY16: 9.5p).

Share capital

The Company's issued share capital comprises a single class of ordinary shares of 5p each. All issued shares are fully paid, can be held in certificated or uncertificated form and are listed on the London Stock Exchange. Details of movements in the issued share capital during the year can be found in Note 28 to the Group Financial Statements.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (Articles), a copy of which can be obtained from Companies House or from the Company's website www.connectgroupplc.com. The Company's Articles may only be amended by a special resolution of the Company. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company; to appoint one or more proxies and, if they are corporations, to appoint corporate representatives; and to exercise voting rights. Holders of ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of ordinary shares are entitled to receive the Company's Annual Report and Group Financial Statements. Subject to meeting certain thresholds, holders of ordinary shares may require a general meeting of the Company to be held or propose resolutions to be considered at Annual General Meetings.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. None of the ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. However, when calculating the 48 hour period, no account is taken of any part of a day that is not a working day.

The directors may refuse to register a transfer of a certificated share: which is not fully paid, provided that the refusal does not prevent dealings in the shares in the Company from taking place on an open and proper basis; or on which the Company has a lien. The directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged at the office, or such other place as the directors may decide accompanied by the certificate for the share to which it relates and such other evidence (if any) as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

There are no other restrictions on the transfer of ordinary shares in the Company other than those imposed by prevailing laws and regulations (such as insider trading laws and market requirements in respect of close periods).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

Shares held by the Employee Benefit Trust

The Trustee of the Smiths News Employee Benefit Trust holds ordinary shares of the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair. The Trustee waives its right to vote and to dividends on the shares that it holds. Further details on the Trust can be found in the Directors' remuneration report on page 60.

Purchase of own shares

At the Annual General Meeting held on 26 January 2017, authority was given for the Company to purchase, in the market, up to 24,714,093 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during the financial year ended 31 August 2017. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2018 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2017, 946,334 ordinary shares in the Company were issued, of which 552,327 relate to the allotment of shares under the Sharesave Scheme at prices between 72.74p and 142.42p. All of the new ordinary shares issued during the year rank pari passu with those previously in issue.

The Articles provide that the Board may, subject to the prior approval of the Company's shareholders, exercise all the powers of the Company to allot relevant securities including new ordinary shares.

Interests in voting rights

As at 31 August 2017, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following notifiable interests in its issued share capital:

Holder	% of voting rights
Silchester International Investors LLP	9.9
Henderson Global Investors	7.9
Aberforth Partners LLP	5.3
Fidelity International Limited	5.2
Ameriprise Financial, Inc.	4.8
Hargreave Hale Limited	3.8

There have been no changes to the notifiable interests in the period 1 September 2017 to 7 November 2017.

Except for the above, the Company is not aware of any ordinary shareholders with interests in 3% or more of the voting rights attached to the issued share capital of the Company.

Change of control

Each of the Company's trading subsidiaries has agreements with customers and suppliers that may contain change of control clauses giving rights to those customers and suppliers on a takeover of the Company.

A change of control of the Company following a takeover bid may cause a number of other agreements to which the Company and/or one or more of its subsidiaries is party, such as banking arrangements, property leases and licence agreements to alter or be capable of termination at the election of the counterparty.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover – the relevant scheme rules stating that as a result of a change of control event (or other corporate action) the proportion of the award which may vest shall be limited (unless the Board determines otherwise) to a pro rata proportion on the basis of the number of whole months which have elapsed from the first day of the performance period to the date of the corporate action, as compared to the number of whole months within the performance period; any remainder of the award thereby lapsing.

Directors

The directors who served during the year are set out on page 30 and 31 with the exceptions of Nick Gresham who was replaced by David Bauernfeind as Chief Financial Officer and member of the Board on 1 October 2016, and Colin Child, who resigned from the Board and as Chair of the Audit Committee with effect from 21 March 2017.

The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation and the Company's Articles.

The Company's Articles give power to the Board to appoint directors and (where notice is given signed by all the other directors) remove a director from office. They also give a power to the Company to appoint directors (by ordinary resolution) and remove a director from office (by special resolution or by ordinary resolution of which special notice has been given).

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Directors' Remuneration report on pages 61 to 63.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors and secretary and for the directors of its Associated Companies, to the extent permitted by law, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006.

Employees
Details of the Group's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the corporate responsibility report on page 28.

Greenhouse gas emissions
Details of the Group's greenhouse gas emissions are set out in the corporate responsibility report on pages 26 and 27.

Political donations
It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (FY16: £nil).

Financial instruments
Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in Note 20 to the Group Financial Statements.

Disclosure of information to auditor
Each director confirms that, so far as he is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditor is unaware and that each director has taken all the steps he ought reasonably 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.

Auditor
Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting
The Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on 23 January 2018 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes to the proposed resolutions to be considered at the meeting, in the booklet which accompanies this report.

Approved by the Board and signed on its behalf by:

Stuart Marriner
Company Secretary & General Counsel
7 November 2017

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts 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 the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board on 7 November 2017 and signed on its behalf by:

Mark Cashmore
Chief Executive Officer
7 November 2017

David Bauernfeind
Chief Financial Officer
7 November 2017

Independent Auditor's report to the members of Connect Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Connect Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:
- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group and Parent Company Statements of Changes in Equity;
- the Group Cash Flow Statement;
- the related Group Notes 1 to 35; and
- the related Parent Company Notes 1 to 8.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 group and the parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:
- the valuation of the Connect Books division and the presentation as a disposal group held for sale; and
- the accuracy of trading adjustments in the Connect News division.

Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .

Materiality

The materiality that we used in the current year was £2.4m which is 6.5% of continuing pre-tax profit adjusted for certain significant or one-off items. Further details are provided in the 'Our application of materiality' section of this report.

Scoping

We have performed a full audit on eight (2016: nine) components of the group and have performed a combination of specified audit procedures and desktop reviews on the remaining entities. The reduction in the number of components subject to a full scope audit reflects the disposal of the Connect Education & Care division during the year.

In performing this audit we have performed full scope audit procedures on entities comprising 99% (2016: 98%) of the group's net assets, 95% (2016: 98%) of the group's revenues and 94% (2016: 91%) of the group's pre-tax profit.

Significant changes in our approach

During the year, the Group completed its disposal of the Connect Education & Care division, and commenced a process to divest the Connect Books division. As a result, our audit scope evolved to reflect these changes as set out above.

Last year our report included key audit matters relating to the defined benefit pension scheme, and the impairment of goodwill and other intangible assets. These have not been included in our report this year as a result of a simplification of the pension scheme assets (see Note 6 of the financial statements) and of the decision to divest the Connect Books division (see Note 11 of the financial statements). In addition, last year our report identified a risk relating to revenue recognition on sales within the News business where customers have the right of return, particularly in respect of one-off promotional products for the "Euro 2016" championships. This year, our revenue recognition risk has been refined to reflect the current year's trading activities and relates to the calculation of the cut-off adjustment in the News business.

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1(b) to the financial statements and the directors' statement on the longer-term viability of the group contained within the financial review on page 43.

We are required to state whether we have anything material to add or draw attention to in relation to:

– the disclosures on pages 24-25 that describe the principal risks and explain how they are being managed or mitigated;
– the directors' confirmation on page 43 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
– the directors' statement in Note 1(b) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
– the directors' explanation on page 43 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions; or
– whether the directors' statements relating to going concern and the prospects of the company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the Connect Books division and the presentation of the disposal group

Key audit matter description

As set out on page 18 the Group has decided to divest the Connect Books division. As a result, the directors have concluded that the business should be presented as held for sale as the recognition criteria of a disposal group held for sale were met under IFRS 5 Non-current assets held for sale and Discontinued Operations.

IFRS 5 requires the held for sale business to be carried at the lower of its existing book value and its fair value less costs to sell. The directors have estimated the business's fair value less costs to sell to be £15m, and as a result have recognised an impairment to goodwill of £7.9m.

We identified the estimation of the division's fair value less costs to sell as a key audit matter on the basis of the level of estimation uncertainty, the quantum of the asset values involved, and the level of audit effort required to evaluate management's estimate. We have identified this as a fraud risk due to the uncertain nature of the estimate and the impact it can have on statutory measures.

Further details on the Group's accounting policies for held for sale assets and management's estimate are included in Notes 1(c to e) and 11. We also draw your attention to the Audit Committee report which refers to this judgement on page 42 of the Annual Report.

How the scope of our audit responded to the key audit matter

We evaluated management's assessment against the requirements of IFRS 5 to independently assess whether the held for sale criteria were met at 31 August 2017 by:
- reviewing Board minutes and other internal documentation to validate the directors' intention to divest the Connect Books division; and
- inspecting documentation with third party advisors relating to the potential disposal;
- reviewing ongoing communications relating to the announcement of the divestment; and
- holding a discussion with key management regarding their plans to divest the Connect Books division.

We evaluated management's estimate of fair value less costs to sell by:
- evaluating the design and implementation of key internal controls relating to the process of estimating fair value less costs to sell;
- reviewing the basis of management's estimate, including documentation related to other transactions and information received from third party advisors;
- discussing this basis with management and with their third party advisors;
- selecting a sample of comparable companies and comparable transactions and, with assistance from our own valuations expert, independently determining an acceptable range of valuations for the business based on external data sources;
- investigating outliers in our benchmark sample to understand the key factors impacting the valuation of the business;
- assessing the accuracy of management's estimate of the costs to sell;
- recalculating the resulting write down; and
- evaluating the adequacy and sufficiency of the disclosures in accordance with IFRS 5 and the balance of narrative in the annual report, particularly in respect of the level of estimation uncertainty.

Key observations

We are satisfied that management's conclusion that the recognition criteria of a disposal group under IFRS 5 have been met is appropriate, and that management's estimate of fair value less costs to sell is within an acceptable range.

We are satisfied that appropriate disclosures have been made in the Annual Report and Financial Statements in respect of the significant level of estimation uncertainty.

We have reported to the Audit Committee certain areas where improvements are required to key internal controls over significant management estimates.

Accuracy of trading adjustments in the Connect News division

Key audit matter description	Revenue recognition represents a risk due to the operational year on which the Connect News division operates. The division operates on a weekly trading calendar, which ended on 2 September 2017, compared with the Group's financial year end of 31 August 2017. As a result, management are required to record a trading adjustment in order to prepare the financial statements with an effective year end of 31 August 2017. This trading adjustment incorporates both revenue and cost entries. The manual nature of the process and the size of the trading adjustments give rise to a risk of material misstatement through fraud or error.
How the scope of our audit responded to the key audit matter	We tested the accuracy of the roll-back adjustments by: – evaluating the design and implementation of key internal controls relating to the calculation and recording of the adjustment; – re-computing management's calculation for formulaic accuracy; – agreeing the underlying data in management's calculations to the accounting records and supporting documentation; and – checking the output of management's calculation has been accurately posted as a journal entry.
Key observations	The final calculation of the trading adjustments was correctly recorded by management to roll-back the financial records to 31 August 2017. We have reported to the Audit Committee a number of areas where improvements are required to key internal controls over trading adjustments and associated manual journal postings.

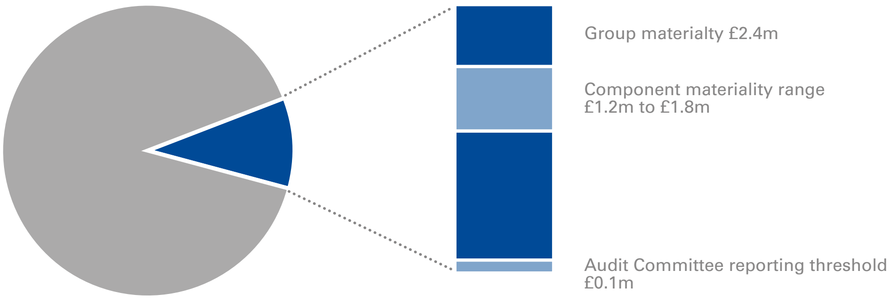
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£2.4m (2016: £2.3m)
Basis for determining materiality	Our materiality of £2.4m equates to 6.5% of the adjusted continuing pre-tax profit (as defined below), less than 0.2% of revenue and less than 1% of net assets. The prior year materiality of £2.3m was determined based on 5% of adjusted continuing pre-tax profit. We determined materiality based on the statutory continuing pre-tax profit of £34.2m adjusted for the following certain significant or one-off items: – restructuring costs (charge of £4.0m); – property related costs following a change in accounting estimates (charge of £0.6m); – continuing acquisition and disposal income including movements on deferred consideration (credit of £2.2m); – a one-off pension credit (credit of £0.7m); and – costs relating to the settlement of interest rate swaps following a change in treasury policy (charge of £0.8m). Further details on these items is included in Note 4 of the financial statements.
Rationale for the benchmark applied	We considered alternative benchmarks, including statutory pre-tax profit, statutory continuing pre-tax profit, revenue, and total assets. In determining our benchmark we considered the focus of the users of the financial statements. Adjusted continuing pre-tax profit is a key performance measure for the group and is therefore was concluded to be the most appropriate basis on which to determine materiality.

Statutory profit before tax £34.2m



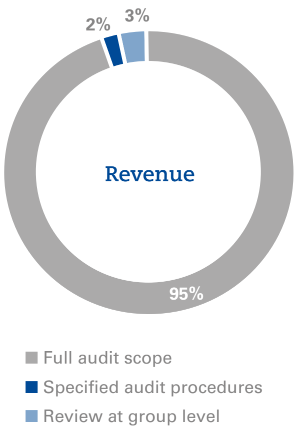
We agreed with the Audit Committee that we would report to the Committee all identified misstatements in excess of £120,000 (2016: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

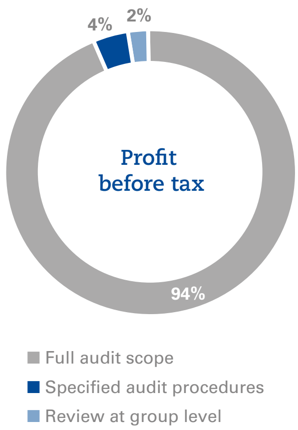
An overview of the scope of our audit

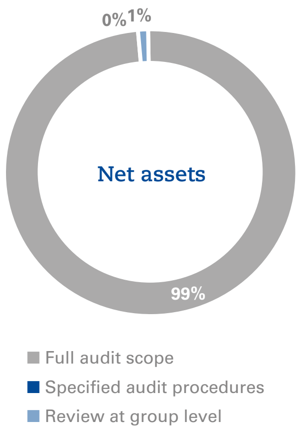
Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment we focused our group audit scope primarily on audit work at eight (2016: nine) components of the group. All of these components were subject to a full audit. These components represent the principal business units and account for 99% (2016: 98%) of the group's net assets, 95% (2016: 98%) of the group's revenues and 94% (2016: 91%) of the group's pre-tax profit. They were also selected to provide an appropriate basis for undertaking audit work to address the key audit matters identified above. Our audit work at the eight components was executed at levels of materiality applicable to each individual entity which were lower than group materiality, ranging between £1.2m and £1.8m. (2016: £1.2m to £1.8m).

The reduction in the number of entities subject to a full scope audit reflects the disposal of the Connect Education & Care division during the year. There have been no other significant changes to the scope of our audit. We have performed specified audit procedures on the performance and disposal of the Education & Care division.

At the parent level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.







Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, including the Strategic Report, the Chairman's Statement, the Chief Executive's Review, the Corporate Responsibility Statement, the Corporate Governance Statement, the Audit Committee Report, the Nominations Committee report, the Directors' Remuneration report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

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 group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities 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.

