Connect Group PLC Annual Report and Accounts 2018

Introduction

It has been a difficult year for the Group, with a combination of weaker trading and operational disruption, exacerbated by strategic decisions that did not deliver the benefits we had hoped.

In many ways the difficulties in the year have demonstrated the underlying resilience of the Group. Nonetheless, we have taken decisive action, closing Pass My Parcel and halting the planned integration of our networks. The appointment of new leadership and a return to separate accountabilities for Smiths News and Tuffnells are the first steps in restoring stability to our operations. Meanwhile, the good progress we made in consolidating our central services will support a business model that combines focus and accountability with the scale efficiencies of a Group.

I am conscious that this year's Annual Report is written at a time of transition. The challenges we face will take time to resolve and we must not rush our plans. As these develop, we commit to ensuring we provide clear and regular communication with all stakeholders throughout the coming year.

In the meantime, I am confident we have the right leadership and immediate priorities to ensure our recovery is built on solid foundations.

Gary Kennedy
Chairman

STRATEGIC REPORT

GOVERNANCE

FINANCIALS

Summary of results

Connect Group PLC is a leading specialist distributor operating in newspaper and magazine wholesaling, and mixed freight distribution. We connect our suppliers to their customers, with networks that provide scale efficiencies and market expertise, which adds value across the supply chain.

For more information
www.connectgroupplc.com

Smiths News is the UK's largest news wholesaler reaching 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 UK's fastest physical supply chains.

For more information
www.smithsnews.co.uk

Dawson Media Direct (DMD) supplies printed and digital media to airlines and travel points in the UK and worldwide. Delivering to strict time windows with security accreditation, we are one of the world's leading providers in this specialist sector.

For more information
www.dawsonmd.com

Tuffnells is a leading specialist in mixed and irregular freight, serving approximately 4,700 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 handle. 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.

For more information
www.tuffnells.co.uk

TOTAL GROUP REVENUE
£1,534.3m
2017: £1,594.3m

ADJUSTED PROFIT BEFORE TAX
£28.4m
2017: £48.0m

STATUTORY (LOSS) BEFORE TAX
£(35.5)m
2017: £34.2m

ADJUSTED EARNINGS PER SHARE
9.3p
2017: 15.5p

FREE CASH FLOW
£20.2m
2017: £28.7m

DIVIDEND PER SHARE
3.1p
2017: 9.8p

NET DEBT
£83.4m
2017: £82.1m

Alternative performance measures presented throughout the Annual Report, including adjusted profit and free cash flow, are defined in note 1 to the Group Financial Statements.

Chairman's statement

Our results this year are well behind expectations and have been disappointing for all stakeholders. Regardless of challenging conditions, and despite the considerable efforts of our people, it became clear, as the year progressed, that our strategy to integrate Smiths News and Tuffnells operations was not succeeding, and in some areas the level of change was contributing to further underperformance, particularly impacting profitability of Tuffnells. The shortfall to operational efficiency targets and the burden of continued losses in Pass My Parcel added to the difficulties of the year, as did the protracted disposal of the Books business which was an unhelpful distraction at a critical period.

"We have taken decisive action, establishing a performance recovery plan that is focused on rebuilding the strengths of the Group."

In response to these events we have taken decisive action, establishing a performance recovery plan that is focused on rebuilding the strengths of the Group. The closure of Pass My Parcel and the sale of the Books business complete the rationalisation of our core business portfolio. Meanwhile, the progress we have made in integrating and reducing the cost of central services will provide a more efficient back office model for both Smiths News and Tuffnells.

Group Adjusted profit before tax for Continuing Operations of £28.4m is down by 40.8% (FY2017: £48.0m) and Adjusted earnings per share of 9.3p is down 40.0%. Statutory loss before tax for Continuing Operations is £35.5m, down by 203.8% (FY2017: £34.2m), with a Statutory loss per share of (15.5)p down 240.9% (FY2017: EPS 11.0p). The Statutory results are impacted by the impairment of goodwill in Tuffnells, the closure of Pass My Parcel and the sale of the Books business in February 2018.

The Statutory continuing and discontinued loss after tax amounts to £47.0m (FY2017: profit of £36.6m), and Statutory continuing and discontinued earnings per share is a loss of 19.1p (FY2017: profit of 14.9p).

These results are incompatible with our vision and ambition, and unrepresentative of the underlying strength and potential of the Group, and the effort and dedication of colleagues. Despite the challenges and deficiencies in the year, all our businesses remain leaders in their markets and I am confident that, with appropriate focus, operational performance can be stabilised and turnaround achieved.

In the summer of 2017, we began an ambitious programme to transform the combined operations of Smiths News and Tuffnells. While there have been some notable successes, particularly in the integration of our central support functions, we did not achieve our targeted savings, and the changes we introduced led to a loss of control in the day-to-day management of our depots. It is now clear that the potential for synergies in the frontline operations was more limited than we had hoped. Critically, we have learned that the complexities of the respective offers are such that the potential benefits of operational integration are likely to be outweighed in service degradation.

Looking at our markets, trading in each of our businesses was challenging irrespective of any wider strategic disruption.

The newspaper and magazine market, though large and relatively predictable, is in gradual decline. In this environment, Smiths News continues to show remarkable resilience with a robust business model and well-established efficiency programmes. Adjusted operating profit of £35.9m was down by 11.3% on last year (FY2017: £40.4m). Performance this year was impacted by losses in Pass My Parcel, lower than expected sales of FIFA World Cup products and lower than usual cost savings as a result of integration initiatives. Looking ahead, the renewal of key publisher contracts will provide certainty of our territories, in turn allowing for new and further efficiency improvements.

In the click & collect market, Pass My Parcel grew volumes by over 400%, but continued to sustain losses, amounting to £5.9m in the period to 23 May 2018. Having conducted a review of the proposition and its prospects, we took steps to close the business, winding down deliveries and the parcel shop network in an orderly manner. We have made good progress, reaching constructive agreements with clients to withdraw from contracts, such that all distribution activities will cease by January 2019. In parallel with the closure of operations, we are working to remove other internal costs and associated job roles as soon as possible.

This is never an easy task, and I would like to acknowledge the professionalism of colleagues in delivering the closure plans with speed and clarity of purpose.

DMD, our specialist supplier to airlines and travel locations had a strong year – its sales more influenced by passenger volumes than the macro trends affecting printed media as a whole. Adjusted operating profit of £3.0m, was up by 30.4% (FY2017: £2.3m). Though small in comparison to Smiths News, the business makes a welcome contribution and is an excellent example of a complementary operation which leverages and enhances our overall capabilities.

The parcel freight market has been especially challenging. Tuffnells' Adjusted operating loss of £5.0m (FY2017: profit of £12.0m) reflects revenues of £175.2m down by 4.4% (FY2017: £183.2m), compounded by softer margins and a significant weakening of operational cost control. The market was impacted this year by more competitive pricing, but our performance was also affected by service shortfalls and operational distractions. These issues culminated around the seasonal peak, having a disproportionate impact on our full year profit. Although we are addressing the challenges, recovery will take some time and the market is likely to remain competitive market putting pressure on price. In consideration of the immediate and ongoing prospects of the business we have impaired the carrying value relating to Tuffnells goodwill on the Group's balance sheet by £46.1m.

The Group's recovery plans directly address the lessons of the year, stabilising operations after what has been a disruptive period. Our immediate priority is to return our focus to the basics of outstanding service, scale efficiency and value for our customers. In support of this goal, we have halted any plans for integration of Smiths News and Tuffnells at an operating level, returning performance accountabilities to two distinct management teams, headed by a Chief Executive Officer for each business. In parallel, under the leadership of the new Group Chief Executive Officer, Jos Opdeweegh, we are developing a medium-term plan to deliver more consistent operational excellence and leverage the capabilities of our two networks in the future.

The sale of the Books business in February 2018 for an enterprise value of £18.7m followed our decision, taken in July 2017, to exit non-core markets. The disposal removes a further potential distraction from our recovery plans.

The Group's underlying financial position remains robust. Continuing free cash flow to equity of £20.2m (FY2017: £28.7m) was generated in the year, and net debt of £83.4m represents 1.8x Earnings before interest, tax, depreciation and amortization (EBITDA), comfortably within our total banking facilities of £175m that were renewed in October 2017, through to January 2021.

In July 2018, an interim dividend of 3.1p was distributed to shareholders. In the light of the full year performance, the Board has decided not to recommend a final dividend. The full year dividend of 3.1p is therefore down 68.4% on last year (FY2017: 9.8p). I am mindful of the importance of the dividend to many of our shareholders but in the near term we believe there is merit in strengthening the balance sheet. With a return to stability, I am confident of our ability to meet the investment needs of the business, while also delivering an attractive yield for shareholders and a reduction in net debt. A more detailed strategy for the allocation of our surplus free cash flow will be shared with all stakeholders in due course.

Throughout the year, the support of my colleagues on the Board and Executive Team has been essential and I am grateful for their insight and challenge. I would especially like to acknowledge Mark Cashmore who stepped down as Chief Executive Officer at the end of the year after leading the Group since its inception in 2006. Mark has made an invaluable contribution to the business over his 12 years of tenure, and we wish him well for the future. In September 2018, we welcomed Jos Opdeweegh to the Company and Board as our new Chief Executive Officer – Jos brings a wealth of experience and fresh perspectives and I am looking forward to working with him in the years ahead.

In what has been a difficult year, colleagues throughout the business have shown remarkable fortitude. Their determination to deliver for customers is the foundation of our business, working together to meet the myriad of daily challenges that are integral to our fast moving operations. Few businesses operate to such demanding service levels and in many ways the lessons of the year serve to highlight their resilience in the face of uncertainty and change. I would like to thank them for their ever vital contribution.

Looking ahead, I believe the Group is well placed to recover lost ground. The underlying strengths of our core businesses remain firmly established, and their immediate priorities are largely within our control to achieve. I am therefore confident that over the coming year we can embed our recovery and lay the foundations for future growth.

Gary Kennedy
Chairman

Chief Executive Officer's Q&A

Jos Opdeweegh was appointed Chief Executive Officer in September 2018. Two months into the role he's been getting to know the business, meeting with colleagues, customers and investors – and listening carefully to what they have to say. In this short Q&A, Jos shares his first impressions and emerging thoughts on the future of the Group.

"Central to my personal motivation is building better businesses – from this, everything else flows."

Q

What are your first impressions of the Group?

A

We have three good businesses with great people who want to succeed – their commitment is tangible and we need to encourage a culture which involves them more. We have some enviable strengths including, secure contracts, long-term partnerships and market leadership in our chosen markets.

That said, there are issues that need to be addressed: investment in infrastructure and systems; clarity on our strategy; and a greater passion for operational excellence. These challenges won't be met overnight, but they are largely in our control so I'm confident we can recover performance in a sustainable way.

Q

The Group has had a difficult year – what's your assessment of what went wrong?

A

Hindsight can make us all experts in strategy, but it's clear that a number of factors combined to undermine performance, and these were well documented in the year. Importantly, having pursued a plan in good faith, we have acknowledged the need to change course and taken decisive action to address the most pressing issues. My priority now is to stabilise the businesses before setting out a new path for growth.

Q

Is that what's behind the return to dedicated management of Smiths News and Tuffnells?

A

Certainly, I think focus and accountability is key to our recovery. We need to be customer centric and the best way to achieve that is by harnessing the experience and passion in each business. In Smiths News and Tuffnells, we have two distinct models for creating value that have different requirements and skill sets to manage them well. For example, customer onboarding and pricing are entirely different processes in Smiths News and Tuffnells – these need clear ownership and can't be satisfactorily integrated into a single commercial model. But I would stress that we are not returning to a divisional structure. Going forward, we will have three operating businesses, supported by a suite of central functions which service these frontline operations.

Q

You've spoken about the importance of operational excellence – what form does that take in the context of the Group?

A

We will introduce standard operating models across the network. This means having a prescriptive set of processes for every depot, with addressable, customer-focused measures – including safety as a rule. Of course, those models should allow for flexibility to take account of local circumstances – but by working to a common standard we will drive enhanced customer satisfaction and better productivity. And by continually improving we will achieve new levels of service and efficiency that build our competitive advantage.

Q

What are the priorities for 2019?

A

Operationally we have six priorities that will stabilise performance and create a platform for growth. A critical task is returning Tuffnells to profitability, as is renegotiating our publisher contracts within Smiths News. Culturally, we need to embrace new ways of working and establish a winning mentality. Beyond the frontline operations, priorities include streamlining and improving the role of the central functions; we've made good progress already but there is more we can do to deliver improved productivity using our systems and business analytics to support continuous improvement.

There are some strategic challenges too, including for example, how we leverage opportunity in adjacent markets – but we must first return to the basics of operational excellence and prudent investment in our core businesses. I'm confident that we can make great strides this year.

Q

You've been with the Group for two months – when will the longer-term strategy be ready to share with stakeholders?

A

My priority since joining has been to address immediate concerns and establish more stable operations on which to build our recovery. By January 2019, I expect us to have the longer-term strategy more fully developed, including key milestones. The plan will set stretching but achievable commercial goals, but it's equally vital that we work to a sustainable balance between investment for turnaround, reducing our net debt and delivering an attractive return for investors. I want us to be clear to all our stakeholders on the path we will be taking, so I'm looking forward to sharing these plans as soon as they are ready.

Q

What most excites you about the road ahead?

A

Central to my personal motivation is building better businesses – from this, everything else flows. After two months, it's clear to me that Smiths News, DMD and Tuffnells are fundamentally good businesses; my job is to enable them to become great – and that's always an exciting journey.

Priorities for 2019

1. Tuffnells profitability

Returning Tuffnells to profitability through a reduction of the cost base, a more granular pricing methodology and net new customer wins.

2. Smiths News contracts

Renegotiating the remaining Smiths News contracts with key publishers.

3. Standard operating model

Implementing a standardised operating model in Tuffnells to enhance safety, productivity and customer experience.

4. Efficient head office functions

Streamlining head office functions to improve financial reporting, robust business analytics, increased productivity and continuous improvement.

5. Cost savings at Smiths News

Maximising the amount of cost savings at Smiths News to diminish the impact of the price adjusted volume decline in the business.

6. Culture

Embedding a new, entrepreneurial culture with a passion for excellence and customer centricity.

For more information on our performance, strategy and priorities see pages 6 to 11

Business model

Connect Group PLC's business model is founded on service excellence, scale efficiencies and delivering value for customers. As leaders in our markets we seek to develop long-term partnerships with customers, combining core services with bespoke solutions that enhance our sector expertise.

Service excellence is at the heart of our business. We provide a range of options based on a core offering that can be tailored to customer needs. Be that from timely delivery to stockholding or information services, we provide the expertise and practical know-how that our customers trust to support their business.

Our scale supports high-value and cost-effective solutions that underpin our competitive advantage. With national capability and high market share we can deliver services as standard that would otherwise require a premium, helping to reinforce our partnerships with key customers. By working across our supply chains we are able to deliver even greater efficiencies and share these benefits too.

SmithsNews

Smiths News offers a specialist service tailored for the fast moving and ultra-time sensitive demands of newspapers and magazines. Visiting 27,000 customers, 364 days a year, the vast majority of our deliveries and collections are completed before 7.00am.

With 55% market share, Smiths News is the largest UK news wholesaler. Our distribution network includes six super hubs and 33 satellite depots of differing size, serving locations as far apart as Cornwall to Northumberland. We have long-term contracts with all the major national publishers as well as with the majority of regional press in our territories. This means that we can invest for the long term and work with our supply chain partners to respond to changing demand.

dmd

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.

Serving over 2,500 journeys every day, DMD is among the world's largest suppliers of printed and digital media to travel points worldwide. Our network of delivery partners gives us global reach and scale advantage, enabling us to serve both UK and international carriers.

Tuffnells.

Tuffnells is a specialist provider of parcel freight services for small and medium-sized enterprises, with particular expertise in items of irregular dimension and weight. Our network of local depots means we work closely with our customers, offering a range of services that can be flexed to meet their particular needs.

With 37 depots and 4,700 customers, Tuffnells has local expertise combined with national reach. The network configuration facilitates both a direct carrier service and a 'hub and spoke' capability for more dispersed distribution.

The Group has three core businesses, each serving distinct customer groups. Supporting these operations is a range of shared central services that enhance the capabilities of each operating business, providing further efficiencies and value for customers. We have a long-term commitment to investing in systems and infrastructure which enhance our offering for customers.

Our markets are characterised by a large number of suppliers, complex to manage product ranges, and a diverse and dispersed customer base. This combination of customer and product fragmentation supports the role of an industry specialist, discouraging disintermediation in our supply chains.

Value is critical to our model. As a middleman we aim to deliver the most cost-effective route to market, sharing our infrastructure and capability across many thousands of customers so that each one can benefit. We recognise that value comes in different forms, and as such we offer a range of priced services for our customers, be they large or small, and with requirements that are simple or complex to deliver.

By sharing and consolidating the route to market, both publishers and retailers can benefit from a high-quality, high value service. In addition to making daily deliveries, we collect and process unsold returns, providing real-time sales and marketing data on a daily basis. Our information systems enable demand-based replenishment services for larger retailers and our wider market knowledge is an essential prerequisite to publishers when planning and forecasting demand.

27,000 customers

39 depots

- Tracking and scanning
- Returns collections
- 364-day operation

Adding value is central to DMD's service. Operating to an audited security accreditation, our service meets the high-security needs of airlines and international travel points. Working with publishers and airlines we can target distribution to relevant and high net worth consumers that would otherwise be hard to reach.

115 airports

47 countries

- Print and digital
- Security accreditation

Using smart systems we enhance our core service for suppliers and their customers – adding value with 'track and trace' technology, electronic proof of delivery, back-office systems integration and the 'My Tuffnells' website interface. We recognise that for many customers, 'time is money' – our goal is to ensure deliveries are completed as quickly and efficiently as possible.

4,700 customers

37 depots

- Specialists in Irregular Dimensions and Weight (IDW) freight
- Online parcel tracking
- Collections and deliveries

Key performance indicators

FINANCIAL PERFORMANCE

Total Group revenue (£m)

2018	1,534.3
2017	1,594.3
2016	1,645.8
2015	1,875.1
2014	1,808.5

Dividend per share (p)

2018	3.1
2017	9.8
2016	9.5
2015	9.2
2014	8.8

Adjusted profit before tax (£m)

2018	28.4
2017	48.0
2016	50.4
2015	56.5
2014	50.0

Free cash flow (£m)

2018	20.2
2017	28.7
2016	36.2
2015	34.1
2014	36.1

Adjusted earnings per share (p)

2018	9.3
2017	15.5
2016	16.2
2015	19.7
2014	19.6

Net debt:EBITDA

2018	1.8
2017	1.2
2016	1.7
2015	1.9
2014	1.4

Adjusted measures and Free cash flow are defined in note 1(c) on pages 78 and 79 of the Group Financial Statements.

NON-FINANCIAL PERFORMANCE

The Group and its businesses monitor a range of non-financial KPIs that reflect the day to day operating needs of the business; these include, among others, service achievement, customer satisfaction , on time delivery, waste & recycling and systems efficiency and security.

Required delivery time compliance

95.4%

Pack accuracy

99.3%

On time delivery

94.2%

Parcels returned to depot

2.8%

Colleague engagement

3.6%

Colleagues fully engaged

Health and safety

50

Total RIDDORs

Operating review

In what has been an extremely challenging year, weaker trading in Tuffnells and Smiths News (including losses in Pass My Parcel) was compounded by operational inconsistency and shortfalls against efficiency targets. In the light of this underperformance, we have halted our integration and business transformation plans, appointed energetic and experienced new leadership, and taken decisive action to stabilise operations and improve accountability in our core businesses.

In January 2018, the Group announced that as a result of weaker trading it expected full year Adjusted profit before tax for its Continuing Operations to be in the range of £42m to £45m. Following further poor trading, in June 2018 the Group announced that this forecast would not be achieved and the Board had materially reduced its expectations for full year Adjusted profit before tax. In September 2018, the Group further confirmed to the market that following a continuation of the challenging trends it expected the full year trading performance to be below our revised expectations.

Group Adjusted profit before tax for Continuing Operations of £28.4m is down by 40.8% (FY2017: £48.0m) and Adjusted earnings per share is down 40.0% to 9.3p.

Following an impairment of £46.1m in the goodwill of Tuffnells, Statutory continuing loss before tax is £35.5m (FY2017: profit of £34.2m) and Statutory continuing earnings per share is a loss of 15.5p (FY2017: earnings of 11.0p). The Statutory continuing and discontinued loss after tax is £47.0m (FY2017: profit £36.6m), and Statutory continuing and discontinued earnings per share is a loss of 19.1p (FY2017: earnings 14.9p). The Statutory continuing and discontinued results are also impacted by the closure of Pass My Parcel and the sale of the Books business for an enterprise value of £18.7m.

Free cash flow of £20.2m from Continuing Operations (FY2017: £28.7m), demonstrates the Group's underlying cash generative business model even in a difficult year. In the light of challenges in the year and mindful of the benefits of strengthening the balance sheet as we position the business for recovery, the Group has resolved not to recommend a final dividend, making the full year dividend 3.1p, down 68.4%.

Group integration and organisation restructure

In July 2017, following recent disposals, the Group restructured its leadership and operations in pursuit of a more integrated business model. Good progress was made in centralising support services, but it is now clear that there are not the same efficiencies to be achieved in sales and marketing, and at an operating level. Indeed, the move to integrate into a single structure weakened operational performance and impacted internal accountability and controls. A detailed review of the Group's networks also concluded that opportunities for combining physical operations of Tuffnells with Smiths News are limited, giving further impetus to a return to more focused management.

In response, we have taken decisive action to address the lessons learned. The closure of Pass My Parcel, the appointment of new leadership and the return to focused business units were critical first steps in restoring stability to core operations. In order to address a weakening of controls and accountability which followed our integration programme, we have made improvements to business information and the control and accountability framework. This has helped to identify the root causes of underperformance and clarified our immediate priorities for FY2019.

On 1 September 2018, Jos Opdeweegh was appointed as Chief Executive Officer and we have subsequently further refreshed the senior management team strengthening the relevant experience and capabilities to lead our recovery. The appointment of Michael Holt as a non-executive director also enhances the Board's experience and knowledge of the parcels and freight markets.

Operationally, the integration activity across our two networks has ceased. We have re-established dedicated management teams and leadership for Smiths News and Tuffnells, returning accountability for revenue and costs to the individual businesses, while supporting them with the newly integrated central services. Both businesses remain leaders in their fields with strong market positions, giving confidence that by refocusing on core service and efficient operations, stability can be restored.

Organisational structure and capabilities

Strategy

People management	Finance and administration	Information technology	Business planning project management

SmithsNews

- Revenue
- Operating costs
- All other allocable costs
- Contribution margin

Tuffnells.

- Revenue
- Operating costs
- All other allocable costs
- Contribution margin

Operating review continued

Strengthening the efficiency, operational excellence and network quality of Smiths News and Tuffnells will underpin the Group's recovery plan, driven also by improved capability in business analytics and an energised culture of continual improvement. We have actions underway to address the immediate priorities and aim to share details of the fully developed turnaround strategy in January 2019, including confirmation of our capital allocation plans.

Smiths News
Adjusted operating profit in Smiths News was £35.9m (FY2017: £40.4m) with revenue of £1,335.1m (FY2017: £1,383.4m). This performance includes the sales and costs of Pass My Parcel, amounting to a loss of £5.4m (FY2017: loss £6.3m). Sales and profit this year were boosted by sticker sales associated with the FIFA World Cup, albeit these were down on expectations and the levels achieved in previous tournaments.

While newspaper and magazine sales declined at the higher end of our strategic forecast, they continue to demonstrate an overall resilience and relative predictability that gives confidence to future revenue planning. Newspaper sales of £841.8m were down 3.9%, with price mitigating volume declines; magazine categories, including one-shots and part-works, were down by 3.8%.

Planned headcount reduction from network integration did not materialise and costs in the first half of the year were further impacted by service issues at the Hemel Hempstead depot that required an additional £0.6m of necessary service-related costs to rectify. In hindsight, it is clear that the Group's integration strategy impacted operational focus and controls; in addition, planned savings were not fully achieved, resulting in a £3.3m shortfall to the target of £5m efficiencies in the year.

Distribution contracts were successfully renewed with two of our largest publisher clients: News UK (July 2018), and Frontline (October 2018). In total, these contracts account for circa 30% of Smiths News' current sales and the new agreements secure our territories with these publishers for a further five years. Discussions with a number of the other publishers are ongoing, and we are confident of renewing the long-term agreements with all our key partners.

On 1 October 2018, Jonathan Bunting, formerly Chief Operating Officer, was appointed as Chief Executive Officer of Smiths News. Jonathan has deep experience of the business and news industry, having embedded knowledge and strong relationships with our key publishers and retailers.

In what was a challenging year the capabilities of Smiths News were severely tested; its resilience in the face of these difficulties demonstrates its underlying value to the Group. Looking ahead, with the combination of renewed contracts, the closure of Pass My Parcel and a return to dedicated operational management, Smiths News is well positioned to continue delivering a relatively predictable flow of revenue and cash that will help to underpin the Group's recovery plans.

Closure of Pass My Parcel
Pass My Parcel made an Adjusted operating loss of £5.4m in the period up to 23 May 2018. Following a detailed review of its prospects, the Board resolved to close the operation and its associated network of local retailers. Consequently, a further £6.7m attributable to closure and ongoing onerous contracts has been charged to Adjusted Items.

"Delivering to 27,000 retailers, 364 days per year"

SmithsNews

Discussions with key clients to exit ongoing contracts have progressed more quickly than first anticipated, impacting costs in FY2018 but reducing the quantum and potential for ongoing impact. Deliveries and collections representing over 95% of volumes ceased during August 2018 and distribution services for the remaining clients will end by January 2019. The contractual arrangements for the provision of IT services to one client are, however, expected to continue throughout FY2019 at minimal cost.

The parcel shop network is expected to transfer to a leading UK parcel carrier, and a migration plan is underway, completing June 2019. A wider costs removal plan is on track, ensuring other direct and indirectly associated expenses are removed as swiftly as possible.

Dawson Media Direct (DMD)
DMD, our specialist distributor of printed and digital media to airlines and travel points delivered a good result with Adjusted operating profit of £3.0m up by 30.4% (FY2017: £2.3m) from revenue of £26.5m, (FY2017: £28.8m). Profit growth was driven by a combination of positive net contract changes, and cost efficiencies from internal restructure in the prior year. The business was not impacted by the Group's wider integration activity.

Tuffnells
Tuffnells made an Adjusted operating loss of £5.0m compared to an Adjusted operating profit of £12.0m in FY2017. External revenue of £175.2m was down by 4.4% (FY2017: £183.2m) with sales and volumes performance in the second half of the year materially behind expectations.

The market for IDW freight was increasingly competitive, putting pressure on both price and consignment volumes as the year progressed. In this more challenging environment, Tuffnells' performance was materially impacted by the execution of our integration plans leading to service shortfalls that culminated at the seasonal peak. The Group also discovered and rectified an historical misapplication of national minimum wage legislation, impacting Adjusted operating costs by £0.8m this financial year.

In May 2018, the Group reported that the level of change across the business had disrupted service and had given rise to a number of challenges, including increased driver vacancies and a high turnover of depot managers, limiting our ability to respond with sufficient experience and agility. Operational performance had been further undermined by the delivery and collection of Pass My Parcel volumes that also put pressure on core service.

"Up to 75,000 daily deliveries, serving 4,700 customers"

With hindsight, the integration of the Group's operations, and sales and marketing functions led to suboptimal service and a weakening of controls at a time when our competitors were more aggressively targeting our customers. The actions we have taken to strengthen management, improving service and accountability were implemented too late in the year to make a meaningful impact on peak trading. Volumes during the third quarter were down by 12.3% with a disproportionate impact on full year operating profits as the seasonal uplift would usually generate an important premium for the business.

In the light of the lessons learned, we have reintroduced dedicated operational and commercial management to Tuffnells. This supports a structured approach to recovery that will continue to address historical underinvestment in order to introduce a standard operating model, attracting and onboarding high-quality revenue and achieving a more flexible cost to serve. A sustainable recovery will take time to achieve in full but we expect to see a gradual improvement to performance as the actions are implemented over the course of FY2019.

On 1 October 2018, Peter Birks was appointed to role of Chief Executive Officer of Tuffnells. Peter brings a wealth of experience in logistics, having held senior executive roles across a number of successful and innovative UK-based distribution businesses.

Discontinued Operations

On 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m, full details are provided in note 12 to the Group Financial Statements. In the prior year, on 30 June 2017, the Group completed the sale of the Education & Care business at a profit of £19.0m, full details are included in note 12 to the Group Financial Statements.

Exit of Pass My Parcel

In the light of continued losses the carrying value of Pass My Parcel was written down to £nil in February 2018. A detailed review of the proposition followed, concluding in May 2018 that the business model was unviable with no reasonable prospect of recovery. Trading from 23 May 2018, together with impairment of assets, the expenses of closure and the exiting of remaining agreements, resulted in costs of £6.7m included within Adjusted items.

The Adjusted discontinued profit before tax amounted to £1.7m over the full year compared to £2.0m in FY2017.

Capital management

In May 2018, the Company announced it would conduct a review of its capital allocation strategy, determining the most appropriate distribution of its surplus free cash flow. The Board's decision not to recommend a final dividend for FY2018 is a reflection of performance in the year, but it was also mindful of the interim dividend paid in July 2018, and our near-term priority of strengthening the balance sheet while meeting the investment requirements of business recovery. Looking ahead, the Board is conscious of the importance of a dividend to shareholders and anticipates a dividend in FY2019, based on the earnings and free cash flow achieved in the year. A more detailed Capital Management Policy will accompany our planned strategy announcement in January 2019.

PRIORITIES FOR 2019

The Group's immediate focus is on returning its operations to stability, arresting the decline in profit and establishing a platform for turnaround. The decision to return to two operating units, supported by a suite of central services, is indicative of our plan to recover performance by strengthening the individual businesses. We remain committed to finding efficiencies across the Group and believe that greater standardisation of processes, particularly in Tuffnells, can also deliver material improvements.

Our priorities for FY2019 include:

- Returning Tuffnells to profitability through a reduction of the cost base, a more granular pricing methodology and net new customer wins.
- Renegotiating the remaining Smiths News contracts with key publishers.
- Implementing a standardised operating model in Tuffnells to enhance safety, productivity and customer experience.
- Streamlining head office functions to improve financial reporting, robust business analytics, increased productivity and continuous improvement.
- Maximising the amount of cost savings at Smiths News to diminish the impact of the price adjusted volume decline in the business.
- Embedding a new, entrepreneurial culture with a passion for excellence and customer centricity.

These priorities will establish the foundations for a sustainable improvement in profitability. Our strategy for long-term growth, including its relationship to capital allocation, is currently being finalised. We aim to update stakeholders with a detailed strategic plan, including the implications for capital allocation, in January 2019.

Financial review

A challenging year for the Group has been reflected in weaker results for Smiths News and a disappointing performance from Tuffnells, however we have continued to deliver a positive free cash flow.

"In a challenging year for trading, we have continued to deliver positive cash flow."

Tony Grace
Chief Financial Officer

Continuing adjusted results
Group

Continuing adjusted results £m	2018	2017	Change
Revenue	**1,534.3**	1,594.3	(3.8)%
Operating profit	**33.9**	54.7	(38.0)%
Net finance costs	**(5.5)**	(6.7)	(17.9)%
Profit before tax	**28.4**	48.0	(40.8)%
Taxation	**(5.5)**	(9.9)	44.4%
Effective tax rate	**19.4%**	20.6%	
Profit after tax	**22.9**	38.1	(39.9)%

Continuing adjusted operating profit was £33.9m, down £20.8m (38.0%) on the prior year, and driven by poor performances in both Tuffnells and Smiths News. Smiths News Adjusted operating profit was down by £4.5m to £35.9m, including £5.4m of losses in Pass My Parcel (FY2017: £6.3m loss) for the period up to 23 May 2018, when the Board made the decision to exit the click & collect market. Smiths News benefited from FIFA World Cup trading and network savings, but both fell short of expectations. DMD had a good trading year; although revenue was down, operating profit increased by £0.7m to £3.0m, following actions taken to reduce operational expenditure. Tuffnells reported an operating loss of £5.0m, down £17m on the prior year (FY2017: £12m profit). Tuffnells performance suffered from a more competitive trading environment and inconsistent service standards, resulting in lower parcel volumes, and a sub-optimal trunking and distribution network which drove a higher unit cost per consignment. Other factors included incremental wage and cost pressure, changes in depot management, and a one-off charge for a historical misapplication of National Minimum Wage (NMW) legislation.

Net finance charges of £5.5m (FY2017: £6.7m) were down on prior year. Included within net finance charges are: interest costs on borrowing incurred in the period of £4.1m (FY2017: £4.4m), lower year-on-year as the drawn borrowing facility requirement was favourable from cash flow generation and cash proceeds from the disposal of the Books business; finance lease interest of £0.6m (FY2017: £1.0m); amortisation of bank arrangement fees £0.5m (FY2017: £1.0m); and pension interest costs £0.2m (FY2017: £0.3m).

