Moving *forward*

Annual Report and Accounts 2015

Connect group

Connect Group PLC is a leading UK specialist distributor.

We operate in a range of carefully chosen markets, adding value across our supply chains by providing scale efficiencies, bespoke technology and expertise.

Combining four market-focused divisions, the Group employs around 6,700 staff, predominantly UK-based but with smaller representations worldwide. A dynamic and forward looking business, recent diversification and the development of new organic revenue streams mean the Group is well placed for future growth.

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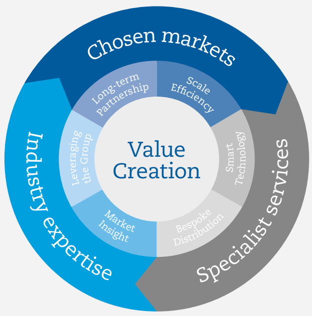

Highlights 2015

- Strong performance with Adjusted profit ahead of expectations
- Transformational year for the Group
  - Scale acquisition of Tuffnells completed December 2014
  - Launch of Click & Collect delivery service: Pass My Parcel
- Foundations in place for continuing growth
- Strategy on track with clear opportunities across the Group

Total Group revenue £m

2013	1,807
2014	1,809
2015	**1,875**

£1.9bn

+3.7% (FY14: £1.8bn)

Adjusted profit before tax £m

2013	49.9
2014	50.0
2015	**56.5**

£56.5m

+13.0% (FY14: £50.0m)

Adjusted EPS pence

2013	19.0
2014	19.6
2015	**19.7**

19.7p

+0.5% (FY14: 19.6p)

DPS pence

2013*	8.4
2014*	8.8
2015	**9.2**

9.2p

+4.5% (FY14: 8.8p)

* Rebased for Rights Issue December 2014.

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Read about our new Parcel Freight division.

Governance

Financials

Group at a glance

Connect Group PLC is a UK-based specialist distributor, operating in a range of large and complex markets. The Group has four operating divisions; each is a leader in its field. Every day they connect thousands of suppliers to their customers, adding value through efficiency, market knowledge and sector expertise.

Since 2006 the Group has diversified and broadened its interests by making acquisitions and developing new revenue streams which use our skills and competencies.

Connect News & Media

A specialist in printed media distribution, the division encompasses: Smiths News, the UK's largest newspaper and magazine wholesaling business with an approximate 55% market share; Dawson Media Direct, serving the needs of airlines and travel points in the UK and worldwide; Pass My Parcel, our fast growing network of Parcel Shops offering some of the UK's fastest online deliveries from 'Click to Collect'.

FY15 highlights

- Operating profit +3.3% excluding the impact of the football World Cup sales in FY14
- Total FY15 sales comfortably within strategic forecast of -3% to -5% per annum
- Resilient newspaper revenues with slower decline in magazines
- FY15 £5m cost savings fully achieved with a further £5m p.a. targeted for each of the next two years
- Organic opportunities developing at pace
- Media business revenue and profit continuing in line with expectations

Divisional Adjusted operating profit £m

	News	Media	Total
2013	40.0	1.8	41.8
2014	42.9	2.3	45.2
2015	41.4	2.3	**43.7**

■ News ■ Media

3,000

Pass My Parcel stores now live

85%

Percentage of contracted revenue secured until at least 2019

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Connect Books

A leading UK and international book distributor focusing on four distinct sectors of the books market: Wholesale, (serving independent bookstores and online retailers); Direct to Consumer (including Wordery, the UK's fastest growing online bookseller); Libraries (serving the needs of UK academic and public libraries); International (serving universities and institutions across the world).