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
– we have not received all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
– the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Audit Committee to audit the financial statements for the year ending 31 August 2006 and subsequent financial periods. We were most recently reappointed following a tender process in 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31 August 2006 to 31 August 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Anna Marks FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
7 November 2017

Group Income Statement for the year ended 31 August 2017

		2017			2016 restated		
£m	Note	Adjusted*	Adjusted items	Total	Adjusted*	Adjusted items	Total
Revenue	2	**1,594.3**	**–**	**1,594.3**	1,645.8	–	1,645.8
Operating profit	2.3	**54.7**	**(13.0)**	**41.7**	57.4	(15.2)	42.2
Finance costs	7	**(6.7)**	**(0.8)**	**(7.5)**	(7.0)	–	(7.0)
Profit before tax		**48.0**	**(13.8)**	**34.2**	50.4	(15.2)	35.2
Income tax expense	8	**(9.9)**	**2.7**	**(7.2)**	(10.8)	3.0	(7.8)
Profit for the year from Continuing Operations		**38.1**	**(11.1)**	**27.0**	39.6	(12.2)	27.4
Discontinued Operations							
Profit for the year from Discontinued Operations	11	**1.0**	**8.6**	**9.6**	8.7	(2.7)	6.0
Profit attributable to equity shareholders Continuing and Discontinued Operations		**39.1**	**(2.5)**	**36.6**	48.3	(14.9)	33.4
Earnings per share from Continuing Operations							
Basic	10	**15.5**		**11.0**	16.2		11.3
Diluted	10	**15.4**		**10.9**	16.0		11.1
Equity dividends per share (paid and proposed)	9			**9.8p**			9.5p

* This measure is described in Note 1c of the accounting policies. Adjusted items are set out in Note 4 to the Group financial statements.

Group Statement of Comprehensive Income for the year ended 31 August 2017

£m	Note	2017	2016 restated
Continuing			
Items that will not be reclassified to the Group Income Statement			
Actuarial (loss)/gain on defined benefit pension scheme	6	**(9.9)**	3.6
Impact of IFRIC 14 on defined benefit pension scheme	6	**6.8**	(6.5)
Tax relating to components of other comprehensive income that will not be reclassified	8	**0.3**	0.1
		(2.8)	(2.8)
Items that may be subsequently reclassified to the Group Income Statement			
Gain/(loss) on cash flow hedges	29	**0.6**	(1.2)
Termination of interest rate swap	29	**0.8**	–
Currency translation differences		**–**	0.3
Tax relating to components of other comprehensive income that may be reclassified	8	**(0.2)**	0.2
		1.2	(0.7)
Other comprehensive loss for the year – continuing		**(1.6)**	(3.5)
Profit for the year – continuing		**27.0**	27.4
Total comprehensive income for the year – continuing		**25.4**	23.9
Other comprehensive loss for the year – discontinued		**1.7**	(4.2)
Profit for the year – discontinued		**9.6**	6.0
Total comprehensive income for the year – discontinued		**11.3**	1.8
Total comprehensive income for the year		**36.7**	25.7

Group Balance Sheet at 31 August 2017

£m	Note	2017	2016
Non-current assets			
Intangible assets	13	**106.5**	164.8
Property, plant and equipment	14	**41.3**	50.3
Interest in jointly controlled entities	15	**4.6**	4.1
Retirement benefit assets	6	**–**	0.3
Deferred tax assets	23	**5.4**	7.7
		157.8	227.2
Current assets			
Inventories	16	**13.8**	42.3
Trade and other receivables	17	**98.3**	139.2
Derivative financial instruments	20	**–**	0.1
Cash and cash equivalents	19	**5.5**	9.1
Assets classified as held for sale	11	**64.5**	–
		182.1	190.7
Total assets		**339.9**	417.9
Current liabilities			
Trade and other payables	18	**(136.2)**	(198.8)
Current tax liabilities		**(5.3)**	(6.9)
Bank loans and other borrowings	19	**(20.0)**	(61.0)
Obligations under finance leases	21	**(3.1)**	(3.0)
Retirement benefit obligations	6	**(4.1)**	(4.1)
Provisions	24	**(9.0)**	(8.5)
Liabilities classified as held for sale	11	**(49.5)**	–
		(227.2)	(282.3)
Non-current liabilities			
Retirement benefit obligations	6	**(7.4)**	(17.4)
Bank loans and other borrowings	19	**(60.0)**	(79.1)
Obligations under finance leases	21	**(5.4)**	(7.7)
Derivative financial instruments	20	**–**	(1.5)
Other non-current liabilities	22	**(1.0)**	(1.1)
Deferred tax liabilities	23	**(7.2)**	(10.9)
Non-current provisions	24	**(6.6)**	(4.9)
		(87.6)	(122.6)
Total liabilities		**(314.8)**	(404.9)
Total net assets		**25.1**	13.0

Group Balance Sheet at 31 August 2017 continued

£m	Note	2017	2016
Equity			
Called up share capital	28(a)	**12.4**	12.3
Share premium account	28(c)	**60.5**	59.2
Demerger reserve	29(a)	**(280.1)**	(280.1)
Own shares reserve	29(b)	**(3.1)**	(3.5)
Hedging & translation reserve	29(c)	**0.5**	(1.1)
Retained earnings	30	**234.9**	226.2
Total shareholders' equity		**25.1**	13.0

The accounts were approved by the Board of Directors and authorised for issue on 7 November 2017 and were signed on its behalf by:

Registered number – 05195191

Mark Cashmore
Chief Executive Officer

David Bauernfeind
Chief Financial Officer

Group Statement of Changes in Equity for the year ended 31 August 2017

£m	Note	Share capital	Share premium account	Demerger reserve	Own share reserve	Hedging and translation reserve	Retained earnings	**Total**
Balance at 31 August 2015		**12.2**	**55.2**	**(280.1)**	**(4.1)**	**(0.5)**	**226.5**	**9.2**
Profit for the year		–	–	–	–	–	33.4	**33.4**
Loss on cash flow hedges		–	–	–	–	(1.2)	–	**(1.2)**
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(2.0)	**(2.0)**
Impact of IFRIC 14 on defined benefit pension scheme		–	–	–	–	–	(6.5)	**(6.5)**
Currency translation differences		–	–	–	–	0.6	–	**0.6**
Tax relating to components of other comprehensive income		–	–	–	–	–	1.4	**1.4**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(0.6)**	**26.3**	**25.7**
Issue of share capital	28	0.1	4.0	–	–	–	–	**4.1**
Purchase of own shares		–	–	–	(1.1)	–	–	**(1.1)**
Dividends paid	9	–	–	–	–	–	(22.7)	**(22.7)**
Employee share schemes		–	–	–	1.7	–	(1.7)	**–**
Recognition of share based payments net of tax		–	–	–	–	–	(2.2)	**(2.2)**
Balance at 31 August 2016		**12.3**	**59.2**	**(280.1)**	**(3.5)**	**(1.1)**	**226.2**	**13.0**
Profit for the year		–	–	–	–	–	36.6	**36.6**
Termination of cash flow hedge		–	–	–	–	0.8	–	**0.8**
Gain on cash flow hedges		–	–	–	–	0.6	–	**0.6**
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(8.1)	**(8.1)**
Impact of IFRIC 14 on defined benefit pension scheme		–	–	–	–	–	6.8	**6.8**
Currency translation differences		–	–	–	–	0.2	–	**0.2**
Tax relating to components of other comprehensive income		–	–	–	–	–	(0.2)	**(0.2)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**1.6**	**35.1**	**36.7**
Issue of share capital	28	0.1	1.3	–	–	–	–	**1.4**
Purchase of own shares		–	–	–	(0.5)	–	–	**(0.5)**
Dividends paid	9	–	–	–	–	–	(23.6)	**(23.6)**
Employee share schemes		–	–	–	0.9	–	(0.9)	**–**
Recognition of share based payments net of tax		–	–	–	–	–	(1.9)	**(1.9)**
Balance at 31 August 2017		**12.4**	**60.5**	**(280.1)**	**(3.1)**	**0.5**	**234.9**	**25.1**

Group Cash Flow Statement for the year ended 31 August 2017

£m	Note	2017	2016
Net cash inflow from operating activities	27	**51.2**	58.2
Investing activities			
Dividends received from associates		**0.2**	0.7
Purchase of property, plant and equipment		**(13.7)**	(9.1)
Purchase of intangible assets		**(5.1)**	(4.8)
Proceeds on sale of property, plant and equipment		**1.3**	–
Proceeds on sale of subsidiary (net of disposal costs)		**56.8**	–
Net cash used in investing activities		**39.5**	(13.2)
Financing activities			
Interest paid		**(5.2)**	(4.9)
Dividend paid	9	**(23.6)**	(22.7)
Repayments of obligations under finance leases		**(4.2)**	(3.5)
Proceeds on issue of shares		**0.7**	0.4
Net outflow on purchase of shares for Employee Benefit Trust		**(0.5)**	(1.1)
Decrease in borrowings		**(61.0)**	(15.5)
Net cash used in financing activities		**(93.8)**	(47.3)

Net decrease in cash and cash equivalents		**(3.1)**	(2.3)
Effect of foreign exchange rate changes		**0.4**	0.5
		(2.7)	(1.8)
Opening net cash and cash equivalents		**9.1**	10.9
Closing net cash and cash equivalents	19	**6.4**	9.1

Analysis of net debt

During the year cash inflow from operating activities attributed to Discontinued Operations amounted to £3.8m (2016: £13.1m) and paid £3.7m (2016: £3.2m) in respect of investing activities. There were no cash flows associated with financing activities attributable to Discontinued Operations.

£m	Note	2017	2016
Cash and cash equivalents	19	**6.4**	9.1
Current borrowings	19	**(20.0)**	(61.0)
Non-current borrowings	19	**(60.0)**	(79.1)
Net borrowings		**(73.6)**	(131.0)
Finance lease liabilities	21	**(8.5)**	(10.7)
Net debt		**(82.1)**	(141.7)

1. Accounting policies

(a) Basis of consolidation

Connect Group PLC ('the Company') is a company incorporated in the UK under Companies Act 2006. The Group accounts for the year ended 31 August 2017 comprise the Company and, its subsidiaries (together referred to as the 'Group') and the Group's interests in jointly controlled entities and associates. Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition. All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts. Further to the EU IAS Regulation (Article 4) the Group accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Unless otherwise noted references to 2016 and 2017 relate to fiscal year ended 31 August 2016 and 31 August 2017 as opposed to calendar year.

The accounts were authorised for issue by the Directors on 7 November 2017.

(b) Basis of preparation

Accounting basis of preparation

The accounts are prepared on the historical cost basis except certain financial instruments and assets acquired on acquisition detailed below and are presented in Pound Sterling and rounded to £0.1m, except where otherwise indicated.

The Group Accounts have been prepared in accordance with International Financial Report Standards ('IFRS') as adopted for use by the European Union.

Intra-group balances and unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing Group Accounts. Unrealised gains and losses arising from transactions with the jointly controlled entities are eliminated to the extent of the Group's interest in the entities.

Going concern

As detailed in Note 20, after the year end, the Group agreed a new bank facility commitment of £175m with associated covenants which is in place until January 2021. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance, show that the Group should be able to operate within the level of its current financing covenants for the foreseeable future.

Despite the uncertain economic environment the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

(c) Estimates and judgements

The preparation of accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Key accounting judgements

The significant judgements made in the accounts for the year ended 31 August 2017 are:

Adjusted measures

The directors believe that the adjusted measures provide additional useful information for shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee.

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'Free cash flow (excluding adjusted items)', 'Free cash flow to equity', 'adjusted profit', 'adjusted earnings per share' 'adjusted EBITDA' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. The definitions of certain alternative performance measures have been changed in the current year to reflect the changes in the Group's activities and the integration of the businesses.

The following are the key non-IFRS measures identified by the Group in the consolidated financial statements as adjusted results:

Adjusted operating profit; is defined as operating profit including the operating profit of businesses from the date of acquisition and excludes adjusted items and operating profit of businesses disposed of.

Adjusted profit before tax; is defined as adjusted operating profit less finance costs attributable to adjusted operating profit and before adjusted items described below.

Adjusted EBITDA; is calculated as Adjusted operating profit before depreciation and amortisation. In line with loan agreements Adjusted Bank EBITDA used for covenant calculations is calculated as Adjusted operating profit before depreciation, amortisation, Adjusted items and share based payments charge but after adjusting for the last 12 months of profits for any acquisitions or disposals made in the year.

Adjusted earnings per share; is defined as adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.

1. Accounting policies continued

(c) Estimates and judgements continued

Adjusted items; are items of income or expense that are considered significant, in nature or value, and are excluded in arriving at Adjusted operating profit. The purpose of excluding these items from adjusted measures is to provide additional performance metrics to users of the financial statements that exclude the impact of the items the directors consider to have a significant impact on reported results and do not relate to the underlying trading activity of the Group. The specific items vary between financial years, and for the current year include certain Mergers & Acquisitions related costs, legal provisions, amortisation of intangibles, integration costs, business restructuring costs and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in Note 4 of the financial statements to provide further understanding of the financial performance of the Group. A reconciliation of adjusted profit to statutory profit is presented on the income statement.

Free cash flow to equity; is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchase and cash flows relating to pension deficit repair. This measures shows the cash retained by the Group in the year and is considered by the Directors to provide additional information on the cash available for shareholders returns. (Free cash flow (excluding Adjusted items) is Free cash flow to equity adding back Adjusted cash costs. This measure is presented to aid comparability of the free cash flow to equity metric to the adjusted profit measures.). A reconciliation of Free cash flow to equity to the net movement in cash and cash equivalents is shown in Note 35.

Free cash flow is defined as cash flow excluding payment of a dividend, acquisitions and disposals, payments of obligation under finance leases, repayment, EBT share purchase and cash flows relating to Adjusted items. This measure where presented is to aid comparison with the prior year.

Net debt; is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases. A reconciliation of net debt to the financial statements is presented on page 80.

Held for sale

In August 2017, the Board resolved to divest of the Books division and appointed external advisors to actively market the business. The disposal is expected to be completed within one year. As a result, the directors concluded that the Books business met the criteria of "held for sale" and have presented the assets and liabilities accordingly. The results of the Books business for the year are presented as Discontinued Operations and the comparatives have been restated accordingly. Further detail is provided in Notes 11 and 12.

Sources of estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Management make these judgements in consultation with an independent actuary. Details of the judgements made in calculating the transactions are disclosed in Note 6.

In order to substantially reduce the volatility in the adjusted investment performance and reduce the risk of a significant increase in the obligation, the Smiths News defined benefit scheme Pension Trust Trustee has adopted a Liability Driven Investment policy. This is discussed in more detail in Note 6.

Revenue recognition

Revenue from the sale of goods is recognised when goods are delivered and title has passed. Revenue represents the amounts receivable for goods and services provided in the normal course of business, net of discounts, returns, VAT and other sales related taxes.

The recognition of revenue involves a number of judgements and estimations, including the level of future returns. The Group records a returns reserve against the sales and cost of sales on the supply of newspapers and magazines on a sale or return basis. The provision is calculated in accordance with historical experience.

Legal provision estimate

Legal provisions are established when a past event creates a present obligation and it is probable an economic outflow will occur. The provision is calculated based upon a reliable estimate and is reviewed on a regular basis. See Note 24 for further details.

Valuation of acquired intangibles and goodwill

The valuation of acquired intangibles requires an estimation of value based on discounted future cash flows. The cash flows modelled represent the stand alone business acquired and do not include any synergies that may be available to the Group. The discount rate used is specific to each class of asset and specific to each acquisition. The key judgements are future cash flows and the discount rate. See Note 13 for further details.

Property provisions

Property provisions include an estimate of the net present value of the future costs of vacant and sublet properties and dilapidations costs which may be incurred on leased premises. The calculation of onerous lease provisions include estimates of management's estimate of the long-term letting potential of properties. See Note 24 for further details.

1. **Accounting policies** continued

(c) Estimates and judgements continued

Taxation judgements

The Group recognises provisions for uncertain tax positions in accordance with the recognition and measurement criteria of both IAS12 'Income Taxes' and IAS37 'Provisions, Contingent Liabilities and Contingent Assets'. Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event in respect of known tax risks (both UK and overseas) and when it is more likely than not that an outflow of economic benefits will be required to settle those obligations. Provisions for uncertain tax positions are measured based upon management's best estimate of the economic outflow and are re-measured annually at each balance sheet date. Such estimates inherently involve significant judgment.