Adjusted profit before tax was £28.4m, down 40.8% on last year. Taxation of £5.5m resulted in an effective tax rate of 19.4%, effective tax rate was lower than last year due to the reduction in UK corporation tax rate.

Statutory continuing and discontinued results

Group

Statutory continuing results £m	2018	2017	Change
Revenue	**1,534.3**	1,594.3	(3.8)%
Operating (loss)/profit:			
Smiths News	**25.0**	36.1	(30.7)%
DMD	**2.7**	1.3	107.7%
Tuffnells	**(57.7)**	4.3	(1,441)%
Operating (loss)/profit	**(30.0)**	41.7	(171.9)%
Net finance costs	**(5.5)**	(7.5)	26.7%
(Loss)/profit before tax	**(35.5)**	34.2	(203.8)%
Taxation	**(2.6)**	(7.2)	63.9%
Effective tax rate	**(7.3)%**	21.1%	
(Loss)/profit after tax	**(38.1)**	27.0	(241.1)%

Statutory continuing loss before tax of £35.5m is lower to prior year by £69.7m (FY2017: £34.2m profit), primarily driven by: impairment charge relating to goodwill at Tuffnells £46.1m (FY2017: £nil); amortisation of acquired intangibles £7.1m (FY2017: £7.3m); Pass My Parcel exit costs of £6.7m (FY2017: £nil); and network and reorganisation costs of £3.1m (FY2017: £8.0m).

At the divisional level Smiths News Statutory operating profit was £25.0m, down 30.7% on prior year after £10.9m of adjusted items which included Pass My Parcel exit costs of £6.7m, Tuffnells' Statutory operating loss was £57.7m down £62.0m after impairment of goodwill of £46.1m and amortisation of acquired intangibles of £7.1m.

The effective statutory income tax rate for Continuing Operations was (7.3)% (FY2017: 21.1%), as the tax impact of Adjusted items was £2.9m (FY2017: £2.7m).

Statutory continuing and discontinued loss after tax of £47.0m is down by £83.6m (FY2017: £36.6m profit), and Statutory continuing and discontinued loss per share of 19.1p is down 34.0p (FY2017: 14.9p profit). The Statutory continuing and discontinued results are impacted by the sale of the Books business in February 2018 for an enterprise value of £18.7m and a loss of £10.5m on disposal.

As a consequence of the Tuffnells impairment, the disposal of the Books business and the distribution of dividends in the year the net assets on the balance sheet have reduced £71.0m to a reported net liability at 31 August 2018 of £45.9m.

Earnings per share

	Continuing adjusted		Continuing statutory	
	2018	2017	**2018**	2017
Earnings/(loss) attributable to ordinary shareholders (£m)	**22.9**	38.1	**(38.1)**	27.0
Basic weighted average number of shares (m)	**246.0**	245.4	**246.0**	245.4
Basic earnings/(loss) per share	**9.3p**	15.5p	**(15.5)p**	11.0p
Diluted weighted number of shares (m)	**246.7**	247.0	**246.7**	247.0
Diluted earning/(loss) per share	**9.3p**	15.4p	**(15.5)p**	10.9p

Earnings attributable to shareholders on a continuing adjusted basis of £22.9m resulted in an adjusted earnings per share of 9.3p, a decrease of 6.2p on last year, driven by the more challenging trading conditions in Tuffnells, Smiths News network efficiencies savings not being achieved, and continuing losses at Pass My Parcel prior to the decision to exit.

The fully diluted weighted number of shares was 246.7m (FY2017: 247.0m). Fully diluted shares includes a 0.7m diluted share adjustment for employee incentive schemes (FY2017: 1.6m). Including Adjusted items, Statutory continuing earnings per share is down 26.5p to 15.5p (loss per share) (FY2017: 11.0p). Statutory continuing and discontinued loss attributable to shareholders of £47.0m (FY2017: £36.6m profit) resulted in a loss per share of 19.1p, down 34p on FY2017, driven by the loss on disposal of the Books business.

Dividend

	2018	2017
Dividend per share (paid and proposed)	**3.1p**	9.8p
Dividend per share (recognised)	**9.8p**	9.6p

After careful consideration of performance in the year and immediate priorities of the business, the Board has resolved not to recommend a final dividend, leaving the full year dividend as 3.1p paid as an interim dividend in July 2018, a reduction of 6.7p or 68.4% (FY2017: 9.8p).

Smiths News (including Pass My Parcel)

Adjusted figures – £m	2018	2017	Change
Revenue	**1,335.1**	1,383.4	(3.5)%
Operating profit	**35.9**	40.4	(11.1)%
Operating margin	**2.7%**	2.9%	(20)bps

Revenue in the news distribution business was £1,335.1m (FY2017: £1,383.4m) down 3.5%. Newspaper and magazine sales have continued to perform in line with long-term trends, with a relatively stronger performance than expected from newspapers helping to offset weaker magazine sales. Newspaper sales of £841.8m were down 3.9%, with price increases helping to offset volume declines. Combined sales of all magazine categories were down by 3.8%, which includes the benefit of the FIFA World Cup album and sticker sales.

Adjusted operating profit was £35.9m (FY2017: £40.4m) down £4.5m (11.1%). Operating profit was favourably impacted by the FIFA World Cup sales, although the profit from these at £2.8m was materially lower than in previous tournaments. As a consequence of the integration strategy, and the consequent impact on focus and accountability, targeted annual savings of £5m were not achieved. Inflationary pressure in contractor rates costs also adversely eroded operating margins. In addition, operating challenges at the new Hemel Hempstead depot resulted in incremental operating costs throughout the year of £1.0m. Pass My Parcel incurred a net loss of £5.4m in the period up to 23 May 2018 (FY2017: £6.3m), when the decision to exit the business was made by the Board. An additional Pass My Parcel exit charge of £6.7m is reported within Adjusted items.

Financial review continued

Tuffnells

Adjusted figures – £m	2018	2017	Change
Revenue	175.2	183.2	(4.4)%
Operating (loss)/profit	(5.0)	12.0	(141.7)%
Operating margin	(2.9)%	6.6%	(950)bps

Tuffnells had a particularly challenging year, achieving total revenue of £175.2m down 4.4%, (FY2017: £183.2m), and driving an Adjusted operating loss of £5.0m, down £17m (FY2017: £12.0m profit).

In what became an increasingly competitive market, variability in service standards and disruptive price competition for larger customers, led to lower volumes, particularly in the second half of the year. Tuffnells did not therefore benefit from its usual seasonal peak, which in previous years has contributed a substantial proportion of annual profit. The decline in parcel volumes combined with the semi-fixed operating cost base at a depot level resulted in incremental operational inefficiencies within our trunking network. Separately, operational costs rose from increases in the National Living Wage, higher sub-contractor rates and continuing challenges in the recruitment of drivers.

As part of the integration strategy, Tuffnells handled Pass My Parcel deliveries in those areas outside of Smiths News' territories. The combination of delivering large consignments of irregular dimension and weight (IDW) and handling, much smaller packets for Pass My Parcel, resulted in further operating inefficiencies. The exit of the Pass My Parcel proposition will allow Tuffnells to give greater focus efficiency in its core trunking and delivery routes.

DMD

Adjusted figures – £m	2018	2017	Change
Revenue	**26.5**	28.8	(8.0)%
Operating profit	**3.0**	2.3	30.4%
Operating margin	**11.3%**	8.0%	330bps

DMD is our specialist distributor of printed and digital media to airlines and travel points. Revenue of £26.5m (FY2017: £28.8m) is down 8.0%, due to reduction in newspaper distribution arrangements with two publishers and one established airline customer ceasing to provide newspapers. Adjusted operating profit of £3.0m (FY2017: £2.3m) is up 30.4%, due to cost efficiencies from prior year restructuring activities resulting in a combination of recurring savings of £0.5m and a one-off benefit of £0.2m.

Adjusted items
Continuing Operations

£m		2018	2017
Network and reorganisation costs	a	**(3.1)**	(8.0)
Property	b	**0.7**	(0.6)
Acquisition and disposal costs/income	c	**–**	2.2
Amortisation of acquired intangibles	d	**(7.1)**	(7.3)
Pension	e	**–**	0.7
Settlement of interest rate swap	f	**–**	(0.8)
Impairment of Tuffnells goodwill	g	**(46.1)**	–
Pass My Parcel exit costs	h	**(6.7)**	–
Impairment of tangible assets	i	**(1.1)**	–
NMW regulatory compliance	j	**(0.5)**	–
Total before taxation		**(63.9)**	(13.8)
Taxation		**2.9**	2.7
Total after taxation		**(61.0)**	(11.1)

The Group incurred a total of £61.0m of Adjusted items on a continuing basis, after tax (FY2017: £11.1m).

This comprises:

(a) Network and reorganisation costs
There are £3.1m (FY2017: £8.0m) network and reorganisation costs. In the current year this includes abortive integration costs of £1.6m (FY2017: £nil) with regard to the integration programme announced at the end of the previous financial year. There are further costs of £1.8m (FY2017: £nil) relating to redundancies announced in August 2018 arising from the decision to streamline head-office functions, which is separate to the network restructuring in the previous financial year. There is a credit of £0.3m relating to the release of the remaining redundancy provision related to network restructuring.

The total of £8.0m in the prior year comprised: a £4.0m charge for the FY2017 redundancy provision relating to network restructuring; £2.0m related to network rationalisation costs incurred in the Smiths News network; £0.6m related to the restructuring of the Smiths News joint venture FMD Limited; £0.5m in rationalising overseas operations in DMD; and the remaining £0.9m related to redundancy costs within Smiths News and Tuffnells.

Costs associated with network and reorganisation are considered Adjusted items given they are part of a strategic programme to drive future cost savings and are significant in value to the results of the Group.

(b) Property
There is a £0.7m credit (FY2017: £0.6m charge) relating to property costs. During the year the Group made the strategic decision to transfer the previously vacant Slough depot to the Tuffnells business, resulting in a credit from the release of its onerous lease provision of £0.7m (FY2017: £0.9m charge relating to three properties). In the prior year £0.3m of reversionary lease provisions were released as they were no longer required. Onerous charges on property are charged through Adjusted items as they form part of the Group's strategic restructuring programme. The reversal of charges has also been made in Adjusted items for consistency.

(c) Acquisition and disposal costs
There are £nil (FY2017: £2.2m) costs in the current year relating to acquisition and disposal costs. Prior year acquisition costs included the release of deferred contingent consideration which was payable conditional on the financial performance of Tuffnells and the continued employment of its former owners. This amounted to £2.7m comprising equity-based amounts and amounts provided for cash rewards (see note 27 to the Group Financial Statements), which were offset by £0.5m fees relating to disposal activity in the prior year that did not meet the criteria to be included within discontinued. 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 of acquired intangibles
A charge of £7.1m (2017: £7.3m) has been recognised relating to amortisation of acquired intangibles. This is considered an Adjusted item as it allows comparison between segments as shown in note 2 to the Group Financial Statements.

(e) Pension
There is £nil (2017: £0.7m) of pension credits in the current year. The prior year £0.7m pension credit relates to a trivial commutation of benefits to members in the Group's section of the WH Smith Pension Trust. The prior year pension credit is not considered to be part of normal operations and is therefore considered to be an Adjusted item.

(f) Settlement of interest rate swap
There is £nil (2017: £0.8m) relating to settlement of interest costs. The costs related to the settlement of swap instruments after the Group took a strategic decision to no longer enter into hedging arrangements. The settlement followed a change in Treasury Policy (see note 20 to the Group Financial Statements). The cost is classified as an Adjusted item because it is of significant value and is not expected to be recurrent in nature.

(g) Impairment of Tuffnells goodwill
During the year management reviewed the carrying value of Tuffnells goodwill and concluded that an impairment charge of £46.1m (2017: £nil) was required. The recoverable amount of goodwill (in both the current and prior year) is calculated with reference to its value in use based on future cash flow projections. The key assumptions used in the calculation are disclosed in note 14 to the Group Financial Statements. It is considered an Adjusted item due to its one-off nature and significant value.

(h) Pass My Parcel exit costs
Following a review of the Pas My Parcel proposition on 23 May 2018, the Board decided to terminate the contracts in relation to Pass My Parcel and close the division, as a result of this decision a charge of £6.7m (2017: £nil) was booked.

Management concluded that losses on winding down the division represented an onerous contract with a cost of £4.7m recognised which comprises the forecast excess of costs over income from the date the Group took the decision to close the division. It is considered an Adjusted item due to its one-off nature and significant value. Of this balance, £2.5m remains in provisions to cover the costs to close all contracts (see note 24 to the Group Financial Statements). In the period from 1 September 2017 to the date of the decision to close, Pass My Parcel incurred losses of £5.4m (these losses were included in our Adjusted operating results).

A further £2.0m of impairment charges split £1.0m tangible and £1.0m intangible were recognised to write off the non-current assets relating to the division (notes 13 and 14 to the Group Financial Statements).

(i) Impairment of tangible assets
The Group took the decision to consider the sale of the Jack's Beans division to focus on its core businesses, bids received indicated an excess of net book value of £1.1m, therefore, the Group has impaired the assets and moved them into non-current assets held for sale. Given the magnitude, the one-off nature and the Group's strategy to focus on its core businesses it is considered to be an Adjusted item.

(j) NMW regulatory compliance
The Group has been in discussion with HMRC regarding an historical underpayment in relation to a misapplication of NMW legislation in Tuffnells. Although dialogue continues, a provision amounting to £1.3m has been made in the financial statements in respect of any potential liabilities, of which £0.5m relating specifically to the estimated fine is classified as adjusting due to its one-off nature. £0.8m has been included within Adjusted operating results as it did not meet the definition of an Adjusted item.

Discontinued Adjusted items

(Loss)/profit on disposal of subsidiary
On 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m, full details are provided in note 12 to the Group Financial Statements. In the prior year, on 30 June 2017, the Group completed the sale of the Education & Care business at a profit of £19.0m full details are included in note 12 to the Group Financial Statements.

Reorganisation costs
Reorganisation costs of £0.1m (2017: £0.3m) were incurred by the Books business during the year. Reorganisation costs are considered to be Adjusted items as they are part of the Group's wider restructuring programme to deliver cost savings and were incurred prior to the disposal, these are disclosed separately from other reorganisation costs on the basis the Books business was discontinued.

Amortisation and impairment of discontinued intangibles
Included within Discontinued Operations results are items of £nil (2017: £11.2m) relating to amortisation and impairment of discontinued intangibles. The prior year includes impairments of £9.9m relating to the Books business and £1.3m of amortisation of acquired intangibles. The impairment is considered to be adjusting due to magnitude, the one-off nature and as it does not relate to underlying trade. Amortisation of acquired intangibles is considered adjusting as it skews the results of the non-acquired businesses.

Financial review continued

Continuing free cash flow

Free cash flow generation remains one of the Group's key strengths. Free cash flow includes finance leases, Adjusted items, interest and tax; it excludes pension deficit recovery payments.

£m	2018	2017
Operating (loss)/profit continuing (including Adjusted items)	**(30.0)**	41.7
Adjusted items	**63.9**	13.0
Depreciation and amortisation	**11.9**	11.7
Adjusted EBITDA	**45.8**	66.4
Working capital movements	**7.7**	0.4
Capital expenditure	**(8.5)**	(13.8)
Finance lease payments	**(3.8)**	(4.2)
Net interest and fees	**(5.8)**	(4.4)
Taxation	**(6.5)**	(9.1)
Other	**(0.4)**	0.3
Free cash flow (excluding adjusted items)	**28.5**	35.6
Adjusted items – cash effect	**(8.3)**	(6.9)
Free cash flow	**20.2**	28.7

We have focused on cash performance in the period, with the Group generating £20.2m in free cash flow, a decrease of £8.5m (29.6%) on the prior year.

Adjusted EBITDA of £45.8m compared to FY2017 of £66.4m, is down by 31.0% driven by trading performance, although the increase in capital expenditure since acquiring Tuffnells in December 2014 is now resulting in marginally higher depreciation and amortisation charges of £11.9m (FY2017: £11.7m).

The decrease in working capital in the period was £7.7m (FY2017: decrease £0.4m) driven largely by favourable timing of weekly receipt and monthly payment cycles relative to the year-end date.

Capital expenditure in the year was £8.5m (FY2017: £13.8m) a decrease of £5.3m. New and existing depot and network investments were £2.1m (FY2017: £5.9m) a decrease in the year as no new depots were opened. Technology and equipment investment was £4.7m (FY2017: £5.2m).

Cash tax costs of £6.5m (FY2017: £9.1m) have decreased in the year reflecting the decline in trading performance.

Net interest and fees of £5.8m (FY2017: £4.4m) has increased by £1.4m following bank arrangement fees of £1.6m which were paid, on the agreement of a new £175m bank facility concluded in October 2017. Bank interest paid was £4.2m, down £0.2m on prior year, as the average net debt requirement is lower compared to last year following the disposal of the Education & Care business in June 2017 and the Books business in February 2018.

The total net cash impact of Adjusted items was £8.3m (FY2017: £6.9m). This comprised £6.8m (FY2017: £5.4m) of network reorganisation and restructuring costs.

Net debt

£m	2018	2017
Opening net debt	**(82.1)**	(141.7)
Free cash flow	**20.2**	28.7
Finance lease creditor movement	**3.2**	2.2
Pension deficit recovery	**(4.7)**	(4.8)
Dividend paid	**(24.1)**	(23.6)
Disposal proceeds	**12.9**	58.2
Discontinued disposal proceeds to repay overdraft	**(12.7)**	–
Discontinued Operations cash flow	**3.9**	(1.1)
Closing net debt	**(83.4)**	(82.1)

Net debt closed the period at £83.4m, of which £5.3m (FY2017: £8.5m) relates to finance leases.

Net debt increased on the prior year and our Net debt/EBITDA ratio rose to 1.8x (FY2017: 1.2x). The cash impact of the deterioration in EBITDA from trading challenges was partially offset by the disposal proceeds from the sale of the Books business. The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing of around £40m which utilises the Revolving Credit Facility (RCF) of £125m. This results in a predictable fluctuation of net debt during the course of the month compared to the closing net debt position. However, the free cash flow generation (after Adjusted items) in year was not sufficient to cover the announced dividend payments of £24.1m (FY2017: £23.6m).

Pension funding remained consistent at £4.7m (FY2017: £4.8m). Pension deficit repair payments are considered as a non-free cash flow item.

We were comfortably within our bank facilities of £175m and our covenant ratios at year end. In October 2017, we entered 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 £583.1m and had an actuarial deficit of £17.5m as at 31 March 2015. As at 31 August 2018, the IAS 19 surplus of £154.5m (FY2017: £149.3m) 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 £5.1m on the balance sheet (FY2017: £8.7m).

The Tuffnells defined benefit scheme has assets of £9.6m and an actuarial deficit of £4.3m as at 1 April 2016. As at 31 August 2018, the IAS 19 deficit was £2.2m.

The total cash contribution of defined benefit schemes, which include pension administration fees and disclosed within the cash flow statement, amounted to £4.7m for FY2018 (FY2017: £4.8m).

Discontinued Operations

On 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m. The sales price was lower than anticipated, but allows the Group to focus on its core operations. Full details are provided in note 12 to the Group Financial Statements. In the prior year, on 30 June 2017, the Group completed the sale of the Education & Care business at a profit of £19.0m full details are included in note 12 to the Group Financial Statements.

Discontinued Operations contributed Adjusted operating profit of £1.8m for the period they remained part of the Group (HY2017: £3.3m – of which the Books business contributed £1.6m and the Education & Care business £1.7m).

The Discontinued Operations contributed £1.7m profit before tax during the year for the period they remained part of the Group (FY2017: £2.0m).

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 and includes disclosure regarding its three-year viability assessment based on the principal risks.

Principal risks

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

The Audit Committee report describes how we manage risk from Board level and throughout the organisation. Further details can be found on pages 34 to 39. 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 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 Annual Report 2017:

- the risks relating to failure to deliver robust financial performance, failing to attract, engage and retain talent, and inadequate processes in place to support people initiatives are new;
- the risk relating to constraints on capacity and/or failure to execute restructuring and other change management programmes has been removed and incorporated into the existing risk relating to the failure to define the Group's strategy and direction and a new risk relating to the loss of key people, lack of engagement, and loss of depth knowledge and specialist skills; and
- the risk relating to a non-adherence to transport operator licence condition has been removed as the mitigating actions undertaken by management have reduced the materiality and foreseeability of the principal risk and it remains well managed.

These risks are 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
1. Failure to refine and execute the Group's strategy and direction – The risk of not establishing business plans and a clear vision for the Group impacts employee engagement, financial returns, external confidence and shareholder perception.	No change	Sales and/or profit expected may not be met and/or the Company's reputation and support for a recovery plan are challenged. The change management culture required in the short term for restructuring may result in reduced performance and financial returns.	Performance to the business plan is reviewed regularly using a balanced scorecard key performance indicators (KPI) framework. This ensures effective and timely monitoring of performance with actions taken in the event of shortfalls to expectations. Financial and operational metrics are considered along with risk assessments and impact on management before remedial action is taken. Accountability at leadership level is redefined.
2. Tuffnells – Failing to achieve desired customer experience and service levels, and/or not adapting to the competitive environment – The risk of not maintaining customer service standards and/or not understanding and adapting to new technologies, competitors and demographics which drive change in customer behaviour and/or that result in deep and speedy structural market changes.	Increased	Impact on growth and profitability within Tuffnells if consistent service standards are not understood and addressed, and/or if organisational efficiency goals are not met.	The team is being strengthened with industry skills and there are various change programmes to improve business efficiency. More work is planned to understand the changes in customer expectations and to improve customer service, in particular around the operating model, management information, supporting technology, IT infrastructure and safe workplace environment.
3. Failure to adequately monitor financial performance and/or delays in the Group's financial performance recovery – The risk that the Group does not achieve or monitor financial performance or meet forecast commitments, as well as the associated risk that the current financial position does not allow for planned investment programmes and business improvements to be undertaken.	**New**	Impact on ability to meet financial commitments and ability to invest in the programmes and improvements that are essential to sustainable performance in the medium to long term.	Annual budgets and forecasts, supported by regular financial management reporting, take into account the current financial position of the Group, allowing for or changing objectives to meet short and medium-term financial targets, as well as longer-term aspirations.

No change Decreased Increased **New** New Risk

Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
4. Failing to optimise profitability within Smiths News – The risk of failing to retain major contracts in Smiths News at acceptable rates and manage costs in a declining market impacts current and projected business performance.		Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In the newspaper and magazine distribution industry, publishers typically award five-year contracts – as the market leader Smiths News is well placed during the next round of contract negotiations with publishers. Strong relationships across the supply chain help the business to understand and demonstrate its strengths for the benefit of its suppliers and customers and in particular to build on the service proposition as central to achieving excellence.
5. Failing to attract, engage and retain talent within a high performance and values-based culture – The risk that we do not attract the people and skills we need to take the Group forward and that employees are not motivated towards or are disengaged from the task in hand.	**New**	Impact on the ability to address the strategic priorities and deliver the forecast performance for the Group.	We seek to offer market competitive terms to ensure talent remains engaged. We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Group's culture and core values. Regular surveys are undertaken to monitor the engagement of employees.
6. Inadequate processes in place to support People initiatives – The risk that the People processes and systems do not support the changes in culture and expertise that is required, or do not support compliance to legislation.	**New**	Impact on the ability to address the control and efficiency improvements and change programmes necessary to changes in culture and to support compliance.	A Group-wide People system has been procured and will be introduced in 2019. Management information (e.g. compliance with labour-related regulation, staff turnover etc.) has been introduced.
7. Failing to meet high health and safety standards – The risk of inadequate health and safety framework, and insufficiently enforcing a health and safety culture results in serious injury to employees and/or the public or a breach of relevant health and safety legislation.		In addition to the danger to staff or the public, 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 Team meetings. A dedicated Health & Safety Team executes improvement programmes and promotes a safety culture. The Group continues to invest in improvements, including recruitment of a new H&S Director and better management reporting. The aim continues to be towards consistency in standards and culture across the Group.
8. Increased labour market constraints and costs – The risk of legislative changes or interpretation, coupled with EU Exit and political uncertainty drives demographic or legislative changes or interpretation impacting the ability to recruit and retain warehouse and delivery contractors resulting in higher attrition risk in warehousing and distribution and/or increasing liabilities and costs.		In the event of any legal claim as to worker status by consultants, subcontractors 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 implications of EU Exit include a decreasing pool of available, suitably qualified employees and subcontractors.	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 EU Exit on employment risks are unknown at the date of this report but are being tracked. Legal developments are monitored to ensure that the business maintains compliance with legislation and best practice. Workforce planning initiatives including apprenticeship and training programmes, such as Warehouse to Wheels, are supporting the longer-term mitigation of driver shortage.
9. Deterioration of the macroeconomic environment – The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with EU Exit, 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 or magazines and/or see a reduction in parcel volumes. Uncertainty from EU Exit may affect the business in both the short and medium term on trade arrangements, future capital investment strategies and resourcing costs.	Annual budgets and forecasts take into account the current macroeconomic environment to set expectations internally and externally, allowing for, or changing objectives to meet, short and medium-term financial targets.

Statement of viability

1. How Connect Group PLC assesses its prospects

Connect Group PLC's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 11. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial review on pages 12 to 17. The Group manages its financing by structuring core borrowings and the availability of facilities for draw down. The Group's prospects are assessed primarily through its business planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecast future funding requirements over the assessment period of three years. The most recent was signed off in October 2018, and it is part of the Board's role to consider the appropriateness of any key assumptions, taking into account the external environment and business strategy.

2. The assessment period

The directors have determined that the three years to August 2021 is an appropriate assessment period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above, and reflects the directors' best estimate of the future prospects of the business including the nature and potential impact of the principal risks that face the business. The Board noted in considering the appropriate assessment period that the Group's current banking facilities are due to expire in January 2021. The Board also considered whether there are specific foreseeable events relating to the principal risks that could occur beyond the three-year period that should be taken into account when setting the assessment period and concluded there were none. In the Board's assessment of viability, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required (see note 20 to the Group Financial Statements on page 104).

3. Assessment of viability

In generating its plan the Board has considered the overall strategy of the Group, the principal risks and uncertainties inherent within the business, as well as making a number of key strategic planning assumptions which are noted below:

1. No significant impact on trading as a result of the EU Exit or other political change.
2. Modest revenue growth in Tuffnells in the assessment period.
3. Delivery of margin improvement in Tuffnells driven by efficiencies both in operating and overhead costs in the assessment period.
4. Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period.
5. Retention of major contracts in Smiths News at rates which maintain acceptable margins.
6. No major changes in working capital profile.
7. Successful renewal of banking facilities in January 2021.
8. No significant acquisitions or disposals in the assessment period.

In making this statement, the directors 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. This included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the Board considered the conclusions from their regular review of risk management and internal control systems (as described on pages 37 to 38).

To make the assessment of viability, stress scenarios have been tested over and above those in the business plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 18 and 19). The scenarios were overlaid into the business plan to quantify the potential impact of one or more of these crystallising over the assessment period. Whilst each of the principal risks has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the business plan. These were:

Scenario modelled	Link to principal risks
Scenario 1 **Customer attrition as a result of poor customer service levels and not adapting to the competitive environment**	
We have assumed customer attrition in Tuffnells exceeds new customers, resulting in revenue not exceeding £175m.	Risk 2: Failing to achieve desired customer experience and service levels.
Scenario 2 **Major publisher business failure**	
The Group plan assumes all major publishers will continue to operate over the forecast business. We have modelled a scenario that reflects one of the major publishers going out of business or moving to a digital only market.	Risk 4: Failing to optimise profitability within Smiths News.
Scenario 3 **Forecast savings targets are not met**	
The business plan assumes both operational and overhead efficiencies in Tuffnells as part of delivering its turnaround as well as overhead savings in Smiths News throughout the period. We have assumed only 50% of these improvements are achieved.	Risk 3: Failure to adequately monitor financial performance and/or delays in the Group's financial performance recovery.
Scenario 4 **Changes to the gig economy**	
The Group operates a business model that uses a mix of employed operatives, subcontractors and agency staff. If employment law is changed which renders the mix unworkable in future, then this would potentially lead to increased cost. We have modelled scenarios that change this mix and lead to increased cost.	Risk 8: Increased labour market constraints and costs.
Scenario 5 **Major health and safety incidents**	
We considered the financial and reputational impact of a series of health and safety incidents, modelling an increased cost and regulatory fines such as from the Health & Safety Executive.	Risk 7: Failing to meet high health and safety standards.
Scenario 6 **Reverse stress test – revenue loss, margin erosion and working capital outflow in combination to covenant breach**	
This combines an extreme series of factors in unison to illustrate what would result in a covenant breach.	Multiple risks in combination.

As noted above, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required.

The scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; however, multiple measures are in place to prevent and mitigate any such occurrences from taking place.

In each of the stress scenarios 1–5, the Group would be able to continue operating within existing debt covenants and liquidity headroom. Scenario 6 required such an extreme set of factors in unison that it is considered to be a very remote likelihood and therefore does not represent a realistic threat to the viability of the Group but rather illustrates the factors that would result in a banking covenant breach. The directors considered mitigating factors that could be deployed to counter the negative effects of the crystallisation of each of these risks. The main actions included reducing any non-essential capital expenditure and operating expenditure on projects, as well as not paying dividends.

The Board also considered the impact of the EU Exit on the business and does not foresee any significant negative impact which will impact on the viability assessment.

4. Viability statement

Taking into account the Group's current position and principal risks and uncertainties, the directors confirm that 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 three years to August 2021.

5. Going concern

The directors also considered it appropriate to adopt the going concern basis in preparing the Group Financial Statements which are shown on page 78.

Corporate responsibility

The Group's operations and corporate governance are underpinned by a commitment to responsible practice. In having clear policies we seek to ensure that all stakeholders share an awareness of our impact on the environment, workplace, marketplace, and the communities in which we operate. Driving continual improvement, we set targets and establish focus areas across the business, reviewing progress throughout the year, with regular updates to the Executive Team and Board.

Eugene Howson of Smiths News skydiving from 13,000 feet in support of NewstrAid

Community: Raising money for good causes

Each operating business, as well as our central support functions, has objectives that are integrated into a balanced scorecard for managing progress. For areas requiring particular expertise, such as emissions and energy reduction, we have dedicated teams with the requisite knowledge and experience. In addition, we respond proactively to changes in legislation and best practice, participating in cross industry initiatives to improve responsible processes across our supply chains.

Environment

Our goal is to gradually and sustainably reduce our impact on the environment. In support of this, the Group has endorsed an environmental policy statement, which encourages high environmental standards, the responsible use of resources and the minimisation of waste.

As a national distributor, the Group's environmental impact is most significantly influenced by our vehicle emissions, energy consumption at our locations, and waste and recycling of product and packaging. Consequently, these represent our primary areas of focus for environmental impact improvement.

By conducting regular review of our network and transport operations we aim to continually improve route optimisation, reducing the number of miles travelled with a consequential benefit to total emissions.

This year, we have replaced 131 old Euro 5 vehicles with new Euro 6 equivalents; the new vehicles improve the quality of emissions, reducing nitrous oxide levels by circa 80%. Driver training has focused on improving environmental and safety awareness, encouraging behaviours that reduce fuel consumption and emissions – examples of which include a reduction in harsh acceleration, rapid breaking and the unnecessary idling of engines.

At our operating locations we continue to seek ways to reduce energy consumption, including the conversion to LED lighting at our depots. The installation of solar panels at our new Sheffield depot is a trial that we will review for other locations on a case-by-case basis. The energy provided by the solar panels reduces energy from the grid and also charges zero emissions fork lift trucks that service the primary fleet at the depot.

In relation to waste materials and packaging, the Group is now achieving a recycling rate of 76%, up from 61% in Q4 of FY2017. This is a strong result and material improvement over two years. The Smiths News business also successfully recycles over 98% of the unsold newspapers and magazines that are collected from our retailers on a daily basis.

In July 2018, the Group's Carbon Reduction Commitment (CRC) 2017–2018 Annual Report was submitted and the appropriate numbers of allowances have been ordered to satisfy our compliance obligation. The reduction of our CRC allowances over the last five years demonstrates the progress the Group has made in reducing energy consumption:

CRC year	Allowances
2012–2013	9,698
2013–2014	8,141
2014–2015	7,854
2015–2016	8,389
2016–2017	7,647
2017–2018	6,141

Carbon emissions data

The Group's carbon emissions is reported for the year 1 March 2017 to 28 February 2018, this being consistent with previous reporting and providing a consistent benchmark for comparison.