FY15 highlights

- Good progress in stabilising the business and establishing a strategy for sustainable growth
- Improved H2 performance generating full year profit growth +5%
- Improvements in operational performance driving productivity and service
- Wordery continuing impressive performance – minority interest acquired August 2015
- Improving performance in UK wholesale; Libraries remain challenging
- Contract renegotiations positively impacting margin

Divisional Adjusted operating profit £m

2013	7.2
2014	2.5
2015	**2.6**

20m

Books dispatched annually

22m

Academic title range available on demand

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Connect Education & Care

A leading independent supplier of consumables to schools, nurseries and care homes in the UK. Encompassing The Consortium and West Mercia Supplies, the division has an approximate 5% share of these large and fragmented markets. Recent investments in online marketing and warehouse capability mean the business is well positioned for further growth.

FY15 highlights

- Core sales +1.8% and gross margins +100 base points with continued strength in Primary and Early Years
- Solid peak trading given market conditions
- Improving performance in H2 with operating profit +4%
- Full year results negatively impacted by a temporary increase in operational costs
- E-commerce strategy succeeding – now 25% of all school orders
- New catalogue range and own-brand sales driving margin growth
- Continue to target an increased share of school spend and geographical expansion

Divisional Adjusted operating profit £m

2013	7.4
2014	7.8
2015	**7.8**

40,000
Products available

25%
Of orders now online

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Connect Parcel Freight

A leading next day business to business delivery provider, specialising in mixed freight, parcels, and items of irregular weight and dimension. Tuffnells serves over 4,200 customers, delivering over 10m consignments a year.

FY15 highlights

- Strong profit and revenue performance
- Scale business with unique characteristics in a growing market
- Ongoing focus on operational performance
- Investment in service and supply chain creates opportunity for new and premium offers
- Integration and cost synergies remain on track
- Chris Ward appointed as MD and further strengthening the existing management team

Divisional Adjusted operating profit £m

2015 (Acquired December 2014)	**9.7**

c10m
Consignments delivered since acquisition

35
Number of depots providing national coverage

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Chairman's statement

The Group has delivered a good performance in what has been a transformational year for our composition and future prospects.

The Group has delivered a good performance in what has been a transformational year for our composition and future prospects. The operating divisions have each made progress with their medium-term strategies, while the acquisition of Tuffnells Parcels Express (Tuffnells) in December 2014 and the launch of Pass My Parcel in October 2014, offer the prospect of new and exciting opportunities for further growth.

This year's financial results demonstrate the strength of our specialist distribution portfolio. Group Adjusted profit before tax is up by 13% and Adjusted earnings per share is marginally up at 19.7p reflecting post acquisition profit from Tuffnells and the impact of rights issue shares. The acquisition of Tuffnells has contributed to this success, its excellent early performance adding profit of £9.7m in the eight months' period of our ownership. It is pleasing, however, to note the recent performance of News & Media, contributing Adjusted operating profit of £43.7m, down 3.3% (2014: £45.2m) including the impact of investments made in Pass My Parcel. Excluding the prior year benefit of World Cup sales, Adjusted operating profit would be up by 3.3%. Education & Care generated Adjusted operating profit of £7.8m, broadly flat to the previous year (2014: £7.8m) but with positive momentum in the second half, following planned investments earlier in the year. The Books division has stabilised its performance after suffering a significant setback in 2014, increasing Adjusted operating profit by 4.6% to £2.6m (2014: £2.5m); following a comprehensive strategic review, the Books division now has clear plans to sustain its recovery and accelerate the return to growth.

Our strategy of diversifying into new specialist distribution markets has been clear for some years. The acquisition of Tuffnells and the creation of Connect Parcel Freight is fully consistent with this goal, delivering a step change in the scale and pace of progress. Tuffnells' specialism in the movement of mixed freight and items of irregular dimension and weight (IDW), together with its partnership role in the supply chain of many of its customers, made it an ideal fit for Connect Group. The business has performed well in its first eight months under our ownership and the integration and early synergies are proceeding well. The enlarged Group now has national reach and a leading position in a growing sector to which we can add expertise and efficiency.

The launch of Pass My Parcel in October 2014 is an innovative entry into the 'Click & Collect' parcel delivery market. Our subsequent accelerated investment is also a step change in the scale of our ambition to generate new revenue from assets and capability that we already possess. The outstanding growth of Wordery in our Books division and the rapid development of e-commerce in Education & Care, are further examples of opportunities that are beginning to take shape.