Held for sale assets

As set out in the Key Accounting Judgements above, the Books division has been presented as 'held for sale'. As a result, the assets and liabilities of the business are presented at the estimated fair value less costs to sell of £15m, which is lower than the previous carrying value. The valuation of the assets and liabilities gives rise to significant estimation uncertainty. Further details of the assets and liabilities gives rise to significant estimation uncertainty. Further details of the assets and liabilities are presented in Note 11.

(d) Non-current assets for disposal groups

Non-current assets for disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(e) Discontinued Operations

In accordance with IFRS 5 'Non-current assets Held for Sale and Discontinued Operations', the net results of Discontinued Operations are presented separately in the Group Income statement (and the comparatives restated) and the assets and liabilities of these operations are presented separately in the Group balance sheet.

(f) Revenue

Revenue from the sale of goods is recognised when goods are delivered and title has passed. Revenue represents the amounts receivable for goods and services provided in the normal course of business, net of discounts, returns (including expected returns), VAT and other sales related taxes.

g) Operating profit

Operating profit is stated after charging Adjusted items and after the share of results of associates but before investment income and finance costs.

(h) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable based on the taxable profit for the year, using tax rates enacted, or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is calculated using tax rates enacted or substantively enacted at the balance sheet 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 to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

(i) Dividends

Interim and final dividends are recorded in the financial statements in the period in which they are paid.

(j) Capitalisation of internally generated development costs

Expenditure on developed software is capitalised when the Group is able to demonstrate all of the following: the technical feasibility of the resulting asset; the ability (and intention) to complete the development and use it; how the asset will generate probable future economic benefits; and the ability to measure reliably the expenditure attributable to the asset during its development. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(k) Jointly controlled entities

The Group Accounts include the Group's share of the total recognised gains and losses in its jointly controlled entities on an equity accounted basis.

Investments in jointly controlled entities are carried in the balance sheet at cost adjusted by post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any impairment losses. The carrying values of investments in jointly controlled entities include acquired goodwill. Losses in a jointly controlled entity in excess of the Group's interest in the jointly controlled entity are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

1. Accounting policies continued

(l) Business combinations and goodwill

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Any deferred or contingent purchase consideration is recognised at fair value over the period of entitlement. If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Any deferred or contingent payment deemed to be remuneration as opposed to purchase consideration in nature is recognised in profit or loss as incurred, and excluded from the acquisition method of accounting for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The non-controlling interest is measured, initially, at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arising on all acquisitions is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying value is reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets arising under a business combination (acquired intangibles) are capitalised at fair value as determined at the date of exchange and are stated at fair value less accumulated amortisation and impairment losses. Amortisation of acquired intangibles is charged to the income statement on a straight-line basis over the estimated useful lives as follows:

Customer relationships	– 2.5 to 7.5 years
Trade name	– 5 to 10 years
Software and development costs	– 3 to 7 years

Computer software and internally generated development costs which are not integral to the related hardware are capitalised separately as an intangible asset and stated at cost less accumulated amortisation and impairment losses.

Assets held under finance leases are amortised over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. All intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that the carrying value may not be recoverable.

(m) Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any recognised impairment losses. No depreciation has been charged on freehold land. Other assets are depreciated, to a residual value, on a straight-line over their estimated useful lives, as follows:

Freehold and long term leasehold properties	– over 20 years
Short term leasehold properties	– shorter of the lease period and the estimated remaining economic life
Fixtures and fittings	– 3 to 15 years
Equipment	– 5 to 12 years
Computer equipment	– up to 5 years
Vehicles	– up to 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. All property, plant and equipment is reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that the carrying value may not be recoverable.

(n) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Property, plant and equipment held under finance leases is capitalised in the balance sheet at the lower of the fair value or the present value of the minimum lease payments and is depreciated over its useful life. The capital elements of future obligations under leases are included as liabilities in the balance sheet. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of return on the remaining balance of the liability.

Property and equipment and vehicle rentals paid under operating leases are charged to income on a straight line basis over the lease term. The benefits of rent free periods and similar incentives are credited to the income statement on a straight-line basis to the first break clause.

(o) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Inventories are valued using a weighted average cost method. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

1. Accounting policies continued

(p) Trade receivables

Trade receivables do not carry any interest and are stated at their fair value. They are measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

(q) Trade payables

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

(r) Treasury

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to reduce exposure to interest rate and foreign exchange movements. The Group does not hold derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Where a derivative financial instrument is designated as a cash flow hedging instrument, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised immediately in the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or liability the associated cumulative gain or loss is removed from equity and included in the initial cost of the non-financial asset or liability. When the forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gain or loss that was recognised directly in equity is reclassified into the income statement in the same period during which the asset acquired or liability assumed affects the income statement. Changes in the fair value of derivative financial instruments, where they are not designated as hedging instruments, are recognised in the income statement as operating costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net income or expense for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not clearly and closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Foreign currencies

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Net investment in foreign operations

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to equity. They are recycled into the income statement upon disposal.

1. **Accounting policies** continued

(r) Treasury continued

Foreign currency transactions

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and if this amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated, no provision is recognised and the item is disclosed as a contingent liability where material. Where the effect is material, the provision is determined by discounting the expected future cash flows.

(t) Retirement benefit costs

The Group operates a number of defined contribution schemes for the benefit of its employees. Payments to the Group's schemes are recognised as an expense in the income statement as incurred. The Group operates four defined benefit pension schemes. The two largest schemes The WH Smith Pension Trust and The Consortium Care Scheme are closed to further accrual. The charge to the Group of providing benefits for these two schemes is determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the group statement of comprehensive income. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, reduced by the fair value of scheme assets.

The WH Smith Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 (revised) surplus in the pension scheme of £149.3m (2016: £151.3m) available on a reduction of future contributions is £nil (2016: £nil). The Group recognises an onerous liability for the future agreed deficit contributions, a liability of £8.7m (2016: £10.3m).

(u) Employee Benefit Trust

Smiths News Employee Benefit Trust

The shares held by the Smiths News Employee Benefit Trust are valued at the historical cost of the shares acquired. This value is deducted in arriving at shareholders' funds and presented as the own share reserve in line with IAS 32 'Financial Instruments: Disclosure and Presentation'.

(v) Share schemes

Share based payments

The Group operates several share-based payment schemes, the largest of which are the Sharesave Scheme, the Executive Share Option Plan, the Long Term Incentive Plan (LTIP) and the Deferred Bonus Plan. Details of these are provided in the Remuneration report and in Note 31.

Equity-settled share-based schemes and are measured at fair value at the date of grant. The fair value is expensed with a corresponding increase in equity on a straight-line basis over the period during which employees become unconditionally entitled to the options. The fair values are calculated using an appropriate option pricing model. The income statement charge is then adjusted to reflect expected and actual levels of vesting based on non-market performance related criteria.

Administrative expenses and distribution and marketing expenses include the cost of the share-based payment schemes.

(w) Changes in accounting policies

New Standards and Interpretations not yet applied

At the date of authorisation of these financial statements, the following Standards and Interpretations that are potentially relevant to the Group and which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9 'Financial Instruments (2014) – effective for accounting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers' – effective for accounting periods beginning on or after 1 January 2018.

IFRS 16 Leases – effective for periods beginning or after 1 January 2019.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12).

Disclosure initiative (amendments to IAS 7) – effective for periods beginning or after 1 January 2017.

Annual Improvements 2014-2016 Cycle – effective 1 January 2017.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, the only exception is IFRS16 Leases which the Group is currently assessing.

1. Accounting policies continued

(w) Changes in accounting policies continued

New Standards and Interpretations applied for the first time:
The following Standards have been adopted without any significant impact on the amounts reported in these financial statements:

Investment Entities: – Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28 – effective for accounting periods beginning on or after 1 January 2016.

IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' – effective for accounting periods beginning on or after 1 January 2016.

Annual Improvements 2012-2014 Cycle – effective 1 January 2016

Amendments to IAS 1 – effective for accounting periods beginning on or after 1 January 2016.

Amendments to IAS 27 'Equity Method in Separate Financial Statements' – applicable for accounting periods beginning on or after 1 January 2016.

Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' – applicable for accounting periods beginning on or after 1 January 2016.

2. Segmental analysis

In accordance with IFRS 8 'Operating Segments', Group management has identified its operating segments. The performance of these operating segments is reviewed, on a monthly basis, by the Board. The Board monitors the tangible, intangible and financial assets attributable to each segment to determine the allocation of resources and the performance of each segment.

The continuing operating segments are:

News & Media: News Distribution (also referred to as Smiths News or Early Distribution)	The UK market leading distributor of newspapers and magazines to 27,000 retailers across England and Wales from 39 distribution centres.
News & Media: Media (also referred to as DMD)	A supplier of newspaper and magazines to airlines and a provider of inflight services.
Mixed Freight (also referred to as Tuffnells and formerly Parcel Freight)	A leading provider of next day B2B delivery of Mixed Freight consignments.

As explained in Note 11, Connect Books, a leading UK distributor of physical and digital books is held for sale. The division has been presented as a Discontinued Operation and has been included below where necessary for the purpose of reconciliation. As detailed in Note 12, the Connect Education & Care division was sold on 30 June 2017 and the results for the period to this date is also presented within Discontinued Operations.

The following is an analysis of the Group's revenue and results by reportable segment:

	Revenue	
£m	**2017**	2016
News & Media: News Distribution	**1,383.4**	1,443.8
News & Media: Media	**28.8**	27.6
Mixed Freight	**183.2**	174.4
Elimination of Intra group revenue	**(1.1)**	–
Continuing Operations	**1,594.3**	1,645.8
Discontinued Operations	**270.3**	260.7
Total Continuing and Discontinued Operations	**1,864.6**	1,906.5

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.

Intra group revenue relates to services provided by the Mixed Freight division to News Distribution in respect of Pass My Parcel.

2. Segmental analysis continued

£m	2017 Adjusted operating profit	2017 Adjusted items	2017 Statutory operating profit	2016 Adjusted operating profit	2016 Adjusted items	2016 Statutory operating profit
News & Media: News Distribution	**40.4**	**(4.3)**	**36.1**	40.0	(5.9)	34.1
News & Media: Media	**2.3**	**(1.0)**	**1.3**	2.4	(0.4)	2.0
Mixed Freight	**12.0**	**(7.7)**	**4.3**	15.0	(8.9)	6.1
Continuing Operations	**54.7**	**(13.0)**	**41.7**	57.4	(15.2)	42.2
Discontinued Operations*	**2.0**	**7.5**	**9.5**	10.3	(3.6)	6.7
Total Continuing and Discontinued Operations	**56.7**	**(5.5)**	**51.2**	67.7	(18.8)	48.9
Net finance expense	**(6.7)**	**(0.8)**	**(7.5)**	(7.0)	–	(7.0)
Profit before taxation	**50.0**	**(6.3)**	**43.7**	60.7	(18.8)	41.9

* Discontinued Operations in the table above are pre-tax measures. Presentation in the Group income statement for Discontinued Operations are post tax measures.

Information about major customers

Included in revenues arising from News & Media are revenues of approximately £147.5m (2016: £156.8m) which arose from sales to the Group's largest customer. No other single customer contributed 5% or more of the Group's revenue in 2017 (2016: 8%).

Segment assets and liabilities

£m	Assets 2017	Assets 2016	Liabilities 2017	Liabilities 2016	Net assets/(liabilities) 2017	Net assets/(liabilities) 2016
News & Media: News	**85.4**	89.4	**(220.8)**	(280.4)	**(135.4)**	(191.0)
News & Media: Media	**23.0**	20.5	**(8.2)**	(7.6)	**14.8**	12.9
Mixed Freight	**167.0**	175.9	**(36.3)**	(49.0)	**130.7**	126.9
Discontinued Operations	**64.5**	132.1	**(49.5)**	(67.9)	**15.0**	64.2
Consolidated assets/(liabilities)	**339.9**	417.9	**(314.8)**	(404.9)	**25.1**	13.0

Segment depreciation, amortisation and non-current asset additions

£m	Depreciation 2017	Depreciation 2016	Amortisation and impairment 2017	Amortisation and impairment 2016	Additions to non-current assets 2017	Additions to non-current assets 2016
News & Media: News	**(4.2)**	(4.5)	**(3.0)**	(2.3)	**6.8**	5.2
News & Media: Media	**(0.2)**	(0.1)	**(0.3)**	(0.4)	**0.2**	0.3
Mixed Freight	**(4.1)**	(3.3)	**(7.1)**	(7.1)	**6.7**	11.1
Continuing Operations	**(8.5)**	(7.9)	**(10.4)**	(9.8)	**13.7**	16.6
Discontinued Operations	**(0.8)**	(1.0)	**(12.7)**	(4.9)	**3.4**	2.7
Consolidated total	**(9.3)**	(8.9)	**(23.1)**	(14.7)	**17.1**	19.3

Additions to non-current assets includes intangible assets and property, plant and equipment.

Geographical analysis

£m	Revenue by destination 2017	Revenue by destination 2016	Non-current assets by location of operation 2017	Non-current assets by location of operation 2016
United Kingdom	**1,579.6**	1,630.9	**152.4**	218.9
Europe	**9.6**	10.1	**–**	–
Rest of World	**5.1**	4.8	**–**	–
Continuing Operations	**1,594.3**	1,645.8	**152.4**	218.9
Discontinued Operations	**270.3**	260.7	**–**	0.3
Total Continuing and Discontinued Operations	**1,864.6**	1,906.5	**152.4**	219.2

Non-current assets in the table above exclude retirement benefit assets, deferred tax assets and derivative financial instruments.

3. Operating profit

The Group's results are analysed as follows:

£m	Note	2017 Adjusted	2017 Adjusted items	2017 Total	2016 restated Adjusted	2016 restated Adjusted items	2016 restated Total
Continuing Operations							
Revenue		**1,594.3**	**–**	**1,594.3**	1,645.8	–	1,645.8
Cost of inventories recognised as an expense		**(1,283.8)**	**–**	**(1,283.8)**	(1,335.7)	–	(1,335.7)
Other cost of sales		**(124.8)**	**–**	**(124.8)**	(118.2)	–	(118.2)
Cost of sales		**(1,408.6)**	**–**	**(1,408.6)**	(1,453.9)	–	(1,453.9)
Gross profit		**185.7**	**–**	**185.7**	191.9	–	191.9
Distribution costs		**(76.9)**	**–**	**(76.9)**	(82.8)	–	(82.8)
Other administrative expenses		**(50.5)**	**(8.2)**	**(58.7)**	(48.3)	(7.9)	(56.2)
Share-based payment expense	31	**(0.9)**	**2.5**	**1.6**	(1.3)	–	(1.3)
Amortisation of intangibles	13	**(3.1)**	**(7.3)**	**(10.4)**	(2.4)	(7.3)	(9.7)
Administrative expenses		**(54.5)**	**(13.0)**	**(67.5)**	(52.0)	(15.2)	(67.2)
Share of profits from jointly controlled entities	15	**0.4**	**–**	**0.4**	0.3	–	0.3
Operating profit		**54.7**	**(13.0)**	**41.7**	57.4	(15.2)	42.2

The operating profit is stated after charging/(crediting):

£m	Note	2017 Continuing	2017 Discontinued	2017 Total	2016 restated Continuing	2016 restated Discontinued	2016 restated Total
Depreciation on property, plant & equipment	14	**8.5**	**0.8**	**9.3**	7.9	1.0	8.9
Amortisation of intangible assets	13	**10.4**	**12.7**	**23.1**	9.7	5.0	14.7
Operating lease charges							
– occupied land and buildings		**9.6**	**1.4**	**11.0**	9.7	1.3	11.0
– equipment and vehicles		**16.9**	**0.6**	**17.5**	18.6	0.8	19.4
Operating lease rental income – land and buildings		**(0.1)**	**(0.2)**	**(0.3)**	(0.2)	(0.2)	(0.4)
Write down of inventories recognised as an expense		**–**	**(1.6)**	**(1.6)**	–	–	–
Gain/(loss) on disposal of non-current assets		**0.4**	**(0.8)**	**(0.4)**	–	–	–
Staff costs (excluding share based payments)	5	**128.4**	**23.5**	**151.9**	127.2	24.8	152.0

Included in administrative expenses are amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services which are as follows:

£m	2017	2016
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.4**	0.4
Other services	**–**	–
Total non-audit fees	**–**	–
Total fees (continuing and discontinued)	**0.4**	0.4

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 44.