Fuel type/scope	1 March 2016–28 February 2017 tonnes of CO_2e	**1 March 2017–28 February 2018 tonnes of CO_2e**
Scope 1	43,045	**41,145**
Scope 2	5,793	**4,693**
Scope 3	38,879	**38,676**
TOTAL	87,717	**84,513**

Greenhouse gas (GHG) emissions intensity ratios

	Reporting year	CO_2e tonnes per £1m turnover	CO_2e tonnes per employee	CO_2e tonnes per square metre of premises
Intensity ratios	1 March 2017–28 February 2018	51.26	16.26	0.41
	1 March 2016–28 February 2017	47.00	15.07	0.41

Notes

The data collected for this report is in respect of the period 1 March 2017 to 28 February 2018, being the period that the Group previously reported for the Carbon Trust Standard certification. The data includes all material emissions defined as 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 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.

Smiths News recycles over 98% of unsold newspapers and magazines

Environment: Recycling and reducing waste

Corporate responsibility continued

Community

We encourage our colleagues to take an active involvement in charity and community causes. In support of this goal, the Group has adopted charitable giving and volunteering policies, and we see an active involvement from colleagues at all levels. From volunteering their time, to baking cakes and running marathons, our teams support a multitude of the causes and communities that matter to them. We believe that this is good for our businesses too; playing an active role in the communities we serve helps strengthen our relationships with both colleagues and customers, as well as supporting an awareness of a healthy work-life balance which is important for wellbeing.

The Group's 'Pass It On' campaign is a highlight of our year, supporting homeless people across the UK. In December 2017, our campaign visited 14 cities, distributing over 6,000 items of warm clothing, sleeping bags and toiletry essentials to over 1,200 people in need. The programme is run by volunteers from across the Group liaising with 12 homeless charities and drawing on support from our industry partners. The campaign was relaunched in the summer of 2018 to recognise that homelessness is an issue all year round and not just at Christmas. Visiting five cities, and coinciding with the summer heatwave, our volunteers combined fundraising activities with the distribution of summer items such as sun cream, toiletries and hot weather clothing.

Data protection and GDPR

The Group is committed to the secure management of data, safeguarding the rights of the individuals and organisations for which information is held. Our policies and procedures seek to ensure we manage information safely and responsibly, minimising risks to the Group, our stakeholders and business partners. We communicate our policies regularly, conducting regular compliance checks and providing training as necessary.

In preparation for the introduction of the General Data Protection Regulations (GDPR) in May 2018 the Group reviewed and revised its policies and standard processes relating to the processing of personal data. In addition, we conducted a comprehensive programme of training, data cleansing and due diligence. This helped to raise awareness of the new regulations among key stakeholders and identified the key risks and focus areas for remediation.

The consequent action planning programme has focused attention on the key risk areas, including, privacy policies and processes, training and awareness, breach management procedures, subject access requests and the effective retention and disposal of data.

Actions taken, amongst others, include:

- over 200 colleagues in roles with access to key personal data have completed in-depth 'GDPR Processor' training;
- a further 850 colleagues with computer access to key systems have completed an 'Introduction to GDPR' eLearning course;
- internal policies and procedures have been reviewed and where necessary improved to comply with new obligations;
- revised terms and conditions have been communicated to all customers and suppliers, and to third parties processing personal data on the Group's behalf; and
- structured data purges have been implemented across the organisation.

The Board has taken an active role in the governance, preparation and action planning of the GDPR programme, and continues to monitor the Group's data security performance on a regular basis.

Workplace responsibility, diversity and human rights

The Group is committed to responsible practice throughout the workplace and embeds this in its policies and procedures which encompass areas such as equality and diversity, modern slavery and ethical trading.

Regular reviews ensure that updates are made in response to business initiatives and legislation; any significant changes are noted and discussed with the Executive Team and the Board. Health and safety performance is reviewed regularly by the Board and the Executive 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, in circumstances where employees have or develop a disability while working for the Group, every effort is made to help continue their employment and provide appropriate training 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 its broadest sense and is committed, in particular, to improving the balance of gender composition over time. The gender composition across the Group as at 31 August 2018 was:

	Male	%	Female	%	Total
All employees[1]	4,012	77%	1,187	23%	5,199
Board of Directors	5	83%	1	17%	6
Senior managers[1]	6	75%	2	25%	8

1. Senior managers comprises the Executive Team (excluding the executive directors) and other senior managers, with responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group.

In November 2018, the Board reviewed and refreshed the Group's Diversity and Inclusion Policy, a copy of which is available on the Company's website. In addition, the Group has taken steps to establish a Diversity & Inclusion Council, with the intention of setting annual objectives and monitoring diversity performance against agreed metrics. The Council will report to the Nominations Committee on the progress against these objectives and the effectiveness of initiatives undertaken in the year, making recommendations on further actions.

The Group 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.

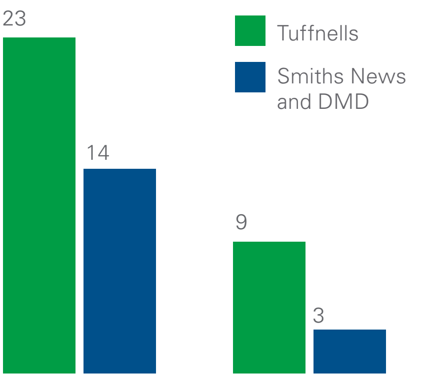
To encourage staff to raise any matters of concern, the Group operates a confidential 'speak up' whistleblowing telephone line. All concerns are carefully investigated and any significant matters are brought to the attention of the Board. This year we have refreshed our publicity of the speak up line, to increase the awareness among colleagues of this facility, and more generally to encourage a culture of appropriately calling-out concerns.

Colleague engagement

Our approach and policies ensure we communicate regularly at all levels of the organisation, keeping colleagues informed of business performance and other matters of relevance in their roles and the wider workplace environment. In reaching a dispersed workforce we use a combination of newsletters and posters, digital communications, face to face business briefings, and 'town hall' meetings with senior leaders. The Group's intranet portal gives colleagues access to a range of news, information and policies – and allows for feedback and queries to be channelled and answered swiftly. Our goal is a fully engaged workforce, aligned and actively contributing to the values and objectives of the Group.

In June 2018, the Group conducted an all-colleague engagement survey, with a response rate of 84%. The survey explored and measured a range of engagement factors including involvement in decision-making, management style and support, information 'to do my job', workplace communication and wellbeing. Headline results show that 36% of colleagues are fully engaged and only 1% disengaged from the Company's goals and their workplace objectives. Actions plans are being developed to address areas of opportunity and share best practice across the Group. Looking ahead, we will continue to survey colleagues, address concerns and communicate progress as one of our key non-financial KPIs.

FY2018 RIDDOR by severity



> Seven-day injury RIDDOR | Specified injury RIDDOR

	2017	2016	2015
Specified injuries	10	10	10
Injuries resulting in over seven days absence from work	41	41	52
All RIDDORs[1]	51	51	62

1. RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

In order to gather views and consult more widely with our people we are introducing Colleague Forums across the Group. The forums are structured in a cascade of local, regional and national groups with the purpose of gathering a wide range of views and adapting key initiatives and strategy accordingly. Members of the forums are nominated and elected by the colleagues they represent.

A further Colleague Advisory Forum will be chaired by one of the non-executive directors and will meet with the Chief Executive Officer on a regular basis. Its purpose and direct support of both the Chief Executive Officer and one of the non-executive directors is to give the Board direct access to the important views and voice of frontline colleagues, and to act in a consulting role on major business and people-related initiatives.

2018	Smiths News and DMD	Tuffnells	Group
Specified injuries	2	9	11
Injuries resulting in over seven days absence from work	14	24	38
All RIDDORs[1]	16	33	49

We are introducing colleague forums across the Group

Workplace: Colleague engagement

Health and safety

The number of reportable accidents across the year is broadly in line with FY2017. This is encouraging in the light of the improvements to recording systems and the establishment of a 'reporting culture' which mandates and supports the logging of all incidents, however small. With the support of health and safety practitioners we review all recorded accidents, near misses and any concerns raised by colleagues in pursuit of continual improvement to our processes and performance.

The Board is committed to achieving the highest standards of health and safety, ensuring that appropriate resources are available for improvements to our culture, performance and practice. Each operating business is supported by specialist health and safety teams that provide guidance, training and support in relation to its particular risks and priorities. A Health and Safety report is provided to the Board on a standing item basis; and the Audit Committee and Board each conduct regular reviews of incidents, trends and overall performance. The result is a continual focus on health and safety at all levels.

The Group has invested over £5m in the last two years on a range of health and safety, and fleet improvements at our Tuffnells depots. This includes reviews and improvements to the operational environment at every depot, with a particular focus on high-risk areas, such as loading stations and dock-edge controls. Recognising that behaviours are equally critical to long-term improvement we have maintained our investment in training. Significant programmes in the year included 650 drivers undertaking company funded driver CPC training and an additional 128 colleagues being trained in the specialist safety requirements for shunter trailers.

On 11 September 2018, the Group was fined £1.5m in relation to a fatality at Tuffnells' Brierley Hill depot in January 2016. The Group fully cooperated with the Health & Safety Executive throughout its investigation and has taken measures to minimise the possibility of a reoccurrence of a similar nature. Our subsequent review of the incident and wider operating risks at our locations has informed our policy and procedures, which underpin our goal of constant vigilance and best practice in what are fast moving operational workspaces.

Approval

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

Gary Kennedy
Chairman
6 November 2018

Board of Directors

Gary Kennedy
Chairman
N R

Year of appointment
2015

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.

Other current appointments
- Greencore Group plc, Chairman
- Green REIT plc, Chairman

Jos Opdeweegh
Chief Executive Officer
D AP

Year of appointment
2018

Background and experience
Jos started his career in the financial services industry before moving on to various senior executive and board roles within the logistics and distribution industry, including President and Chief Executive Officer of Syncreon, Chairman and Chief Executive Officer of Americold Realty Trust and Americold Logistics and Caterpillar Logistics Services (now known as Neovia Logistics). In April 2016, Jos became the Chief Executive Officer of Premier Farnell PLC, a specialised high service distributor of technology products, until its sale to Avnet Inc. in October of that year.

Other current appointments
- None

Tony Grace
Chief Financial Officer
D AP

Year of appointment
2018

Background and experience
Tony joined the business on an interim basis in June 2018, replacing David Bauernfeind as Chief Financial Officer. Following a successful induction into the Group, Tony was subsequently appointed to the Board on 5 November 2018. Tony brings extensive and relevant financial and business transformation experience, most recently as Chief Financial Officer at Yodel Delivery Network and previously in senior finance and operational roles at Virgin Media and Telewest.

Other current appointments
- None

Jonathan Bunting
Chief Executive Officer of Smiths News

Year of appointment
2010

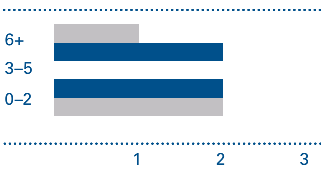
Background and experience
Jonathan joined WH Smith News in 1994. He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001. In April 2014, Jonathan became Managing Director of the Connect News & Media division and subsequently Chief Operating Officer in September 2017. With effect from 1 October 2018, following a decision to re-establish business unit leadership, Jonathan assumed the role of Chief Executive Officer of Smiths News, including responsibility for DMD.

Other current appointments
- None

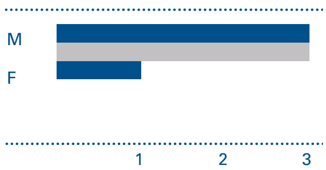
Board diversity
The Board recognises the benefits of diverse skill sets, capabilities, backgrounds and experience to the effective functioning of the Board and delivery of strategy.

Key: ■ Executive ■ Non-executive

TENURE (YEARS)



GENDER



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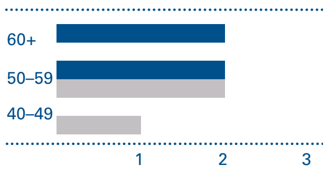


Mark Whiteling
Senior independent non-executive director
A N R

Year of appointment
2017

Background and experience
Mark was appointed as an independent non-executive director and Chair of the Audit Committee on 1 September 2017 and succeeded Andrew Brent as the Senior Independent Director on 23 January 2018 when he stepped down from the Board. Mark is currently the Chief Financial Officer of Interserve PLC and formerly was the Deputy Chief Executive Officer and former Chief Financial Officer of Premier Farnell plc (until June 2016). He has extensive 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 a non-executive director of Future plc until December 2014 and the Senior Independent Director of Hogg Robinson Group PLC until July 2018, in both cases acting as chair of their respective audit committees and member of their respective nominations and remuneration committees.

Other current appointments
- Interserve PLC, Chief Financial Officer and executive director

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

Year of appointment
2015

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

Other current appointments
- SThree PLC, senior independent non-executive director, chair of remuneration committee and member of the audit committee and nominations committee
- British Heart Foundation, chair of remuneration committee and member of nominations committee and Advisory Council

Michael Holt
Independent non-executive director
A N R

Year of appointment
2018

Background and experience
Michael was Chief Operating Officer of FedEx Express, Europe until the end of September 2018 and held a number of other senior executive roles with FedEx Corporation since 2006. Prior to that Michael held senior executive roles at a number of leading organisations including ANC Group, 20:20 Logistics, Findel Education and Borden Decorative Products (a division of Borden Inc.).

Other current appointments
- None

Stuart Marriner
Company Secretary & General Counsel
D

Year of appointment
2015

Background and experience
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.

Other current appointments
- None

Key to Committee membership
A Audit Committee
N Nominations Committee
R Remuneration Committee
D Disclosures Committee
AP Approvals Committee
Bold denotes Committee Chair

Board of Directors – changes in FY2018

On 1 September 2017, Mark Whiteling joined the Board as non-executive director.

Andrew Brent stepped down and retired from the Board at the conclusion of the Annual General Meeting on 23 January 2018.

David Bauernfeind stepped down as a director of the Board on 12 June 2018 and was replaced as Chief Financial Officer by Tony Grace who, whilst not appointed as a statutory director of the Company, attends Board meetings by invitation. Tony is also a member of the Disclosures and Approvals Committees.

On 1 September 2018, Jos Opdeweegh joined the Board as Chief Executive Officer.

Mark Cashmore stepped down from his position as Chief Executive Officer on 31 August 2018 and remained with the Company until 28 September 2018 to ensure an orderly transition to new leadership.

In order to comply with the 2018 version of the UK Corporate Governance Code which removes the dispensation applicable to a 'smaller company' outside the FTSE 250 for the chair of the Board to be a member of the Audit Committee, Gary Kennedy stepped down as a member of the Audit Committee on 31 August 2018 and attends the meetings by invitation.

On 1 October 2018, Michael Holt joined the Board as a non-executive director.

On 5 November 2018, Tony Grace, who joined on an interim basis in June 2018, was appointed to the Board, following a successful induction into the Group.

Executive Team

Peter Birks
Chief Executive Officer of Tuffnells

Year joined
2018

Background and experience
Peter has extensive experience in both distribution and retail having previously been the Managing Director and Vice President of Staples, leading the business as it transformed its culture and operating model to focus on service, profitability and continuous improvement. Peter has also held senior executive roles across a number of highly successful and innovative UK-based distribution businesses including Premier Farnell/Avnet, Lyreco, 3M, Acco and Office Depot.

Stuart Godman
Chief Commercial Officer

Year joined
2018

Background and experience
Stuart joined the business in January 2018 from DX (Group) plc. Stuart has 30 years' experience in the parcel and logistics sector having held a number of senior positions within DX, City Link, Target Express and TNT Express. Stuart is responsible for sales and marketing, developing a range of propositions to customers that make the most of our unique capabilities.

Tim Oglesby
Chief Information and Transformation Officer

Year joined
2018

Background and experience
Tim joined the business from Neovia Logistics in October 2018, where he was the Executive Vice President of Process and Technology, after holding a similar role at Americold which operates the world's largest temperature-controlled food storage and logistics network. Tim has a wealth of knowledge and experience across all IT disciplines and expertise in logistics and manufacturing and is responsible for IT, continuous improvement and transformation across the Group.

Louise Ryan
Strategy & Transformation Director

Year joined
1999

Background and experience
Louise joined the business in 1999 and has held a number of senior roles within Smiths News, focusing on trade marketing, diversification, sales and marketing and external communications. In May 2018, Louise joined the Executive Team, assuming additional responsibility for business strategy and transformation.

Jane Storm
Chief People Officer

Year joined
2017

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

Jos Opdeweegh
Chief Executive Officer

Tony Grace
Chief Financial Officer

Jonathan Bunting
Chief Executive Officer of Smiths News

Stuart Marriner
Company Secretary & General Counsel

See previous page for biographies.

David Bauernfeind stepped down from the Executive Team on 12 June 2018 and was replaced by Tony Grace as Chief Financial Officer, who was appointed to the Board on 5 November 2018.

Mark Cashmore stepped down from the Executive Team on 31 August 2018 and was replaced by Jos Opdeweegh on 1 September 2018.

Chairman's statement on corporate governance

As Chairman of the Board, I am pleased to present our corporate governance section for the year ended 31 August 2018. The Board remains committed to driving good governance principles and embedding them within the culture of our Group.

Gary Kennedy
Chairman

"FY2018 was a year of significant flux."

As referred to throughout this Annual Report, FY2018 was a year of significant flux as our trading and transformational programmes became more challenging. The depth of this challenge was reflected through the Board changes, which were areas of intense activity for our Nominations and Remuneration Committees.

For our non-executive members of the Board, Andrew Brent stepped down and retired following our AGM on 23 January 2018, in light of having completed nine years' service with the Group. I would like to thank Andy for his invaluable contribution and support during his tenure. Mark Whiteling, who joined the Board as independent non-executive director on 1 September 2017, succeeded Andy as Senior Independent Director. More recently, on 1 October 2018, we welcomed Michael Holt to the Board. Michael brings significant logistics and operations expertise to our non-executive membership.

Within our executive team, David Bauernfeind (Chief Financial Officer) stepped down as a director on 12 June 2018 and was replaced as Chief Financial Officer by Tony Grace. Following a successful induction into the Group, Tony subsequently joined the Board on 5 November 2018. Jos Opdeweegh joined the Board on 1 September 2018 as Chief Executive Officer, following the stepping down of Mark Cashmore on 31 August 2018. I would like to personally thank Mark on behalf of the Board and the Group for his significant contribution over 12 years as Chief Executive Officer and nearly 20 years' dedicated service and wish him well for his future endeavours. Further details of the thorough appointment and induction processes conducted by the Nominations Committee are set out on page 43 and details of the exit and joining remuneration arrangements determined by the Remuneration Committee are set out on pages 44 and 45.

Rigorous governance and effective challenge from the Board has been required this year as we have encountered challenging trading conditions and a material transformation programme combined with the disposal of the Books business in February 2018 and the closure of the Pass My Parcel proposition in Smiths News announced in June 2018. Whilst a small number of prominent control weaknesses were identified during the year, as explained within our Corporate governance statement on page 34, this rigour has been a consistent thread during the decision-making we have collectively undertaken, whilst at all times being mindful of all stakeholders who might be impacted. The Board takes these matters very seriously and is encouraged by the mitigating steps being identified and implemented to improve our risk and internal control framework, particularly at a time of such ongoing change across the organisation. Further details of this review and the outcomes are set out in more detail in our Audit Committee report on pages 36 to 41. This approach has also led us to revisit and refresh our Group-wide policies and procedures in order to ensure a cultural alignment with our strategic objectives. Concurrently, the Audit Committee has overseen the Group's compliance with new data protection laws introduced in May 2018 and separately conducted a thorough and robust review of our broader risk and internal control environment and management, supported by our internal audit team.

Looking to our broader governance and regulatory horizon, the Board has taken time to consider the impacts and implications of the gig economy and the Brexit developments, and has incorporated these into the Group's principal risks as set out on pages 18 and 19. We are also mindful of the recently published 2018 version of the UK Corporate Governance Code and the new corporate governance reporting regulations and, whilst not applicable for us until our FY2020 Annual Report, we have attempted to comply early where possible, such as through the introduction of a Colleague Advisory Forum (to be chaired by Michael Holt) to allow the Board to have direct access to the views and voice of our colleagues.

Despite experiencing a disappointing and challenging trading year, we are confident that we are making positive steps forwards with our new management team and are keen to continue building on these into the year ahead and to reporting progress next year.

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 18 to 19.

Chairman

Responsible for running the Board

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

Chief Executive Officer

Responsible for managing our businesses and implementing strategy

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

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 appointments to the Board following recommendation by the Nominations Committee;
- 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 Team

The Executive 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 36 to 41 for report

Nominations Committee

- makes recommendations to the Board for executive and non-executive appointments and succession planning

Pages 42 to 43 for report

Remuneration Committee

- determines directors' and senior management remuneration strategy and policy
- oversees the implementation of remuneration policy

Pages 44 to 59 for report

Approvals Committee

- responsible for approving delegated Board matters

Disclosures Committee

- monitors and oversees the Company's compliance with the Market Abuse Regulation and the consideration of inside information procedures and disclosures

Corporate governance

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	8	4[2]	6	3
Gary Kennedy	8	8	4	6	3
Andrew Brent[3]	3	4	2	2	2
Denise Collis	8	8	4	6	3
Mark Whiteling	8	8	4	5[4]	3
David Bauernfeind[5]	7	7			
Jonathan Bunting	8	8			
Mark Cashmore	8	8			

1 There were eight additional Board meetings held during the year, three of which were in relation to trading performance, two in relation to banking facilities, two in relation to corporate activity associated with the sale of the Books division and one in relation to the decision reached to close down the Pass My Parcel activities. For completeness, there were also three Board sub-committee meetings held during the year, two of which were in relation to the approval of the FY2017 full year preliminary financial results and the HY2018 interim financial results and one of which was in relation to the final approval of the banking facilities.
2 An additional sub-committee meeting of the Audit Committee was held on 24 October 2017, in relation to the approval of the FY2017 financial statements.
3 Andrew Brent stepped down from the Board on 23 January 2018 and attended all Board meetings prior to that date.
4 Mark Whiteling was absent from one Nominations Committee meeting where his appointment as Senior Independent Director was considered.
5 David Bauernfeind resigned on 30 April 2018 and stepped down on 12 June 2018 and attended all Board meetings prior to that date.

Board activities

Business Review and Strategy

- Regular updates from the Chief Executive Officer and Chief Operating Officer
- Approving the Group's strategy
- Disposals of the Group's Books business
- Integration and transformation project updates
- Progress and consideration of the closure of the Pass My Parcel proposition within Smiths News

Financial

- Regular updates from the Chief Financial Officer on financial performance and legal and regulatory noteworthy matters
- Approval of the Group's budget
- Approval of the half year and full year reports, including going concern and viability assessments
- Approval of the issuance of trading updates during the year

Internal Controls and Risk Management

- Received regular updates from the Audit Committee Chair
- Periodic updates on health and safety progress, particularly within Tuffnells
- Approval of Group-wide policies and terms of reference

Governance and Stakeholders

- Approval of Board changes
- Regular updates from the Company's brokers and advisers

Case study: Jos Opdeweegh, onboarding programme

Jos Opdeweegh joined the Company as Chief Executive Officer on 1 September 2018. His induction programme was structured to ensure a comprehensive overview of the Company, its operating businesses and key stakeholders; thereafter moving to a more detailed understanding of the Group's operations and their associated challenges and opportunities. From a practical perspective, the induction involved a mix of background reading, knowledge transfer sessions with senior managers, listening to frontline colleagues, and introductions to key customers, business partners and professional advisers. By including all key stakeholders, the Group aimed to ensure that Jos' induction encompassed a range of perspectives on the issues facing the Group.

The induction programme has helped Jos and the Executive Team to more swiftly agree the priorities for FY2019, addressing the immediate performance concerns and establishing the foundations for a sustainable recovery. In parallel, the Group has halted its previous strategy to integrate the operations of Smiths News and Tuffnells, re-establishing a structure of individual operating units, supported by a range of shared central services. Planning is currently underway to determine the Group's strategy for longer-term value creation, including its impact on capital allocation; we aim to share details with all stakeholders early in 2019.

Further details can be found in the Strategic report on pages 9 to 11 and we aim to share details of the fully developed turnaround strategy in January 2019.

Corporate governance continued

Induction overview:

Strategy and proposition	People and talent	Business operations	Customer relationships	External stakeholders
• Meetings with members of the Executive Team to gain an understanding of all functional areas of the business and their respective strengths and strategic priorities. • Working with the out-going Chief Executive Officer to ensure a smooth transition. • Undertaking a review of the structure of the Executive Team and their respective professional and personal objectives.	• Briefings with the Chief People Officer in order to understand talent and performance reviews. • 'Town hall' events at certain of the Group's locations for colleagues to attend and deliver key messaging. • Attending 'listening' sessions in order to gain a deeper understanding of the business and colleagues' views and to answer Q&A feedback.	• Visits to Smiths News and Tuffnells depots and offices to meet frontline colleagues. • Developing an understanding of the business' core operations, operational challenges and opportunities.	• Meetings with key customers (such as publishers in Smiths News) in order to develop working relationships and gain a deeper understanding of the business' leading service proposition.	• Meetings with syndicate banks to develop an understanding of the Group's banking arrangements and facilities. • Meetings with brokers and other key advisers.

Compliance with the 2016 Code

This section of the Annual Report, together with the Audit Committee report on pages 36 to 41, the Nominations Committee report on pages 42 and 43 and the Directors' remuneration report on pages 44 to 59, describes how the Company has applied the main principles contained within the UK Corporate Governance Code 2016 (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 2018, it has complied with the 2016 Code, with the following exception:

- for the period 23 January 2018 to 12 June 2018, the Board composition was not in compliance for a FTSE 350 company with the 2016 Code (Code Provision B1.2) following the retirement of Andrew Brent as independent non-executive director. As a consequence, at least half the Board, excluding the Chairman, did not comprise independent non-executive directors. This imbalance was corrected following David Bauernfeind's decision to step down as Chief Financial Officer and the subsequent appointment of Michael Holt, as non-executive director, on 1 October 2018. However, given that the Company is a 'smaller company' (i.e. outside of the FTSE 350) under the 2016 Code, the Code requirement was nevertheless met by the Company for there to be at least two independent non-executive directors on the Board throughout the reporting period.

Set out in the following table, we provide cross-references to other parts of the Annual Report to assist with reviewing compliance against the 2016 Code.

A. Leadership

A.1 – The role of the Board

A statement of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management is set out on page 30.

The Chairman, Chief Executive Officer, Senior Independent Director and respective Chair of each of the Committees are set out on pages 26 and 27.

The Board held eight scheduled meetings during the year as set out in the directors' attendance table on page 31.

Appropriate insurance cover is in place in respect of directors' and officers' liabilities.

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

The division of responsibilities between the Chairman and Chief Executive Officer is set out on page 30 and is set out in writing and agreed by the Board.

The Chairman was independent on appointment.

A.4 – Non-executive directors

Mark Whiteling became Senior Independent Director on 23 January 2018.

Both the Chairman and the Senior Independent Director make themselves available during the year to attend meetings with major shareholders.

The Chairman held two meetings during the year with the non-executive directors, without the executives being present.

The Senior Independent Director leads the annual appraisal of the Chairman's performance as outlined on page 33.

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.

As outlined above, following the retirement of Andrew Brent at the conclusion of the Annual General Meeting on 23 January 2018, there was an imbalance of independent non-executive directors and executive directors, which was rectified on David Bauernfeind stepping down from the Board on 12 June 2018.

As required for smaller companies, there were at least two independent non-executive directors appointed during the reporting period.

B.2 – Appointments to the Board

Membership of the Nominations Committee is set out on page 42 and its terms of reference are available at www.connectgroupplc.com. A description of the work of the Committee is set out on pages 42 and 43 which includes a description of the process for Board appointments (including details of the external search agencies used), and the Board's strategy and aspiration on diversity and inclusion.

B.3 – Commitment

The Board is satisfied that the external commitments of the Chairman and the non-executive directors set out on pages 26 and 27 do not conflict with their duties and commitments to the Company and that any new commitments are disclosed to the Board.

Details of the executive directors' service contracts and non-executive directors' letters of appointment are shown in the Directors' remuneration report on page 56 and are available for inspection at the Company's registered office and at our Annual General Meeting.

B.4 – Development

On joining the Board, all new directors receive a tailored induction which includes: a comprehensive induction pack covering pertinent information on the business, an overview of the structure of the Board and its Committees, and the Company's key policies; meetings with the Executive Team; and informal visits to operational sites without the executives being present. An outline of the induction programme for the new Chief Executive Officer is set out on pages 31 and 32.

As part of the annual Board evaluation process, the Chairman discusses and agrees with each director their needs for training and development. Ongoing training resources available to the directors include: membership of the Deloitte Academy, a training and guidance resource for boards and directors; a programme of head office and business visits; and regular updates from the Company Secretary on governance, regulatory and legislative changes affecting the business and/or their duties as a director.

B.5 – Information and support

Board meetings are structured to enable the Board to discharge is duties; 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 and safety, investor relations, and corporate governance, in addition to ad hoc matters for consideration such as material transactions.

All directors have access to independent professional advice at the Company's expense as well as the advice and services of the Company Secretary.

B.6 – Evaluation

A performance review of the Board, its Committees and individual directors is carried out annually and, whilst not mandatory for non-FTSE 350 companies, an externally facilitated evaluation is carried out every three years. The last external evaluation was conducted in 2016 by EquityCommunications.

This year, an internal evaluation of the Board and its Committees was facilitated by the Company Secretary. Due to the significant challenges faced by the business in FY2018, it was felt that the internal evaluation would best be conducted by way of a frank and open review, and analysis through a structured round table discussion. Accordingly, the Board received an aide-memoire from the Company Secretary detailing key points for consideration to prompt reflection and debate. Following a detailed Board discussion, the learnings and areas of constructive feedback identified by the evaluation process related to: the criticality of timely and decisive decision-making; the optimal balance of robust, independent challenge from the non-executive directors whilst maintaining a cohesive working relationship with the executive directors; a focus on succinct but quality management information against critical key performance indicators to allow for greater transparency in reporting; and a renewed focus on the achievement of the internal audit programme by the Audit Committee. Following the review, the Board has endorsed a number of action points to achieve continuous improvements in accordance with good corporate governance principles and endorsed certain changes to its processes, including a reordering of future meeting agendas to permit greater focus on the Chief Executive Officer's update and to facilitate a more enriching debate into period trading and other key priority update items, scheduling separate meetings with the Chief Executive Officer and the Board, and at least two meetings per year to be held at the Group's depot facilities to ensure visibility and alignment to the wider workforce. Following its review, the Board has concluded that, notwithstanding the challenges experienced during FY2018, and the identified opportunities for improvement, both it and its Committees continue to strive towards operating effectively and in accordance with good corporate governance principles.

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.

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 non-FTSE 350 company for the purposes of the 2016 Code, is not formally required to re-elect all directors on an annual basis.

Following the performance evaluations for the continuing directors as outlined above, each director was confirmed as committed and effective in performing their duties and are accordingly proposed for re-election as set out in the Notice of Annual General Meeting.

Corporate governance continued

C. Accountability

C.1 – Financial and business reporting

The Directors' responsibility statement is set out on page 63.

The fair, balanced and understandable assessment is set out on page 38.

The auditor's responsibility statement is set out on pages 64 to 72.

The business model and strategy is set out in the Strategic report on pages 6 and 7.

The going concern statement is set out on page 17.

C.2 – Risk management and internal control

The Board has overall responsibility for the Group's risk management and internal controls.

As explained further in the Audit Committee report on page 37, the Board has carried out a robust assessment of the principal risks facing the Company. The assessment of principal risks and how they are being managed or mitigated is described on pages 18 and 19.

The Board has assessed the prospects of the Company, taking account of the Company's current position and principal risks as explained in further detail in the Viability statement set out on pages 20 and 21.

The Board conducts an annual review of the effectiveness of the risk management and internal control systems which is described in full on pages 36 to 40.

During the year, a small number of prominent control weaknesses were identified as follows:

- in relation to the implementation of a 'procure to pay' system within Tuffnells, which manifested itself in a number of data integrity and extrapolation errors. With retrospect, the 'procure to pay' project had not been subjected to the necessary strong process and project governance diligence, planning and execution customarily expected and applied within the Group and the continued perseverance to implement the project notwithstanding the challenging circumstances faced by the Tuffnells business at the time resulted in a deterioration of the control environment. Consequently, it also led the external auditor to determine that as it was unable to place reliance on a 'controls-based' approach to the accounts payable control environment in particular, a manual substantive-based review into auditing this area was necessary, leading to further additional resource being expended. However, given the identification of these control deficiencies and the various mitigating actions subsequently taken by management in the latter part of the year (such as additional management control and oversight, more detailed and frequent analytical reviews, and increased resource for incremental manual process controls), these issues have been identified and corrected as part of the preparation of the Group's FY2018 financial statements and is therefore not expected to have impacted the Group's FY2018 Financial Statements;
- deficient forecasting process controls which, together with underperformance in trading patterns during the year further characterised by a significant degree of trading volatility and competitive activity, led to the announcement of various trading updates to the market at times when it had become apparent that the Group's projected full year forecast expectations would not be met. Management has since identified the weakened control environment in financial forecasting and introduced new forecasting processes going forwards at an operating and Group reporting level to address the issues experienced in the year; and
- the failure to implement, in a timely manner, certain agreed actions in relation to amongst others, IT system access security and inventory management arising from historical internal audit reports and external auditor observations, which saw those actions and matters to address control deficiencies not having the requisite traction as a result of a continued focus on trading and the ongoing transformational programme. Whilst there remain areas of improvement to be made, management continues to address these actions and any residual control deficiency and has a clearer plan in place to ensure that outstanding actions are reviewed regularly by the Executive Team as a whole and independently followed up by Internal Audit. The status is to be robustly reviewed at each Audit Committee meeting.