Looking ahead, we will continue to explore ways of leveraging our skills and infrastructure within the Group's current businesses – achieving greater efficiencies and investing in new opportunities that bring tangible value to all of our stakeholders. Our medium-term goal of balancing the profit derived from newspaper and magazine wholesaling with equal returns in new markets is well on track. While we remain alert to further acquisition opportunities, our current focus is primarily on delivering continued strong returns from existing operations.

Since joining the Group I have been unfailingly impressed by the talent and passion of our people. Working round the clock, in all weathers and corners of the country, they deliver a daily reminder of true commitment to service and the Company. As much as our strategy is robust, it is the determination and loyalty of our frontline staff that give me confidence we can continue to adapt and build on our heritage. I would like to thank them for their efforts and contribution this year.

Returning to the Group's financial performance, free cash flow increased by 7.0% to £39.8m (FY14: £37.2m). The acquisition of Tuffnells has increased our borrowings, but net debt: EBITDA at 1.9x times remains comfortably within our covenants and net debt already shows a pay down since the peak position at the time of the transaction. Careful management of cash remains a priority of the Group's strategy and the Board is committed to maintaining its progressive dividend policy that seeks to ensure a fair proportion of profit growth is passed to shareholders. A final dividend of 6.3p, up 5.0%, has been proposed, making a full year dividend of 9.2p up 4.5% on last year.

My colleagues on the Board have provided invaluable insight during my first months as Chairman, as has the Executive team led by Mark Cashmore. My predecessor Dennis Millard was equally supportive and helpful during our transition. I am grateful for all their support and thank them for the warm welcome. After nine years of service as non-executive directors, it is expected that both Anthony Cann and John Worby will step down from the Board in the first half of 2016 following a smooth transition as part of the induction programme for new non-executive directors, I would like to pay tribute to the contribution they have made since Connect Group's inception in 2006.

The Group has entered the new financial year with confidence. Our strategy is on track: across the divisions we have opportunities to enhance our core revenues and grow in new markets – and as the Group expands we have greater scale and diversity to leverage a collective strength. I am looking forward to reporting on further progress as we move forward together.

Gary Kennedy
Chairman

Q&A

Gary Kennedy answers some frequently asked questions.

Q. What was it that attracted you to Connect Group?

A. It's a unique business at a key period in its development and with a wide range of opportunities to grow – that's exciting to be involved in. The Group's operating divisions are all acknowledged experts in their sectors – there's a clear opportunity to leverage that strength and make more of our skills and the collective scale of the Group.

Q. What do you think are the key challenges for the business?

A. We have a highly skilled management team and deeply committed staff but there is only so much bandwidth. Across the Group we have to focus our resources and be conscious of balancing short and long-term opportunities to create the greatest shareholder value.

Q. How do you see the Group growing and evolving?

A. The acquisition of Tuffnells has given us a new dimension and scale; integrating the business and capitalising on the opportunities for our core businesses is an essential part of our future. Longer term, new ventures such as Pass My Parcel will play a bigger role; specialist distribution market needs are continually evolving and the Group is ideally placed to adapt and meet these.

Q. Will the strong level of dividend be maintained?

A. We are retaining our long-term commitment to continue rewarding our shareholders through our ongoing progressive dividend policy. We are focused on strategically allocating capital across the portfolio to create a model for sustainable growth, where we would expect to see profit and cash growth which would create dividend growth. In the current year, the dividend of 9.2p has increased by 4.5%, with a five-year CAGR of 6.6% reflecting the excellent historical growth of the Group.

Q. The launch of PMP was very exciting, how quickly do you see it developing?

A. Pass My Parcel is an excellent example of how we can leverage our skills and infrastructure, helping to grow revenues and diversify profits in the longer term. The increased investment and accelerated roll out to over 3,000 stores, has enabled Pass My Parcel to establish its service and reputation; with the future launch of new services and clients it has excellent potential to continue to expand in the coming years. In the longer term, the predicted growth in demand for convenient and speedy delivery, coupled with our ability to provide a national delivery network makes Pass My Parcel an exciting long-term opportunity for the Group.