4. Adjusted items

£m	Note	2017	2016 restated
Continuing Operations			
Network and re-organisation costs	(a)	**(8.0)**	(3.2)
Property	(b)	**(0.6)**	–
Acquisition and disposal costs	(c)	**2.2**	(3.2)
Amortisation of acquired intangibles	(d)	**(7.3)**	(7.3)
Pension	(e)	**0.7**	–
Legal provision	(f)	**–**	(1.5)
Settlement of interest rate swap	(g)	**(0.8)**	–
Total before tax		**(13.8)**	(15.2)
Taxation		**2.7**	3.0
Total after taxation		**(11.1)**	(12.2)
Discontinued Operations			
Profit on disposal of subsidiary	(h)	**19.0**	–
Acquisition and disposal costs (deferred consideration)	(i)	**–**	(0.7)
Re-organisation/other costs	(j)	**(0.3)**	(1.1)
Pension	(k)	**–**	1.1
Amortisation and impairment of acquired intangibles	(d)	**(11.2)**	(2.9)
Total before tax		**7.5**	(3.6)
Taxation		**1.1**	0.9
Total after taxation		**8.6**	(2.7)
Continuing and Discontinued Operations			
Total before tax		**(6.3)**	(18.8)
Taxation		**3.8**	3.9
Total after taxation		**(2.5)**	(14.9)

The Group incurred a total of £11.1m of adjusted items on a continuing basis, after tax (2016: £12.2m).

This comprises:

(a) Network and re-organisation costs
£2.0m related to network rationalisation costs incurred in the Smiths News network to drive cost savings. £0.6m related to the restructuring of the News joint venture FMD Limited (whose principal trading subsidiary is Worldwide Magazine Distribution Limited) with part of the magazine operation being absorbed into the main News business. £0.5m was incurred in rationalising overseas operations in Media and the remaining amount related to redundancy costs within Smiths News and Tuffnells. There are a further £4m costs relating to redundancies announced in August 2017 arising from the decision to integrate the News & Media and Mixed Freight divisions. Whilst costs associated with network reorganisation recur across financial years, they are considered adjusted items given they are part of a strategic programme and are significant in value to the results of the Group. Other reorganisation costs are considered to be adjusted items as they are also related to strategic initiatives, are of significant value and not considered to be a normal operating cost of the business.

(b) Property
Provisions of £0.9m (FY2016: £nil) were charged on three onerous depot leases in 2017 offsetting a release of £0.3m in respect of reversionary leases. The onerous lease charges are considered to be part of the Group's strategic restructuring initiative and are therefore treated as an adjusted item.

(c) Acquisition and disposal costs
Acquisition costs included the release of deferred contingent consideration which is payable conditional on the financial performance and continued employment of former owners for Tuffnells. This amounted to £2.7m comprising equity based amounts and amounts provided for cash rewards (see Note 27) which were offset by £0.5m fees relating to disposal activity in the year. Deferred contingent consideration charges and credits in respect of previous acquisitions and costs relating to disposal activity are considered to be adjusted items as they do not form part of normal operating costs/credits of the business.

(d) Amortisation and impairment of acquired intangibles
Amortisation of acquired intangibles relates to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. Discontinued Operations includes impairments of £9.9m which result in a fair value less costs to sell of £15.0m for the Books business.

(e) Pension credit
The £0.7m pension credit relates to a trivial commutation of benefits to members in the WH Smith Pension Trust. The Pension credit is not considered to be part of normal operations and is therefore considered to be an adjusted item.

4. Adjusted items continued

(f) Legal provision – potential health and safety offences
Potential fine and legal costs arising in the prior year in relation to the HSE investigation into the fatality at Tuffnells' Brierley Hill depot in January 2016. See Note 24 for further details.

(g) Settlement of interest rate swap
The Group took a strategic decision to no longer hedge interest rates. The cost relates to the settlement of the swap instruments. The settlement followed a change in Treasury policy (see Note 20). The cost is classified as an adjusted item because it is of significant value and is not expected to be recurrent in nature.

(h) Profit on disposal of subsidiary
Profit on the sale of the Education & Care division on 30 June 2017 (see Note 12 for details).

(i) Acquisition and disposal costs (deferred consideration)
Deferred consideration charged in relation to the Group's acquisition of the remaining 49% of Wordery in 2015. Deferred consideration charges and credits in respect of previous acquisitions and costs relating to disposal activity are considered to be adjusted items as they do not form part of normal operating costs/credits of the business.

(j) Re-organisation /other costs
Re-organisation/other costs of £0.3m relates to legal and restructuring costs incurred in the Books division during the year. In the prior year £1.2m related to the re-organisation of the Books international divisions and operations in the Education & Care division. Reorganisation costs are considered to be adjusted items as they are also related to strategic initiatives, are of significant value and not considered to be a normal operating cost of the business.

(k) Pension
Impact of the Trustees decision to cease payment of discretionary increases on pre 97 pension rights within the Consortium Care scheme which resulted in a past service credit. The credit is not considered to be part of normal operations and is therefore considered to be an adjusted item.

5. Staff costs and employees

(a) Staff costs

The aggregate remuneration of employees (including executive directors) was:

£m	Note	2017	2016
Continuing			
Wages and salaries		**116.5**	115.7
Social security		**10.1**	9.7
Pension costs	6	**1.8**	1.8
Total		**128.4**	127.2

Pension costs shown above exclude charges and credits for pension scheme financing and actuarial gains and losses arising on the pension schemes. Wages and salaries shown above exclude amounts related to share based payment charges. On a continuing basis there was a credit of £1.6m in 2017 (2016: charge £1.3m) relating to share based payments (refer to Note 3).

(b) Employee numbers

The average total monthly number of employees (including executive directors) was:

Number	2017	2016
Operations	**4,380**	4,398
Support functions	**1,571**	1,570
Total	**5,951**	5,968

The number of employees relating to Discontinued Operations was 939 (419 within operations and 520 within support functions).

6. Retirement benefit obligation

Defined benefit pension schemes

The Group operates two defined benefit schemes, the WH Smith Pension Trust (the 'Pension Trust) and the Tuffnells Parcels Express Pension Scheme. The assets and liabilities of the 'Consortium CARE' and 'Platinum' defined benefit schemes were disposed as part of the sale of the Education & Care division (see Note 12).

The Group's defined benefit pension plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Benefits are paid to members from trustee-administered funds. The trustees are responsible for ensuring that the plan is sufficiently funded to meet current and future benefit payments. If investment experience is worse than expected, the Group's obligations are increased.

6. Retirement benefit obligation continued

The trustees must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment performance. In order to assess the level of contributions required, triennial valuations are carried out with plan's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities). The trustees' other duties include managing the investment of plan assets, administration of plan benefits and exercising of discretionary powers.

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Tuffnells Parcels Express	2017	WH Smith Pension Trust	Consortium CARE	Platinum	Tuffnells Parcels Express	2016
Present value of defined benefit obligation	(460.6)	(13.0)	(473.6)	(490.2)	(24.0)	(1.6)	(15.7)	(531.5)
Fair value of assets	609.9	10.2	620.1	641.5	15.8	1.9	12.7	671.9
Net surplus/(loss)	149.3	(2.8)	146.5	151.3	(8.2)	0.3	(3.0)	140.4
Amounts not recognised due to asset limit	(149.3)	–	(149.3)	(151.3)	–	–	–	(151.3)
	–	(2.8)	(2.8)	–	(8.2)	0.3	(3.0)	(10.9)
Additional liability recognised due to minimum funding requirements	(8.7)	–	(8.7)	(10.3)	–	–	–	(10.3)
Pension liability	(8.7)	(2.8)	(11.5)	(10.3)	(8.2)	–	(3.0)	(21.5)
Pension asset	–	–	–	–	–	0.3	–	0.3

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £149.3m at 31 August 2017 (2016: £151.3m surplus) which the Group does not recognise in the accounts as the investment policy being used means that the amount available on a reduction of future contributions is expected to be £nil (2016: £nil). The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

The actuarial valuation for funding purposes produces a scheme deficit due to different assumptions and calculation methodologies used compared to those under IAS 19, most notably the use of a discount rate that reflects the actual investment strategy, rather than corporate bond yields as required under IAS 19.

WH Smith Pension Trust

The actuarial valuation of the Smiths News section of the WH Smith Pension Trust, at 31 March 2015 was a deficit of £17.5m.

Future cash contributions by the Group to the pension trustees total £3.8m per annum through to August 2018. Thereafter contributions of £3.3m per annum have been agreed until the period ended March 2020. The Group recognises the present value of these agreed contributions as a pension liability of £8.7m (2016: £10.3m).

Other defined benefit schemes

The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was an agreed liability of £4.3m. Guaranteed Minimum Pension ("GMP") equalisation is expected to lead to an increase in scheme liabilities at some future date on the Tuffnells Parcels Express scheme. Deficit recovery contributions to the scheme have been agreed at £0.3m per annum.

The weighted average duration of the schemes is 17 years for the Pension Trust and 25 years for the Tuffnells Parcels Express scheme.

The principal long-term assumptions used to calculate scheme liabilities on all Group schemes are:

% p.a.	2017	2016
Discount rate	2.3	2.0
Inflation assumptions – CPI	2.3	2.0
Inflation assumptions – RPI	3.3	3.0

Demographic assumptions for WH Smith pension trust:	2017		2016	
Life expectancy at age 65	**Male**	**Female**	Male	Female
Member currently aged 65	21.5	23.3	21.5	23.5
Member currently aged 45	22.5	24.5	22.8	25.0

Demographic assumptions for Tuffnells Parcels Express scheme:	2017		2016	
Life expectancy at age 65	**Male**	**Female**	Male	Female
Member currently aged 65	22.3	24.1	21.9	24.2
Member currently aged 45	23.3	25.3	23.2	25.7

6. Retirement benefit obligation continued

A summary of the movements in the net balance sheet asset/(liability) and amounts recognised in the Group Income Statement and Other Comprehensive Income are as follows:

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2015	**563.3**	**(432.0)**	**(149.4)**	**(18.1)**
Current service cost	–	(0.3)	–	(0.3)
Net interest cost	20.9	(15.8)	(5.7)	(0.6)
Administration expenses	(0.1)	–	–	(0.1)
Past service credits	–	1.1		1.1
Total amount recognised in income statement	**20.8**	**(15.0)**	**(5.7)**	**0.1**
Actual return on scheme assets (excluding amounts included in net interest expense)	115.4	–	–	115.4
Actuarial gains arising from experience	–	7.5	–	7.5
Actuarial loss arising from changes in financial assumptions	–	(128.3)	–	(128.3)
Actuarial gains arising from changes in demographic assumptions	–	3.4	–	3.4
Change in surplus not recognised	–	–	(6.5)	(6.5)
Amount recognised in other comprehensive income	115.4	(117.4)	(6.5)	(8.5)
Employer contributions	5.3	–	–	5.3
Employee contributions	0.1	(0.1)	–	–
Benefit payments	(33.0)	33.0	–	–
Amounts included in cash flow statement	**(27.6)**	**32.9**	**–**	**5.3**
At 31 August 2016	**671.9**	**(531.5)**	**(161.6)**	**(21.2)**
Current service cost	–	(0.3)	–	(0.3)
Net interest cost	13.2	(10.3)	(3.2)	(0.3)
Administration expenses	(0.2)	–	–	(0.2)
Past service credits	(3.4)	4.1	–	0.7
Total amount recognised in income statement	**9.6**	**(6.5)**	**(3.2)**	**(0.1)**
Actual return on scheme assets (excluding amounts included in net interest expense)	(21.8)	–	–	(21.8)
Actuarial gains arising from experience	–	4.5	–	4.5
Actuarial gains arising from changes in financial assumptions	–	4.7	–	4.7
Actuarial gains arising from changes in demographic assumptions	–	4.5	–	4.5
Change in surplus not recognised	–	–	6.8	6.8
Amount recognised in other comprehensive income	**(21.8)**	**13.7**	**6.8**	**(1.3)**
Employer contributions	5.2	–	–	5.2
Employee contributions	–	–	–	–
Benefit payments	(27.2)	27.2	–	–
Amounts included in cash flow statement	**(22.0)**	**27.2**	**–**	**5.2**
Disposal	(17.6)	23.5	–	5.9
At 31 August 2017	**620.1**	**(473.6)**	**(158.0)**	**(11.5)**
Included within Current liabilities				**(4.1)**
Included within Non-current liabilities				**(7.4)**

6. Retirement benefit obligation continued

The charge for the current service cost is included within administrative expenses. 'Net interest costs' are calculated by applying a discount rate to the net defined benefit asset or liability scheme assets and are included within finance income and expense.

An analysis of the assets at the balance sheet date is detailed below:

£m		2017	2016
Swap financing portfolio	Quoted and Unquoted	–	388.0
Interest rate and inflation swaps	Quoted and Unquoted	–	226.7
Gilts and swaps portfolio	Quoted and Unquoted	401.9	–
Corporate bonds	Quoted and Unquoted	202.4	–
Loan fund	Unquoted	–	26.7
Equity funds	Unquoted	10.2	24.1
Bonds	Unquoted	–	6.1
Cash and other	Quoted and Unquoted	5.6	0.3
		620.1	671.9

The return on scheme assets during 2017 was a loss of £12.2m (2016: a gain of £136.2m) due to a decrease in the value of bonds held to match pension scheme liabilities.

The value of the assets held by the trust in Connect Group PLC issued financial instruments is £nil (2016: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	+/- 0.5%	–£37.5m/+£40.5m
Rate of inflation	+/- 0.5%	+£38m/-£35m
Life expectancy	+/- 1 year	+£16.5m/-£16.5m

The sensitivity analysis for each significant actuarial assumption has been determined based on reasonably possible changes to the assumptions at the end of the reporting period. It is based on a change in the key assumption while holding all other assumptions constant. The effect of a change in more than one assumption will be different to the sum of the individual changes. When calculating the sensitivities, the same methodology used to calculate the liability recognised in the balance sheet has been applied. The methodology and types of assumptions used in preparing the sensitivity analysis is consistent with the previous period.

The history of experience adjustments is as follows:

£m	2017	2016	2015	2014	2013
Present value of defined benefit obligation	(473.6)	(531.5)	(432.0)	(450.7)	(419.2)
Fair value of assets	620.1	671.9	563.3	522.7	469.6
Impact of IFRIC 14 on defined benefit pension schemes	(158.0)	(161.6)	(149.4)	(93.0)	(73.5)
Net deficit in the schemes	**(11.5)**	**(21.2)**	**(18.1)**	**(21.0)**	**(23.1)**
Experience adjustments on scheme liabilities	13.7	(117.4)	25.1	0.8	(1.4)
Experience adjustments on scheme assets	(21.8)	115.4	28.7	44.6	27.9

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £30.5m (2016: a loss of £29.2m).

The Group's defined benefit pension plans have a number of areas of risk, the most significant of which are set out below:

- Life expectancy
  The majority of the plans' obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

- Inflation risk
  The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities.

- Changes in bond yields
  Falling bond yields tend to increase the funding and accounting liabilities. The schemes both hold investments in corporate and government bonds which offer a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.

6. Retirement benefit obligation continued

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2017, contributions from the respective employing company for Continuing Operations totalled £1.8m (2016: £1.8m) which is included in the Income Statement.