In each case, the Audit Committee takes these matters very seriously and is reassured by the mitigating actions which are being made to improve the control environment and the continued focus of management to ensure that the Group has appropriate internal controls in place. This is one of the identified priorities for the new Chief Executive Officer.

C.3 – Audit Committee and auditor

Membership of the Audit Committee is set out on page 37 and its terms of reference are available at www.connectgroupplc.com.
A description of the work of the Audit Committee is set out in the Audit Committee report on pages 36 to 41.

D. Remuneration

D.1 and D.2 – The level of components of remuneration and procedure

Membership of the Remuneration Committee is set out on pages 58 and its terms of reference are available at www.connectgroupplc.com.
A description of the work of the Remuneration Committee is set out in the Directors' remuneration report on pages 44 to 59.

E. Relations with shareholders

E.1 – Dialogue with shareholders

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 at each Board meeting and following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers.

In order to facilitate engagement with investors, 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.

During the year, meetings were held with major institutional shareholders and financial analysts to discuss the business performance and strategy. Institutional shareholders also met with the Chairman, Remuneration Committee Chair and Company Secretary to discuss matters of governance and remuneration.

E.2 – Constructive use of the Annual General Meeting

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, 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.

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.

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

Gary Kennedy
Chairman
6 November 2018

Audit Committee report

Mark Whiteling
Audit Committee Chair

"The Committee has continued to play a pivotal role within the governance framework."

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 judgements 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, performance and prospects, together with its business model and strategy;
- keeping under review the adequacy and effectiveness of the Company's internal financial controls, including monitoring and reviewing the effectiveness of the Internal Audit function;
- reviewing the Group's assurance and risk management framework and providing oversight and input into the Group's risk strategy, appetite and risk management mitigations;
- 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 and corruption, 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. During my first year as Audit Committee Chair, the Committee has continued to play a pivotal role within the governance framework to support the Board in key matters relating to internal control, risk management and financial reporting, particularly at a time when business performance has been under pressure, as our trading and transformational programme became more challenging.

Despite management's considerable efforts, it became clear during the year that our strategy to integrate operations was not succeeding and, in some areas, the level and pace of change was contributing to further underperformance and was manifesting itself in a deterioration of internal control. Accordingly, in addition to carrying out our usual duties set out above, the Committee reinforced its focus on the Group's risk management framework and internal control processes including initiating a refresh of the risk management processes across the Group and the risk reporting practices. The baseline risk management and internal control reviews we have undertaken are described in more detail on page 40. 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.

Membership
All the members of the Committee are independent non-executive directors. In order to comply early with the new 2018 Code, Gary Kennedy stepped down as a member of the Committee on 31 August 2018 and attends Committee meetings by invitation.

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.

Andrew Brent retired from the Board and its Committees following our Annual General Meeting on 23 January 2018, in light of his nine years' service. On behalf of the Committee, I would like to thank him for his contribution to the work of the Committee. Additionally, on 1 October 2018, we welcomed Michael Holt as a member of the Committee.

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, Group Financial Controller, 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 three times with representatives from Deloitte without management present and held two separate private meetings with the Head of Internal Audit.

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

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 developed a framework of internal controls including financial, operational and compliance controls. In addition, the processes for identifying, evaluating and managing the principal business risks that we face, including those that would threaten our business model, future performance, solvency or liquidity, have been refreshed and renewed throughout the year under review. These processes accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'FRC Guidance') and we continue to develop such processes to ensure that they remain relevant to the changing composition of the Group and the landscape of the sectors in which we operate.

In light of the risk management processes deployed within the Group and, in particular, mindful of the dedicated review of the principal risk environment 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. The structure is set out above. 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 18 and 19.

Risk management and internal control framework
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 30.

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 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 and refreshed at regular intervals.

Internal Audit presents its findings to the Executive Team, and all internal audits have an executive sponsor assigned.

Audit Committee report continued

The system of internal control also includes:

Financial controls

- a 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 cybersecurity and insurance, each for review by the Board or the Audit Committee.

Operational controls

- key performance indicators to monitor customer service levels;
- independent customer satisfaction surveys; and
- business recovery plans to enable the businesses to continue with minimum disruption to customers in the event of a disaster event. Periodically, business continuity planning is reviewed by Internal Audit as part of its annual audit planning process.

People and environment controls

- 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 Team to encourage open dialogue and exchange of good practice;
- 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;
- 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.

Health and safety controls

- 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 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 both provided and presented to the Board on a regular basis;
- regular attendance by a non-executive director at Group Health and Safety Steering Group meetings;
- 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.

Compliance controls

- 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;
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties;
- 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, supplier and employee data, and reflecting a 'privacy by design' approach as well as the legal requirements under GDPR.

Internal Audit function

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

Following the departure of the Head of Internal Audit in January 2018, the Committee reviewed the effectiveness of the co-sourced internal audit arrangement and determined that, in light of the material change programme and current resources, the function move to a wholly outsourced model in order to also ensure maximum flexibility for the continuing audit programme as well as access to specialist expertise and skills. Whilst an outsourced arrangement was reached in the year with an external provider, this will be kept under review as we determine the future shape of the Group under the revised management structure and how best to utilise the Internal Audit function.

In fulfilling its responsibilities, in the year the Committee reviewed the following matters in relation to the Internal Audit function:

- the scope, resource and planned activities of Internal Audit 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.

Committee's activities during the year

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 full year to 31 August 2018 and considered reports from the Chief Financial Officer in relation to the half year to 28 February 2018 to ensure that they each included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position, performance and prospects, as well as the Group's 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 judgements 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 judgements considered by the Committee in relation to the FY2018 Group Financial Statements are set out below. In light of these significant issues and key judgements included below, the Committee has considered whether each of these areas is a key judgement or estimate and, therefore, whether it should be disclosed within note 1(d) to the Group Financial Statements. It was concluded that the matters included within note 1(d) reflect the key judgements and estimations.

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 (CGUs) 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 Tuffnells business should be impaired to reflect the significant deterioration in its value in use; the impairment being applied against the carrying value of the Group's goodwill. 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 the value in use remained significantly above carrying value.
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.
Provisions The Committee reviewed the provisions as at year end and the appropriateness of the additions, utilisation and releases made in the year. The key provisions established in the year related to: • estimated historical underpayments of National Minimum Wage in Tuffnells; • reorganisation provisions associated with the closure of the Pass My Parcel business; and • restructuring provisions relating to Group's central functions.	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.
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.

Audit Committee report continued

Viability Statement

The Committee also reviewed a paper prepared by the Chief Financial Officer to support the Viability Statement referred to on pages 20 and 21 and concluded 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. The Statement on pages 20 and 21 sets out further details on the process applied in relation to this assessment.

Risk management

A refresh of the Group's principal risks was carried out at the half and full year, taking into account the continuing environment of considerable change and transformation within the Group. The review was conducted through discussion with a cross section of the executive and senior management teams and the non-executive directors, who were asked to consider: the key risks and challenges to the business (by reference to the existing principal risks); the current management activities and controls that help address these risks; and future actions that may be taken to further mitigate the risks (where appropriate). The review identified that whilst formal risk management activities required refocus, there is a general alignment around the nature of risks, the risk ownership, the direction of travel and required risk mitigating actions.

In light of the challenges caused by the material change programme during the year, the Committee requested an independent review of the Group's underlying risk management processes to ensure that they are sufficient to enable the Board to discharge its responsibility in carrying out a robust assessment of the principal risks facing the Company. The review determined that, whilst some risk management progress had been made and small pockets of mature risk management activity exist, a refresh of the risk management policy, framework and reporting was required to accelerate the Group to a level of maturity suitable for its size, structure and complexity. This includes the need for reinvigorated and enhanced ownership and discussion, and the timely reporting on the management of risks as part of the ongoing management of the organisation.

As a result, the Committee supported a number of actions to improve the risk management processes. Management have been charged with implementing the required improvements to the risk management framework, within a defined timeframe.

At the end of the reporting period, Internal Audit updated the Committee on the refreshed principal risks facing the business and 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, information security and data protection, insurance activities and related policies and procedures for the promotion of the Committee's goals.

Internal Control

Following the mid-year change in the structure for Internal Audit, an Internal Control healthcheck was conducted in order to identify areas of priority and focus and was undertaken as set out in the diagram below.

The key themes identified in the Internal Control review resulted in the recommendation of a number of mitigating actions, each of which are being progressed by management as a means of strengthening and rebasing the internal control environment. A number of process based audits were also undertaken by Internal Audit, including in the first quarter of the year, an internal audit of health and safety which identified a number of priority actions required to improve the operational effectiveness and culture for the safety of the workforce in Tuffnells, and the governance over this area. Significant progress has since been made, including the appointment of a new Health and Safety Director together with the reinforcement of, and improved, reporting to management and the Health and Safety Committee of relevant matters and learnings.

Further, during the year, a small number of prominent control weaknesses were identified as reported in the Corporate governance report on page 34. In each case, the Committee takes these matters very seriously and is reassured by the ongoing mitigating actions which are being made and the continued focus of management to ensure that the Group has appropriate internal controls in place, and which are capable of reacting at pace.

Whilst bearing in mind the control weaknesses identified, the Committee considers that it has met its obligations under the 2016 Code in respect of risk management and internal controls. Alongside the overall strategic and structural changes in the Group, we will continue to focus on ensuring that we have the appropriate internal controls in place.

Further details of the principal risks and how they are managed and mitigated can be found on pages 18 and 19.

Internal Control healthcheck

Required to identify:

1. Strength of key controls
2. Gaps in key controls
3. Areas for prioritisation

Benchmarking of controls:

1. By reference to a set of core expected controls in each of the process areas
2. High level facilitated discussion with control and process owners
3. Review of key documentation

Review findings:

Key themes identified and prioritised

Output:

Action areas for management focus

Whistleblowing, bribery and fraud

We operate a confidential 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 assessed by Employee Relations and an investigating manager appointed, with the findings reported to the Committee on completion of an investigation.

During the year, the Committee received quarterly reports on incidences of whistleblowing, suspected fraud, data breaches, bribery or other malpractices reported across the business and separately Internal Audit reviewed the Group's fraud risk management framework and suggested steps which are now underway to improve the identification of, and mitigating actions to prevent and report, incidences of fraud.

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.

Following conclusion of the FY2017 audit and in line with professional standards and a regulatory requirement to rotate external audit engagement partners every five years, Jane Makrakis, a partner at Deloitte LLP was newly appointed by the Committee to oversee the FY2018 audit.

Further, 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 and, in accordance with the UK implementation of the EU Audit Regulation a new tender would normally be required following the conclusion of the FY2023 audit and the audit firm should, at the latest, be rotated following the conclusion of the FY2026 audit.

The Committee plans to commence a process for the tender of external audit services, with the intention of appointing new auditors for the FY2019 audit. Accordingly, it is recommended that Deloitte be reappointed until such time as a successor is appointed.

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.

No fees were paid to Deloitte during the year in respect of non-audit services. 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 review of the effectiveness of the external auditor. Each member of the Committee, the Chief Financial Officer, the Group Financial Controller 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 judgements, 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 and will be taken forward by the Committee in its proposed tender of audit services in FY2019.

Approval

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

Mark Whiteling
Audit Committee Chair
6 November 2018

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. The Committee has had a particularly demanding period during the year in leading the selection and appointment process for a new Chief Executive Officer, Chief Financial Officer and independent non-executive director as well as developing our Board diversity policy.

Membership

During the year, Andrew Brent (until 23 January 2018), Denise Collis and Mark Whiteling were members of the Committee and I am pleased to welcome Michael Holt to the Committee with effect from 1 October 2018. 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 six times during the year. All Committee members were in attendance at each of the meetings, except for Mark Whiteling who was absent for one unscheduled meeting where his appointment as Senior Independent Director was discussed. At the invitation of the Committee, certain 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.

> "The Committee has had a particularly demanding period during the year."

Board appointments

The Committee adopts a formal and transparent procedure for the appointment of new directors to the Board:

1. Executive search consultant is appointed
2. Following a review of the required skills, knowledge, experience and diversity, detailed job specifications are prepared
3. Comprehensive profiles are prepared and considered, and candidates are shortlisted
4. Initial and second interviews are held with each member of the Board
5. Following recommendation by the Committee, the Board appoints the new director
6. Immediately following appointment the relevant announcements are made to the market

Chief Executive Officer appointment
During the early part of the year, the Committee commenced a thorough review of the Board succession plans and talent pool within the organisation, working closely with Russell Reynolds Associates (RRA). This included a market benchmarking exercise, in preparation for which, a detailed role specification was prepared setting out the required skills, knowledge, experience and diversity that would eventually be required from a new Chief Executive Officer. Following the announcement of Mark Cashmore stepping down as Chief Executive Officer on 13 June 2018 and having reflected upon the material change programme facing the Group and the desire for fresh leadership, the Committee worked closely with RRA and the relevant stakeholders to progress the appointment of a suitable candidate to enhance the composition of the Board and to lead the organisation following a challenging FY2018.

Following a thorough selection process, which included considering comprehensive candidate profiles prepared by RRA, initial and second interviews between shortlisted candidates and each member of the Board, psychometric testing, benchmarking against role requirements, detailed references and due diligence in respect of the shortlisted candidates, the Committee recommended that Jos Opdeweegh be appointed as the Chief Executive Officer. The Committee agreed that based on his extensive leadership experience within the logistics and distribution sectors, coupled with his recent UK listed company experience, Jos would be an excellent fit for the organisation. After due consideration of all relevant factors, the Board approved the recommendation and, accordingly, Jos joined the Board on 1 September 2018. Mark Cashmore stepped down from the Board on 31 August 2018 and remained with the business until 28 September 2018 in order to ensure a smooth transition to the new leadership.

Chief Financial Officer appointment
Following David Bauernfeind's decision to resign from the Board as Chief Financial Officer on 30 April 2018 (subsequently announced on 1 May 2018), the Committee commenced the recruitment search for a suitable candidate to fulfil the role of Chief Financial Officer. Blackwood Recruitment LLP (Blackwood) were appointed to assist with this search and worked with the Committee to prepare the relevant role specification.

Blackwood undertook a thorough recruitment process, by preparing comprehensive candidate profiles and holding initial and second interviews with the Chairman, Chief Executive Officer and Chief People Officer and psychometric testing in respect of the shortlisted candidates.

Following the stepping down of David Bauernfeind on 12 June 2018, the Committee concluded the search and recommended the recruitment of Tony Grace as Chief Financial Officer, to provide interim cover until such time as a permanent candidate be found, or until a mutual decision on a permanent role be reached. The Committee agreed that Tony brings extensive experience within the UK parcel industry as well as senior financial leadership qualities, making him an excellent fit for the requirements of the organisation and, after a successful transition into the Group and following recommendation by the Committee, the Board approved the appointment of Tony to the Board with effect from 5 November 2018.

The Committee confirms that both RRA and Blackwood 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.

Succession planning
The Committee receives annual reports on the orderly succession planning for Board and senior management roles. Due to the period of transition within the organisation during the year, further work will continue over the coming year on the talent mapping of individuals who are new to the business in order to ensure the planned succession of key roles.

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 in the year adopted 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 and the recruitment in the year of both Jos and Michael, who each bring significant and relevant industry and transformational experience is welcomed. 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 and the Hampton-Alexander Review, when considering potential candidates.

Each year, 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 Team and senior management.

	Female representation	
	2018	2017
Board	**17%**	14%
Executive Team	**25%**	13%

The Committee has, during the year, been involved in the development of a Board Diversity and Inclusion Policy which will be implemented through the organisation during the course of the next financial year. The Policy is expected to set out the Board's strategy and ambitions to create an indiscriminate working environment, to promote a positive culture of inclusivity underpinned by the Group's core values and to offer equal access to training and other career development opportunities.

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 24

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

Gary Kennedy
Nominations Committee Chair
6 November 2018

Directors' remuneration report

Shareholder letter from the Chair of the Remuneration Committee

Denise Collis
Remuneration Committee Chair

"I am pleased to present the Directors' remuneration report for the year ended 31 August 2018."

Dear shareholder
On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 August 2018.

Performance in FY2018 and incentive payments
As highlighted in our Chairman's introduction and the Financial review, FY2018 was a difficult year for the Group, with a combination of weaker trading and operational disruption, exacerbated by strategic decisions that did not deliver the intended performance and cost savings. As a consequence, our performance in FY2018 was far below our expectations, which is disappointing for all stakeholders.

At the start of the financial period, the Committee determined that, for the second year running, there should be no salary increases across our management population. Last year, we strengthened the rules of the annual bonus scheme to insert a financial underpin, so that no bonus payments would be made for achievement of personal bonus objectives unless a certain level of profit before tax (PBT) performance was achieved. This financial target was not met and, as a result, there was no annual bonus pay out for FY2018. In addition, our Long Term Incentive Plan (LTIP) for FY2016–2018 did not vest.

Two years ago, at the start of the current policy period, the Committee discontinued the legacy Economic Profit Plan (EPP). Under the run-off arrangements, it was agreed that participants would receive two final annual payments that had already accrued under the scheme. Last year, the Committee introduced a financial underpin for the last such payment. As this was not achieved, no payments have been made this year. The run-off arrangements allowed for further consideration of any withheld payment in FY2019 and FY2020, subject to improved business performance. However, the Committee has decided to apply its discretion, and to close the plan, and no further payments will be made.

More generally our longer-serving executives with significant shareholdings have experienced the impact of the significant fall in the share price alongside our shareholders. It is also our expectation that our outstanding unvested long-term incentive share awards are extremely unlikely to achieve the required performance conditions that were set before the deterioration of the Company's performance.

Management changes and payments in connection with loss of office
On 1 May 2018, the Company announced that David Bauernfeind, our Chief Financial Officer, had resigned to pursue a role elsewhere and subsequently, on 12 June 2018, agreed to step down from the Board with immediate effect. Mark Cashmore, our Chief Executive Officer, also stepped down from the Board on 31 August 2018, but remained with the business until 28 September 2018 to allow for a smooth transition to new leadership.

David Bauernfeind's contractual payments of base salary, benefits and pension contributions ceased when he stepped down from the Board on 12 June 2018 and any opportunity for, or entitlement to, annual bonus, LTIP and Deferred Bonus Plan (DBP) awards lapsed.

Mark Cashmore was served 12 months' notice by the Company in June 2018 and worked part of his notice period until 28 September 2018. For the remainder, subject to offset against earnings received elsewhere by Mark from any other executive role, or from any non-executive role that he may hold until 30 June 2019 (other than the first of any such non-executive role), Mark will continue to be paid his basic salary, benefits and pension entitlements in monthly instalments, and will continue to receive contractual benefits until 30 June 2019.

Further, in line with the plan rules, the Committee determined that Mark's outstanding DBP awards (and accompanying dividend equivalent payments), representing payments already earned, will vest on their normal vesting dates (i.e. the second anniversary from the date of grant). In all cases, the deferred shares have a significantly reduced value due to the recent fall in the share price. Mark also retains his outstanding LTIP awards, subject to the satisfaction of applicable performance conditions but reduced on a pro rata basis to reflect the time elapsed from the start of the performance period. However, in light of the deterioration in recent financial performance already referenced in the Annual Report, the outstanding LTIP awards are most unlikely to achieve the required minimum threshold performance conditions when assessed and none are expected to vest. In addition, there was no annual bonus payment in respect of FY2018 and the final deferred EPP payment was withheld, as detailed above. Finally, Mark will not be eligible for either an annual bonus or LTIP award during his notice period.

New Chief Executive Officer and Chief Financial Officer
We are delighted to have secured a candidate of the calibre of Jos Opdeweegh as the new Chief Executive Officer, who started on 1 September 2018.

Jos' package comprises a salary of £450,000, which is 2.7% higher than the salary of his predecessor, Mark Cashmore. His pension contribution of up to 15% of salary (or salary supplement in lieu thereof), is 5% less than Mark Cashmore, resulting in lower overall fixed pay. In addition, there is an annual bonus and LTIP opportunity, each to the value of 100% of salary, a car allowance of £18,000 per year, private medical insurance and life assurance. His contractual notice period will be 12 months, both from the Company and individual. This is a small increase from the shareholder approved policy, which is 12 months from the Company to the individual, but only nine months from the individual to the Company. This small increase in notice required from the executive is considered to provide the Company with greater protection. Any contractual payments would be subject to mitigation.

Jos has agreed to a 200% of salary shareholding requirement (which is above the policy requirement of 150% of salary) and has agreed to purchase £200,000 worth of shares as soon as possible in order to ensure an immediate alignment with the interests of our shareholders.

As Jos was located in the USA at the time of his appointment, the Company provided some modest financial assistance with relocation, as described more fully later in the report. Further, there were no buyout arrangements in respect of forfeited remuneration.

We are equally delighted to have secured the services of Tony Grace as Chief Financial Officer. Tony's package comprises a base salary of £295,000, pension contribution of 15%, annual bonus opportunity of 100% of salary and LTIP award level of 100% of salary. The remainder of the package will also be in line with the policy and Tony has undertaken to purchase £20,000 worth of shares on appointment. In context, David Bauernfeind, the previous Chief Financial Officer received a salary of £310,000 and pension contribution of 20% of salary.

Directors' Remuneration Policy and operation in FY2019

There will be no increases to base salaries for the coming year for executive directors.

The annual bonus opportunity will remain at 100% of salary. The bonus target performance condition will be lower than the FY2018 outturn, in recognition of a number of short-term business challenges including the immediate investment requirements for the Tuffnells business, and the impact of the non-repeating revenue from FIFA World Cup sales in Smiths News. Cognisant of the lower overall profitability, the Committee has ensured that the target number is stretching and the sliding scale for bonus payment has been sharpened so that the threshold for payment is 95% of target (rather than 90% previously). At this 95% threshold, bonus will begin to accrue from zero. Furthermore, there is greater stretch than the usual 10% at the top end of the sliding scale.

There is no change to the performance measures for the Chief Executive Officer and Chief Financial Officer, being based 70% on Adjusted Group PBT and 30% on individual objectives linked to strategy and leadership. For Jonathan Bunting, who has taken on the new role of Chief Executive Officer of Smiths News, his bonus structure will revert to that in place before he took on the Chief Operating Officer role. Accordingly, 50% will be dependent upon Smiths News adjusted profit contribution, 20% on adjusted Group PBT and 30% on individual objectives linked to strategy and leadership. The individual objective element will be subject to achievement of a Group financial underpin, which will be consistent with that applied in FY2018, and under the financial elements will be subject to an individual performance underpin.

The LTIP grant level for FY2019–2021 for the Chief Executive Officer and Chief Financial Officer will be 100% of salary, which was agreed as part of their packages on joining. With the exception of immediate new joiners, the Committee has decided to scale back the LTIP award levels for all of the current LTIP population. This scaled back value reflects the low current share price and the potential leverage impact of a modest recovery. Further, this ensures that we can manage share usage and dilution with greater certainty. As such, we anticipate that based on the share price at the time of writing, Jonathan Bunting, the Chief Executive Officer of Smiths News, will receive an LTIP award equivalent to circa 50% of salary at grant and scaled back from the usual 100% of salary grant.

The structure of the bonus and LTIP for FY2019 will be in line with the Remuneration Policy approved by shareholders in January 2017, except that any LTIP awards will have an additional two-year holding period following the three-year performance period. This post-vesting holding period was introduced during the reporting period and, even though it is outside of the shareholder approved Remuneration Policy, it will be applied to the LTIP awards to be granted in December 2018 for executive directors and will also be cascaded to the Executive Team.

In addition, below the Executive Team, we have discontinued the practice of granting share options under our Executive Share Option Scheme, which means that all senior employees now receive awards under the LTIP. This provides a simpler approach with stronger employee alignment to senior management and shareholders.

The LTIP award will be subject to stretching earnings per share (EPS) and free cash flow performance conditions. With such a new management team, at the time of writing the Board has not yet concluded its consideration of the rolling five-year business plan and therefore has not finalised the EPS and cash flow targets for the FY2019–2021 performance period. There will be full disclosure of the targets in the Stock Exchange Announcement relating to the LTIP grants to directors and the grants will, we anticipate, be made in December 2018 before the Annual General Meeting. However, I should flag in this statement that the EPS and free cash flow target ranges will be lower than those set for last year's LTIP award, reflecting the scale of prior year underperformance and the degree of challenge contained in the Group's recovery plan. The Committee will ensure that they remain equivalently challenging to prior year awards and represent an appropriately stretching incentive in the circumstances.

As explained above, there will be a two-year post-vest holding period applied.

Committee composition

During the year Andrew Brent resigned as a non-executive director, having completed nine years' service with the Board and I thank him for his contribution to the Committee. I am pleased to welcome Michael Holt who joined as a non-executive director and a member of the Committee on 1 October 2018.

Concluding remarks

FY2018 has been a very challenging year for the Company. In response, the Committee has applied the current Remuneration Policy to ensure that no incentive payments have been made, as well as exercising its discretion in ceasing any payment from the legacy EPP. These actions reflect the disappointing performance shareholders experienced this year.

The Committee has given considerable attention to the setting of incentive pay targets for this year, which will continue in finalising the LTIP targets. In so doing, the Committee is aware of the critical balance to be achieved between the provision of incentive opportunities to drive business performance, and the need to be cognisant of shareholder experiences and expectations.

As we move into the final year of our current three-year Remuneration Policy, we will focus on the design of the next policy to complement the development of a new strategy, recovery of business performance and restoration of shareholder value. We intend to present an updated policy to shareholders at the Annual General Meeting in 2020, following a thorough consultation with our major institutional shareholders to be conducted in late spring/summer 2019.

The Committee has considered the impact of the new secondary legislation on directors' remuneration reporting and the 2018 UK Corporate Governance Code (2018 Code). We are choosing to comply with the new legislation in this report (two years earlier than we are required to do so) to ensure best practice is followed at the earliest opportunity. This includes publishing ratios between the total remuneration of the Chief Executive Officer and for the workforce generally. In relation to the 2018 Code, we already comply with some of the recommendations and will look to comply further for FY2019 (a year earlier than required) where it is possible to do so within the current policy. As part of the Remuneration Policy review, we will be fully compliant with the 2018 Code as required for the financial year ending 31 August 2020.

I welcome any feedback and to continuing to engage with investors in this important area. I look forward to seeing shareholders at the Annual General Meeting in January 2019 and for your continued support of our pay arrangements.

Denise Collis
Remuneration Committee Chair

Directors' remuneration report continued

Directors' Remuneration Policy

At-a-glance summary
A summary of the policy and its application for FY2019 is shown below with the full policy set out on pages 47 and 48.

Policy element	Jos Opdeweegh Chief Executive Officer	Jonathan Bunting Chief Executive Officer of Smiths News	Tony Grace Chief Financial Officer
Base salary from 1 September/ appointment	£450,000	£291,312	£295,000
% increase from prior year	n/a	0%	n/a
Pension	15% of salary	20% of salary	15% of salary
Annual bonus	Up to 100% of salary	Up to 100% of salary	Up to 100% of salary
Annual bonus metrics	Adjusted Group PBT (70%) Individual objectives (30%)	Adjusted Group PBT (20%) Adjusted profit contribution of Smiths News (50%) Individual objectives (30%)	Adjusted Group PBT (70%) Individual objectives (30%)
Payment for threshold performance	0%	0%	0%
Payment for on-target performance	50%	50%	50%
Deferred Bonus Plan (DBP)	50% of annual bonus deferred for two years in shares	50% of annual bonus deferred for two years in shares	50% of annual bonus deferred for two years in shares
LTIP	100% of salary	50% of salary	100% of salary
LTIP metrics	EPS (50%) Aggregate free cash flow (50%)	EPS (50%) Aggregate free cash flow (50%)	EPS (50%) Aggregate free cash flow (50%)
Payment for threshold performance	20%	20%	20%
LTIP post-vesting holding period	Two years	Two years	Two years
Malus and clawback	Applies to awards made under the annual bonus, DBP and LTIP	Applies to awards made under the annual bonus, DBP and LTIP	Applies to awards made under the annual bonus, DBP and LTIP
Shareholding requirement	200% of salary	150% of salary	150% of salary
Share purchase	Voluntary purchase of £200,000 worth of shares	n/a	Voluntary purchase of £20,000 worth of shares

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) and in applying the policy for FY2019 we will aim to comply early with certain aspects of the recently published 2018 Code where it is practicable to do so.

Executive directors

The table below sets out the Company's Remuneration Policy for executive directors.

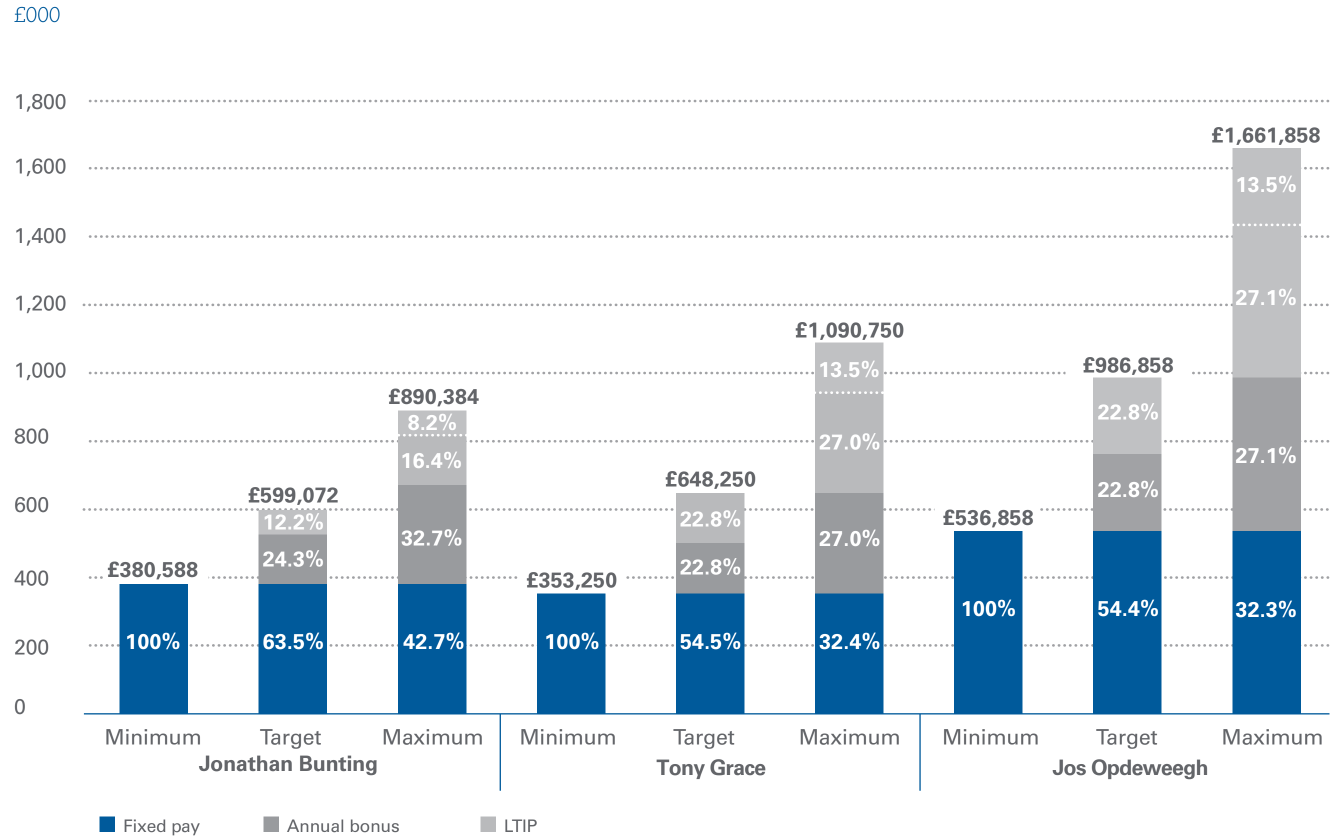
Element	Purpose	Operation	Maximum	Performance conditions
Base salary	Provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: • the skills and experience of the individual; • the size and scope of 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 lifetime 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.	Payout 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 DBP. The Committee retains discretion to change the deferred amount and/or the deferral period. Clawback and dividend equivalent provisions apply (see notes overleaf).	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 overleaf).	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 achievement of threshold performance target, a maximum of 20% of the award will vest.