Q. What does the recent change in Government mean for the Group – is public spending policy likely to drive or restrain growth?

A. Only a relatively small amount of our revenues are impacted by public spending. While our strategy assumes that budgets will continue to be tight, there are broader changes to policy (such as the expansion of academy schools and the reappraisal of some public sector buying organisations) that create real opportunity, particularly for Books and Education & Care.

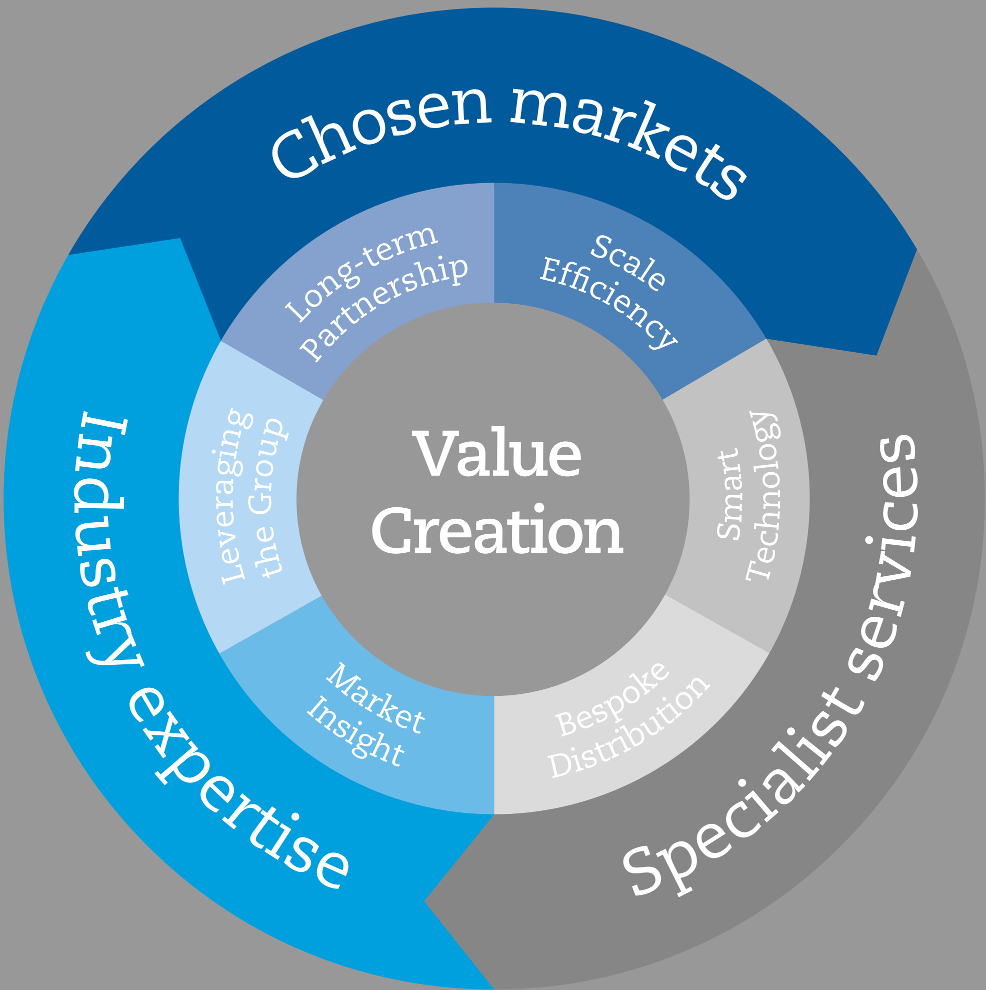
Q. How important is it for the Group to achieve 50% of profits outside of Newspaper and Magazine wholesaling?