A defined contribution plan is a pension plan under which the group pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Company and the member, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

7. Finance costs

£m	Note	2017	2016
Continuing Operations			
Interest on bank overdrafts and loans		**(5.4)**	(5.5)
Net interest expense on defined benefit obligation	6	**(0.3)**	(0.6)
Interest payable on finance leases		**(1.0)**	(0.7)
Foreign exchange gains		**0.2**	–
Unwinding of discount on provisions – trading	24	**(0.2)**	(0.2)
Adjusted items:			
Settlement of interest rate swap	4	**(0.8)**	–
Finance costs – Continuing Operations		**(7.5)**	(7.0)
Finance costs – Continuing and Discontinued Operations		**(7.5)**	(7.0)

8. Income tax expense

	2017			2016		
£m Continuing Operations	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Current tax	**10.0**	**(0.6)**	**9.4**	11.2	(0.8)	10.4
Adjustment in respect of prior year	**(0.8)**	**0.1**	**(0.7)**	(0.3)	(0.1)	(0.4)
Total current tax charge	**9.2**	**(0.5)**	**8.7**	10.9	(0.9)	10.0
Deferred tax – current year	**0.1**	**(2.0)**	**(1.9)**	(0.4)	(1.5)	(1.9)
Deferred tax – prior year	**0.5**	**–**	**0.5**	–	–	–
Deferred tax – impact of rate change	**0.1**	**(0.2)**	**(0.1)**	0.3	(0.6)	(0.3)
Total tax charge – Continuing Operations	**9.9**	**(2.7)**	**7.2**	10.8	(3.0)	7.8
Effective tax rate	**20.8%**		**21.1%**	21.5%		22.2%
Tax charge – Discontinued Operations	**1.0**	**(1.1)**	**(0.1)**	1.6	(0.9)	0.7
Tax charge – Continuing and Discontinued Operations	**10.9**	**(3.8)**	**7.1**	12.4	(3.9)	8.5

The effective adjusted income tax rate for Continuing Operations in the year was 20.8% (2016: 21.5%). After the impact of Adjusted items of £2.7m (2016: £3.0m), the effective statutory income tax rate for Continuing Operations was 21.1% (2016: 22.2%).

Corporation tax is calculated at the main rates of UK corporation tax, those being 19.6% (2016: 20.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the charge to current tax, approximately £1.0m (2016: £1.1m) related to tax on profits arising in the Education & Care division, which was disposed of during the year. No tax charge or credit arose on the disposal of the relevant subsidiary.

The tax charge for the year can be reconciled to the profit in the income statement as follows:

8. Income tax expense continued

£m	2017	2016
Profit before tax – Continuing Operations	**34.2**	35.2
Tax on profit at the standard rate of UK corporation tax 19.6% (2016: 20.0%)	**6.7**	7.1
Expenses not deductible for tax purposes	**0.8**	1.3
Non-taxable income	**(0.6)**	–
Share based payments	**0.5**	–
Adjustment in respect of prior years	**(0.2)**	(0.4)
Impact of change in UK tax rate	**(0.1)**	(0.3)
Impact of higher overseas tax rates	**0.1**	0.1
Tax charge – Continuing Operations	**7.2**	7.8

Tax charges to other comprehensive income and directly in equity

£m Continuing Operations	2017	2016
Current tax relating to the defined benefit pension scheme	**(0.8)**	(0.8)
Current tax relating to share based payments	**–**	(0.1)
Deferred tax relating to derivative financial instruments	**0.2**	(0.2)
Deferred tax relating to share based payments	**0.2**	0.4
Deferred tax relating to retirement benefit obligations	**0.3**	0.4
Tax (credit) to other comprehensive income and directly in equity – Continuing Operations	**(0.1)**	(0.3)
Tax charge/(credit) to other comprehensive income and directly in equity – Discontinued Operations	**0.3**	(1.1)
Tax charge/(credit) to other comprehensive income and directly in equity – Continuing and Discontinued Operations	**0.2**	(1.4)

9. Dividends

Amounts paid & proposed as distributions to equity shareholders in the years:

	2017 Per share	2016 Per share	2017 £m	2016 £m
Paid & proposed dividends for the year				
Interim dividend – paid	**3.1p**	3.0p	**7.6**	7.3
Final dividend – proposed	**6.7p**	6.5p	**16.4**	15.9
	9.8p	9.5p	**24.0**	23.2
Recognised dividends for the year				
Final dividend – prior year	**6.5p**	6.3p	**16.0**	15.4
Interim dividend – current year	**3.1p**	3.0p	**7.6**	7.3
	9.6p	9.3p	**23.6**	22.7

The proposed final dividend for the year ended 31 August 2017 of 6.7p is subject to approval by shareholders at the Annual General Meeting on 23 January 2018 and in line with IAS10 – 'Events after the reporting period', this dividend has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 9 February 2018 to shareholders on the register at close of business on 12 January 2018.

10. Earnings per share

	2017			2016		
	£m Earnings	Weighted average number of shares million	Pence per share	£m Earnings	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**247.5**			245.9	
Shares held by the ESOP (weighted)		**(2.1)**			(2.5)	
Basic earnings per share (EPS)						
Continuing Operations						
Adjusted earnings attributable to ordinary shareholders	**38.1**	**245.4**	**15.5p**	39.6	243.4	16.2p
Adjusted items	**(11.1)**			(12.2)		
Earnings attributable to ordinary shareholders	**27.0**	**245.4**	**11.0p**	27.4	243.4	11.3p
Discontinued Operations						
Earnings attributable to ordinary shareholders	**9.6**	**245.4**	**3.9p**	6.0	243.4	2.4p
Total – Continuing and Discontinued Operations						
Adjusted earnings attributable to ordinary shareholders	**39.1**	**245.4**	**15.9p**	48.3	243.4	19.8p
Adjusted items	**(2.5)**			(14.9)		
Earnings attributable to ordinary shareholders	**36.6**	**245.4**	**14.9p**	33.4	243.4	13.7p
Diluted earnings per share (EPS)						
Effect of dilutive share options		**1.6**			3.8	
Continuing Operations						
Diluted adjusted EPS	**38.1**	**247.0**	**15.4p**	39.6	247.2	16.0p
Diluted EPS	**27.0**	**247.0**	**10.9p**	27.4	247.2	11.1p
Discontinued Operations – Diluted EPS	**9.6**	**247.0**	**3.9p**	6.0	247.2	2.4p
Total – Continuing and Discontinued Operations						
Diluted adjusted EPS	**39.1**	**247.0**	**15.8p**	48.3	247.2	19.5p
Diluted EPS	**36.6**	**247.0**	**14.8p**	33.4	247.2	13.5p

Dilutive shares increase the basic number of shares at 31 August 2017 by 1.6m to 247.0m (31 August 2016: 247.2m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 1.6m dilutive shares (31 August 2016: 2.3m). In 2016 there was a dilutive impact of a weighted 1.5m shares being the time apportioned share capital relating to the deferred consideration for the acquisition of The Big Green Parcel Holding Company Limited (whose principal trading subsidiary is Tuffnells Parcels Express Limited).

11. Discontinued Operations

On 30 June 2017 the Education & Care division was sold (refer to Note 12 for detail). The results of this division are therefore disclosed as discontinued. The Books division was classified as held for sale on 31 August 2017 as the Group is actively marketing the division for sale and disposal is expected to be completed within a year. As such the results of the Books division are also classified as discontinued.

The results of Discontinued Operations, which have been included within the consolidated income statement are as follows:

	12 months to Aug 2017			12 months to Aug 2016		
£m	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue	**270.3**	**–**	**270.3**	260.7	–	260.7
Expenses	**(268.3)**	**7.5**	**(260.8)**	(250.4)	(3.6)	(254.0)
Operating profit	**2.0**	**7.5**	**9.5**	10.3	(3.6)	6.7
Finance costs	**–**	**–**	**–**	–	–	–
Profit before tax	**2.0**	**7.5**	**9.5**	10.3	(3.6)	6.7
Income tax expense	**(1.0)**	**1.1**	**0.1**	(1.6)	0.9	(0.7)
Profit from Discontinued Operations	**1.0**	**8.6**	**9.6**	8.7	(2.7)	6.0

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

£m	2017
Goodwill	9.7
Intangible assets	3.0
Property, plant and equipment	4.0
Inventories	20.3
Trade and other receivables	26.1
Current tax asset	0.5
Cash and bank balances	0.9
Total assets classified as held for sale	**64.5**
Trade and other payables	(48.5)
Deferred tax liabilities	(0.4)
Provisions	(0.6)
Total liabilities classified as held for sale	**(49.5)**
Net assets of disposal group	**15.0**

Impairment of £7.9m was charged in respect of goodwill bringing the carrying value of the division to fair value less cost to sell.

During the year cash inflow from operating activities attributed to Discontinued Operations amounted to £3.8m (2016: £13.1m), paid £3.7m (2016: £3.2m) in respect of investing activities. There were no cash flows associated with financing activities attributable to Discontinued Operations.

12. Disposal of subsidiary

The Group disposed of the Connect Education & Care division on 30 June 2017.

The net assets of the division at the date of disposal were:

	£m
Goodwill	20.9
Intangible assets	6.3
Property, plant and equipment	6.0
Pension asset	0.2
Inventories	8.6
Trade and other receivables	11.0
Cash and bank balances	0.5
Deferred tax asset	1.1
Trade and other payables	(9.6)
Deferred tax liabilities	(0.7)
Pension liability	(6.1)
	38.2
Disposal costs	1.8
Gain on disposal	19.0
Total consideration	59.0
Satisfied by:	
Cash	58.7
Cash received after 31 August 2017	0.3
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	58.7
Less: cash and cash equivalents disposed	(0.5)
	58.2

The gain on disposal is included in the profit for the year from Discontinued Operations.

There were no disposals during the year ended 31 August 2016.

13. Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 1 September 2016	96.3	48.8	33.5	1.5	11.2	16.2	207.5
Additions	–	–	–	–	2.1	3.0	5.1
Disposals	–	–	–	–	(2.8)	(0.6)	(3.4)
Disposal of business	(20.9)	(9.3)	(0.9)	(0.2)	(0.9)	(4.3)	(36.5)
Classified as held for sale	(17.6)	(10.2)	(1.9)	(0.5)	(3.2)	(2.8)	(36.2)
At 31 August 2017	**57.8**	**29.3**	**30.7**	**0.8**	**6.4**	**11.5**	**136.5**
Accumulated amortisation:							
At 1 September 2016	–	(20.0)	(7.5)	(1.1)	(7.2)	(6.9)	(42.7)
Amortisation charge	–	(5.1)	(3.2)	(0.3)	(1.4)	(3.2)	(13.2)
Disposals		–	–	–	2.6	0.4	3.0
Disposal of business		5.6	0.5	0.2	0.4	2.6	9.3
Impairment	(7.9)	(2.0)	–	–	–	–	(9.9)
Classified as held for sale	7.9	10.2	1.9	0.5	1.7	1.3	23.5
At 31 August 2017	**–**	**(11.3)**	**(8.3)**	**(0.7)**	**(3.9)**	**(5.8)**	**(30.0)**
Net book value at 31 August 2017	**57.8**	**18.0**	**22.4**	**0.1**	**2.5**	**5.7**	**106.5**
Cost:							
At 1 September 2015	96.3	48.8	33.5	1.5	9.1	13.8	203.0
Additions	–	–	–	–	2.1	2.6	4.7
Disposals	–	–	–	–	–	(0.2)	(0.2)
At 31 August 2016	96.3	48.8	33.5	1.5	11.2	16.2	207.5
Accumulated amortisation:							
At 1 September 2015	–	(13.6)	(4.0)	(0.8)	(5.4)	(4.4)	(28.2)
Amortisation charge	–	(6.4)	(3.5)	(0.3)	(1.8)	(2.7)	(14.7)
Disposals	–	–	–	–	–	0.2	0.2
At 31 August 2016	–	(20.0)	(7.5)	(1.1)	(7.2)	(6.9)	(42.7)
Net book value at 31 August 2016	96.3	28.8	26.0	0.4	4.0	9.3	164.8

The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £0.6m (2016: £0.4m).

Goodwill and Intangibles by CGU

As detailed in Note 12, goodwill and intangibles attributable to the Education & Care CGU were disposed during the year.

An impairment against goodwill and intangibles attributable to the Books division was charged during the year bringing the carrying value to the fair value less costs to sell. The resulting goodwill and intangibles values were transferred to assets held for sale.

Goodwill is not amortised, but tested annually for impairment or more frequently if there are indications that goodwill might be impaired with the recoverable amount being determined from value in use calculations. The recoverable amounts of the combined cash generating units are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following 5 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The rate used to discount the forecast cash flows range from 12% to 15%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit. Pre-tax discount rates are derived from the Group's post-tax WACC of 8% risk adjusted by 2%. The calculation of value in use is sensitive to the discount rate and growth rates used.

The Group has conducted sensitivity analysis on the impairment test of each of the CGU's classified within Continuing Operations. There is significant headroom on the carrying value of each CGU except for the Mixed Freight CGU. The Mixed Freight CGU has headroom on its carrying value of £12.6m prior to any sensitivities. A reasonably possible increase in the risk adjusted post tax WACC by 0.7% or a reduction in operating profits by 5.5% would cause the carrying value to equal the recoverable amount.

13. Intangible assets continued

	Goodwill			Acquired Intangibles			Total		
£m	**2017**	2016	On acquisition	**2017**	2016	On acquisition	**2017**	2016	On acquisition
Media	**5.7**	5.7	5.7	**0.5**	0.8	2.6	**6.2**	6.5	8.3
News	**–**	–	–	**0.1**	0.1	0.3	**0.1**	0.1	0.3
Mixed Freight	**52.1**	52.1	52.1	**39.9**	46.7	58.1	**92.0**	98.8	110.2
	57.8	57.8	57.8	**40.5**	47.6	61.0	**98.3**	105.4	118.8

The individual material intangible assets relate to the customer relationships and brand acquired on the acquisition of Tuffnells. The carrying value of these assets at 31 August 2017 is £17.3m and £22.4m respectively with a remaining amortisation period of 5 and 7.5 years respectively.

14. Property, plant and equipment

	Land & Buildings					
£m	Freehold properties	Long term leasehold	Short term leasehold	Fixtures & fittings	Equipment & vehicles	Total
Cost:						
At 1 September 2016	15.8	1.4	14.6	12.3	47.5	91.6
Additions	3.5	0.1	1.0	2.2	5.2	12.0
Transfer between asset classes	0.7	–	–	–	(0.7)	–
Disposals	(1.1)	–	(2.7)	(2.0)	(5.2)	(11.0)
Disposal of business	(4.8)	–	–	(1.4)	(3.7)	(9.9)
Classified as held for sale	–	–	(0.3)	(6.2)	(0.4)	(6.9)
At 31 August 2017	**14.1**	**1.5**	**12.6**	**4.9**	**42.7**	**75.8**
Accumulated depreciation:						
At 1 September 2016	**(0.9)**	**(0.4)**	**(9.3)**	**(7.1)**	**(23.6)**	**(41.3)**
Depreciation charge	(0.2)	–	(1.0)	(1.2)	(6.9)	(9.3)
Disposals	0.6	–	2.4	1.5	4.8	9.3
Disposal of business	0.5	–	–	0.9	2.5	3.9
Classified as held for sale	–	–	0.2	2.4	0.3	2.9
At 31 August 2017	**–**	**(0.4)**	**(7.7)**	**(3.5)**	**(22.9)**	**(34.5)**
Net book value at 31 August 2017	**14.1**	**1.1**	**4.9**	**1.4**	**19.8**	**41.3**
Cost:						
At 1 September 2015	**15.5**	**1.3**	**13.2**	**11.3**	**36.6**	**77.9**
Additions	0.3	0.1	1.2	1.1	11.9	14.6
Transfer between asset classes	–	–	0.2	–	(0.2)	–
Disposals	–	–	–	(0.1)	(0.8)	(0.9)
At 31 August 2016	**15.8**	**1.4**	**14.6**	**12.3**	**47.5**	**91.6**
Accumulated depreciation:						
At 1 September 2015	**(0.7)**	**(0.3)**	**(8.7)**	**(6.0)**	**(17.6)**	**(33.3)**
Depreciation charge	(0.2)	(0.1)	(0.8)	(1.2)	(6.6)	(8.9)
Transfer between asset classes	–	–	0.2	–	(0.2)	–
Disposals	–	–	–	0.1	0.8	0.9
At 31 August 2016	(0.9)	(0.4)	(9.3)	(7.1)	(23.6)	(41.3)
Net book value at 31 August 2016	**14.9**	**1.0**	**5.3**	**5.2**	**23.9**	**50.3**

The Group leases plant and equipment under a number of finance lease arrangements and has the option to purchase the equipment at the end of each lease. The net book value of finance leases contained within these balances is £6.8m at 31 August 2017 (2016: £7.7m).