Directors' remuneration report continued

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 LTIP (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 for the annual bonus, DBP 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: (i) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (ii) serious reputational damage of the Company, any member of the Group or the relevant business as a result of the participant's misconduct; or (iii) gross misconduct by the participant; or (iv) any other similar circumstance or event which in the view of the Committee has a serious adverse effect on the Company, any member of the Group or the relevant business, such as corporate failure, error or insolvency.
(f) As reported in the Chairman's statement there will be no further payments made in respect of deferred entitlements under the legacy EPP.

Application of the Remuneration Policy

The graph below illustrate the application of the shareholder approved policy for FY2019. 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 6 November 2018.
(b) For Jonathan Bunting, benefits are the value received in FY2018. For Jos Opdeweegh and Tony Grace, this is an estimated figure based on his starting package, not including the relocation allowance in the case of the former.
(c) The on-target level of annual bonus and LTIP is 50.0% of the maximum opportunity.
(d) The maximum value also shows the impact of an increase in share price of 50% on the value of the LTIP award. The value of dividend equivalents on LTIP or DBP are excluded.

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 12 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.
DBP (deferred annual bonus and legacy 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 prorated 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.

Directors' remuneration report continued

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 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, however, the Committee remains mindful of the 2018 Code provision encouraging workforce engagement on executive remuneration policy, outcomes and alignment with wider company pay policy. To this end, the Board confirms that it is in the process of establishing of a colleague advisory council to promote engagement with the workforce and intends to give further details in next year's Annual Report.

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. All non-executive directors are subject to annual re-election by shareholders at the AGM.

Annual report on remuneration

Total remuneration payable in respect of FY2018 (audited)

The total remuneration for each director is set out below. Total pay in FY2018 comprised base salary, benefits and pension. As the FY2016–2018 LTIP did not vest during the year, there has been no impact of the share price upon remuneration.

Executive	Year	Salary £000	Benefits[1] £000	Annual bonus £000	EPP £000	LTIP £000	Dividend equivalent payments £000	Pension benefits[2] £000	Total £000
David Bauernfeind[3]	FY2018	242	11	0	0	0	0	48	301
	FY2017	284	37[4]	31	0	0	0	57	409
Jonathan Bunting	FY2018	291	32	0	0	0	0	59	382
	FY2017	291	30	89	105	0	15	58	588
Mark Cashmore	FY2018	437	15[5]	0	0	0	0	87	539
	FY2017	437	36	66	158	0	10	87	794

1. 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.
2. Executives generally receive pension benefits equivalent to 20% of base salary paid over the year.
3. David Bauernfeind was appointed on 1 October 2016 and stepped down from the Board on 12 June 2018.
4. David Bauernfeind received a one-off relocation fee of £25,000 associated with his appointment.
5. Mark Cashmore reverted from a company car to a car cash allowance during the year at a lower benefit value.

Remuneration and link to performance during the year (audited)

Annual bonus

In FY2018, each executive had a maximum opportunity under the annual bonus of 100% of salary, split 70% in financial performance and 30% personal objectives.

Performance measures and actual performance was as follows:

Measure	Weighting	Targets: Threshold	Targets: Target	Targets: Max	Actual result (£m)	Bonus achievement
Group PBT	70%	£48m	£50m	£52m	£28.4m	Zero
Personal objectives	30%		See detail below		Partial achievement but reduced to zero due to the failure to achieve the financial underpin	Zero

1. Reported Group PBT in the table above comprises adjusted Group PBT for Continuing Operations.

For the financial year under review the executive directors were each given a number of personal objectives against which the individual element of the annual bonus was assessed. These are set out in the table below.

As the financial underpin of £48m, which was introduced last year, was not achieved, the Committee determined that no bonus would be payable for the personal objectives. The table below details the objectives that were set and provides a narrative of achievement against these objectives.

	Personal objectives	Link to key strategic objectives
David Bauernfeind	• Lead and embed the Cost to Serve project • Reorganise and integrate the finance function • Implement a revised model for internal audit and risk	• Supports the strategy to improve quality of earnings • Supports the cost reduction strategy • Supports governance and internal control fundamentals
Performance against objectives	• Some limited progress was made against each of the above objectives but none were completed before Mr Bauernfeind left the Group	
Jonathan Bunting	• Propose a new network and transport model for the business • Deliver the publisher contract strategy • Develop an 'off-patch' solution outside of Smiths News' core territories enabling a consistent national service offer for early morning products • Lead service delivery and operational capability to support customer retention and growth through new revenue streams	• Supports our strategy to streamline operations • Ensures customer retention for our businesses
Performance against objectives	• Network plan developed, but application limited due to financial performance in FY2018. Transport plan not completed • News UK contract completed and Frontline magazine contract commercials largely agreed. Good progress with other publishers • Decision made to close Pass My Parcel given ongoing issues and failure to achieve a scalable national service offer for early morning products • Service and operational performance below target	

Directors' remuneration report continued

	Personal objectives	Link to key strategic objectives
Mark Cashmore	• Balance the business performance objectives with the transformation project • Stabilise and align the senior management teams to strategic goals • Rebuild confidence with external stakeholders • Develop clear succession plans for the Executive Team • Establish a platform for sustainable growth	• Supports strong returns to shareholders • Ensures management alignment to strategic objectives
Performance against objectives	• Challenges around integration negatively impacted business performance • Some progress on transformation, including process and back office harmonisation, but operational efficiency targets and commercial goals not achieved • Investor confidence and trust negatively impacted by business performance • Platform for sustainable growth not established	

More detail on our key strategic objectives are provided in the Strategic report set out on pages 2 to 25.

Long-Term Incentive Plan

LTIP awards were granted to the executive directors in November 2015 and were subject to the achievement of three-year aggregate EPS targets measured over FY2016–18. As the performance target was not achieved, the LTIP awards did not vest and accordingly lapsed in full.

FY2016–2018 Award	Threshold aggregate EPS FY2016–2018	Maximum aggregate EPS FY2016–2018	Actual aggregate EPS performance/ vesting level
Target	53.3p	61.3p	44.6p
Vesting level	20%	100%	0%

1. The EPS performance targets and the EPS performance contribution for FY2018 were adjusted by the Committee to neutralise the impact of the disposal of the Education & Care business in FY2017 and Books business in FY2018, the Audit Committee having verified the veracity of such financial adjustments.
2. Actual EPS performance represents aggregate EPS of the Continuing Operations.

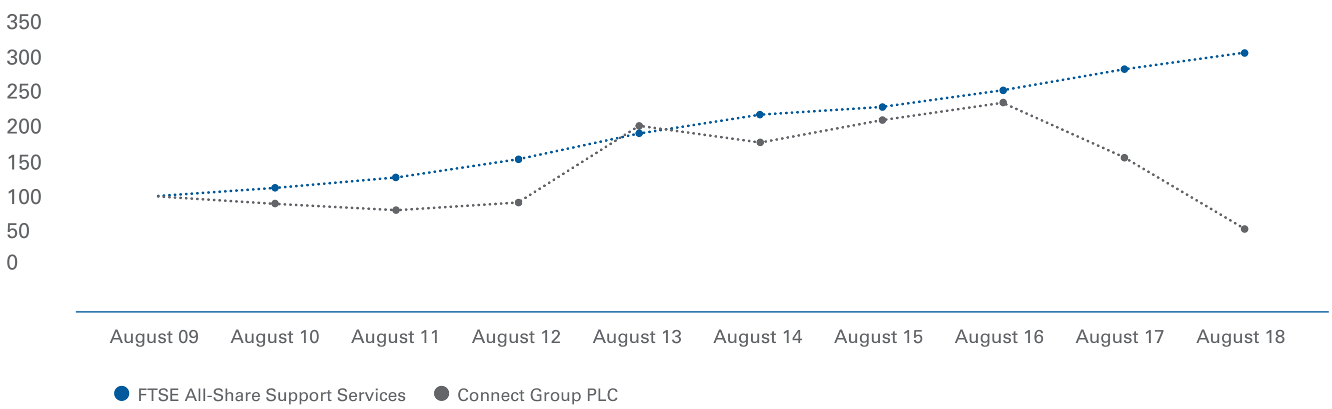
Legacy Economic Profit Plan

As reported in the FY2017 Directors' remuneration report, payments would continue to be made in respect of deferred entitlements under the legacy EPP 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. Although the final tranche of the annual deferred payments would normally have been due during the year, the Committee determined that, based on the level of profitability for FY2018, the payments would not be made. The Committee also exercised its discretion in deciding that the final tranche payment would not be reconsidered in FY2019 or FY2020 as permitted by the scheme rules. As a consequence, no further payments will be made under the plan.

Performance graph and table

The graph below shows the Company's Total Shareholder Return (TSR) performance against the FTSE All-Share Support Services Sector over the past nine years. The FTSE All-Share 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 nine financial years (Mark Cashmore held this position for all nine years).

Total shareholder return



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	**FY2018**
Chief Executive Officer total remuneration (£000)	846	862	1,079	1,311	970	1,095	882	794	**539**
Annual bonus payment (% maximum)	100.0%	59.9%	83.1%	67.1%	12.5%	71.3%	38.9%	15.0%	**0%**
EPP payout (% maximum)	84.1%	79.2%	89.4%	86.8%	55.1%	61.5%	72.0%	72.0%	**0%**
LTIP vesting (% maximum)	0.0%	78.0%	100.0%	100.0%	100.0%	63.5%	0.0%	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 FY2017 and FY2018, compared to the average of all UK-based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY2017–2018		
	Base salary	Benefits	Annual bonus
Chief Executive Officer	0.0	(22.8)[1]	(100.0)
UK employees	4.4	8.0	(29.0)

1. The Chief Executive Officer reverted from a company car to a cash car allowance during the year, at a much lower beneficial value.

Chief Executive Officer pay ratio to the workforce

The Company has chosen to voluntarily comply early with the new pay ratio regulations, accordingly, the table below shows the ratio of the Chief Executive Officer's single figure total remuneration (as disclosed on page 51) to the median (50th percentile), 25th and 75th percentile paid employee, based on the total remuneration of the Group's full-time equivalent UK colleagues. The employee total remuneration includes wages and salary, taxable benefits, annual bonus, share-based remuneration and other incentive plans and pension benefits.

	25th percentile	Median	75th percentile
Employee total remuneration	£17,446	£19,884	£30,310
Chief Executive Officer to employee pay ratio	32.4:1	26.3:1	17.8:1

The Company has chosen to calculate the ratios in accordance with the Option B methodology laid out in the remuneration regulations which was deemed the most reasonable and practical approach given the collation of data exercise required for the gender pay gap reporting.

The composition of the two main employing entities within the Group (Smiths News Trading Limited and Tuffnells Parcels Express Limited) includes over 50% of colleagues in frontline operational roles. These include warehouse operatives (approximately 2,000) and drivers (approximately 900). Pay between the 25th percentile and the median is representative of warehouse operative and supervisor roles, which typically attract pay levels at or close to the National Living Wage. Drivers' salaries typically sit between the median and 75th percentile depending on class of vehicle, 3.5 tonne drivers receiving around the median. The large proportion of operational roles therefore explains both the salaries that sit at the 25th percentile and median and also the proximity of salaries between those two points. The second largest group are operational administrative support and management roles, and the remainder of employees are made up of professional functional roles, Group management, and senior management which span leadership levels 1–4 and therefore have a broad range of salaries, however the salary at 75th percentile is reflective of this makeup.

In summary, the Group's organisational shape and nature of operation explains the salaries at each reported percentile and the ratios between total employee remuneration (at median, upper quartile and lower quartile) and Chief Executive Officer total remuneration. Due to the diverse range of roles within the business, pay practice does vary but we believe that the data and ratios are a true reflection of pay within the Group.

In considering the data, it should be noted that the Chief Executive Officer's single figure total remuneration for FY2018 does not include any annual bonus or LTIP payments and represents a low level of remuneration compared to historical norms. Based on the directors' pay scenario chart on page 46, and with business performance delivering at target or maximum level of performance the pay for the Chief Executive Officer would be likely to increase at a significantly higher rate than that of the general employee population and so the ratios would be significantly higher. As a consequence, the first year of our pay ratio reporting does not constitute a normal baseline.

Relative importance of spend on pay

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

	FY2018 £m	FY2017 £m	% change
Total employee pay – Continuing Operations	**112.6**	116.5	(3.3)%
Adjusted Group PBT – Continuing Operations	**28.4**	48.0	(40.8)%
Corporation tax paid – Continuing Operations	**7.2**	9.1	(20.9)%
Dividends paid	**24.1**	23.6	2.4%

Directors' remuneration report continued

The figures on the previous page are principally set out in the Group income statement on page 73 and on pages 89 and 94 in the notes to the Group Financial Statements. Total employee pay is the total pay for all Group employees. Adjusted Group PBT 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 – awards made during the year

LTIP awards granted in FY2018 (audited)

On 5 December 2017, the following executive directors were granted the FY2018–2020 LTIP awards, worth 100% of salary at the date of grant:

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[3]	108.75p	285,057	£310,000	20%	FY2018–2020
Jonathan Bunting		267,873	£291,312		
Mark Cashmore		401,810	£436,968		

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.
3. David Bauernfeind's awards lapsed in full on 12 June 2018 as explained below.

Awards are subject 50% to a performance condition based on EPS achieved in FY2020 (as defined by IAS 33, 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 free cash flow.

The performance conditions applied to the awards were as follows:

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%

Deferred Bonus Plan awards granted in FY2018 (audited)

On 5 December 2017, executive directors were granted DBP awards for the deferred shares element of the annual bonus and EPP schemes:

Executive	Share price at date of grant[1]	Number of nil-cost options subject to award	Face value of award
David Bauernfeind[2]	108.75p	14,253	£15,500
Jonathan Bunting		88,995	£96,782
Mark Cashmore		102,553	£111,527

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. David Bauernfeind's award lapsed in full on 12 June 2018 as explained below.

There are no further performance conditions attached to the DBP awards, which are exercisable subject to a deferral period of two years from the date that the associated cash part of the bonus and EPP was awarded.

The section below includes details of the treatment of the DBP awards held by David Bauernfeind and Mark Cashmore following their departure from the Board.

Payments to former Directors

On 1 May 2018, the Company announced that David Bauernfeind, our Chief Financial Officer, had resigned to pursue a role elsewhere and subsequently, on 12 June 2018, agreed to step down from the Board with immediate effect. Mark Cashmore, our Chief Executive Officer, also stepped down from the Board on 31 August 2018, but remained with the business until 28 September 2018 to allow for a smooth transition to new leadership.

David Bauernfeind's contractual payments of base salary, benefits and pension contributions ceased when he stepped down from the Board on 12 June 2018 and any opportunity for or entitlement to annual bonus, LTIP and DBP awards lapsed.

Executive	Scheme	Date of grant	Number of nil-cost options subject to award
David Bauernfeind	LTIP	07.02.17	224,638
	LTIP	05.12.17	285,057
	DBP	05.12.17	14,253

Mark Cashmore was served 12 months' notice by the Company in June 2018 and worked part of his notice period until 28 September 2018. For the remainder, subject to offset against earnings received elsewhere by Mark from any other executive role, or from any non-executive role that he may hold until 30 June 2019 (other than the first of any such non-executive role), Mark will continue to be paid his basic salary, benefits and pension entitlements in monthly instalments, and will continue to receive contractual benefits until 30 June 2019.

Further, in line with the plan rules, the Committee determined that Mark's outstanding DBP awards (and accompanying dividend equivalent payments), representing payments already earned, will vest on their normal vesting dates (i.e. the second anniversary from the date of grant). In all cases, the deferred shares have a significantly reduced value due to the recent fall in the share price. Mark also retains his outstanding LTIP awards, subject to the satisfaction of applicable performance conditions but reduced on a pro rata basis to reflect the time elapsed from the start of the performance period. However, in light of the deterioration in recent financial performance already referenced in the Annual Report, the outstanding LTIP awards are most unlikely to achieve the required minimum threshold performance conditions when assessed and none are expected to vest. In addition, there was no annual bonus payment in respect of FY2018 and the final deferred EPP payment was withheld, as detailed above. Finally, Mark will not be eligible for either an annual bonus or LTIP award during his notice period.

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 2018 was 1,506,850. The accounting treatment is shown in the Group statement of changes in equity on page 76. During the year, the Board resolved until otherwise agreed to satisfy all future employee share scheme exercises through the Employee Benefit Trust using market purchased shares and intends to instigate a plan for share purchases to cover likely future commitments.

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 2018 had issued 3,513,834 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.

Executive directors' share interests (audited)
The table below sets out details of outstanding share awards held by executive directors as at 31 August 2018 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
Jonathan Bunting	564,136	186,644	0	83,937
Mark Cashmore[1]	846,204	221,129	0	130,282

1. See overleaf for an explanation of the treatment of Mark Cashmore's outstanding share awards following his departure from the Board on 31 August 2018.

Executive directors' shareholdings and shareholding guidelines
The table overleaf sets out the beneficial interests of the executive directors who served during the reporting period 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.

Directors' remuneration report continued

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

Name	Target shareholding	Salary	Holding at 31 August 2018	Holding at 31 August 2017	Valuation of current holding[1]	% of target shareholding reached
David Bauernfeind		310,000	60,000[2]	20,000	£18,480	6%
Jonathan Bunting	150%	291,312	370,876	319,236	£114,230	39%
Mark Cashmore		436,968	902,059	833,134	£277,834	64%

1. Using share price of 30.8p as at 31 August 2018.
2. As at date of cessation of employment: 12 June 2018.

Between 1 September 2018 and 6 November 2018 (the publication date of this report), there has been no other change in the executive directors' shareholdings shown above.

For the new Chief Executive Officer, Jos Opdeweegh, the shareholding guideline was increased to 200% of salary. Jos has agreed to shortly purchase £200,000 of shares representing 44% of his current salary.

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
Jonathan Bunting	1 April 2010	12 months	9 months
Jos Opdeweegh	29 July 2018	12 months	12 months
Tony Grace	5 November 2018	12 months	9 months

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	Date of appointment	Notice period
Gary Kennedy	2 March 2015	3 months
Denise Collis	1 December 2015	3 months
Michael Holt	1 October 2018	3 months
Mark Whiteling	1 September 2017	3 months

Non-executive directors' 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. A fee of £5,000 has also been introduced for the role of chairing the Advisory Colleague Forum. This new role has been instigated as part of the Group's proposals to increase workforce engagement with the Board pursuant to the 2018 edition of the Code.

The following fees were paid to non-executive directors for FY2018 and FY2017 (audited):

	Year	Base fee £000	Additional fees £000	Benefits[1] £000	Total fees £000
Gary Kennedy[2]	**FY2018**	**140**	**–**	**11**	**151**
	FY2017	140	–	11	151
Andrew Brent[3]	**FY2018**	**17**	**2**	**3**	**22**
	FY2017	40	5	1	46
Denise Collis	**FY2018**	**40**	**10**	**2**	**52**
	FY2017	40	10	2	52
Mark Whiteling[4]	**FY2018**	**40**	**13**	**4**	**57**
	FY2017	–	–	–	–

1. The benefits disclosed 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.
2. Gary Kennedy is paid a single fee which includes chairmanship of the Nominations Committee.
3. Andrew Brent stepped down from the Board following the AGM on 23 January 2018.
4. Mark Whiteling succeeded Andrew Brent as Senior Independent Director on 23 January 2018 and received an additional £5,000 per year pro rata for this additional role.

Non-executive directors' shareholdings (audited)

The beneficial interests of the non-executive directors who served during the reporting period are set out below:

	31 August 2018	31 August 2017
Gary Kennedy	**60,000**	30,000
Andrew Brent[1]	**12,987**	12,987
Denise Collis	**48,846**	14,864
Mark Whiteling	**80,000**	80,000

1. At date of cessation on 23 January 2018.

There has been no change in the non-executive directors' shareholdings shown above between 1 September 2018 and 6 November 2018.

Implementation of the Remuneration Policy in FY2019

Executive directors

Salaries

Base salaries for FY2019 will be £450,000 for the Chief Executive Officer, £295,000 for the Chief Financial Officer and £291,312 for the Chief Executive Officer of Smiths News.

Pension

For new joiners we have taken the opportunity to reduce the level of pension contribution so that it aligns more closely to the workforce. Accordingly, the pension contribution will be 15% for the newly appointed Chief Executive Officer and Chief Financial Officer and 20% for the Chief Executive Officer of Smiths News.

Bonus

Bonus opportunity will remain at 100% of base salary. For the Chief Executive Officer 70% of the bonus will be based on a range of Adjusted Group PBT targets and 30% of the bonus will be based on individual objectives linked to the strategy and leadership. For the Chief Executive Officer of Smiths News 20% of the bonus will be based on Adjusted Group PBT, 50% on the Adjusted profit contribution of Smiths News and 30% on individual objectives. This provides a good mix between focusing on the division for which he is directly responsible and also the overall Group performance, recognising his PLC director status.

50% of the maximum bonus will be paid out for both the financial and personal objectives for on-target performance. There will be a Group PBT threshold which must be achieved before any bonus under the personal element may be paid. Consistent with last year, there will be a requirement for a minimum individual performance rating to be achieved before the financial performance element may be paid.

The bonus target performance condition will be lower than the FY2018 outturn, in recognition of a number of short-term business challenges including the immediate investment requirements for the Tuffnells business, and the impact of the non-repeating revenue from the FIFA World Cup sales in Smiths News. Recognising the lower overall profitability, the Committee has ensured that the target number is stretching and the sliding scale for bonus payment has been sharpened so that the threshold for payment is 95% of target (rather than 90% previously). At this 95% threshold, bonus will begin to accrue from zero (which is low compared to market norms). Furthermore, there is greater stretch than the usual 10% at the top end of the sliding scale.

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 in December 2018 covering the performance period FY2019–2021.

The LTIP grant level for FY2019–2021 for the Chief Executive Officer and Chief Financial Officer will be 100% of salary, which was agreed as part of their packages on joining. With the exception of immediate new joiners, the Committee has decided to scale back the LTIP award levels for all of the current LTIP population. This scaled back value reflects the low current share price and the potential leverage impact of a modest recovery. Further, this ensures that we can manage share usage and dilution with greater certainty. As such, we anticipate that based on the share price at the time of writing, Jonathan Bunting, the Chief Executive Officer of Smiths News, will receive an LTIP award equivalent to circa 50% of salary at grant and scaled back from the usual 100% of salary grant.

The structure of the bonus and LTIP for FY2019 will be in line with the Remuneration Policy approved by shareholders in January 2017, except that any LTIP awards will have an additional two-year holding period following the three-year performance period. This post-vesting holding period was introduced during the reporting period and, even though it is outside of the shareholder approved remuneration policy, it will be applied to the LTIP awards to be granted in December 2018 for executive directors and will also be cascaded to the Executive Team.

In addition, below the Executive Team, we have discontinued the practice of granting share options under our Executive Share Option Scheme, which means that all senior employees now receive awards under the LTIP. This provides a simpler approach with stronger employee alignment to senior management and shareholders.

Directors' remuneration report continued

The LTIP award will be subject to stretching EPS and free cash flow performance conditions. With such a new management team, at the time of writing the Board has not yet concluded its consideration of the rolling five-year business plan and therefore has not finalised the EPS and cash flow targets for the FY2019–2021 performance period. There will be full disclosure of the targets in the Stock Exchange Announcement relating to the LTIP grants to directors and the grants will, we anticipate, be made in December 2018 before the AGM. The EPS and free cash flow target ranges will be lower than those set for last year's LTIP award, reflecting the scale of prior year underperformance and the degree of challenge contained in the Group's recovery plan. The Committee will ensure that they remain equivalently challenging to prior year awards and represent an appropriately stretching incentive in the circumstances. As explained above, there will be a two-year post-vest holding period applied.

The Committee intends to make the LTIP awards in the form of conditional share awards.

Shareholding requirement

The shareholding requirement for the Chief Executive Officer is 200% of salary (above the policy) and 150% of salary for the Chief Financial Officer and Chief Executive Officer of Smiths News, in line with the policy.

Relocation assistance for the new Chief Executive Officer

The new Chief Executive Officer commenced employment on 1 September 2018 and received the following financial relocation assistance, conditional on remaining in employment for two years:

- a one-way business class air fare from the US for him and his family;
- one week's serviced accommodation; and
- assistance with visa requirements.

The relocation package costs incurred during the year total £19,174.

Non-executive directors

Non-executive directors' fees in FY2019

Non-executive directors' fees were last increased in 2015. The Committee is mindful of the increasing governance and regulatory demands of the non-executive directors and, subject to an improvement in business performance, will consider whether it is appropriate to review non-executive director fees during FY2019.

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

Remuneration Committee

Gary Kennedy is non-executive Chairman of the Board and was deemed independent on appointment. All other members of the Committee are independent non-executive directors. Andrew Brent stepped down from the Board as a non-executive director following the conclusion of the AGM on 23 January 2018. Michael Holt joined the Board and became a member of the Committee on 1 October 2018.

In addition to the formal number of Committee meetings set out below, members regularly engaged throughout the year in considering various other matters that arose under the remit of the Committee.

	Meetings attended	Possible meetings
Denise Collis	3	3
Andrew Brent	2	2
Gary Kennedy	3	3
Mark Whiteling	3	3

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, Korn Ferry, who were paid fees of £41,366. 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 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 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), Jane Storm (Chief People Officer), Stuart Marriner (Company Secretary & General Counsel) and Alissa Davis (Head of Reward) also attended Committee meetings but were not present when their own performance or remuneration was discussed.

Shareholder vote

At the 2017 and 2018 Annual General Meeting, shareholders were asked to approve the Remuneration Policy and FY2017 Directors' remuneration report respectively. 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 for the year ended 31 August 2017	159,516,228	95.79%	7,009,953	4.21%	166,526,181	595,822

Approval

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

Denise Collis
Remuneration Committee Chair
6 November 2018

Other statutory disclosures

Directors' report
This Annual Report and Accounts 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 2018. 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 25;
- Corporate governance on pages 26 to 35;
- Audit Committee report on pages 36 to 41;
- Nominations Committee report on pages 42 and 43;
- Directors' remuneration report on pages 44 to 59;
- this section, Other statutory disclosures;
- Directors' responsibilities statement on page 63; 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.

Non-financial information statement
The Company has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the strategic report as follows:

- The business model on pages 6 and 7;
- Information on environmental, employee, social, human rights, anti-corruption and anti-bribery matters (non-financial matters), including the relevant policies, due diligence process implemented in pursuance of the policies and outcomes of those policies, on pages 22 to 25;
- Principal risks identified in relation to the non-financial matters, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed, on pages 18 and 19;
- All key performance indicators, including those in relation to non-financial matters, are on page 8 and;
- The Financial review, which includes where appropriate, references to, and additional explanations of, amounts included in the Group Financial Statements on pages 12 to 17.

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
On 22 October 2018, the WH Smith Pension Trust entered into an insurance backed annuity 'buy-in' of the scheme assets within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations.

The High Court ruled on 26 October 2018 on the equalisation of Guaranteed Minimum Payments (GMP) on pensions. There will be potential additional liabilities arising for some pension schemes and the High Court approved two different methods for calculation. This judgement is likely to increase the liabilities within the Tuffnells pension scheme. Given the very recent nature of the judgement and the complexities involved in calculating any required liability, the extent to which the judgement will increase the liabilities is under consideration and therefore no provision has been made as at 31 August 2018. The Smiths News section of the WH Smith Pension Trust is not subject to GMP as the Scheme is not contracted out.

On 12 September 2018, the Group approved a letter of credit of £4.4m to our main insurer for the motor insurance and employer liability insurance policy. The letter of credit covers the employer deductible element of the insurance policy for insurance claims.

Profit attributable to shareholders and dividends
The statutory loss for the financial year, after taxation, from the Continuing Operations was £26.5m (FY2017: profit of £27.0m) and from the Discontinued Operations was a loss of £8.9m (FY2017: profit of £9.6m). In aggregate, the statutory loss for the financial year, after taxation, from both the Continuing Operations and Discontinued Operations was £35.4m (FY2017: profit of £36.6m).

The directors declared an interim dividend of 3.1p per ordinary share, which was paid to members on 6 July 2018. In light of the full year performance, the Board has decided not to recommend a final dividend. Accordingly, the total dividend for the year ended 31 August 2018 was 3.1p per ordinary share (FY2017: 9.8p).

Looking ahead, the Board is conscious of the importance of a dividend to shareholders and anticipates a dividend in 2019, based on the earnings and free cash flow achieved in the year. A more detailed capital management policy will accompany our planned strategy announcement in January 2019.

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.

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 Accounts. 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.

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 Accounts. 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 55.

Purchase of own shares

At the Annual General Meeting held on 23 January 2018, authority was given for the Company to purchase, in the market, up to 24,765,908 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during FY2018. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2019 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year, the Board resolved, until otherwise agreed, to satisfy all future employee share scheme exercises through the Employee Benefit Trust (further details on the Employee Benefit Trust and market purchases are set out in Directors' remuneration report on page 55). Accordingly, during the year ended 31 August 2018, only 125 ordinary shares in the Company were issued, in relation to the allotment of shares under the Sharesave Scheme at a price of 142.42p.

The new ordinary shares issued 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 2018, 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
Aberforth Partners LLP	13.1
Silchester International Investors LLP	9.9
Henderson Global Investors	7.9
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 2018 to 6 November 2018.

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.

Other statutory disclosures continued

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 pages 26 and 27 with the exceptions of:

- Andrew Brent who resigned from the Board following the conclusion of the Annual General Meeting on 23 January 2018;
- David Bauernfeind who stepped down from the Board on 12 June 2018;
- Mark Cashmore who stepped down from the Board on 31 August 2018; and
- Jos Opdeweegh, Michael Holt and Tony Grace who joined the Board on 1 September, 1 October and 5 November 2018 respectively and therefore did not serve as directors during the reporting period.

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 56 and 57.

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.

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.

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 pages 22 to 25.

Greenhouse gas emissions
Details of the Group's greenhouse gas emissions are set out in the Corporate responsibility report on pages 22 and 23.

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 (FY2017: £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 they are 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 they ought reasonably to have taken as a director in order to make themselves 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 Thursday 31 January 2019 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
6 November 2018

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 judgements 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 6 November 2018 and signed on its behalf by:

Jos Opdeweegh
Chief Executive Officer
6 November 2018

Tony Grace
Chief Financial Officer
6 November 2018

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 of Connect Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2018 and of the Group's loss 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 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; and
- the related Group notes 1 to 35 and Parent Company notes 1 to 6.

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 FRS 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 Financial Reporting Council's (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 goodwill and intangible assets of the Tuffnells operating business; • accuracy of trading adjustments to revenue at the year end; • accuracy and classification of restructuring costs; • valuation of investments in subsidiary undertakings within Connect Group PLC (company only); and • appropriateness of the use of the going concern basis of accounting. 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 for the Group Financial Statements was £1.40m, which was determined on the basis of adjusted profit before tax. A reconciliation between statutory and adjusted profit before tax is on page 86. For Connect Group PLC (company only) a materiality of £1.26m has been used.
Scoping	Our Group scoping was focused on the significant components which resulted in audit coverage of 98% of Revenue, 97% of profit before tax, and 85% of net assets. Further details are presented on pages 69 and 70.
Significant changes in our approach	As a result of key events which have impacted the Group's performance in the financial year, we considered the following audit matters constituted key audit matters in the current year: • valuation of goodwill and intangible assets within the Tuffnells operating business; • accuracy and classification of restructuring costs; • valuation of investments in subsidiary undertakings within Connect Group PLC (company only); and • appropriateness of the use of the going concern basis of accounting. We broadened the definition of the key audit matter 'accuracy of trading adjustments in the Smiths News operating business', raised in the prior year, to include Tuffnells, given the recent trading performance of this segment.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 1 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's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 18 and 19 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 37 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; or • the directors' explanation on pages 20 and 21 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. We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

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.

In our audit report for the year ended 31 August 2017 we presented a key audit matter as the valuation of the Books segment, which was recognised as held for sale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The sale of this business has concluded in the year and so this matter is no longer relevant to the audit of the Group.

As shown in the summary table on page 64, we identified four new key audit matters in the current year. These have been identified primarily as a result of the performance of the Tuffnells operating business in the year which is explained further in the Strategic report on pages 2 to 25 of the Annual Report, and in the Report of the Audit Committee on pages 36 to 41 of the Annual Report.

We have also amended the scope of the risk relating to revenue. We previously pinpointed our audit procedures to the trading adjustment at year end within the Smiths News operating business. Following the performance of the Tuffnells operating business, we have increased the scope of these audit procedures to include both the Smiths News and Tuffnells operating businesses. Our inclusion of Tuffnells is due to the heightened perceived risk of fraud to revenue following the performance of the business.

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

The valuation of goodwill and intangible assets within the Tuffnells operating business

Key audit matter description

The carrying value of the Tuffnells goodwill and intangible assets assessed for impairment at 31 August 2018 was £85.4m. The valuation estimate is determined by a discounted cash flow model, which involves significant judgement. Moreover, as described in the Corporate governance statement on page 34, management identified issues regarding forecasting process controls relevant to the impairment assessment.