15. Interests in jointly controlled entities

The Group's share of the results, assets and liabilities of jointly controlled entities is as follows:

£m	2017	2016
Revenue	**4.9**	10.1
Profit after tax	**0.4**	0.3

Non-current assets	**1.4**	1.4
Current assets	**2.4**	2.4
Total assets	**3.8**	3.8
Current liabilities	**(2.0)**	(2.4)
Non-current liabilities	**(0.1)**	(0.2)
Total liabilities	**(2.1)**	(2.6)
Goodwill	**2.9**	2.9
Share of net assets	**4.6**	4.1

Dividends of £0.2m were received in the year to 31 August 2017 from jointly controlled entities.

The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2016: 50%). The latest statutory accounts of FMD Limited were drawn up to 30 April 2016. The Group also has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2016: 50%). The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2016.

During the year the Group's shares in Bluebox Avionics Limited were exchanged for shares in Bluebox Aviation Systems Limited; an entity in which the Group has a 36.1% interest. A loan balance of £0.3m owed by Bluebox Avionics Limited was converted to an investment in Bluebox Aviation Systems.

16. Inventories

£m	2017	2016
Goods held for resale	**12.8**	41.3
Raw materials and consumables	**1.0**	1.0
Inventories	**13.8**	42.3

17. Trade and other receivables

£m	2017	2016
Trade receivables	**76.8**	113.7
Allowance for doubtful debts	**(0.5)**	(0.8)
	76.3	112.9
Other debtors	**13.5**	13.2
Prepayments and accrued income	**8.5**	13.1
Trade and other receivables	**98.3**	139.2

Trade receivables

The average credit period taken on sale of goods is 24 days (2016: 22 days). Trade receivables are generally non-interest bearing. The Group provides for receivables on an individual customer basis based on circumstances known at that time and the likelihood of recovery.

Included in the outstanding trade receivables balance are debtors with overdue amounts of £5.4m (2016: £7.8m) that the Group has not provided for as these amounts are still considered recoverable and fall outside our pre-determined provisioning policy.

Ageing of past due but not impaired receivables:

£m	2017	2016
30-60 days	**1.5**	3.8
61-90 days	**0.8**	1.9
91-120 days	**0.8**	0.9
Over 120 days	**2.3**	1.2
	5.4	7.8

17. Trade and other receivables continued

Of the trade receivables balance at the end of the year:

- One customer (2016: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of this was £13.8m (2016: £14.2m); and
- A further seven customers (2016: five) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £49.1m (2016: £34.4m).

Movement in the allowance for doubtful debts:

£m	2017	2016
At 1 September	**0.8**	1.3
Impairment losses recognised	**0.6**	–
Amounts written off as uncollectible	**–**	(0.3)
Amounts recovered during the year	**–**	0.1
Amounts released during the year	**–**	(0.3)
Disposal during year	**–**	–
Transferred as held for sale	**(0.9)**	–
At 31 August	**0.5**	0.8

Ageing of past due and impaired trade receivables:

£m	2017	2016
30-60 days	**0.1**	–
61-90 days	**–**	–
91-120 days	**0.1**	0.1
Over 120 days	**0.3**	0.2
Continuing	**0.5**	0.3
Discontinued	**0.9**	0.5
Total Continuing and Discontinued	**1.4**	0.8

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Other debtors and prepayments

The largest items included within this balance are £6.7m (2016: £7.5m) of publisher debtors and £3.8m (2016: £4.1m) of accrued revenue.

18. Trade and other payables

£m	2017	2016
Trade payables	**102.9**	148.2
Other creditors	**18.2**	22.6
Accruals and deferred income	**15.1**	28.0
	136.2	198.8

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 32 days (2016: 33 days). No interest is charged on trade payables. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Cash and borrowings

Cash and borrowings by currency (Sterling equivalent) are as follows:

£m	Sterling	Euro	US Dollar	Other	Total 2017	2016
Cash and cash equivalents – continuing	**2.7**	**2.2**	**0.4**	**0.2**	**5.5**	–
Cash and cash equivalents – classified as held for sale	**(2.0)**	**2.4**	**0.4**	**0.1**	**0.9**	–
Cash and cash equivalents – total	**0.7**	**4.6**	**0.8**	**0.3**	**6.4**	9.1
Term loan – disclosed within current liabilities	**(20.0)**	**–**	**–**	**–**	**(20.0)**	(20.0)
Term loan – disclosed within non-current liabilities	**(60.0)**	**–**	**–**	**–**	**(60.0)**	(79.1)
Revolving credit facility	**–**	**–**	**–**	**–**	**–**	(41.0)
Total borrowings	**(80.0)**	**–**	**–**	**–**	**(80.0)**	(140.1)
Net borrowings	**(79.3)**	**4.6**	**0.8**	**0.3**	**(73.6)**	(131.0)

Total borrowings						
Amount due for settlement within 12 months	**(20.0)**				**(20.0)**	(61.0)
Amount due for settlement after 12 months	**(60.0)**				**(60.0)**	(79.1)
	(80.0)				**(80.0)**	(140.1)

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Available Group bank facilities are outlined in Note 20. At 31 August 2017, the Group had £150.0m (2016: £109.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Interest payable under the facility in place at 31 August 2017 is calculated as the cost of one month LIBOR plus an interest margin of between 1.35% and 2.35% dependent on the net debt/adjusted EBITDA covenant ratio. In October 2017 the Group agreed a new bank facility of £175m (see Note 32 for details).

20. Financial Instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures and their delegated authorities. Treasury's role is to ensure that appropriate financing is available for running the businesses of the Group on a day to day basis, allowing for investments and acquisitions whilst minimising interest cost. No transactions of a speculative nature are undertaken. Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently. The policy regarding interest rate swaps was changed during the year (see below).

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents as disclosed in Note 19 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group Statement of Changes in Equity.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by monitoring forecast and actual cash flows. The facilities that the Group has at its disposal to further reduce liquidity risk are described below.

As at 31 August 2017, the Group had £230m committed bank facilities in place (2016: £250m). Bank facilities comprised:

- a £80m syndicated term loan with £10m repayable in February 2018 and August 2018 with the balance repayable in November 2018; and
- a £150m syndicated revolving credit facility which expires in November 2018;

The facility described above is subject to the following covenants:

- Leverage cover – the net debt: adjusted EBITDA ratio which must remain below 2.75x. At 31 August 2017 the ratio was 1.2x;
- Interest cover – the consolidated net interest: adjusted EBITDA ratio which must remain above 3.0x. As at 31 August 2017 the ratio was 12.0x;
- Fixed charge cover – the ratio of adjusted EBITDA to consolidated fixed charges is not less than 2.0x to 1. As at 31 August 2017 the ratio was 3.0x; and
- Guarantor cover – The annual turnover, gross assets and pre-tax profits of the Guarantors contribute at any time 80 per cent or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidiaries of the Connect Group PLC, are Connect Group PLC, Dawson Holdings Limited, Smiths News Holdings Limited, Smiths News Investments Limited, Smiths News Trading Limited, Bertram Trading Limited, Connect2U Limited, Smiths News Instore Limited and Dawson Books Limited, Dawson Books Services Limited, Dawson Guarantee Company Limited, Dawson Limited, The Big Green Parcel Group Limited, The Big Green Parcel Holding Company Limited, The Big Green Parcel Machine Limited and Tuffnells Parcels Express Limited.

20. Financial Instruments continued

At 31 August 2017, the Group had available £150.0m (2016: £109.0m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

In October 2017, the Group signed a new bank facility (see Note 32 for details).

As the Group is cash generative its liquidity risk is considered low. The Group's cash generation allows it to meet all loan commitments as they fall due as well as sustain a negative working capital position.

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle that results in significant predictable swings within each month of around £40m.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives. The undiscounted cash flows will differ from both the carrying value and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

£m	Due within 1 Year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2017				
Non derivative financial liabilities				
Bank and other borrowings	(22.5)	(60.6)	–	–
Finance leases	(3.8)	(2.8)	(2.2)	(1.0)
Total	(26.3)	(63.4)	(2.2)	(1.0)
At 31 August 2016				
Non derivative financial liabilities				
Bank and other borrowings	(64.1)	(22.5)	(60.6)	–
Finance leases	(3.8)	(3.6)	(2.6)	(2.6)
Derivative and other financial liabilities				
Net settled derivative contracts – payments	(0.6)	(0.6)	(0.2)	–
Derivative and other financial assets				
Net settled derivative contracts – receipts	0.1	–	–	–
Total	(68.4)	(26.7)	(63.4)	(2.6)

Counterparty risk

Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored.

Foreign currency risk

- The majority of the Group's transactions are carried out in the functional currencies of its operations, and so transactional exposure is limited. However, the Group has entered into forward currency purchases to purchase US dollars to manage exposure to transactional foreign currency risk. Contracts outstanding at 31 August 2016 matured by February 2017. The Group has no forward currency purchases outstanding at 31 August 2017.
- The majority of the Group's net assets are held in Sterling, with only £4.4m (2016: £3.7m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

The Group monitors its exposure to interest rate risk and has used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. In light of the Group's reduced debt exposure, consideration of the macro economic environment and sensitivity to potential interest rate rises, the Treasury risk management policy was changed and the interest rate swaps were terminated during the year (see Note 4).

The Group avoids the use of derivatives or other financial instruments in circumstances when the outcome would effectively be largely dependent upon speculation on future rate movements.

It is, and has been throughout the period of review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

20. Financial Instruments continued

Hedge accounting

Under interest rate swap contracts, the Group agreed to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The purpose of such contracts was to enable the Group to mitigate the cash flow exposures on the issued variable rate debt held. As noted on page 105 the interest swap contracts held were terminated during the year.

The fair value of interest rate swaps at the reporting date is based on the market values of equivalent instruments at the balance sheet date, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2017	2016	**2017**	2016	**2017**	2016
Outstanding receive floating, pay fixed contracts						
2 to 5 years	**–**	1.2%	**–**	£110.0m	**–**	(£1.5m)

Interest rate swaps were settled on a monthly basis. The floating rate on the interest rate swaps was 1 month LIBOR. The Group settled the difference between fixed and floating interest rates on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts were designated as cash flow hedges. The interest rate swaps and the interest payments on the loan occurred simultaneously. On termination of the interest rate swaps the amount deferred in equity was recognised in the income statement

All derivative financial instruments are classified as level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Current		Non-current	
£m	**2017**	2016	**2017**	2016
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps – Liabilities	**–**	–	**–**	(1.5)
	–	–	**–**	(1.5)
Foreign currency cash flow hedges	**–**	0.1	**–**	–
	–	0.1	**–**	(1.5)

All other financial assets are classified under loans and receivables and other financial liabilities are held at amortised cost.

Interest rate sensitivity analysis

Based on the assumption that the liabilities outstanding at the balance sheet date were outstanding for the whole year, if interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 August 2017 would decrease/increase by £0.4m (2016: £0.3m).

Credit risk

The Group considers its exposure to credit risk at 31 August 2017 to be as follows:

£m	**2017**	2016
Bank deposits	**6.4**	9.1
Trade receivables	**103.4**	113.7
	109.8	122.8

Further detail on the Group's policy relating to trade receivables can be found in Note 17 to the Group financial statements.

21. Obligations under finance leases

£m	2017 Minimum lease payments	2017 Present value of minimum lease payments	2016 Minimum lease payments	2016 Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	**3.8**	**3.1**	3.8	3.0
In the second to fifth years inclusive	**6.0**	**5.4**	8.8	7.7
Total	**9.8**	**8.5**	12.6	10.7
Less: future finance charges	**(1.3)**	**–**	(1.9)	–
Present value of lease obligations	**8.5**	**8.5**	10.7	10.7
Less: amount due for settlement within 12 months (shown under current liabilities)		**(3.1)**		(3.0)
Amount due for settlement after 12 months		**5.4**		7.7

Group policy is to acquire certain items of its fixtures, equipment and software under finance leases. The average lease term is 4 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

22. Other non-current liabilities

£m	2017	2016
Other creditors	**1.0**	1.1

The balance disclosed as other creditors within non-current liabilities relates to operating lease incentives which are being recognised over the lease term.

23. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Accelerated tax depreciation	Other	Share based payments	Intangible assets	Retirement benefits	Total
At 1 September 2016	2.1	0.5	1.2	(10.8)	3.8	(3.2)
Charge to income	(0.2)	0.6	(0.3)	2.5	(0.2)	2.4
Charge to other comprehensive income and directly in equity	–	(0.2)	(0.2)	–	(0.6)	(1.0)
Classified as held for sale	–	–	–	0.4	–	0.4
Disposal of subsidiary	(0.1)	–	–	0.7	(1.0)	(0.4)
At 31 August 2017	**1.8**	**0.9**	**0.7**	**(7.2)**	**2.0**	**(1.8)**
Deferred tax assets	1.8	0.9	0.7	–	2.0	5.4
Deferred tax liabilities	–	–	–	(7.2)	–	(7.2)
At 1 September 2015	1.9	0.3	1.6	(13.4)	3.6	(6.0)
Charge to income	0.2	–	–	2.6	(0.5)	2.3
Charge to other comprehensive income and directly in equity	–	0.2	(0.4)	–	0.7	0.5
At 31 August 2016	**2.1**	**0.5**	**1.2**	**(10.8)**	**3.8**	**(3.2)**
Deferred tax assets	2.2	0.5	1.2	–	3.8	7.7
Deferred tax liabilities	(0.1)	–	–	(10.8)	–	(10.9)

The Company has capital losses carried forward of £28.2m (2016: £28.2m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

23. Deferred tax continued

The Finance (No.2) Act 2015, which provides for a reduction in the main rate of UK corporation tax from 20% to 19%, effective from 1 April 2017, and from 19% to 18%, effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions have been reflected in the prior year calculation of deferred tax. The Finance Act 2016, which provides for a reduction in the main rate of UK corporation tax from 19% to 17%, effective from 1 April 2020, was substantively enacted on 6 September 2016. This rate reduction has been reflected in the current year calculation of deferred tax.

24. Provisions

£m	Reorganisation provisions	Insurance and legal provision	Deferred contingent consideration	Property provisions	Total
At 1 September 2016	(0.6)	(4.3)	(2.0)	(6.5)	(13.4)
Additions	(4.7)	(2.3)	–	(1.9)	(8.9)
Release	–	1.7	0.1	0.4	2.2
Utilised in period	0.7	1.3	1.1	1.0	4.1
Unwinding of discount utilisation	–	–	–	(0.2)	(0.2)
Transferred as held for sale	0.1	–	–	0.5	0.6
At 31 August 2017	**(4.5)**	**(3.6)**	**(0.8)**	**(6.7)**	**(15.6)**

£m	**2017**	2016
Included within current liabilities	**(9.0)**	(8.5)
Included within non-current liabilities	**(6.6)**	(4.9)
Total	**(15.6)**	(13.4)

Reorganisation provisions include amounts for programmes which consist primarily of redundancy costs, that have been announced prior to the year end and are all expected to be utilised during the following financial year.

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims. In January 2016, an employee in the Tuffnells business was fatally injured in an accident at our Brierley Hill depot. Since the accident we have been assisting the Health & Safety Executive ("HSE") in its investigation and gave evidence at a Coroner's inquest held in September 2016. The HSE recently notified the Group's legal advisers that it intends to charge Tuffnells Parcels Express Limited with an offence under section 2(1) of the Health and Safety at Work etc Act 1974 and the business now awaits the letter of summons. A provision of £1.5m (£1.5m August 2016) is held in respect of a potential fine and associated legal costs.

The property provision represents the estimated future cost of the Group's onerous leases on non-trading properties and for potential dilapidation costs across the Group. These provisions have been discounted at a risk adjusted rate and this discount will be unwound over the life of the leases. The provisions cover the period to 2031 however a significant portion of the potential liability falls within five years.

Deferred contingent consideration relates to amounts provided in relation to the acquisition of the remaining 49% share of Wordery on 27 August 2015, the cost being contingent upon achievement of profit targets and the future employment of the former owners of the business.