The inputs to this model are presented by management as key sources of estimation uncertainty in note 13 to the financial statements. The value of the impairment is particularly sensitive to the following inputs to that model:

- the forecasted cash flows within the outlook period;
- the anticipated growth rate beyond that outlook period; and
- the discount rate applied to those cash flows.

During the year, the performance of the Tuffnells cash-generating unit (CGU) was an adjusted loss of £5.0m (note 2). Consequently, management recognised an impairment of £46.1m against the CGU's goodwill. We identified the impairment assessment as a key audit matter and accuracy of the impairment charge as a fraud risk.

Further detail on this impairment is provided in note 13. Management have also disclosed the potential impact of a change in the key assumptions to the impairment charge, which is presented in note 13.

The impairment charge has been classified as an adjusted item within management's non-IFRS disclosures. Rationale for this treatment is presented in note 4, with a reconciliation to the relevant IFRS equivalent presented on page 86.

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

We obtained and evaluated the impairment assessment prepared by management with particular consideration of the issues identified by management on forecasting process controls. We challenged the key assumptions within that assessment by:

- Assessing the design and implementation of key controls in place to address forecasting accuracy and the mechanical accuracy of the impairment model.
- Challenging management's cash flow forecasts over the outlook period by inspecting supporting evidence for revenue growth, profit assumptions, and industry benchmarks. We have also looked at the accuracy of management's previous forecasts and assessed these against the assumptions used within the model, and the sensitivities applied by management within the impairment calculations.
- Independently calculating an appropriate discount rate through engaging our internal valuation specialists and evaluating this against that used by management.
- Reviewing and evaluating the mechanical accuracy of the impairment model.
- Considering alternative evidence of the carrying value of the CGU through review of recent transactions in the industry and the implied EBITDA and revenue multiples arising from the discounted cash flow model.
- Assessing the adequacy of the disclosure in respect of the impairment recognised and the work performed by management including the sensitivity analysis presented in note 13 to the financial statements.

Key observations

We have concluded that the impairment recognised by management is reasonable. The discount rate used by management is within our acceptable range albeit towards the lower end of that range.

Accuracy of trading adjustments in the Smiths News and Tuffnells operating businesses

Key audit matter description

Revenue recognition represents a risk due to the operational year on which the Smiths News and Tuffnells operating businesses operate. The operating businesses operate on a weekly trading calendar, which ended on 1 September 2018, compared with the Group's financial year end of 31 August 2018. As a result, management are required to record a trading adjustments in order to prepare the financial statements with an effective year end of 31 August 2018. These trading adjustments incorporate both revenue and cost entries with respective balance sheet entries.

The manual nature of the process and the size of the trading adjustments give rise to a risk of material misstatement resulting from fraud or error.

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

For both of the Smiths News and Tuffnells operating businesses we have tested the accuracy of the manual trading adjustments by:

- Assessing the design and implementation of key controls in place relevant to the posting of manual journal entries and also those additional controls in place to address this specific adjustment.
- Reviewing and assessing the mathematical accuracy of the trading adjustment calculations.
- Inspecting the underlying data in management's calculations and assessing these against the underlying accounting records and supporting documentation.
- Confirming that the output of this calculation has been accurately posted as a journal entry.

Key observations

The final calculation of the trading adjustments to roll back the financial records was accurate and is correctly reflected in the performance for the year ended 31 August 2018.

We have reported to the Audit Committee that whilst improvements in controls have been made during the year, further improvements are required with regards to the process management undertakes in determining the trading adjustments and associated manual journal postings. Management's consideration of this matter is discussed in the Audit Committee report on page 40.

The accuracy and classification of restructuring costs

Key audit matter description

Within the financial year £8.5m of restructuring costs have been recognised as adjusted in the Income Statement. These include £6.7m of costs associated with the exit from the Pass My Parcel business (PMP) and £1.8m associated with redundancies. These are presented by management in note 4 to the financial statements.

Management have concluded that these items are significant in nature and in their impact on the reported results, and do not relate to the underlying trading activity of the Group. As such they have been presented as adjusted items and are further described in note 4 to the financial statements and Annual Report. The two parts to our classification risk consider whether the policy is appropriate, and whether that policy is consistently applied. We consider the classification of these items to be a fraud risk.

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

We responded to this matter by:

- Assessing the design and implementation of key controls in place to address the identification and classification of costs recognised as adjusted.
- Holding discussions with key management personnel to understand the nature of each provision/expense recognised within this category of restructuring costs.
- Obtaining a schedule of each item and performed a sample based approach, agreeing through to supporting information and assessing whether the cost was inherently linked to its purpose, and therefore classified appropriately.
- On our sample selection, reperforming calculations to assess whether the valuation of the liability/expense was appropriately calculated.
- Reviewing the closing assets of the business to assess whether all relevant current or non-current assets relating to PMP had been fully impaired.
- Assessing the presentation and disclosure of each matter in consideration of the Company accounting policies, the understandability of the financial statements, and ESMA and FRC guidance on the presentation of Alternative Performance Measures.

Key observations

We have concluded that the restructuring costs recognised are accurate and classified appropriately as adjusting items, as per the definition provided in the accounting policies on pages 78 to 79 of the financial statements.

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

The valuation of investments in subsidiary undertakings within Connect Group PLC (Company only)

Key audit matter description

The carrying value of the investment in subsidiaries recognised on the Connect Group PLC (Company only) balance sheet assessed for impairment at 31 August 2018 was £520m. Management have taken the amount of £408m payable to the subsidiaries into consideration in making their assessment, so the net value for assessment was £112m.

Judgement is required by the directors as to whether the investment should be impaired based on the financial position and future prospects of the underlying businesses. Specifically we have determined the key judgement is in relation to the value attributed to Tuffnells. The methodology used and assessments made by management are consistent with those used in the goodwill impairment review. The key inputs and estimation in this model are explained further in our narrative on the key audit matter related to the valuation of goodwill and intangible assets within the Tuffnells operating business.

Management have recognised an impairment of £38m against the investment held by Connect Group PLC (Company only). Further detail on this impairment is provided in note 3 to the (Company only) financial statements.

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

We have detailed our procedures on the forecasts and impairment model prepared by management in response to the key audit matter related to the valuation of goodwill and intangible assets within the Tuffnells business. In addition to those procedures, we specifically addressed the matter of the valuation of the investment in the Company only balance sheet by:

- Obtaining the assessment and calculation of the investment impairment.
- Reviewing and evaluating the mechanical accuracy of the impairment model.
- Considering alternative evidence of the carrying value of the investment.
- Assessing the adequacy of the disclosure in respect of the impairment recognised.

Key observations

We have concluded that the impairment recognised by management is reasonable and consistent with the judgements made in the assessment of the impairment against goodwill in the Tuffnells CGU.

The appropriateness of the use of the going concern basis of accounting

Key audit matter description

Management has adopted the going concern basis of accounting in the preparation of the financial statements. Inappropriate application of the going concern basis of accounting could have a significant and pervasive impact on the valuation of the assets of the Group. Management have also concluded that there is no material uncertainty in the adoption of the going concern basis of accounting.

The trading performance in the year as well as the potential for one-off cash flows led us to identify the appropriateness of this basis of accounting as a key audit matter.

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

We addressed the risk regarding the appropriateness of the going concern basis of accounting by:

- Engaging in regular discussions with the directors on trading performance and the strategic actions being taken.
- Assessing the design and implementation of the controls in place to address forecasting accuracy including cash flow forecasting.
- Challenging the appropriateness of management's forecasts such as checking the mechanical accuracy, assessing historical forecasting for accuracy against actual results, reviewing sensitivity analyses and challenging the assumptions applied in management's forecasts with regard to the principal risks.
- Considering the consistency of management's forecasts with other financial modelling such as the impairment models.
- Reviewing the terms of the loan facilities.
- Reviewing the disclosures regarding going concern for their adequacy and consistency with the above.

Key observations

We concur with management's adoption of the going concern basis of accounting and we have nothing material to report, add or draw attention to in respect of these matters.

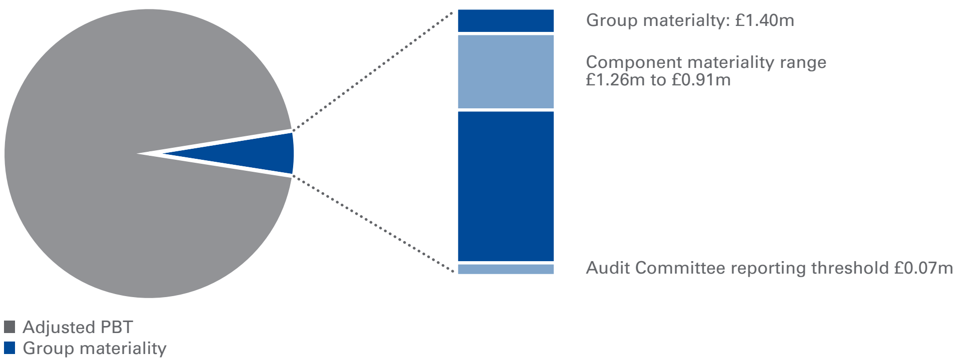
Our application of materiality

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 financial statements	Parent Company financial statements
Materiality	£1.4m (2017: £2.4m)	£1.26m (2017: £2.1m)
Basis for determining materiality	5% of adjusted pre-tax profit which is calculated on the same basis as that presented by management in note 3 to the financial statements.	Parent Company materiality equates to 1.7% of net assets, capped at 90% of Group materiality.
Rationale for the benchmark applied	In determining our materiality benchmark we considered the focus of the users of the financial statements. Adjusted profit before tax is a key performance indicator of the Group as well as being the key metric provided in trading updates, and in third-party analyses of Group performance. This is a consistent basis with the year ended 31 August 2017.	We consider the net assets within the Parent Company to be an appropriate starting point as the basis for materiality given its position as ultimate parent and a non-trading company.

Statutory profit before tax £28.1m



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £70,000 (2017: £120,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report 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

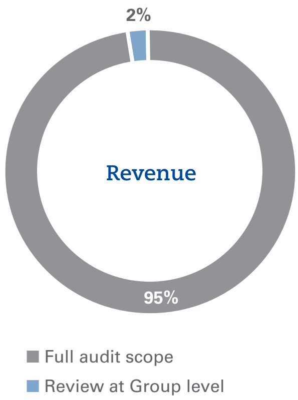
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment we focused our Group audit scope primarily on audit work at four (2017: eight) components of the Group. All of these components were subject to a full audit. We also performed specified audit procedures on the Books operating business which was sold in the year and so is presented within Discontinued Operations.

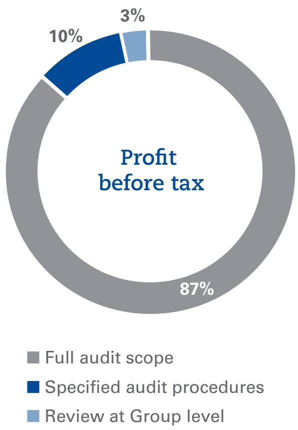
These components represent the principal business units and account for 85% (2017: 99%) of the Group's net assets, 98% (2017: 95%) of the Group's continuing revenues and 97% (2017: 94%) of the Group's continuing and discontinued profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the key audit matters identified above. Our audit work at the four components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, ranging between £0.9m and £1.3m (2017: £1.2m to £1.8m).

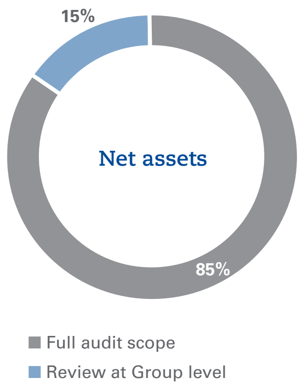
The reduction in the number of entities subject to a full scope audit reflects the disposal of the Books operating business during the year. We have performed specified audit procedures on the performance and disposal of the Books operating business.

The Smiths News operating business, and the Parent Company, is audited by the Group engagement team. We directed and supervised the work of component auditors for the Tuffnells operating business which included holding briefing discussions, attending meetings during and at the close of the audit, and reviewing audit work. The Group engagement team directly performed audit testing on certain matters of significance to the Group. Other non-significant components and the audit of the consolidation and associated workings was completed by the Group engagement team.

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







Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual 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 position and 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations as defined on page 38 of the Annual Report.
- Discussing among the engagement team including our component audit team and involving relevant internal specialists, including tax, valuations, pensions, and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - optimistic forecasting using inappropriate source information resulting in lower impairment charges (leading to the identification of two key audit matters);
  - manipulation of the trading adjustment to improve performance (identified as a key audit matter);
  - manipulation of results by inappropriately applying management's non-IFRS policy (identified as a key audit matter); and
  - activities within trade payables overriding controls or exploiting control weaknesses, such as fictitious vendors.
- Obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation and health and safety regulations.

Audit response to risks identified

As a result of performing the above, we identified key audit matters in respect of: the valuation in the Group financial statements of goodwill and intangible assets of the Tuffnells business, as well as the valuation of investments in subsidiary undertakings within Connect Group PLC's Company only financial statements; the accuracy of trading adjustments to revenue at the year end; the accuracy and classification of restructuring costs. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In respect of trade payables, as described in the Corporate governance statement on page 34 management identified a control weakness in relation to the implementation of a 'procure to pay' system within Tuffnells, which manifested itself in a number of data integrity and extrapolation errors. The Group has put in place a programme of activities to remediate the deficiencies, which was ongoing at year end. We evaluated the mitigating actions management put in place over data integrity and did not rely on controls when performing substantive procedures over accounts payable balances. We also performed audit procedures over journals posted and vendor set-up during the year as part of our response to the risk of management override of controls. This is not identified as a key audit matter as it did not have such a significant impact on our audit strategy or on the allocation of our resources.

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

In addition to the matters identified on the previous page, our procedures to respond to risks identified included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Health & Safety Executive;
- engaging internal specialists to assist in our assessment of management's key judgements on employment matters; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 to audit the financial statements for the year ending 31 August 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 31 August 2006 to 31 August 2018.

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).

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.

Jane Makrakis FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
6 November 2018

Group Income Statement
for the year ended 31 August 2018

£m	Note	2018 Adjusted*	2018 Adjusted items	2018 Total	2017 Adjusted*	2017 Adjusted items	2017 Total
Revenue	2	**1,534.3**	**–**	**1,534.3**	1,594.3	–	1,594.3
Operating (loss)/profit	2,3	**33.9**	**(63.9)**	**(30.0)**	54.7	(13.0)	41.7
Finance costs	7	**(5.5)**	**–**	**(5.5)**	(6.7)	(0.8)	(7.5)
(Loss)/profit before tax		**28.4**	**(63.9)**	**(35.5)**	48.0	(13.8)	34.2
Income tax expense	8	**(5.5)**	**2.9**	**(2.6)**	(9.9)	2.7	(7.2)
(Loss)/profit for the year from Continuing Operations		**22.9**	**(61.0)**	**(38.1)**	38.1	(11.1)	27.0
Discontinued Operations							
(Loss)/profit for the year from Discontinued Operations		**1.3**	**(10.2)**	**(8.9)**	1.0	8.6	9.6
(Loss)/profit attributable to equity shareholders Continuing and Discontinued Operations		**24.2**	**(71.2)**	**(47.0)**	39.1	(2.5)	36.6

	Note	2018 Adjusted*	2018 Adjusted items	2018 Total	2017 Adjusted*	2017 Adjusted items	2017 Total
(Loss)/earnings per share from Continuing Operations							
Basic	10	**9.3p**		**(15.5)p**	15.5p		11.0p
Diluted	10	**9.3p**		**(15.5)p**	15.4p		10.9p
Equity dividends per share (paid and proposed)	9			**3.1p**			9.8p

* This measure is described in note 1(c) to the Group Financial Statements. Adjusted items are set out in note 4 to the Group Financial Statements.

Group Statement of Comprehensive Income
for the year ended 31 August 2018

£m	Note	2018	2017
Continuing			
Items that will not be reclassified to the Group Income Statement			
Actuarial (loss) on defined benefit pension scheme	6	**(2.1)**	(9.9)
Impact of IFRIC 14 on defined benefit pension scheme	6	**2.1**	6.8
Tax relating to components of other comprehensive income that will not be reclassified	8	**–**	0.3
		–	(2.8)
Items that may be subsequently reclassified to the Group Income Statement			
Gain on cash flow hedges	29	**–**	0.6
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)
		(0.3)	1.2
Other comprehensive result/(loss) for the year – continuing		**(0.3)**	(1.6)
(Loss)/profit for the year – continuing		**(38.1)**	27.0
Total comprehensive (expense)/income for the year – continuing		**(38.4)**	25.4
Other comprehensive loss for the year – discontinued		**–**	1.7
(Loss)/profit for the year – discontinued		**(8.9)**	9.6
Total comprehensive (expense)/income for the year – discontinued		**(8.9)**	11.3
Total comprehensive (expense)/income for the year		**(47.3)**	36.7

Group Balance Sheet
at 31 August 2018

£m	Note	2018	2017
Non-current assets			
Intangible assets	13	**50.8**	106.5
Property, plant and equipment	14	**38.8**	41.3
Interest in joint ventures	15	**5.1**	4.6
Retirement benefit assets	6	**–**	–
Deferred tax assets	23	**–**	5.4
		94.7	157.8
Current assets			
Inventories	16	**13.3**	13.8
Trade and other receivables	17	**81.7**	98.3
Cash and bank deposits	19	**18.0**	5.5
Current tax asset		**0.3**	–
Assets classified as held for sale	11	**0.5**	64.5
		113.8	182.1
Total assets		**208.5**	339.9
Current liabilities			
Trade and other payables	18	**(127.6)**	(136.2)
Current tax liabilities		**(0.8)**	(5.3)
Bank loans and other borrowings	19	**(47.2)**	(20.0)
Obligations under finance leases	21	**(2.8)**	(3.1)
Retirement benefit obligations	6	**(3.7)**	(4.1)
Provisions	24	**(9.5)**	(9.0)
Liabilities classified as held for sale	11	**–**	(49.5)
		(191.6)	(227.2)
Non-current liabilities			
Retirement benefit obligations	6	**(3.6)**	(7.4)
Bank loans and other borrowings	19	**(48.8)**	(60.0)
Obligations under finance leases	21	**(2.5)**	(5.4)
Other non-current liabilities	22	**(0.6)**	(1.0)
Deferred tax liabilities	23	**(2.5)**	(7.2)
Non-current provisions	24	**(4.8)**	(6.6)
		(62.8)	(87.6)
Total liabilities		**(254.4)**	(314.8)
Total net (liabilities)/assets		**(45.9)**	25.1

	Note	2018	2017
Equity			
Called up share capital	28(a)	**12.4**	12.4
Share premium account	28(c)	**60.5**	60.5
Demerger reserve	29(a)	**(280.1)**	(280.1)
Own shares reserve	29(b)	**(2.1)**	(3.1)
Hedging and translation reserve	29(c)	**0.2**	0.5
Retained earnings	30	**163.2**	234.9
Total shareholders' equity		**(45.9)**	25.1

The accounts were approved by the Board of Directors and authorised for issue on 6 November 2018 and were signed on its behalf by:

Registered number – 05195191

Jos Opdeweegh
Chief Executive Officer

Tony Grace
Chief Financial Officer

Group Statement of Changes in Equity

for the year ended 31 August 2018

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging and translation reserve	Retained earnings	**Total**
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**
Loss for the year		–	–	–	–	–	(47.0)	**(47.0)**
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(2.1)	**(2.1)**
Impact of IFRIC 14 on defined benefit pension scheme		–	–	–	–	–	2.1	**2.1**
Currency translation differences		–	–	–	–	(0.3)	–	**(0.3)**
Tax relating to components of other comprehensive income		–	–	–	–	–	–	**–**
Total comprehensive expense for the year		**–**	**–**	**–**	**–**	**(0.3)**	**(47.0)**	**(47.3)**
Issue of share capital	28	–	–	–	–	–	–	**–**
Purchase of own shares		–	–	–	–	–	–	**–**
Dividends paid	9	–	–	–	–	–	(24.1)	**(24.1)**
Employee share schemes		–	–	–	1.0	–	(1.0)	**–**
Recognition of share-based payments net of tax		–	–	–	–	–	0.4	**0.4**
Balance at 31 August 2018		**12.4**	**60.5**	**(280.1)**	**(2.1)**	**0.2**	**163.2**	**(45.9)**

Group Cash Flow Statement
for the year ended 31 August 2018

£m	Note	2018	2017
Net cash inflow from operating activities	27	**37.5**	51.2
Investing activities			
Dividends received from associates		**0.2**	0.2
Purchase of property, plant and equipment		**(6.1)**	(13.7)
Purchase of intangible assets		**(2.4)**	(5.1)
Proceeds on sale of property, plant and equipment		**–**	1.3
Proceeds on sale of subsidiary (net of disposal costs)		**12.9**	56.8
Net cash used in investing activities		**4.6**	39.5
Financing activities			
Interest paid		**(5.8)**	(5.2)
Dividend paid	9	**(24.1)**	(23.6)
Repayments of obligations under finance leases		**(3.8)**	(4.2)
Proceeds on issue of shares	28	**–**	0.7
Net outflow on purchase of shares for the Employee Benefit Trust	29	**–**	(0.5)
Net increase/(decrease) in revolving credit facility		**25.3**	(61.0)
New bank loans raised		**48.8**	–
Repayment of borrowings		**(80.0)**	–
Net cash used in financing activities		**(39.6)**	(93.8)
Net increase/(decrease) in cash and cash equivalents		**2.5**	(3.1)
Effect of foreign exchange rate changes		**(0.2)**	0.4
		2.3	(2.7)
Opening net cash and cash equivalents		**6.4**	9.1
Closing net cash and cash equivalents	19	**8.7**	6.4

During the year cash outflow from operating activities attributed to Discontinued Operations amounted to £8.8m (2017: £3.8m inflow) and paid £4.3m (2017: £3.7m) in respect of investing activities. There were no cash flows associated with financing activities attributable to Discontinued Operations.

Analysis of net debt

£m	Note	2018	2017
Cash and cash equivalents	19	**8.7**	6.4
Current borrowings	19	**(38.0)**	(20.0)
Non-current borrowings	19	**(48.8)**	(60.0)
Net borrowings		**(78.1)**	(73.6)
Finance lease liabilities	21	**(5.3)**	(8.5)
Net debt		**(83.4)**	(82.1)

Cash and cash equivalents includes cash of £18.0m (2017: £6.4m) offset by £9.2m (2017: £nil) of overdrafts.

Notes to the accounts

1. Accounting policies

(a) Basis of consolidation

Connect Group PLC (the 'Company') is a company incorporated in England UK under Companies Act 2006. The Group accounts for the year ended 31 August 2018 comprise the Company and, its subsidiaries (together referred to as the 'Group') and the Group's interests in joint ventures 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 2017 and 2018 relate to fiscal year ended 31 August 2017 and 31 August 2018 as opposed to calendar year.

The accounts were authorised for issue by the directors on 6 November 2018.

(b) Basis of preparation

Accounting basis of preparation

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

The Group Accounts have been prepared in accordance with 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 joint ventures are eliminated to the extent of the Group's interest in the entities.

Going concern

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 defined as a period not less than 12 months from the balance sheet date.

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) Alternate performance measures

The directors believe that the alternate performance measures provide additional information for users of the accounts 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', 'adjusted profit', 'adjusted and adjusted diluted earnings per share', 'adjusted EBITDA' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies.

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 disposal related costs, legal and regulatory provisions, amortisation and impairment of intangibles, impairment of property, plant and equipment, integration costs, business restructuring costs and network reorganisation 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.

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 statutory operating profit from Continuing Operations, excluding the impact adjusting items (defined above). This metric is reconciled on the face of the income statement, with detail of each adjusted item disclosed within note 4.

Adjusted profit before tax is defined as statutory profit before tax, excluding the impact of adjusting items (defined above). This metric is reconciled on the face of the income statement, with detail of each adjusted item disclosed within note 4.

Adjusted EBITDA is calculated as Adjusted operating profit (as defined above) before depreciation and amortisation. This metric is reconciled on page 16.

Adjusted earnings per share is defined as adjusted profit before tax (PBT), less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted profit after tax attributable to shareholders; divided by the basic weighted average number of shares in issue. This metric is reconciled in note 10.

1. Accounting policies continued

Free cash flow is defined as cash flow excluding the following: payment of dividends, dividends from associates, acquisitions and disposals, the repayment of bank loans, Employee Benefit Trust share purchase, proceeds of share issues 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. A reconciliation of free cash flow to the net movement in cash and cash equivalents is shown in note 35.

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 is presented in the Group Cash Flow Statement.

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

Gross Profit is stated after charging the direct cost of sales. Gross profit has been restated after reclassifying costs between distribution and cost of inventories expensed see note 3 for details.

Contribution is stated after charging the distribution costs to gross profit. Contribution is considered to be a key performance measure as it is considered to represent the direct cost of running each business within the Group as distribution is primary operation of the Group. Contribution is reconciled in note 3.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) 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.

Sources of estimation uncertainty

The key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The carrying amounts of cash-generating units (CGUs) have been determined based on value in use calculations. These calculations require the use of estimates (note 13).

An impairment charge of £46.1m arose on the Tuffnells CGU during the course of the 2018 year, resulting in the CGU being written down to its recoverable amount. Note 13 include details of management’s assumptions and impact of changing these estimates.

Key accounting judgements

The significant judgements made in the accounts for the year ended 31 August 2018 are:

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The calculation of onerous contract provisions includes estimates of all future costs and income to occur. Significant judgement is applied in the determination of when contracts become onerous. With reference to Pass My Parcel, management have determined the date at which the contracts became onerous, is the date on which the Board approved to wind down the operations and cease further investment. See note 24 for further details.

(e) Non-current assets held for sale and disposal groups

Non-current assets held for sale and 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.

(f) 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.

(g) Revenue

Smiths News and DMD

Revenue is recognised on the despatched value of goods sold. 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. Goods are sold to retailers on a sale or return basis. Revenue for goods supplied with a right of return is stated net of the value of any returns.

Tuffnells

Revenue is recognised on delivery of the service to which it relates, based on agreed rates net of discounts, VAT and other sales related taxes.

Notes to the accounts continued

1. Accounting policies continued

(h) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. 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) Joint ventures

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

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

(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.

1. Accounting policies continued

(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.

(p) Trade receivables

Trade receivables do not carry any interest and are initially recognised at their fair value. They are subsequently remeasured 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 remeasured at amortised cost, using the effective interest rate method.

(r) Treasury

Cash and bank deposits

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. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and bank overdrafts held for trading purposes.

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.

Notes to the accounts continued

1. Accounting policies continued

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.

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 two defined benefit pension schemes. The largest scheme The 'WH Smith Pension Trust' is 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, reduced by the fair value of scheme assets. An asset ceiling cap is applied in accordance with IFRIC 14 with an additional liability recognised where there is a contractual obligation to make further payments into the scheme.

(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, being the Sharesave Scheme, the Executive Share Option Scheme, the LTIP and the Deferred Bonus Plan. Details of these are provided in the Directors' remuneration report and in note 31.

Equity-settled share-based schemes 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 applied for the first time:

The following Standards have been adopted without any significant impact on the amounts reported in these financial statements:

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

Disclosure initiative (amendments to IAS 7) – The amendment to IAS 7 requires a disclosure of changes in liabilities arising from financing activities. This has been presented in note 19.

Annual improvements 2014–2016 cycle effective 1 January 2017.

1. Accounting policies continued

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' – effective for accounting periods beginning on or after 1 January 2018 therefore effective on the Group financial statements for the year ending 31 August 2019.

The standard introduces changes to three key areas:
- new requirements for the classification and measurement of financial instruments;
- a new impairment model based on expected credit losses for recognising provisions; and
- simplified hedge accounting through closer alignment with an entity's risk management methodology.

The Group has completed an assessment of the impact of IFRS 9 and has concluded that adoption will not have a material impact on either the consolidated income statement or the consolidated balance sheet. The Group will apply all aspects of the new standard at the transition date of 1 September 2018 by adjusting opening retained earnings in the balance sheet and no restatement of comparative periods.

IFRS 15 'Revenue from Contracts with Customers' – effective for accounting periods beginning on or after 1 January 2018 therefore effective for the Group financial statements for the year ending 31 August 2019.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 revenue, IAS 11 construction contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:
- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Substantially all revenue earned by the Group is recognised at the point of service or on delivery of goods, and revenue recognised does not vary materially from the consideration to which the Group is entitled therefore no material adjustment is predicted. Were any adjustment to be required, the modified retrospective approach would be adopted with the cumulative impact of any adjustment recognised in retained earnings on transition date.

IFRS 16 'Leases' – effective for accounting periods beginning on or after 1 January 2019 therefore effective in the Group financial statements for the year ending 31 August 2020.

Transition to IFRS 16 will take place for the Group on 1 September 2019. The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will replace the current lease accounting requirements including IAS 17 'Leases' and the related interpretations.

For lessees, IFRS 16 removes distinctions between operating leases and finance leases. These are replaced by a model where a right of use asset and a corresponding liability are recognised for all leases except for short-term leases and low value assets. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

From the work performed to date and based on the undiscounted lease commitments presented in note 25, it is anticipated that implementation of the new standard will have a significant impact on the reported assets and liabilities of the Group. In addition, the implementation of the standard will impact the income statement and classification of cash flows. A reliable estimate of the financial impact on the Group's consolidated results is dependent on a number of unresolved areas, including: choice of transition option; refinement of approach to discount rates; estimates of lease-term for leases with options to break and renew; and conclusion of data collection.

Notes to the accounts continued

1. Accounting policies continued

In addition, the financial impact is dependent on the facts and circumstances at the time of transition. For these reasons, it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

The directors anticipate that the adoption of the following Standards and Interpretations in future periods will have no material impact on the financial statements of the Group:

Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' – effective for accounting periods beginning on or after 1 January 2018.

Annual Improvements 2014–2016 Cycle – effective 1 January 2018.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' – effective date 1 January 2018.

IFRIC 23 'Uncertainty over Income Tax Treatments' – effective date 1 January 2019.

Annual Improvements to IFRS 2015–2017 cycle – effective date 1 January 2019.

Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement' – effective date 1 January 2019.

2. Segmental analysis

In accordance with IFRS 8 'Operating Segments', 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:

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

As explained in note 11, the Books business, a leading UK distributor of physical and digital books was disposed of on 14 February 2018. The business 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 Education & Care business was sold on 30 June 2017 and the results for the period to this date are also presented within Discontinued Operations.

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

	Revenue	
£m	**2018**	2017
Smiths News	**1,335.1**	1,383.4
DMD	**26.5**	28.8
Tuffnells	**175.2**	183.2
Elimination of Intra-Group revenue	**(2.5)**	(1.1)
Continuing Operations	**1,534.3**	1,594.3
Discontinued Operations	**114.3**	270.3
Total Continuing and Discontinued Operations	**1,648.6**	1,864.6

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 Tuffnells to Smiths News in respect of Pass My Parcel.

2. Segmental analysis continued

£m	2018 Adjusted operating profit	2018 Adjusted items	2018 Statutory operating profit	2017 Adjusted operating profit	2017 Adjusted items	2017 Statutory operating profit
Smiths News	**35.9**	**(10.9)**	**25.0**	40.4	(4.3)	36.1
DMD	**3.0**	**(0.3)**	**2.7**	2.3	(1.0)	1.3
Tuffnells	**(5.0)**	**(52.7)**	**(57.7)**	12.0	(7.7)	4.3
Continuing Operations	**33.9**	**(63.9)**	**(30.0)**	54.7	(13.0)	41.7
Discontinued Operations*	**1.8**	**(10.6)**	**(8.8)**	2.0	7.5	9.5
Total Continuing and Discontinued Operations	**35.7**	**(74.5)**	**(38.8)**	56.7	(5.5)	51.2
Net finance expense	**(5.5)**	**–**	**(5.5)**	(6.7)	(0.8)	(7.5)
Profit before taxation	**30.2**	**(74.5)**	**(44.3)**	50.0	(6.3)	43.7

* 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 Smiths News are revenues of approximately £141.3m (2017: £147.5m) which arose from sales to the Group's largest customer. No other single customer contributed 6% or more of the Group's revenue in 2018 (2017: 5%).

Segment assets and liabilities

£m	Assets 2018	Assets 2017	Liabilities 2018	Liabilities 2017	Net assets/(liabilities) 2018	Net assets/(liabilities) 2017
Smiths News	**76.9**	85.4	**(212.2)**	(220.8)	**(135.3)**	(135.4)
DMD	**22.7**	23.0	**(7.3)**	(8.2)	**15.4**	14.8
Tuffnells	**108.9**	167.0	**(34.9)**	(36.3)	**74.0**	130.7
Discontinued Operations	**–**	64.5	**–**	(49.5)	**–**	15.0
Consolidated assets/(liabilities)	**208.5**	339.9	**(254.4)**	(314.8)	**(45.9)**	25.1

Segment depreciation, amortisation and non-current asset additions

£m	Depreciation 2018	Depreciation 2017	Amortisation and impairment 2018	Amortisation and impairment 2017	Additions to non-current assets 2018	Additions to non-current assets 2017
Smiths News	**(3.8)**	(4.2)	**(4.1)**	(3.0)	**3.8**	6.8
DMD	**(0.2)**	(0.2)	**(0.3)**	(0.3)	**0.1**	0.2
Tuffnells	**(4.6)**	(4.1)	**(53.1)**	(7.1)	**4.4**	6.7
Continuing Operations	**(8.6)**	(8.5)	**(57.5)**	(10.4)	**8.3**	13.7
Discontinued Operations	**–**	(0.8)	**–**	(12.7)	**0.6**	3.4
Consolidated total	**(8.6)**	(9.3)	**(57.5)**	(23.1)	**8.9**	17.1

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

Geographical analysis

£m	Revenue by destination 2018	Revenue by destination 2017	Non-current assets by location of operation 2018	Non-current assets by location of operation 2017
United Kingdom	**1,521.2**	1,579.6	**94.6**	152.4
Europe	**8.6**	9.6	**–**	–
Rest of World	**4.5**	5.1	**–**	–
Continuing Operations	**1,534.3**	1,594.3	**94.6**	152.4
Discontinued Operations	**114.3**	270.3	**–**	–
Total Continuing and Discontinued Operations	**1,648.6**	1,864.6	**94.6**	152.4

Notes to the accounts continued

3. Operating profit

The Group's results are analysed as follows:

£m	Note	2018 Adjusted	2018 Adjusted items	2018 Total	Restated* 2017 Adjusted	Restated* 2017 Adjusted items	Restated* 2017 Total
Continuing Operations							
Revenue		**1,534.3**	**–**	**1,534.3**	1,594.3	–	1,594.3
Cost of inventories recognised as an expense		**(1,154.5)**	**–**	**(1,154.5)**	(1,203.9)	–	(1,203.9)
Other cost of sales		**(137.3)**	**(0.5)**	**(137.8)**	(125.3)	–	(125.3)
Cost of sales		**(1,291.8)**	**(0.5)**	**(1,292.3)**	(1,329.2)	–	(1,329.2)
Gross profit		**242.5**	**(0.5)**	**242.0**	265.1	–	265.1
Distribution costs		**(137.8)**	**(3.1)**	**(140.9)**	(156.3)	–	(156.3)
Contribution		**104.7**	**(3.6)**	**101.1**	108.8	–	108.8
Other administrative expenses		**(68.3)**	**(7.1)**	**(75.4)**	(50.5)	(8.2)	(58.7)
Share-based payment expense	31	**–**	**–**	**–**	(0.9)	2.5	1.6
Impairment of intangibles	13	**–**	**(46.1)**	**(46.1)**	–	–	–
Amortisation of intangibles	13	**(3.0)**	**(7.1)**	**(10.1)**	(3.1)	(7.3)	(10.4)
Administrative expenses		**(71.3)**	**(60.3)**	**(131.6)**	(54.5)	(13.0)	(67.5)
Share of profits from joint ventures	15	**0.5**	**–**	**0.5**	0.4	–	0.4
Operating profit		**33.9**	**(63.9)**	**(30.0)**	54.7	(13.0)	41.7

* The above note has been restated to move £79.2m out of cost of inventory recognised as an expense in to distribution costs as this is considered the most appropriate allocation. A subtotal of contribution has been added as this is considered a key performance metric for the Group.

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

£m	Note	2018 Continuing	2018 Discontinued	2018 Total	2017 Continuing	2017 Discontinued	2017 Total
Depreciation on property, plant and equipment	14	**8.6**	**–**	**8.6**	8.5	0.8	9.3
Amortisation of intangible assets	13	**10.3**	**–**	**10.3**	10.4	12.7	23.1
Operating lease charges							
• occupied land and buildings		**10.2**	**0.5**	**10.7**	9.6	1.4	11.0
• equipment and vehicles		**16.7**	**0.1**	**16.8**	16.9	0.6	17.5
Operating lease rental income – land and buildings		**(0.2)**	**–**	**(0.2)**	(0.1)	(0.2)	(0.3)
Write down of inventories recognised as an expense		**–**	**–**	**–**	–	(1.6)	(1.6)
(Loss)/gain on disposal of non-current assets		**(0.4)**	**–**	**(0.4)**	0.4	(0.8)	(0.4)
(Loss)/gain on disposal of non-current assets held for sale	12	**–**	**(10.5)**	**(10.5)**	–	–	–
Staff costs (excluding share-based payments)	5	**125.5**	**6.7**	**132.2**	128.4	23.5	151.9

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	2018	2017
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.5**	0.2
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.7**	0.4
Other services	**–**	–
Total non-audit fees	**–**	–
Total fees (continuing and discontinued)	**0.7**	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 36 of the Annual Report.

4. Adjusted items

£m		2018	2017
Continuing Operations			
Network and reorganisation costs	(a)	**(3.1)**	(8.0)
Property	(b)	**0.7**	(0.6)
Acquisition and disposal costs/income	(c)	**–**	2.2
Amortisation of acquired intangibles	(d)	**(7.1)**	(7.3)
Pension	(e)	**–**	0.7
Settlement of interest rate swap	(f)	**–**	(0.8)
Impairment of Tuffnells goodwill	(g)	**(46.1)**	–
Pass My Parcel exit costs	(h)	**(6.7)**	–
Impairment of tangible assets	(i)	**(1.1)**	–
National Minimum Wage regulatory compliance	(j)	**(0.5)**	
Total before tax		**(63.9)**	(13.8)
Taxation		**2.9**	2.7
Total after taxation		**(61.0)**	(11.1)
Discontinued Operations			
(Loss)/profit on disposal of subsidiary	(k)	**(10.5)**	19.0
Reorganisation costs	(l)	**(0.1)**	(0.3)
Amortisation and impairment of discontinued intangibles	(m)	**–**	(11.2)
Total before tax		**(10.6)**	7.5
Taxation		**–**	1.1
Total after taxation		**(10.6)**	8.6
Continuing and Discontinued Operations			
Total before tax		**(71.6)**	(6.3)
Taxation		**2.9**	3.8
Total after taxation		**(68.7)**	(2.5)

The Group incurred a total of £48.3m of adjusted items on a continuing basis, after tax (2017: £11.1m).

This comprises:

(a) Network and reorganisation costs

There are £3.1m (2017: £8.0m) network and reorganisation costs. In the current year this includes abortive integration costs of £1.6m (2017: £nil) with regard to the integration programme announced at the end of the previous financial year. There are further costs of £1.8m (2017: £nil) relating to redundancies announced in August 2018 arising from the decision to streamline head-office functions which is separate to the network restructuring in the previous financial year. There is a credit of £0.3m relating to the release of the remaining redundancy provision related to network restructuring.

The total of £8.0m in the prior year comprised: a £4.0m charge for the 2017 redundancy provision relating to network restructuring; £2.0m related to network rationalisation costs incurred in the Smiths News network; £0.6m related to the restructuring of the Smiths News joint venture FMD Limited; £0.5m in rationalising overseas operations in DMD; and the remaining £0.9m related to redundancy costs within Smiths News and Tuffnells.

Costs associated with network and reorganisation are considered Adjusted items given they are part of a strategic programme to drive future cost savings and are significant in value to the results of the Group.

(b) Property

There is a £0.7m credit (2017: £0.6m charge) relating to property costs. During the year the Group made the strategic decision to transfer the previously vacant Slough depot to the Tuffnells business, resulting in a credit from the release of its onerous lease provision of £0.7m (2017: £0.9m charge relating to three properties). In the prior year £0.3m of reversionary lease provisions were released as they were no longer required. Onerous charges on property are charged through Adjusted items as they form part of the Group's strategic restructuring programme. The reversal of charges has also been made in Adjusted items for consistency.

Notes to the accounts continued

4. Adjusted items continued

(c) Acquisition and disposal costs

There are £nil (2017: £2.2m) costs in the current year relating to acquisition and disposal costs. Prior year acquisition costs included the release of deferred contingent consideration which was payable conditional on the financial performance of Tuffnells and the continued employment of its former owners. 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 prior year that did not meet the criteria to be included within discontinued. 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 of acquired intangibles

A charge of £7.1m (2017: £7.3m) has been recognised relating to amortisation of acquired intangibles. This is considered an adjusting item as it allows comparison between segments and, therefore, consistency in the performance of the Group at a consolidated level as shown in note 2.

(e) Pension

There is £nil (2017: £0.7m) of pension credits in the current year. The prior year £0.7m pension credit relates to a trivial commutation of benefits to members in the Group's section of the WH Smith Pension Trust. The prior year pension credit is not considered to be part of normal operations and is therefore considered to be an adjusted item.

(f) Settlement of interest rate swap

There is £nil (2017: £0.8m) relating to settlement of interest costs. The costs related to the settlement of swap instruments after the Group took a strategic decision to no longer enter into hedging arrangements. 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.

(g) Impairment of Tuffnells goodwill

During the year management reviewed the carrying value of Tuffnells goodwill and concluded that an impairment charge of £46.1 million (2017: £nil) was required. The recoverable amount of goodwill (in both the current and prior year) is calculated with reference to its value in use based on future cash flow projections. The key assumptions used in the calculation are disclosed in note 14. It is considered adjusting due to its one-off nature and significant value.

(h) Pass My Parcel (PMP) exit costs

Following a review of the PMP proposition on 23 May 2018, the Board decided to close the division and as a result a charge of £6.7m (2017: £nil) was booked.

Management concluded that losses on winding down the division represented an onerous contract with a cost of £4.7m recognised which comprises the forecast excess of costs over income from the date the Group took the decision to close the division. It is considered adjusting due to its one-off nature and significant value. Of this balance, £2.5m remains in provisions to cover the costs to close all contracts (see note 24). In the period from 1 September 2017 to the date of the decision to close, PMP incurred losses of £5.4m (these losses were included in our adjusted operating results).

A further £2.0m of impairment charges split £1.0m tangible and £1.0m intangible were recognised to write off the non-current assets relating to the division (notes 13 and 14).

(i) Impairment of tangible assets

The Group took the decision to consider the sale of the Jack's Beans division to focus on its core businesses, bids received indicated an excess of net book value of £1.1m therefore the Group has impaired the assets and moved them into non-current assets held for sale. Given the magnitude, the one-off nature and the Group's strategy to focus on its core businesses it is considered to be an adjusting item.

(j) NMW regulatory compliance

The Group has been in discussion with HMRC regarding an historical underpayment in relation to a misapplication of National Minimum Wage legislation in Tuffnells. Although dialogue continues, a provision amounting to £1.3m has been made in the Financial Statements in respect of any potential liabilities, of which £0.5m relating specifically to the estimated fine is classified as adjusting due to its one off nature. £0.8m has been included within adjusted operating results as it did not meet the definition of an adjusting item.

(k) (Loss)/profit on disposal of subsidiary

On 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m full details are provided in note 12. In the prior year, on 30 June 2017, the Group completed the sale of the Education & Care business at a profit of £19.0m full details are included in note 12.

(l) Reorganisation costs

Reorganisation costs of £0.1m (2017: £0.3m) were incurred by the Books business during the year. Reorganisation costs are considered to be adjusted items as they are part of the Group's wider restructuring programme to deliver cost savings and were incurred prior to the disposal. These are disclosed separately from other reorganisation costs on the basis the Books business was discontinued.

(m) Amortisation and impairment of discontinued intangibles

Included within Discontinued Operations results are items of £nil (2017: £11.2m) relating to amortisation and impairment of discontinued intangibles. The prior year includes impairments of £9.9m relating to the Books business and £1.3m of amortisation of acquired intangibles. The impairment is considered to be adjusting due to magnitude, the one-off nature and as it does not relate to underlying trade. Amortisation of acquired intangibles is considered adjusting as it skews the results of the non-acquired businesses.

5. Staff costs and employees

(a) Staff costs

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

£m	Note	2018	2017
Continuing			
Wages and salaries		**112.6**	116.5
Social security		**11.0**	10.1
Pension costs	6	**1.9**	1.8
Total		**125.5**	128.4

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 £nil in 2018 (2017: credit £1.6m) relating to share-based payments (refer to note 3). There was £6.7m (2017: £23.7m) of staff costs relating to Discontinued Operations these are not included in the above table.

(b) Employee numbers

The average total monthly number of employees relating to continuing operations (including executive directors) was:

Number	2018	Restated 2017
Operations	**3,707**	3,859
Support functions	**1,137**	1,152
Total	**4,844**	5,011

The note has been restated to only to include Continuing Operations. The average amount of Discontinued Operations staff in the prior year was 940 (521 operations and 419 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 business (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.

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	2018	WH Smith Pension Trust	Tuffnells Parcels Express	2017
Present value of defined benefit obligation	**(428.6)**	**(11.8)**	**(440.4)**	(460.6)	(13.0)	(473.6)
Fair value of assets	**583.1**	**9.6**	**592.7**	609.9	10.2	620.1
Net surplus/(loss)	**154.5**	**(2.2)**	**152.3**	149.3	(2.8)	146.5
Amounts not recognised due to asset limit	**(154.5)**	**–**	**(154.5)**	(149.3)	–	(149.3)
	–	**(2.2)**	**(2.2)**	–	(2.8)	(2.8)
Additional liability recognised due to minimum funding requirements	**(5.1)**	**–**	**(5.1)**	(8.7)	–	(8.7)
Pension liability	**(5.1)**	**(2.2)**	**(7.3)**	(8.7)	(2.8)	(11.5)

The primary defined benefit pension scheme (the Smiths News section of the WH Smith Pension Trust) has an IAS 19 surplus of £154.5m at 31 August 2018 (2017: £149.3m surplus) which the Group does not recognise in the accounts as the Group does not have an unconditional right to either a reduction of future contributions or right to a refund on closure of the scheme. 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.

Notes to the accounts continued

6. Retirement benefit obligation continued

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 £3.3m per annum through to March 2020. The Group recognises the present value of these agreed contributions as a pension liability of £5.1m (2017: £8.7m).

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 WH Smith 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.	2018	2017
Discount rate	2.6	2.3
Inflation assumptions – CPI	2.2	2.3
Inflation assumptions – RPI	3.2	3.3

Demographic assumptions for WH Smith Pension Trust:

	2018		2017	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.4	23.3	21.5	23.3
Member currently aged 45	22.5	24.5	22.5	24.5

Demographic assumptions for the Tuffnells Parcels Express scheme:

	2018		2017	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	22.2	24.1	22.3	24.1
Member currently aged 45	23.3	25.4	23.3	25.3

6. Retirement benefit obligation continued

Inflation assumptions

Pension increases in deferment in the both Schemes are granted in line with CPI for all deferred members. RPI inflation is used to determine the increases for pensions currently in payment, subject to any annual caps and floors.

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 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)
Current service cost	–	(0.1)		(0.1)
Net interest cost	14.4	(10.9)	(3.7)	(0.2)
Administration expenses	(0.2)	–		(0.2)
Total amount recognised in income statement	14.2	(11.0)	(3.7)	(0.5)
Actual return on scheme assets (excluding amounts included in net interest expense)	(23.4)	–	(1.7)	(25.1)
Actuarial gains/(loss) arising from experience	–	(3.1)	–	(3.1)
Actuarial gains arising from changes in financial assumptions	–	21.9	–	21.9
Actuarial gains arising from changes in demographic assumptions	–	2.5	–	2.5
Change in surplus not recognised	–	–	3.8	3.8
Amount recognised in other comprehensive income	(23.4)	21.3	2.1	–
Employer contributions	4.7	–	–	4.7
Employee contributions	–	–	–	–
Benefit payments	(22.9)	22.9	–	–
Amounts included in cash flow statement	(18.2)	22.9	–	4.7
At 31 August 2018	**592.7**	**(440.4)**	**(159.6)**	**(7.3)**

Included within current liabilities	**(3.7)**
Included within non-current liabilities	**(3.6)**

Notes to the accounts continued

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		2018	2017
Gilts and swaps portfolio	Quoted and Unquoted	**362.9**	401.9
Corporate bonds	Quoted and Unquoted	**216.0**	202.4
Loan fund	Unquoted	**–**	–
Equity funds	Unquoted	**9.6**	10.2
Bonds	Unquoted	**–**	–
Cash and other	Unquoted	**4.2**	5.6
		592.7	620.1

The return on scheme assets during 2018 was a loss of £23.4m (2017: a loss of £21.8m) 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 (2017: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	+/–0.5%	(£35.5m)/+£37.5m
Rate of inflation	+/–0.5%	£36m/+(£33m)
Life expectancy	+/–1 year	£15.5m/+(£15.5m)

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	2018	2017	2016	2015	2014
Present value of defined benefit obligation	**(440.4)**	(473.6)	(531.5)	(432.0)	(450.7)
Fair value of assets	**592.7**	620.1	671.9	563.3	522.7
Impact of IFRIC 14 on defined benefit pension schemes	**(159.6)**	(158.0)	(161.6)	(149.4)	(93.0)
Net deficit in the schemes	**(7.3)**	(11.5)	(21.2)	(18.1)	(21.0)
Experience adjustments on scheme liabilities	**21.3**	13.7	(117.4)	25.1	0.8
Experience adjustments on scheme assets	**(23.4)**	(21.8)	115.4	28.7	44.6

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 (2017: a loss of £30.5m).

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.

However, as the WH Smith Pension Trust entered into an insurance backed annuity 'buy-in' of the Scheme assets, within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations (note 32).

6. Retirement benefit obligation continued

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2018, contributions from the respective employing company for Continuing Operations totalled £1.9m (2017: £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	2018	2017
Continuing Operations			
Interest on bank overdrafts and loans		**(4.1)**	(4.4)
Amortisation of loan arrangement fees		**(0.5)**	(1.0)
Net interest expense on defined benefit obligation	6	**(0.2)**	(0.3)
Interest payable on finance leases		**(0.6)**	(1.0)
Foreign exchange gains		**–**	0.2
Unwinding of discount on provisions – trading	24	**(0.1)**	(0.2)
Adjusted items:			
Settlement of interest rate swap	4	**–**	(0.8)
Finance costs – Continuing Operations		**(5.5)**	(7.5)
Finance costs – Continuing and Discontinued Operations		**(5.5)**	(7.5)

8. Income tax expense

	2018			2017		
£m	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Continuing Operations						
Current tax	**5.6**	**(1.9)**	**3.7**	10.0	(0.6)	9.4
Adjustment in respect of prior year	**(1.0)**	**–**	**(1.0)**	(0.8)	0.1	(0.7)
Total current tax charge	**4.6**	**(1.9)**	**2.7**	9.2	(0.5)	8.7
Deferred tax – current year	**0.6**	**(1.0)**	**(0.4)**	0.1	(2.0)	(1.9)
Deferred tax – prior year	**0.3**	**–**	**0.3**	0.5	–	0.5
Deferred tax – impact of rate change	**–**	**–**	**–**	0.1	(0.2)	(0.1)
Total tax charge – Continuing Operations	**5.5**	**(2.9)**	**2.6**	9.9	(2.7)	7.2
Effective tax rate	**19.4%**	**–**	**(7.3%)**	20.6%	–	21.1%
Tax charge – Discontinued Operations	**0.4**	**(0.4)**	**–**	1.0	(1.1)	(0.1)
Tax charge – Continuing and Discontinued Operations	**5.9**	**(3.3)**	**2.6**	10.9	(3.8)	7.1

The effective adjusted income tax rate for Continuing Operations in the year was 19.4% (2017: 20.6%). After the impact of Adjusted items of £2.9m (2017: £2.7m), the effective Statutory income tax rate for Continuing Operations was (7.3)% (2017: 21.1%).

Corporation tax is calculated at the main rates of UK corporation tax, those being 19.0% (2017: 19.6%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the charge to current tax, approximately £nil (2017: £1.0m) related to tax on profits arising in the Books business, which was disposed of during the year. No tax charge or credit arose on the disposal of the relevant subsidiary.

Notes to the accounts continued

8. Income tax expense continued

The tax charge for the year can be reconciled to the profit in the income statement as follows:

£m	2018	2017
Profit before tax – Continuing Operations	**(35.5)**	34.2
Tax on profit at the standard rate of UK corporation tax 19.0% (2017: 19.6%)	**(6.7)**	6.7
Expenses not deductible for tax purposes	**9.8**	0.8
Non-taxable income	**(0.5)**	(0.6)
Share-based payments	**0.6**	0.5
Adjustment in respect of prior years	**(0.6)**	(0.2)
Impact of change in UK tax rate	**–**	(0.1)
Impact of higher overseas tax rates	**–**	0.1
Tax charge – Continuing Operations	**2.6**	7.2

Expenses not deductible for tax purposes are comprised mainly of the tax effect of the impairment of goodwill in Tuffnells. See note 4.

Tax charges to other comprehensive income and directly in equity

£m	2018	2017
Continuing operations		
Current tax relating to the defined benefit pension scheme	**(0.7)**	(0.8)
Current tax relating to share-based payments	**–**	–
Deferred tax relating to derivative financial instruments	**–**	0.2
Deferred tax relating to share-based payments	**–**	0.2
Deferred tax relating to retirement benefit obligations	**0.7**	0.3
Tax (credit) to other comprehensive income and directly in equity – Continuing Operations	**–**	(0.1)
Tax charge to other comprehensive income and directly in equity – Discontinued Operations	**–**	0.3
Tax charge to other comprehensive income and directly in equity – Continuing and Discontinued Operations	**–**	0.2

9. Dividends

Amounts paid and proposed as distributions to equity shareholders in the years:

	2018 Per share	2017 Per share	2018 £m	2017 £m
Paid and proposed dividends for the year				
Interim dividend – paid	**3.1p**	3.1p	**7.6**	7.6
Final dividend – proposed	**nil**	6.7p	**–**	16.4
	3.1p	9.8p	**7.6**	24.0
Recognised dividends for the year				
Final dividend – prior year	**6.7p**	6.5p	**16.5**	16.0
Interim dividend – current year	**3.1p**	3.1p	**7.6**	7.6
	9.8p	9.6p	**24.1**	23.6

There is no proposed final dividend for the year ended 31 August 2018.

The final dividend payment of £16.5m is £0.1m higher than that proposed, which is a result of movements in treasury shares between the declaration date and the ex-div date.

10. Earnings per share

	2018			2017		
	Earnings £m	**Weighted average number of shares million**	**Pence per share**	Earnings £m	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**247.7**				247.5
Shares held by the ESOP (weighted)		**(1.7)**				(2.1)
Basic earnings per share (EPS)						
Continuing Operations						
Adjusted earnings attributable to ordinary shareholders	**22.9**	**246.0**	**9.3p**	38.1	245.4	15.5p
Adjusted items	**(61.0)**			(11.1)		
Earnings attributable to ordinary shareholders	**(38.1)**	**246.0**	**(15.5)p**	27.0	245.4	11.0p
Discontinued Operations						
Earnings attributable to ordinary shareholder	**1.3**	**246.0**	**0.5p**	9.6	245.4	3.9p
Total – Continuing and Discontinued Operations						
Adjusted earnings attributable to ordinary shareholders	**24.2**	**246.0**	**9.8p**	39.1	245.4	15.9p
Adjusted items	**(71.2)**			(2.5)		
Earnings attributable to ordinary shareholders	**(47.0)**	**246.0**	**(19.1)p**	36.6	245.4	14.9p
Diluted EPS						
Effect of dilutive share options		**–**			1.6	
Effect of dilutive share options adjusting		**0.7**			1.6	
Continuing Operations						
Diluted adjusted EPS	**22.9**	**246.7**	**9.3p**	38.1	247.0	15.4p
Diluted EPS	**(38.1)**	**246.0**	**(15.5)p**	27.0	247.0	10.9p
Discontinued Operations – Diluted EPS	**(8.9)**	**246.0**	**(3.6)p**	9.6	247.0	3.9p
Total – Continuing and Discontinued Operations						
Diluted Adjusted EPS	**24.2**	**246.7**	**9.8p**	39.1	247.0	15.8p
Diluted EPS	**(47.0)**	**246.0**	**(19.1)p**	36.6	247.0	14.8p

Dilutive shares increase the basic number of shares at 31 August 2018 by 0.7m to 246.7m (31 August 2017: 247.0m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 0.7m dilutive shares (31 August 2017: 1.6m). In 2017, there was a dilutive impact of a weighted 1.6m 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).

Dilutive shares are only dilutive for the purposes of the Group's adjusted measure, where a profit is recognised. The application of the dilutive shares to the adjusted profits measure reduces the profit per share. For the Group's statutory measures, the potential dilutive effect of employee incentive schemes is antidilutive, in that they would reduce the loss per share. Accordingly, they are not applied to the statutory calculation with basic and dilutive EPS being the same.

Notes to the accounts continued

11. Discontinued Operations and assets held for sale

The Group took the decision to consider the sale of the Jack's Beans division to focus on its core businesses, bids received indicated an excess of net book value of £1.1m, therefore, the Group have impaired the assets down to £0.5m and moved them into non-current assets held for sale.

On 30 June 2017, the Education & Care business was sold (refer to note 12 for detail). The results of this business are therefore disclosed as discontinued. The Books business was classified as held for sale on 31 August 2017 as the Group was actively marketing the business, it subsequently disposed of the business on the 14 February 2018. As such, the results of the Books business 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 2018			12 months to Aug 2017		
£m	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue	**114.3**	**–**	**114.3**	270.3	–	270.3
Expenses	**(112.5)**	**(10.6)**	**(123.1)**	(268.3)	7.5	(260.8)
Operating profit	**1.8**	**(10.6)**	**(8.8)**	2.0	7.5	9.5
Finance costs	**(0.1)**	**–**	**(0.1)**	–	–	–
Profit before tax	**1.7**	**(10.6)**	**(8.9)**	2.0	7.5	9.5
Income tax expense	**(0.4)**	**0.4**	**–**	(1.0)	1.1	0.1
Profit from Discontinued Operations	**1.3**	**(10.2)**	**(8.9)**	1.0	8.6	9.6

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

£m	**2018**	2017
Goodwill	**–**	9.7
Intangible assets	**–**	3.0
Property, plant and equipment	**0.5**	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	**0.5**	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 assets held for sale/disposal group	**0.5**	15.0

Impairment of £nil (2017: £7.9m) was charged in respect of goodwill bringing the carrying value of the business to fair value less cost to sell.

During the year cash outflow from operating activities attributed to Discontinued Operations amounted to £8.8m (2017: inflow £3.8m) and paid £4.3m (2017: £3.7m) in respect of investing activities. There were no cash flows associated with financing activities attributable to Discontinued Operations.

12. Disposal of subsidiaries

The Group disposed of the Books business on 14 February 2018.

The net assets of the business at the date of disposal were:

	£m
Goodwill	9.7
Intangible assets	3.6
Property, plant and equipment	4.1
Inventories	20.7
Trade and other receivables	32.7
Cash and bank balances	4.6
Trade and other payables	(45.9)
Corporation tax liability	(0.1)
Deferred tax liabilities	(0.3)
Provisions	(0.5)
Net assets disposed	**28.6**
Gross proceeds received	18.7
Disposal costs	(1.5)
Release of deferred consideration liability	0.9
Net assets disposed	(28.6)
Loss on disposal	**(10.5)**
Total consideration	
Satisfied by:	
Cash	18.7
Net cash inflow arising on disposal	
Equity consideration	6.0
Disposal proceeds to repay overdraft*	12.7
Consideration received in cash and cash equivalents	18.7
Less: cash and cash deposits disposed	(4.6)
Less: cash disposal costs	(1.5)
	12.6

* As part of the sale and purchase agreement a Group overdraft balance was settled which was intrinsically linked to the Books business.

The loss on disposal is included in the profit for the year from Discontinued Operations.

The Group disposed of the Education & Care business on 30 June 2017.

Notes to the accounts continued

12. Disposal of subsidiaries continued

The net assets of the business 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.

	£m
Net cash inflow arising from disposal of Books business	12.6
Cash consideration received in the period to 28 February 2018 arising from disposal of Education & Care	0.3
Net cash inflow arising from disposals	**12.9**

13. Intangible assets

£m	Goodwill	Acquired intangibles: Customer relationships	Acquired intangibles: Trade name	Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 1 September 2017	57.8	29.3	30.7	0.8	6.4	11.5	136.5
Additions	–	–	–	–	0.7	1.1	1.8
Disposals	–	–	–	–	–	(0.1)	(0.1)
At 31 August 2018	**57.8**	**29.3**	**30.7**	**0.8**	**7.1**	**12.5**	**138.2**
Accumulated amortisation:							
At 1 September 2017	–	(11.3)	(8.3)	(0.7)	(3.9)	(5.8)	(30.0)
Amortisation charge	–	(4.0)	(3.1)	(0.1)	(0.4)	(2.7)	(10.3)
Disposals	–	–	–	–	–	–	–
Impairment	(46.1)	–	–	–	(1.0)	–	(47.1)
At 31 August 2018	**(46.1)**	**(15.3)**	**(11.4)**	**(0.8)**	**(5.4)**	**(8.5)**	**(87.4)**
Net book value at 31 August 2018	**11.7**	**14.0**	**19.3**	**–**	**1.8**	**4.0**	**50.8**
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**

The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £0.2m (2017: £0.6m).

The net book value of the Groups acquired intangibles split by CGU is included in the table below.

	Goodwill			Acquired Intangibles			Total		
£m	**2018**	2017	On acquisition	**2018**	2017	On acquisition	**2018**	2017	On acquisition
DMD	**5.7**	5.7	5.7	**0.2**	0.5	2.6	**5.9**	6.2	8.3
Smiths News	**–**	–	–	**–**	0.1	0.3	**–**	0.1	0.3
Tuffnells	**6.0**	52.1	52.1	**33.1**	39.9	58.1	**39.1**	92.0	110.2
	11.7	57.8	57.8	**33.3**	40.5	61.0	**45.0**	98.3	118.8

Notes to the accounts continued

13. Intangible assets continued

Impairment tests goodwill

The carrying amount of the Tuffnells business has been reduced to its recoverable amount through recognition of an impairment loss against goodwill, no class of asset other than goodwill was impaired. This loss has been included in adjusting items against operating expenses in the income statement.

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 CGUs are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent plan for the following as approved by the Board and extrapolates these cash flows on an estimated growth rate into perpetuity.

The rate used to discount the forecast cash flows is 9.5% (2017 10.0%), being the Group's weighted average cost of capital adjusted for industry and market risk.

The table below includes the key assumptions used to calculate the Group's cash generating unit value in use:

	Tuffnells	Smiths News	DMD
Average plan revenue growth	1.4%	(6.1%)	0.0%
Average plan contribution margin*	8.1%	4.8%	10.0%
Discount Rate	9.5%	9.5%	9.5%
Long term growth rate	2%	0.0%	0.0%

* Average contribution margin is considered gross profit less distribution costs

In generating these budgets the Board has considered the overall strategy of the Group, the principal risks and uncertainties inherent within the business, as well as making a number of key strategic planning assumptions which are noted below:

1. No significant impact on trading as a result of the EU Exit or other political change.
2. Modest revenue growth in Tuffnells in the assessment period.
3. Delivery of margin improvement in Tuffnells, driven by efficiencies both in operating and overhead costs in the assessment period.
4. Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period.
5. Retention of major contracts in the news distribution business at rates which maintain acceptable margins.

Consistent with IAS 36 revenues in relation to enhancement of assets has not been included.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

The Group has conducted sensitivity analysis on the impairment test of each of the CGUs classified within Continuing Operations. There is significant headroom on the carrying value of each CGU except for the Tuffnells CGU. Given the headroom in the other CGUs it would require a significant change in assumptions to require an impairment charge and this level of change is considered unlikely. The Tuffnells CGU has a carrying value of £67.5m based on the following assumptions; the effect of a reasonably possible change in the assumptions is disclosed in the table below.

	Plan scenario	Change	Effect on impairment £m
Long term growth rate (%)	2%	+/–1%	13.8/(10.5)
Post tax discount rate (%)	9.5%	+/–1%	(7.7)/10.1
Contribution (£m)*	£74.3m	–10%	(19.5)
Average contribution margin ** (% of revenue)	10.0%	+/–1%	(2.1)/1.3

* Contribution is gross profit less distribution costs
** Average contribution margin is considered gross profit less distribution costs

Other intangibles

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 2018 is £13.8m and £19.3m (2017: £17.5m and £22.4m) respectively with a remaining amortisation period of 4 and 6.5 years respectively. Given the trading performance in the year these assets were reviewed for impairment, no impairment was indicated.

Included within distribution costs is £1.0m (2017: £nil) in relation to the impairment of intangible assets in the PMP division, this is included with the Smiths News CGU further details are included within note 4.

As detailed in note 12, goodwill and intangibles attributable to the Education & Care CGU were disposed during the previous financial year.

An impairment against goodwill and intangibles attributable to the Books business was charged during the previous financial 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 in the prior year.

14. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Long-term leasehold	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost:						
At 1 September 2017	14.1	1.5	12.6	4.9	42.7	75.8
Additions	–	–	1.3	0.9	6.9	9.1
Transfer between asset classes	–	–	–	–	–	–
Disposals	(0.1)	(0.2)	(0.3)	(0.4)	(4.0)	(5.0)
Classified as held for sale	–	–	–	–	(3.4)	(3.4)
At 31 August 2018	**14.0**	**1.3**	**13.6**	**5.4**	**42.2**	**76.5**
Accumulated depreciation:						
At 1 September 2017	–	(0.4)	(7.7)	(3.5)	(22.9)	(34.5)
Depreciation charge	(0.2)	–	(1.0)	(1.3)	(6.1)	(8.6)
Transfer between asset classes	–	–	–	0.6	(0.6)	–
Disposals	–	0.1	–	0.6	3.8	4.5
Impairments	–	–	–	–	(2.0)	(2.0)
Classified as held for sale	–	–	–	–	2.9	2.9
At 31 August 2018	**(0.2)**	**(0.3)**	**(8.7)**	**(3.6)**	**(24.9)**	**(37.7)**
Net book value at 31 August 2018	**13.8**	**1.0**	**4.9**	**1.8**	**17.3**	**38.8**
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**

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 £3.7m at 31 August 2018 (2017: £6.8m). See note 4 for details of impairment and assets held for sale.

Impairments of £1.1m and £1.0m have been recognised in the current year relating to the write down of Jack's Beans assets to their net book value and write-off PMP assets respectively, further detail is included within note 4.

Notes to the accounts continued

15. Interests in joint ventures

The Group's share of the results, assets and liabilities of joint ventures is as follows:

£m	2018	2017
Revenue	**5.1**	4.9
Profit after tax	**0.5**	0.4
Non-current assets	**1.5**	1.4
Current assets	**2.5**	2.4
Total assets	**4.0**	3.8
Current liabilities	**(1.8)**	(2.0)
Non-current liabilities	**–**	(0.1)
Total liabilities	**(1.8)**	(2.1)
Goodwill	**2.9**	2.9
Share of net assets	**5.1**	4.6

Dividends of £0.2m (FY2017: £0.2m) were received in the year to 31 August 2018 from joint ventures.

The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2017: 50%), which in turn owns 100% of the ordinary shares of Open-Projects Limited. The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2017. The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2017: 50%). The latest statutory accounts of FMD Limited were drawn up to 31 July 2017. Both of these companies are currently in the process of liquidation.

During the prior year, the Group's shares in Bluebox Avionics Limited were exchanged for shares in Bluebox Systems Group Limited (previously named Bluebox Aviation Systems Limited); an entity in which the Group has a 36.1% interest. A loan balance of £nil (FY2017: £0.3m) owed by Bluebox Avionics Limited was converted to an investment in Bluebox Aviation Systems Limited, a subsidiary of Bluebox Systems Group Limited.

16. Inventories

£m	2018	2017
Goods held for resale	**12.4**	12.8
Raw materials and consumables	**0.9**	1.0
Inventories	**13.3**	13.8

17. Trade and other receivables

£m	2018	2017
Trade receivables	**61.3**	76.8
Allowance for doubtful debts	**(0.5)**	(0.5)
	60.8	76.3
Other debtors	**14.3**	13.5
Prepayments and accrued income	**6.6**	8.5
Trade and other receivables	**81.7**	98.3

Trade receivables

The average credit period taken on sale of goods is 20 days (2017: 24 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 £1.4m (2017: £5.4m) 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	2018	2017
30–60 days	**2.0**	1.5
61–90 days	**0.4**	0.8
91–120 days	**0.5**	0.8
Over 120 days	**0.2**	2.3
	3.1	5.4

17. Trade and other receivables continued

Of the trade receivables balance at the end of the year:

- One customer (2017: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of this was £13.2m (2017: £13.8m).
- A further seven customers (2017: seven) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £32.8m (2017: £49.1m).

Movement in the allowance for doubtful debts:

£m	2018	2017
At 1 September	0.5	0.8
Impairment losses recognised	0.5	0.6
Amounts written off as uncollectible	(0.4)	–
Amounts recovered during the year	(0.1)	–
Amounts released during the year	–	–
Disposal during year	–	–
Transferred as held for sale	–	(0.9)
At 31 August	**0.5**	0.5

Ageing of past due and impaired trade receivables:

£m	2018	2017
30–60 days	–	0.1
61–90 days	–	–
91–120 days	0.2	0.1
Over 120 days	0.3	0.3
Continuing Operations	0.5	0.5
Discontinued Operations	–	0.9
Total Continuing and Discontinued Operations	**0.5**	1.4

The directors consider that the carrying amount of trade and other receivables approximates their fair value which is considered to be a level 2 methodology of valuing them.

Other debtors and prepayments

The largest items included within this balance are £6.8m (2017: £6.7m) of publisher debtors and £2.6m (2017: £3.8m) of accrued revenue.

18. Trade and other payables

£m	2018	2017
Trade payables	94.0	102.9
Other creditors	17.5	18.2
Accruals and deferred income	16.1	15.1
	127.6	136.2

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2017: 32 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 using a level 2 valuation.

Notes to the accounts continued

19. Cash and borrowings

Cash and borrowings by currency (Sterling equivalent) are as follows:

£m	Sterling	Euro	US Dollar	Other	Total 2018	2017
Cash and bank deposits – continuing	14.8	1.8	1.2	0.2	**18.0**	5.5
Cash and bank deposits – classified as held for sale	–	–	–	–	**–**	0.9
Cash and bank deposits – total	14.8	1.8	1.2	0.2	**18.0**	6.4
Term loan – disclosed within current liabilities	–	–	–	–	**–**	(20.0)
Overdrafts – disclosed within current liabilities	(9.2)	–	–	–	**(9.2)**	–
Revolving credit facility – disclosed within current liabilities	(38.0)	–	–	–	**(38.0)**	–
Term loan – disclosed within non-current liabilities	(48.8)	–	–	–	**(48.8)**	(60.0)
Total borrowings	(96.0)	–	–	–	**(96.0)**	(80.0)
Net borrowings	(81.2)	1.8	1.2	0.2	**(78.0)**	(73.6)
Total borrowings						
Amount due for settlement within 12 months	(47.2)	–	–	–	**(47.2)**	(20.0)
Amount due for settlement after 12 months	(48.8)	–	–	–	**(48.8)**	(60.0)
	(96.0)	–	–	–	**(96.0)**	(80.0)

Cash and bank deposits 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.

In October 2017, the Group concluded 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 a revolving credit facility (RCF) for £125m on a higher interest margin than the previous facility but with similar covenant terms to the previous facility (see note 20). The £47.2m due for settlement within 12 months relates to the RCF and overdraft.

Available Group bank facilities are outlined in note 20. Interest payable under the facility in place at 31 August 2018 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. The weighted average interest rate for the year was 4.9%.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

£m	Note	1 September 2017	Financing cash flows	New finance leases	Other changes	31 August 2018
Term loan	19	80.0	**(30.0)**	**–**	**(1.2)**	**48.8**
RCF	19	–	**24.1**	**–**	**13.9**	**38.0**
Finance leases		8.5	**(3.8)**	**–**	**0.6**	**5.3**
Total		88.5	**(9.7)**	**–**	**13.3**	**92.1**

Other changes include interest accruals, payments and settlement of a Group overdraft balance intrinsically linked to the Books business (see note 12).

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, 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.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern 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.

20. Financial Instruments continued

The only externally imposed capital requirements for the Group are debt to EBITDA, fixed charge cover and interest cover under the terms of the bank facilities, with which the Group has fully complied during both the current year and the prior year. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders and/or issue new shares. The Group's capital is only restricted by distributable reserves.

The Board regularly reviews the capital structure. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital, given the recent changes in the Group, a target capital structure is under consideration.

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 reduced liquidity risk are described below.

As at 31 August 2018, the Group had £175m committed bank facilities in place (2017: £230m). Bank facilities comprised:

- a £50m syndicated term loan; and
- a £125m syndicated revolving credit facility which expires in January 2021.

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 2018 the ratio was 1.8x (2017: 1.2x).
- Interest cover – the consolidated net interest: Adjusted EBITDA ratio which must remain above 4.0x. As at 31 August 2018 the ratio was 9.6x (2017: 12.0x.
- Fixed charge cover – the ratio of Adjusted EBITDA to consolidated fixed charges is not less than 1.75x to 1. As at 31 August 2018 the ratio was 2.3x (2017: 3.0x).
- Guarantor cover – the annual turnover, gross assets and pre-tax profits of the guarantors contribute at any time 80% 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, Smiths News Holdings Limited and Tuffnells Parcels Express Limited.

At 31 August 2018, the Group had available £87.0m (2017: £150.0m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

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 at Smiths News that results in significant predictable swings within each month of around £40.0m, which utilises the RCF of £125.0m.

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 2018				
Non-derivative financial liabilities				
Bank and other borrowings	**(47.2)**	**–**	**(50.0)**	**–**
Finance leases	**(2.8)**	**(1.7)**	**(0.4)**	**(0.6)**
Total	**(50.0)**	**(1.7)**	**(50.4)**	**(0.6)**
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)

Notes to the accounts continued

20. Financial Instruments continued

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.
- The majority of the Group's net liabilities are held in Sterling, with only £1.0m (2017: £4.4m) of net assets held in overseas currencies. Translation exposure arises on the retranslation 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 macroeconomic environment and sensitivity to potential interest rate rises.

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.

Hedge accounting
It is, and has been throughout the period of review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

All 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 2018 would decrease/increase by £0.4m (2017: £0.4m).

Credit risk
The Group considers its exposure to credit risk at 31 August 2018 to be as follows:

£m	2018	2017
Bank deposits	17.9	6.4
Trade and other receivables	78.7	103.4
	96.6	109.8

Further detail on the Group's policy relating to trade receivables can be found in note 17.

21. Obligations under finance leases

£m	2018 Minimum lease payments	2018 Present value of minimum lease payments	2017 Minimum lease payments	2017 Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	2.8	2.8	3.8	3.1
In the second to fifth years inclusive	2.7	2.5	6.0	5.4
Total	5.5	5.3	9.8	8.5
Less: future finance charges	(0.2)	–	(1.3)	–
Present value of lease obligations	5.3	5.3	8.5	8.5
Less: amount due for settlement within 12 months (shown under current liabilities)		(2.8)		(3.1)
Amount due for settlement after 12 months		2.5		5.4

Group policy is to acquire certain items of its fixtures, equipment and software under finance leases. The average lease term is three 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	**2018**	2017
Other creditors	**0.6**	1.0

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 2017	1.8	0.9	0.7	(7.2)	2.0	**(1.8)**
Charge to income	0.1	(0.7)	(0.7)	1.3	–	**–**
Charge to other comprehensive income and directly in equity	–	–	–	–	(0.7)	**(0.7)**
Classified as held for sale	–	–	–	–	–	**–**
Disposal of subsidiary	–	–	–	–	–	**–**
At 31 August 2018	**1.9**	**0.2**	**–**	**(5.9)**	**1.3**	**(2.5)**
Deferred tax assets	1.9	0.2	–	–	1.3	**3.4**
Deferred tax liabilities	–	–	–	(5.9)	–	**(5.9)**
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)

The Group has recognised the net balance of deferred tax as the liability and asset are with the same tax authority and unwind over the same time period. The deferred tax assets have been deemed recoverable as they are offset by a liability and the Group forecasts that it will continue to make profits against which the assets can be utilised.

The Group has capital losses carried forward of £28.2m (2017: £28.2m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind.

24. Provisions

£m	Regulatory	Reorganisation provisions	Insurance and legal provision	Deferred contingent consideration	Property provisions	Total
At 1 September 2017	–	(4.5)	(3.6)	(0.8)	(6.7)	**(15.6)**
Additions	(1.3)	(5.3)	(2.4)	–	(0.4)	**(9.4)**
Release	–	–	0.7	0.8	0.7	**2.2**
Utilised in period	–	5.8	1.9	–	0.9	**8.6**
Unwinding of discount utilisation	–	–	–	–	(0.1)	**(0.1)**
Transfer	(1.5)	–	1.5	–	–	**–**
At 31 August 2018	**(2.8)**	**(4.0)**	**(1.9)**	**–**	**(5.6)**	**(14.3)**

Notes to the accounts continued

24. Provisions continued

£m	2018	2017
Included within current liabilities	**(9.5)**	(9.0)
Included within non-current liabilities	**(4.8)**	(6.6)
Total	**(14.3)**	(15.6)

Included within non-current liabilities is £nil (2017: £1.5m) relating to insurance and legal provisions and £4.8m (2017: £5.1m) relating to Property provisions.

Regulatory provisions relate to a £1.5m fine and legal costs from the Health & Safety Executive (HSE) in relation to a fatality at its Brierley Hill depot that occurred in January 2016. This was settled in full on 3 October 2018 following Tuffnells prosecution on 11 September 2018 for an offence under S2(1) of the Health and Safety at Work Act. A further £1.3m is in relation to legal costs and estimated historical underpayment of National Minimum Wage (see note 4 for further information).

Reorganisation provisions include £2.2m relating to the closure of Pass My Parcel and £1.8m of redundancy costs, that have been announced prior to the year end and are all expected to be utilised during the following financial year (see note 4 for further information).

Insurance and legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims.

Deferred contingent consideration related to amounts provided in relation to the acquisition of the remaining 49% share of the former Books business' subsidiary Wordery on 27 August 2015, which has been released through Discontinued Operations on disposal of the Books business in February 2018.

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 2036, however, a significant portion of the potential liability falls within five years. Included within the provision are amounts of £0.3m in relation to estimated Pass My Parcel related dilapidation costs (see note 4 for further information).

25. Contingent liabilities and capital commitments

£m	2018	2017
Bank and other loans guaranteed	**6.8**	6.0

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 from WH Smith PLC, 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 2018 of £1.3m (2017: £2.0m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £nil (2017: £nil).

On 12 September 2018, the Group approved a letter of credit of £4.4m to our main insurer for the motor insurance and employer liability insurance policy. The letter of credit covers the employer deductible element of the insurance policy for insurance claims.

26. Operating lease commitments

The Group as lessee

Minimum lease payments under non-cancellable operating leases are as follows:

	2018			2017		
£m	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Continuing						
Within one year	**12.1**	**13.3**	**25.5**	9.4	12.5	21.9
In the second to fifth years inclusive	**30.4**	**18.6**	**49.0**	25.2	23.3	48.5
In more than five years	**22.3**	**2.3**	**24.5**	18.8	0.5	19.3
	64.8	**34.2**	**99.0**	53.4	36.3	89.7

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.

26. Operating lease commitments continued

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

£m	2018	2017
Within one year	**0.1**	0.2
In the second to fifth years inclusive	**–**	0.3
	0.1	0.5

Property rental income earned during the year was £0.2m (2017: £0.3m).

27. Net cash inflow from operating activities

£m	Note	2018	2017
Operating (loss)/profit – continuing	3	**(30.0)**	41.7
Operating (loss)/profit – discontinued	3	**(8.8)**	9.5
Operating (loss)/profit – total		**(38.8)**	51.2
Losses on disposal of assets		**0.5**	0.4
Impairment of assets held for sale	4	**1.1**	–
Impairment of tangible assets	4	**1.0**	–
Share of profits of joint ventures		**(0.5)**	(0.4)
Loss/(gain) on disposal of subsidiary	12	**10.5**	(19.0)
Adjustment for pension funding		**(4.2)**	(5.2)
Depreciation of property, plant and equipment		**8.6**	9.3
Amortisation and impairment of intangible assets		**57.5**	23.1
Impairment of loan to joint venture	4	**–**	0.6
Share-based payments		**(0.3)**	(1.2)
(Increase) in inventories		**0.5**	(2.0)
Decrease in receivables		**17.7**	3.9
(Decrease) in payables		**(10.2)**	(3.0)
(Decrease)/increase in provisions		**(0.3)**	4.7
Non-cash pension costs		**0.3**	(0.3)
Amortisation of loan arrangement fees	7	**0.6**	–
Income tax paid		**(6.5)**	(10.9)
Net cash inflow from operating activities		**37.5**	51.2
Net cash flow from operating activities is stated after the following adjusted items:			
Payment of deferred consideration		**–**	(1.1)
Reorganisation and restructuring costs		**(4.7)**	(4.7)
Pass My Parcel exit costs		**(2.1)**	
Fees relating to disposal activity		**(1.5)**	(0.5)
		(8.3)	(6.3)

Notes to the accounts continued

28. Share capital

(a) Share capital

£m	2018	2017
Issued and fully paid:		
At 1 September	**12.4**	12.3
Shares issued during the year	**–**	0.1
247.7m ordinary shares of 5p each (2017: 247.7m)	**12.4**	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2017	247.7
Shares issued during the year	–
At 31 August 2018	**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 2018, 125 ordinary 5p shares were issued to satisfy share scheme exercises.

During the year to 31 August 2017, 946,334 ordinary 5p shares were issued. 394,007 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	2018	2017
Balance at 1 September	**60.5**	59.2
Premium arising on issue of equity shares	**–**	1.3
Balance at 31 August	**60.5**	60.5

29. Reserves

(a) Demerger reserve

£m	2018	2017
At 1 September	**(280.1)**	(280.1)
At 31 August	**(280.1)**	(280.1)

This relates to reserves created following the capital reorganisation 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	2018	2017
Balance at 1 September	**(3.1)**	(3.5)
Acquired in the period	**–**	(0.5)
Disposed of on exercise of options	**1.0**	0.9
Balance at 31 August	**(2.1)**	(3.1)

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 2018 was 1,506,850 (2017: 2,241,459). In accordance with IAS 32, these shares are deducted from shareholders' funds. Under the terms of the Trust, the Trustee has waived all dividends on the shares it holds.

29. Reserves continued

(c) Hedging and translation reserve

£m	2018	2017
Balance at 1 September	**0.5**	(1.1)
Settlement on termination	**–**	0.8
Net movement in cash flow hedges	**–**	0.6
Exchange differences on translating net assets of foreign operations	**(0.3)**	0.2
Balance at 31 August	**0.2**	0.5

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 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**
Amounts recognised in total comprehensive expense	**(47.0)**
Dividends paid	**(24.1)**
Employee share schemes	**(1.0)**
Equity-settled share-based payments, net of tax	**0.4**
Balance at 31 August 2018	**163.2**

31. Share-based payments

In 2018, the Group recognised a total credit of £0.4m related to equity-settled share-based payment transactions. In 2017, there was a total credit of £1.2m. The average share price throughout the year was 72.0p (2017: 134.0p).

The Group operates the following share incentive schemes:

Sharesave Scheme	Under the terms of the Connect Group PLC 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 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 Scheme (ESOS)	Under the terms of the Connect Group ESOS, 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 adjusted profit after a three-year period, 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 tenth 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 (which may be in the form of nil cost options or conditional awards) 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 DBP, 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. Awards are normally exercisable after two years subject to continued employment.

Notes to the accounts continued

31. Share-based payments continued

Details of the options/awards are as follows:

Number of options/awards	Sharesave Number of shares	Sharesave Weighted average exercise price (p)	ESOS Number of shares	ESOS Weighted average exercise price (p)	LTIP Number of shares	LTIP Weighted average exercise price (p)	DBP Number of shares	DBP Weighted average exercise price (p)
At 31 August 2016	3,333,127	129.9	4,984,971	145.9	2,279,310	–	1,149,805	–
Granted	1,701,823	100.8	1,544,115	139.1	1,910,445	–	417,556	–
Exercised	(552,327)	121.6	(164,298)	113.5	–	–	(501,096)	–
Expired/forfeited	(917,432)	126.7	(267,519)	150.6	(1,183,726)	–	(155,741)	–
At 31 August 2017	3,565,191	118.1	6,097,269	144.8	3,006,029	–	910,524	–
Granted	3,154,226	43.6	1,353,061	108.8	2,137,786	–	338,976	–
Exercised	(9,846)	101.3	(114,935)	86.3	–	–	(676,941)	–
Expired/forfeited	(2,787,326)	115.1	(705,876)	165.0	(2,039,058)	–	(92,705)	–
At 31 August 2018	3,922,245	60.4	6,629,519	136.3	3,104,757	–	479,854	–
Exercisable at 31 August 2018	**253,052**	**128.4**	**2,753,725**	**134.3**	**–**	**–**	**–**	**–**
Exercisable at 31 August 2017	439,369	142.2	2,256,150	131.7	–	–	–	–

The weighted average remaining contractual life in years of options/awards is as follows:

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2018	**2.6**	**6.6**	**8.6**	**1.2**
Outstanding at 31 August 2017	2.5	7.1	8.8	1.6

Details of the options/awards granted or commencing during the current and comparative year are as follows:

	Sharesave	ESOS	LTIP	DBP
During 2018:				
Effective date of grant or commencement date	Jun 2018	Dec 17	Dec 17	Dec 17
Average fair value at date of grant or scheme commencement – pence	13.9	11.6	109.0	109.0
During 2017:				
Effective date of grant or commencement date	Jun 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

The options outstanding at 31 August 2018 had exercise prices ranging from nil to 189.5p (2017: nil to 189.5p).

The weighted average share price on the date of exercise was 108p (2017: 150p).

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
2018 options/awards:		Dec 2017			
Share price at grant date – pence	52.3	109	–	109	109
Exercise price – pence	42.0	109	–	–	–
Expected volatility – %	50%	33%	–	–	–
Expected life – years	3.0	3.0	–	–	–
Risk free rate – %	0.94%	0.78%	–	–	–
Expected dividend yield – %	1.9%	9.1%	–	–	–
Weighted average fair value – pence	13.9	11.6	–	–	–
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 – %	32%	33%	33%	–	–
Expected life – years	3.0	3.0	3.0	–	–
Risk free rate – %	0.63%	0.72%	0.60%	–	–
Expected dividend yield – %	7.8%	7.0%	7.1%	–	–
Weighted average fair value – pence	21.8	18.1	17.7	–	–

32. Post balance sheet events

On 22 October 2018, the WH Smith Pension Trust entered into an insurance backed annuity 'buy-in' of the Scheme assets within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations.

The High Court ruled on 26 October 2018 on the equalisation of Guaranteed Minimum Payments (GMP) on pensions. There will be potential additional liabilities arising for some pension schemes and the High Court approved two different methods for calculation. This judgement is likely to increase the liabilities within the Tuffnells pension scheme. Given the very recent nature of the judgement and the complexities involved in calculating any required liability, the extent to which the judgement will increase the liabilities is under consideration and therefore no provision has been made as at 31 August 2018. The Smiths News section of the WH Smith Pension Trust is not subject to GMP as the Scheme is not contracted out.

On 12 September 2018, the Group approved a letter of credit of £4.4m to our main insurer for the motor insurance and employer liability insurance policy. The letter of credit covers the employer deductible element of the insurance policy for insurance claims.

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	**2018**	2017	**2018**	2017
Joint ventures	**3.5**	3.1	**0.8**	0.7

Sales to related parties are for management fees, payment is due on the last day of the month following the date of invoice.

Notes to the accounts continued

33. Related party transactions continued

Non-trading transactions

£m	Loans to related parties 2018	2017
Joint ventures	–	–

Aggregate remuneration of key management personnel

The remuneration of the directors and the executive leadership team, who are the key management personnel of the continuing Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

£m	2018	2017
Short-term employee benefits	2.1	4.4
Post-employment benefits	0.4	0.3
Termination benefits	–	0.2
Share-based payments	(0.1)	0.6
	2.4	5.5

Information concerning directors' remuneration, interest in shares and share options are included in the Directors' remuneration report on pages 44 to 59 of the Annual Report.

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					
Connect Limited 02008952	Ordinary shares	100%	Martin-Lavell Limited 02654521 (*)	Ordinary shares	100%
Connect Logistics Limited 09172965	Ordinary shares	100%	Pass My Parcel Limited 09172022	Ordinary shares	100%
Connect News & Media Limited 08572634	Ordinary shares	100%	Phantom Media Limited 03805661 (*)	Ordinary shares	100%
Connect Parcel Freight Limited 09295023	Ordinary shares	100%	Smiths News Holdings Limited 04236079	Ordinary shares	100%
Connect Parcels Limited 09172850	Ordinary shares	100%	Smiths News Instore Limited 03364589 (*)	Ordinary shares	100%
Connect Services Limited 08522170	Ordinary shares	100%	Smiths News Investments Limited 06831284 (*)	Ordinary shares	100%
Connect Specialist Distribution Group Limited 08458801	Ordinary shares	100%	Smiths News Limited 08506961	Ordinary shares	100%
Connect2U Limited 03920619 (*)	Ordinary shares	100%	Smiths News Trading Limited 00237811	Ordinary shares	100%
Dawson Media Services Limited 06882722 (*)	Ordinary shares	100%	The Big Green Euro Machine Limited 02496549	Ordinary shares	100%
Dawson Guarantee Company Limited 06882393	Ordinary shares	100%	The Big Green Parcel Group Limited 05356630 (*)	Ordinary shares	100%
Dawson Holdings Ltd 00034273 (*)	Ordinary shares	100%	The Big Green Parcel Holding Company Ltd 06459283 (*)	Ordinary shares	100%
Dawson Limited 03433262	Ordinary shares	100%	The Big Green Parcel Machine Limited 03125293 (*)	Ordinary shares	100%
Dawson Media Direct Limited 06882366	Ordinary shares	100%	Tuffnells Parcels Express Limited 00319964	Ordinary shares	100%
Jack's Beans Limited 09646507	Ordinary shares	100%			
Two Snowhill, Snow Hill, Birmingham, B4 6GA					
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					
Bluebox Aviation Systems Ltd SC267388	Ordinary shares	36.1%	Bluebox Systems Group Limited SC544863	Ordinary A shares	36.1%
Inflight House, Hurricane Way, Langley, SL3 8AG					
Bluebox Avionics Limited 05684001	Ordinary shares	36.1%			
Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF					
Open-Projects Limited 02422753	Ordinary shares	50%	Rascal Solutions Limited 05191277	Ordinary A shares	50%

34. Subsidiary and associated undertakings continued

Company name/(number)	Share Class	Group %	Address
France			
Dawson Media Direct SAS 450 101 340 RCS Bobigny	Ordinary shares	100%	11 rue Léopold Bellan, 75000 Paris, France
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
Belgium			
Dawson Media Direct NV 474.114323	Ordinary shares	100%	Brixtonlaan 1E, 1930 Nossengem, Belgium
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	100%	87 M Thai Tower, All Seasons Place, 23rd Floor, Wittayu Road, Lumpini Sub-District, Pathumwan District, Bangkok, Thailand
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, United States

For the year ended 31 August 2018, 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 2018.

Bluebox Systems Group Limited, Bluebox Aviation Systems Limited and Bluebox Avionics Limited are associated undertakings. Rascal Solutions Limited, Open-Projects Limited, FMD Limited and Worldwide Magazine Distribution Limited are joint ventures (see note 15).

Notes to the accounts continued

35. Reconciliation of free cash flow to net movement in cash and cash equivalents

A reconciliation between free cash flow and the net increase/(decrease) in cash and cash equivalents is shown below:

£m	2018	2017
Net increase/(decrease) in cash and cash equivalents	**2.5**	(3.1)
Dividend paid	**24.1**	23.6
Proceeds on sale of subsidiary (net of disposal costs)	**(12.9)**	(56.8)
Increase/decrease in borrowings	**5.9**	61.0
Adjustment for pension funding	**4.7**	5.2
Net outflow on purchase of shares for Employee Benefit Trust	**–**	0.5
Proceeds on issue of shares	**–**	(0.7)
Dividends received from associates	**(0.2)**	(0.2)
Total free cash flow	**24.1**	29.5
Discontinued free cash flow	**(3.9)**	(0.8)
Continuing free cash flow	**20.2**	28.7

Company Balance Sheet
as at 31 August 2018

£m	Note	2018	2017
Fixed assets			
Investments in subsidiary undertakings	3	**481.8**	520.0
		481.8	520.0
Creditors: amounts falling due within one year	4	**(408.8)**	(384.7)
Net assets		**73.0**	135.3
Capital and reserves			
Called up share capital	5(a)	**12.4**	12.4
Share premium account	5(c)	**60.5**	60.5
Retained earnings	6	**0.1**	62.4
Total shareholders' funds		**73.0**	135.3

The loss for the year was £38.2m.

These accounts were approved by the Directors on 6 November 2018.

Registered number – 05195191

Signed on behalf of the Board of Directors:

Jos Opdeweegh
Chief Executive Officer

Tony Grace
Chief Financial Officer

Statement of Changes in Equity
for the year ended 31 August 2018

£m	Note	Share Capital	Share Premium	Retained earnings	Total
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
Loss for the year		–	–	(38.2)	(38.2)
Dividend paid		–	–	(24.1)	(24.1)
Shares issued in the year		–	–	–	–
Balance at 31 August 2018		**12.4**	**60.5**	**0.1**	**73.0**

Notes to the Company balance sheet

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 Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) 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.

The Company has taken advantage of the following disclosure exemptions under FRS 101:
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 'Impairment of Assets';
- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based Payment' (details of the number and weighted average exercise prices of options, and how the fair value of goods and services received was determined); and
- IFRS 7 'Financial Instruments: Disclosures'.

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.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised. Management do not consider there are any critical accounting judgements for the Company.

Estimated impairment of investments

The Company tests for impairment upon triggers, in accordance with the accounting policy. The carrying amounts of cash-generating units (CGUs) have been determined based on value in use calculations. These calculations require the use of estimates, see note 13 of the Group Financial Statements.

An impairment charge of £38.2m arose on the investment in Smiths News Holding Limited during the course of the 2018 year, resulting in the investment being written down to its recoverable amount, after taking into account the intercompany balances. Note 13 of the Group Financial Statement, includes details of managements assumptions, the impact of changing these estimates are discussed in note 3.

(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.

Notes to the Company balance sheet continued

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 £38.2m. There were no other recognised gains or losses. The dividend paid in the year is £24.1m (2017: £23.6m) (refer to note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2018	2017
Net book value:		
At 1 September	**520.0**	520.0
Impairment	**(38.2)**	–
At 31 August	**481.8**	520.0

The carrying amount of the investment has been reduced to its recoverable amount through recognition of an impairment loss. An impairment of £38.2m (2017: £nil) has been recognised against the cost of investments. The value has been calculated using a value in use calculation based on the estimates set out in note 13 of the Group Financial Statements.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. The table below sets out the impact of a reasonably possible change in the assumptions.

£m	Forecast scenario	Change	Effect on impairment
Long-term growth rate	0–2%	+/–1%	14.4/(18.0)
Discount rate	9.5%	+/–1%	21.5/(26.8)
10% reduction in Tuffnells contribution*	£74.3m	–10%	(19.5)

* Contribution is gross profit less distribution costs

The total cumulative impairment recognised against the investment is £181.1m (FY2017: £142.9m). Further information about subsidiaries and joint ventures is provided in note 34 to the Group Financial Statements.

Following an impairment the directors reviewed the carrying value of investments and in the opinion of the directors, the value of the Company's investments in the subsidiaries is not less than the amount at which they are stated in the balance sheet.

4. Creditors: amounts falling due within one year

£m	2018	2017
Amounts owed to Group companies	**(408.8)**	(384.7)

Amounts owed to Group companies are repayable on demand, unsecured, non-interest bearing and settled in cash. The Group's banking facilities, to which the Company provides security, require certain assets of the Group to be pledged. Further details are included in note 20 to the Group Financial Statements.

5. Share capital

(a) Share capital

£m	2018	2017
Issued and fully paid ordinary shares of 5p each		
At 1 September	**12.4**	12.3
Shares issued in the year	**–**	0.1
At 31 August	**12.4**	12.4

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.

During the year to 31 August 2018, 125 ordinary 5p shares were issued to satisfy share scheme exercises.

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.

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2017	247.7
Issued in the year	–
At 31 August 2018	**247.7**

(c) Share premium

£m	2018	2017
Balance at 1 September	**60.5**	59.2
Shares issued in the year	**–**	1.3
Balance at 31 August	**60.5**	60.5

6. Reserves

£m	2018 Retained earnings
Balance at 1 September	**62.4**
Loss for the year	**(38.2)**
Dividend paid	**(24.1)**
Balance at 31 August	**0.1**

Shareholder information

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 Thursday 31 January 2019 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 Tuesday 29 January 2019.

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 Tuesday 29 January 2019.

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*. 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).

* Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Financial calendar

Financial year end	31 August 2018
Results announced	6 November 2018
Annual Report published	10 December 2018
Annual General Meeting	31 January 2019
Half year end	28 February 2019
Interim results announced	May 2019
Financial year end	31 August 2019
Results announced	November 2019

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.

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.

Shareholder information continued

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$\frac{5}{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55$\frac{5}{9}$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$\frac{6}{67}$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.

Connect Group PLC
Rowan House
Kembrey Park
Swindon
Wiltshire
SN2 8UH
United Kingdom
0845 128 8888

connectgroupplc.com

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