25. Contingent liabilities and capital commitments

£m	**2017**	2016
Bank and other loans guaranteed	**6.0**	5.1

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2017 of £2.0m (2016: £2.8m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £nil (2016: £nil).

26. Operating lease commitments

The group as lessee:

Minimum lease payments under non-cancellable operating leases are as follows:

Continuing	2017			2016		
£m	Land & buildings	Equipment & vehicles	Total	Land & buildings	Equipment & vehicles	Total
Within one year	**9.4**	**12.5**	**21.9**	9.6	13.7	23.3
In the second to fifth years inclusive	**25.2**	**23.3**	**48.5**	25.4	23.1	48.5
In more than five years	**18.8**	**0.5**	**19.3**	16.9	–	16.9
	53.4	**36.3**	**89.7**	51.9	36.8	88.7

The Group leases various distribution properties and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

£m	2017	2016
Within one year	**0.2**	0.3
In the second to fifth years inclusive	**0.3**	0.2
	0.5	0.5

Property rental income earned during the year was £0.3m (2016: £0.3m).

27. Net cash inflow from operating activities

£m	Note	2017	2016
Operating profit – Continuing Operations	3	**41.7**	42.2
Operating profit – Discontinued Operations	3	**9.5**	6.7
Operating profit – total		**51.2**	48.9
Losses on disposal of assets		**0.4**	–
Share of profits of jointly controlled entities		**(0.4)**	(0.3)
Gain on disposal of subsidiary	12	**(19.0)**	–
Adjustment for pension funding		**(5.2)**	(5.3)
Depreciation of property, plant and equipment		**9.3**	8.9
Amortisation and impairment of intangible assets		**23.1**	14.7
Impairment of loan to joint venture	4	**0.6**	–
Share based payments		**(1.2)**	1.6
(Increase) in inventories		**(2.0)**	(0.3)
Decrease in receivables		**3.9**	9.7
(Decrease) in payables		**(3.0)**	(7.2)
Increase/(Decrease) in provisions		**4.7**	(3.4)
Non cash pension costs		**(0.3)**	(0.6)
Income tax paid		**(10.9)**	(8.5)
Net cash inflow from operating activities		**51.2**	58.2
Net cash flow from operating activities is stated after the following adjusted items:			
Payment of deferred consideration		**(1.1)**	(5.1)
Re-organisation & restructuring costs		**(4.7)**	(5.7)
Fees relating to disposal activity		**(0.5)**	–
		(6.3)	(10.8)

28. Share Capital

(a) Share capital

£m	2017	2016
Issued and fully paid:		
At 1 September	**12.3**	12.2
Shares issued during the year	**0.1**	0.1
247.7m ordinary shares of 5p each (2016: 246.7m)	**12.4**	12.3

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2016	246.7
Shares issued during the year	1.0
At 31 August 2017	247.7

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

During the year to 31 August 2017, 946,334 ordinary 5p shares were issued. 394,007 were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells).
The remainder were issued to satisfy share scheme exercises.

During the year to 31 August 2016, 2,606,751 ordinary 5p shares were issued. 2,164,181 ordinary shares were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells). The remainder were issued to satisfy share scheme exercises.

(c) Share premium

£m	2017	2016
Balance at 1 September	**59.2**	55.2
Premium arising on issue of equity shares	**1.3**	4.0
Balance at 31 August	**60.5**	59.2

29. Reserves

(a) Demerger reserve

£m	2017	2016
At 1 September	**(280.1)**	(280.1)
At 31 August	**(280.1)**	(280.1)

This relates to reserves created following the capital re-organisation undertaken as part of the demerger of WH Smith PLC in 2006. The balance represented the difference between the share capital and reserves of the Group restated on a pro-forma basis as at 31 August 2004 and the previously reported share capital.

(b) Own shares reserve

£m	2017	2016
Balance at 1 September	**(3.5)**	(4.1)
Acquired in the period	**(0.5)**	(1.1)
Disposed of on exercise of options	**0.9**	1.7
Balance at 31 August	**(3.1)**	(3.5)

The reserve represents the cost of shares in Connect Group PLC purchased in the market and held by the Smiths News Employee Benefit Trust to satisfy awards and options granted under the Group's Executive Share Schemes (see Note 31). The number of ordinary shares held by the Trust as at 31 August 2017 was 2,241,459 (2016: 2,313,644).

29. Reserves continued

(c) Hedging & translation reserve

£m	**2017**	2016
Balance at 1 September	**(1.1)**	(0.5)
Settlement on termination	**0.8**	–
Net movement in cash flow hedges	**0.6**	(1.2)
Exchange differences on translating net assets of foreign operations	**0.2**	0.6
Balance at 31 August	**0.5**	(1.1)

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in the profit or loss only when the hedged transaction ceases to be effective.

30. Retained Earnings

	£m
Balance at 31 August 2015	226.5
Amounts recognised in Total comprehensive income	26.3
Dividends paid	(22.7)
Employee share schemes	(1.7)
Equity-settled share based payments, net of tax	(2.2)
Balance at 31 August 2016	226.2
Amounts recognised in Total comprehensive income	35.1
Dividends paid	(23.6)
Employee share schemes	(0.9)
Equity-settled share based payments, net of tax	(1.9)
Balance at 31 August 2017	234.9

31. Share-based payments

In 2017, the Group recognised a total credit of £1.2m related to equity-settled share-based payment transactions after the release of share-based deferred contingent consideration of £2.5m. In 2016 there was a total charge of £1.7m. The average share price throughout the year was 134.0p (2016: 156.7p).

The Group operates the following share incentive schemes:

Sharesave Scheme	Under the terms of the Connect Group Sharesave Scheme, the Board may grant options to purchase ordinary shares in the Company to eligible employees who enter into an HM Revenue & Customs approved Save-As-You-Earn ('SAYE') savings contract for a term of three or five years. Options are granted at a 20% discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.
Executive Share Option Schemes (ESOS)	Under the terms of the Connect Group Executive Share Option Scheme, the Board may grant options to purchase ordinary shares in the Company to executives up to an annual limit of 200% of base salary. The exercise of options is conditional on the achievement of a three year performance target, which is determined by the Remuneration Committee at the time of grant. Provided that the target is met, options are normally exercisable until the day preceding the 10th anniversary of the date of grant.
LTIP	Under the terms of the Connect Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200% of base salary. The vesting of awards is subject to the satisfaction of a three year performance condition, which is determined by the Remuneration Committee at the time of grant. Subject to the satisfaction of the performance condition, awards are normally exercisable until the 10th anniversary of the date of grant.
Deferred Bonus Plan (DBP)	Under the terms of the Connect Group Deferred Bonus Plan, executive directors and key senior executives may be granted each year share awards (in the form of nil cost options) dependent on the achievement of the Annual Bonus Plan performance targets and the legacy Economic Profit Plan payments. Awards are normally exercisable after two years subject to continued employment.

31. Share-based payments continued

Details of the options/awards are as follows:

Number of options/awards	Sharesave No of shares	Sharesave Weighted average exercise price	ESOS No of shares	ESOS Weighted average exercise price	LTIP No of shares	LTIP Weighted average exercise price	DBP No of shares	DBP Weighted average exercise price
At 31 Aug 2015	3,093,496	123.3p	4,789,692	132.3p	2,143,830	–	947,728	–
Granted	1,009,060	128.6p	1,298,538	167.7p	870,725	–	636,656	–
Exercised	(442,570)	79.6p	(955,333)	104.9p	(460,969)	–	(434,579)	–
Expired /Forfeited	(326,859)	132.0p	(147,926)	162.3p	(274,276)	–	–	–
At 31 Aug 2016	3,333,127	129.9p	4,984,971	145.9p	2,279,310	–	1,149,805	–
Granted	1,701,823	100.8	1,544,115	139.1p	1,910,445	–	417,556	–
Exercised	(552,327)	121.6	(164,298)	113.5p	–	–	(501,096)	–
Expired /Forfeited	(917,432)	126.7	(267,519)	150.6p	(1,183,726)	–	(155,741)	–
At 31 Aug 2017	**3,565,191**	**118.1**	**6,097,269**	**144.8p**	**3,006,029**	–	**910,524**	–
Exercisable at 31 Aug 2017	**439,369**	**142.2p**	**2,256,150**	**131.7p**	**–**	**–**	**–**	**–**
Exercisable at 31 Aug 2016	544,303	120.9p	1,708,899	103.6p	–	–	–	–

The weighted average remaining contractual life in years of options/awards is as follows:

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2017	**2.5**	**7.1**	**8.8**	**1.6**
Outstanding at 31 August 2016	2.2	7.4	8.5	1.8

Details of the options/awards granted or commencing during the current and comparative year are as follows:

	Sharesave	ESOS	LTIP	DBP
During 2017:				
Effective date of grant or commencement date	June 2017	Nov 2016 and Feb 2017	Feb 2017	Feb 2017
Average fair value at date of grant or scheme commencement – pence	21.8	18.0	138.0	138.0
During 2016:				
Effective date of grant or commencement date	June 2016	Nov 2015	Nov 2015	Nov 2015
Average fair value at date of grant or scheme commencement – pence	33.6	27.1	160.0	163.5

The options outstanding at 31 August 2017 had exercise prices ranging from nil to 189.5p (2016: nil to 210.3p).

The weighted average share price on the date of exercise was 150p (2016: 162p).

The Sharesave and ESOS options granted during each period have been valued using the Black-Scholes model, the LTIP and DBP schemes are valued by reference to the share price at the date of grant.

31. Share-based payments continued

The inputs to the Black-Scholes model are as follows:

	Sharesave	ESOS	ESOS	LTIP	DBP
2017 options/awards:		Nov 2016	Feb 2017		
Share price at grant date – pence	126.0	139.5	138.0	138.0	138.0
Exercise price – pence	100.8	139.5	138.0	–	–
Expected volatility – per cent	32%	33%	33%	–	–
Expected life – years	3.0	3.0	3.0	–	–
Risk free rate – per cent	0.63%	0.72%	0.60%	–	–
Expected dividend yield – per cent	7.8%	7.0%	7.1%	–	–
Weighted average fair value – pence	21.8	18.1	17.7	–	–
2016 options/awards:					
Share price at grant date – pence	160.8	167.7	–	160.0	163.5
Exercise price – pence	128.6	167.7	–	–	–
Expected volatility – per cent	33%	35%	–	–	–
Expected life – years	3.0	3.0	–	–	–
Risk free rate – per cent	0.83%	1.38%	–	–	–
Expected dividend yield – per cent	6.0%	5.8%	–	–	–
Weighted average fair value – pence	33.6	27.1	–	–	–

32. Post balance sheet events

In October 2017 the Group agreed new bank facilities of £175m with six relationship banks with a term which runs until January 2021. The new facility comprises of a term loan of £50m with no amortisation and an RCF for £125m on a higher interest margin than the previous facility but with similar covenant terms to the previous facility.

33. Related party transactions

Transactions between businesses within this Group, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

Transactions with the Group's pension schemes are disclosed in Note 6.

Trading transactions

	Sales to related parties		Amounts owed by related parties	
£m	**2017**	2016	**2017**	2016
Jointly controlled entities	**3.1**	2.9	**0.7**	0.8

Sales to related parties are for management fees, payment is due on the last day of the month following the date of invoice.

Non-trading transactions

	Loans to related parties	
£m	**2017**	2016
Jointly controlled entities	**–**	0.3

Aggregate remuneration of key management personnel

The remuneration of the directors and the executive leadership team, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures.'

£m	**2017**	2016
Short-term employee benefits	**4.7**	4.5
Termination benefits	**0.2**	–
Share based payments	**0.6**	0.8
	5.5	5.3

Information concerning directors' remuneration, interest in shares and share options are included in the Directors' Remuneration Report on pages 47–63.

34. Subsidiary and associated undertakings

Company name/(number)	Share Class	Group %	Company name/(number)	Share Class	Group %
United Kingdom					
Rowan House, Cherry Orchard North, Kembrey Park, Swindon SN2 8UH					
Bertram Trading Limited 06849888	Ordinary Shares	100%	Dawson Book Services Limited (*) 06882722	Ordinary Shares	100%
Connect Books Limited 08572700	Ordinary Shares	100%	Dawson Books Limited 06882367	Ordinary Shares	100%
Connect Care Limited 08792867	Ordinary Shares	100%	Dawson Guarantee Company Limited 06882393	Ordinary Shares	100%
Connect Education & Care Limited 08572636	Ordinary Shares	100%	Dawson Holdings Ltd 00034273 (*)	Ordinary Shares	100%
Connect Education Limited 08747465	Ordinary Shares	100%	Dawson Limited 03433262	Ordinary Shares	100%
Connect Limited 02008952	Ordinary Shares	100%	Dawson Media Direct Limited 06882366	Ordinary Shares	100%
Connect Logistics Limited 09172965	Ordinary Shares	100%	Jack's Beans Limited 09646507	Ordinary Shares	100%
Connect News & Media Limited 08572634	Ordinary Shares	100%	Magpie Investments Limited 09646493	Ordinary Shares	100%
Connect Parcel Freight Limited 09295023	Ordinary Shares	100%	Martin-Lavell Limited 02654521 (*)	Ordinary Shares	100%
Connect Parcels Limited 09172850	Ordinary Shares	100%	Pass My Parcel Limited 09172022	Ordinary Shares	100%
Connect Services Limited 08522170	Ordinary Shares	100%	Phantom Media Limited 03805661 (*)	Ordinary Shares	100%
Connect Specialist Distribution Group Limited 08458801	Ordinary Shares	100%	Rascal Solutions Limited 05191277	Ordinary A Shares	50%
Connect2U Limited 03920619 (*)	Ordinary Shares	100%	Smiths News Holdings Limited 04236079	Ordinary Shares	100%
The Big Green Euro Machine Limited 02496549	Ordinary Shares	100%	Smiths News Instore Limited 03364589 (*)	Ordinary Shares	100%
The Big Green Parcel Group Limited 05356630 (*)	Ordinary Shares	100%	Smiths News Investments Limited 06831284	Ordinary Shares	100%
The Big Green Parcel Holding Company Limited 06459283	Ordinary Shares	100%	Smiths News Limited 08506961	Ordinary Shares	100%
Tuffnells Parcels Express Limited 00319964	Ordinary Shares	100%	Smiths News Trading Limited 00237811	Ordinary Shares	100%
The Big Green Parcel Machine Limited 03125293 (*)	Ordinary Shares	100%	Wordery.com Limited 08134714	Ordinary Shares	100%
Unit 1, Griffin Business Park, Walmer Way, Chelmsley Wood, Solihull, West Midlands B37 7UX					
Worldwide Magazine Distribution Limited 01206287	Ordinary Shares	50%	FMD Limited 03729720	Ordinary A shares	50%
Estantia House, Pitreavie Drive, Pitreavie Business Park, Dunfermline, Fife KY11 8US					
AviiT Limited SC267388	Ordinary Shares	36.1%	Bluebox Aviation Systems Limited SC544863	Ordinary A Shares	36.1%
Bluebox Avionics Limited	05684001	Ordinary Shares	36.1%		
Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF					
Open-Projects Limited 02422753	Ordinary Shares	50%			

34. Subsidiary and associated undertakings continued

Company name /(number)	Share Class	Group %	Address
France			
Dawson France SAS 709 801 872 RCS EVRY	Ordinary Shares	100%	3, rue Galvani 91745, Massy Cedex, France
Dawson Media Direct SAS 450 101 340 RCS Bobigny	Ordinary Shares	100%	11 rue Léopold Bellan, 75000 Paris, France
Spain			
Dawson Espana Agencia de Ediciones SL. CIF: 28455020	Ordinary Shares	100%	Plaza de Espana, 6-1 Of. 13 y 14, 47001, Valadolid, Spain
Dawson Iberica SRL CIF-B59445288	Ordinary Shares	100%	Plaza de Urquinaona, 1, 104, 08010 Barcelona, Spain
Dawson Media Direct Iberica SL			
CIF-B84692904	Ordinary Shares	100%	Avendida de la Industria 38, Nave C-17, 28223 Coslada, Spain
Germany			
Dawson Media Direct Gmbh HRB 99445	Ordinary Shares	100%	Auf der Roos 6-12, 65795 Hattersheim am Main, Germany
Erasmus Buchhandlung GmbH HRB 154732 B	Ordinary Shares	100%	Friedrichstrasse 154, 10117, Berlin, Germany
Belgium			
Dawson Media Direct NV 474.114323	Ordinary Shares	100%	Brixtonlaan 1E, 1930 Nossengem, Belgium
Netherlands			
Erasmus Antiquariaat en Boekhandel BV 33044879	Ordinary Shares	100%	Veemarkt 207, 1019 CJ, Amsterdam, Netherlands
Houtschild Internationale Boekhandel BV 27106535	Ordinary Shares	100%	Sir Winstone Churchillaan 281, 2288 DA, Rijswijk, Netherlands
Turkey			
Dawson Media Direct Anonim Sirketi 14449-5	Ordinary Shares	100%	Parima Plaza Maltepe Mahallesi Eski Cirpici Yolu Sok No:8 K:14-176 Merter-Zeytinburnu Istanbul Turkey
Australia			
Dawson Media Direct Australia Pty Limited 615545545	Ordinary Shares	100%	C/O Grant Thornton Australia Level 17, 383 Kent Street, Sydney NSW 2000, Australia
Hong Kong			
Dawson Media Direct China Limited 1167911	Ordinary Shares	100%	Flat/Rm 5008 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Thailand			
Dawson Media Direct Co. Ltd 105558138385	Ordinary Shares	49%	87 M Thai Tower, All Seasons Place, 23rd Floor, Wittayu Road, Lumpini Sub-District, Pathumwan District, Bangkok, Thailand
United Arab Emirates			
Dawson Media Direct Middle East FZ LLC (DAFZA) 1550	Ordinary Shares	50%	PO Box 7992, Dubai, United Arab Emirates
DMD Holdings Limited (JAFZA) OF3596	Ordinary Shares	100%	PO Box 7992, Dubai, United Arab Emirates
United States			
Dawson Media Direct Holdings Inc 4056281	Common Stock	100%	Corporation Trust Centre, 1209 Orange Street, Wilmington IL DE19801, United States
Dawson Media Direct Inc 4056283	Common Stock	100%	40 Wall Street, 28th Floor, New York, NY 10005, USA

Except as indicated above all companies are subsidiaries of Connect Group PLC.

Bluebox Aviation Systems Limited, Aviit Limited, Bluebox Avionics Limited are associated undertakings. Rascal Solutions Limited, Open-Projects Limited, FMD Limited, Worldwide Magazine Distribution Limited and Dawson Media Direct Middle East FZ LLC are jointly controlled entities, for details of which refer to Note 15 to the Group financial statements.

34. Subsidiary and associated undertakings continued

Audit exemption statement

For the year ended 31 August 2017, the companies as indicated in the table by '(*)' above were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members of these companies have not required them to obtain an audit of their financial statements for the year ended 31 August 2017.

35. Reconciliation of Free cash flow to equity to net movement in cash and cash equivalents

A reconciliation between free cash flow to equity and the net increase/(decrease) in cash and cash equivalents is shown below:

£m	**2017**	2016
Net decrease in cash & cash equivalents	**(3.1)**	(2.3)
Dividend paid	**23.6**	22.7
Proceeds on sale of subsidiary (net of disposal costs)	**(56.8)**	–
Decrease in borrowings	**61.0**	15.5
Adjustment for pension funding	**5.2**	5.3
Net outflow on purchase of shares for EBT	**0.5**	1.1
Proceeds on issue of shares	**(0.7)**	(0.4)
Dividends received from associates	**(0.2)**	(0.7)
Total Free cash flow to equity	**29.5**	41.2
Discontinued free cash flow	**(0.8)**	(5.0)
Continuing free cash flow to equity	**28.7**	36.2

Group Income Statement

£m	31 August 2017 Continuing	31 August 2016 Continuing	31 August 2015 Reported	31 August 2014 Reported	31 August 2013 Reported
	12 months to				
Revenue	**1,594.3**	1,645.8	1,875.1	1,808.5	1,810.8
Operating profit before adjusted items	**54.7**	57.4	63.8	55.5	56.4
Adjusted items	**(13.0)**	(15.2)	(27.5)	(6.9)	(10.8)
Operating profit	**41.7**	42.2	36.3	48.6	45.6
Net finance charges	**(6.7)**	(7.0)	(7.3)	(5.5)	(6.5)
Adjusted finance costs	**(0.8)**	–	–	–	(0.2)
Profit before tax	**34.2**	35.2	29.0	43.1	38.9
Income tax expense	**(7.2)**	(7.8)	(7.6)	(8.3)	(10.2)
Profit for the period	**27.0**	27.4	21.4	34.8	28.7
Adjusted earnings per share					
Basic – Continuing Operations	**15.5p**	16.2p	19.7p	19.6p	19.0p
Diluted	**15.4p**	16.0p	19.0p	19.0p	17.8p
Dividend per share	**9.8p**	9.5p	9.2p	8.7p	8.4p
Dividend paid (£m)	**23.6**	22.7	21.4	17.7	16.0
Leverage					
Free cash flow to equity	**28.7**	36.2	34.1	36.1	31.2
Free cash flow	**35.0**	43.8	39.8	37.2	32.6
Operating cash flow	**47.4**	45.1	46.5	47.4	37.9
Total net debt	**(82.1)**	(141.7)	(153.4)	(93.0)	(98.5)
Net debt/EBITDA (covenant 2.75x)	**1.2**	1.7	1.9	1.4	1.5
Interest cover (covenant 3.0x)	**12.0**	14.5	15.0	11.8	13.9
Fixed charge cover (covenant 2.0x)	**3.0**	3.1	3.4	4.7	5.3

Statutory earnings per share	**Continuing**	**Continuing**	**Reported**	**Reported**	**Reported**
Basic	**11.0p**	11.3p	9.3p	16.8p	14.2p
Diluted	**10.9p**	11.1p	9.0p	16.2p	13.3p

Group Balance Sheet

£m	31 August 2017	31 August 2016	31 August 2015	31 August 2014	31 August 2013
Non-current assets	**157.8**	227.2	231.8	107.1	107.6
Current assets	**117.6**	190.7	200.2	193.8	181.4
Current liabilities	**(177.7)**	(282.3)	(282.0)	(267.7)	(283.0)
Non-current liabilities	**(81.0)**	(117.7)	(134.8)	(73.4)	(60.1)
Long term provisions	**(6.6)**	(4.9)	(6.0)	(1.9)	(2.8)
Net assets held for sale	**15.0**	–	–	–	–
Net assets/(liabilities)	**25.1**	13.0	9.2	(42.1)	(56.9)
Equity	**72.9**	71.5	67.4	14.8	10.4
Retained earnings	**234.9**	226.4	226.5	228.5	214.9
Other reserves	**(282.7)**	(284.9)	(284.7)	(285.6)	(282.2)
Non-controlling interests in equity	**–**	–	–	0.2	–
	25.1	13.0	9.2	(42.1)	(56.9)

The figures above reflect the latest published information. For years prior to 2015/16 these figures represent the comparatives from the following years' financial statements. During the financial year, the Group disposed of its Education & Care division and decided to sell its Books division. Accordingly, these operations have been treated as discontinued in 2016/17. The 2015/16 metrics have been re-presented to be consistent with 2016/17; prior years have not been re-presented.

Company Balance Sheet as at 31 August 2017

£m	Note	2017	2016
Fixed assets			
Investments in subsidiary undertakings	3	**520.0**	520.0
		520.0	520.0
Creditors: amounts falling due within one year	4	**(384.7)**	–
Creditors: amounts falling due after more than one year	5	**–**	(293.7)
Net assets		**135.3**	226.3
Capital and reserves			
Called up share capital	6(a)	**12.4**	12.3
Share premium account	6(c)	**60.5**	59.2
Retained earnings	7	**62.4**	154.8
Total shareholders' funds		**135.3**	226.3

The loss for the year was £68.8m.

These accounts were approved by the Directors on 7 November 2017.

Registered number – 05195191

Signed on behalf of the Board of Directors

Mark Cashmore
Chief Executive Officer

David Bauernfeind
Chief Financial Officer

Statement of Changes in Equity for the year ended 31 August 2017

£m	Share Capital	Share Premium	Retained earnings	Total
Balance at 31 August 2015	12.2	55.2	33.9	101.3
Profit for the year	–	–	68.6	68.6
Dividend paid	–	–	(22.7)	(22.7)
Dividends received from Group companies	–	–	75.0	75.0
Shares issued in the year	0.1	4.0	–	4.1
Balance at 31 August 2016	12.3	59.2	154.8	226.3
Profit for the year	–	–	(68.8)	(68.8)
Dividend paid	–	–	(23.6)	(23.6)
Shares issued in the year	0.1	1.3	–	1.4
Balance at 31 August 2017	12.4	60.5	62.4	135.3

1. Accounting Policies

(a) Accounting convention

The separate financial statements of "the Company" are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of section 408 of the Companies Act 2006 not to present a profit and loss account and related notes.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted, are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries, and associates are stated at cost less, where appropriate, provisions for impairment.

There were no significant judgements made in the financial statements for the year ended 31 August 2017.

(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

(c) Financial liabilities and equities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was a loss of £68.8m. There were no other recognised gains or losses. The loss arose as the terms of the amounts owed by Group Companies were changed during the year resulting in a reversal of discount applied. The dividend paid in the year is £23.6m (2016: £22.7m) (refer to Note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2017	2016
Net book value:		
At 1 September	**520.0**	520.0
At 31 August	**520.0**	520.0

An impairment of £142.9m has been recognised historically against the cost of these investments. Further information about subsidiaries, including disclosures about non-controlling interests, is provided in Note 34 to the Group financial statements.

4. Creditors: amounts falling due within one year

£m	2017	2016
Amounts owed to Group companies	**(384.7)**	–

The terms of the amounts owed to Group companies have been amended such that they are repayable on demand. They are therefore included within current liabilities and do not accrue interest.

5. Creditors: amounts falling due after more than one year

£m	2017	2016
Amounts owed to Group companies	**–**	(293.7)

6. Share capital

(a) Share capital

£m	2017	2016
Issued and fully paid ordinary shares of 5p each		
At 1 September	**12.3**	12.2
Shares issued in the year	**0.1**	0.1
At 31 August	**12.4**	12.3

During the year to 31 August 2017, 946,334 ordinary 5p shares were issued. 394,007 were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells).
The remainder were issued to satisfy share scheme exercises.

During the year to 31 August 2016, 2,606,751 ordinary 5p shares were issued. 2,164,181 were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells).
The remainder were issued to satisfy share scheme exercises.

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2016	246.7
Issued in the year	1.0
At 31 August 2017	**247.7**

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

(c) Share Premium

£m	2017	2016
Balance at 1 September	**59.2**	55.2
Shares issued in the year	**1.3**	4.0
Balance at 31 August	**60.5**	59.2

7. Reserves

£m	2017 Retained earnings
Balance at 1 September	**154.8**
Loss for the year	**(68.8)**
Dividend paid	**(23.6)**
Balance at 31 August	**62.4**

8. Related party transactions

The Company has taken advantage of the exemption granted by paragraph 8(k) of FRS 101 not to disclose transactions with Connect Group PLC companies and interests of the Group, which are related parties.

Company Secretary and registered office

Stuart Marriner, Connect Group PLC, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH.

Telephone 0845 128 8888.

Company website

Connect Group PLC Annual Reports and results announcements are available online at www.connectgroupplc.com. The investor section of our website provides a wide range of information about the Company including Annual Reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing Annual General Meeting information and other useful shareholder information.

Annual Report and Financial Statements

This Annual Report and Financial Statements is published on our website and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report and Financial Statements have been notified of its availability on the website.

A paper copy of the Annual Report and Financial Statements can be obtained by writing to the Company Secretary at the address listed above or you can e-mail your request to investor.relations@connectgroupplc.com.

Annual General Meeting

The Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Tuesday 23 January 2018 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form that they are sent and present it at the registration desk on arrival at the Annual General Meeting.

Proxy Form

Shareholders unable to attend the Annual General Meeting should complete a Proxy Form. To be effective, it must be completed and lodged with the Company's Registrars, Equiniti, by not later than 11.30am on Friday 19 January 2018.

Electronic proxy voting

You may, if you wish, register the appointment of a proxy for the Annual General Meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Proxy Form to hand when you log on as it contains information which will be required. CREST members may appoint a proxy electronically via the Company's Registrars, Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on Friday 19 January 2018.

Registrars

If you have any enquiries about your shareholding in Connect Group PLC or wish to advise of a change of address, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0371 384 27711 or from outside the UK +44 (0) 121 415 7565). A textphone facility for shareholders with hearing difficulties is available by telephoning 0371 384 2255[1]. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Proxy Form).

1 Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding UK bank holidays.

Financial calendar

Financial year end	31 August 2017
Results announced	26 October 2017
Annual Report published	13 December 2017
Final dividend ex-dividend date	11 January 2017
Final dividend record date	12 January 2017
Annual General Meeting	23 January 2018
Final dividend payment date	9 February 2018
Half-year end	28 February 2018
Interim results announced	May 2018
Interim dividend ex-dividend date	June 2018
Interim dividend record date	June 2018
Interim dividend payment date	July 2018
Financial year end	31 August 2018
Results announced	November 2018

For the dates of events in the second half of the financial calendar, please check the Connect Group PLC website at www.connectgroupplc.com nearer the relevant time for further details, and to ensure that no changes have been made.

The dividend dates shown above are in respect of the Company's ordinary shares of 5p.

Share dealing service

The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing, you may call 03456 037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to shareholders ('boiler room' scams)

In recent years, like other companies, we have become aware of a small number of investors who have received unsolicited calls or correspondence, in some cases purporting to have been issued by us, concerning investment matters. These typically make claims of highly profitable opportunities in UK or US investments which turn out to be worthless or simply do not exist. These approaches are usually made by unauthorised companies and individuals and are commonly known as 'boiler room' scams. Investors are advised to be wary of any unsolicited advice or offers to buy shares. If it sounds too good to be true, it often is.

See the Financial Conduct Authority website www.fca.org.uk/consumers/scams for more detailed information about this or similar activity.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

UK Capital Gains Tax (CGT)

Rights Issue 17 December 2014

Shareholders who acquired shares

For the purposes of calculating any chargeable gains or losses, any ordinary shares you acquired as a result of the Rights Issue (at a price of 102p each) are treated as being acquired at the same time as your original holding of ordinary shares and the subscription cost added to the base cost of your original holding.

Shareholders who sold or renounced their rights or who allowed their rights to lapse

If you sold any or all of your rights to subscribe for the ordinary shares provisionally allotted to you, or if you allowed your rights to lapse and received a cash payment in respect of them, if the proceeds were 'small' as compared with the market value (on the date of sale or lapse) of your existing holding of ordinary shares in respect of which the rights arose, you will not generally be treated as making a disposal for CGT purposes. Instead, the proceeds received should be deducted from the base cost of your existing holding of ordinary shares. HMRC current practice is to regard a sum as 'small' for these purposes where either: (i) the proceeds do not exceed 5% of the market value (at the date of sale or lapse) of the ordinary shares in respect of which the rights arose; or (ii) the sum received is £3,000 or less, regardless of whether the 5% test is satisfied.

If the proceeds you received were not 'small' the sale is treated as a disposal and, in order to calculate any chargeable gains or losses, you need to apportion the original base cost of your existing holding of ordinary shares between the sale proceeds and your existing holding of ordinary shares in the ratio of the sale proceeds divided by the sale proceeds plus the market value of your existing holding of ordinary shares (on the date of sale or lapse). Further guidance can be found on the HMRC website www.gov.uk/capital-gains-tax-share-reorganisation-takeover-or-merger.

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of $2^{13}/_{81}$p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of $22^{6}/_{67}$p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original tax base cost of your old WH Smith PLC ordinary shares of $55^{5}/_{9}$p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If your shares result from a holding of old WH Smith PLC shares acquired on or before 31 March 1982, the tax base cost to be used in order to calculate any chargeable gains or losses arising on the disposal of shares is the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of $22^{6}/_{67}$p	61.62p	50.92p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

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