A. The previously stated ambition was an indicator of ambition to diversify profits at a time when the Group was overly reliant on one division. The addition of the Books, Education & Care and Parcel Freight divisions, coupled with our new organic initiatives, has ensured that we are progressing on a sustainable path to continue to diversify Group profits and reduce reliance on any one division. Looking ahead, we will be less focused on the specific profit mix, we are confident in our strategy to develop the Group and deliver long-term shareholder value.

Business model

Connect Group PLC is a leading specialist distributor, operating in large and complex markets and adding value through bespoke services and industry expertise.

Since 2006 the Group has diversified and broadened its interests by making acquisitions in a range of carefully chosen markets, and by developing new revenue streams which leverage our skills and competencies.



Chosen markets

Our markets are characterised by a relatively large number of suppliers, a complex to manage product range, and a diverse and dispersed customer base. This combination of customer and product fragmentation supports the role of an industry specialist, and encourages long-term partnerships with industry stakeholders.

Long-term Partnership
Our industry expertise means that our service is integral to the supply chains of our customers, allowing for further value creation through bespoke services and jointly developed strategic plans. Long-term supplier and customer contracts, support investment which further enhances the position of our businesses in their supply chains.

Scale Efficiency
Our scale and cost efficiency programmes provide a high value and timely distribution service that is the basis of long-term relationships and competitive advantage. Furthermore, by working across our supply chains we are able to deliver even greater efficiencies and share the benefits with customers and suppliers.

Specialist services

The Group's operating companies provide a range of specialist services for suppliers and customers which enhance the distribution of physical products. Our goal is to create an efficient and value adding proposition, tailored to the needs of our specialist markets.

Smart Technology
We operate some of the largest and most sophisticated customer information and marketing systems in our chosen industries. This creates value and gives us a market insight which individual suppliers or customers cannot replicate. Our technology also supports value creation by the efficient allocation of supplies, targeted product selection, returns processing and demand forecasting.

Bespoke Distribution
The specialist services are tailored to sector and customer needs. We offer suppliers and customers a range of options which include: stockholding and product consolidation; multiple and complex product picking; returns processing; market data and forecasting, ultra time-sensitive distribution; track and trace technology. Working together we can plan for peaks and troughs and manage complex requirements, which more generic distributors would not handle.

Industry expertise

The Group's divisions and key operating businesses are acknowledged experts in the supply chains in their respective industries. We have a long-term commitment to our industry sectors, investing in systems and infrastructure, which enhance our offer, while simultaneously supporting a partnership approach to success.

Market Insight
Our market insight is key to value creation, underpinning our role as an integral part of our customers' supply chains. In what are complex and fragmented markets, our oversight of sales and customers gives a unique breadth and depth of understanding, leading to better supply allocation and promotional targeting. The market information we hold drives efficiency and encourages a higher reward than might be typical of a more limited wholesale model of consolidation and distribution.

Leveraging the Group
As the Group grows, its skills and competencies are increasingly applicable to new and emerging markets, offering opportunity for organic sales and profit growth. Utilising our infrastructure and technology, and by leveraging our collective capabilities, the Group has a clear opportunity to enhance its leading role in carefully chosen sectors – we are committed to investing in these opportunities and to building long term propositions that complement our existing operations.

Our strategy
Progress against our goals

We have made good progress against our strategic goals, supporting performance of the divisions and positioning the Group for future growth.

Deliver top line growth

What we said we'd do
- Increase profitability by winning new customers, renewing existing contracts and regularly reviewing the profitability of products and services we supply.
- Secure sustainable cost efficiencies that are compatible with our service commitments and marketplace strategies.
- Develop a carefully targeted acquisition strategy focusing on complementary markets, which enhance and leverage the skills and competencies of the Group.

What we did
- The Group has delivered a strong financial and strategic performance – growing profit ahead of expectations and making excellent progress with our growth strategy.
- Total revenue of £1.9bn is up 3.7%, with Adjusted Profit before Tax of £56.5m up 13%, driven by the acquisition of Tuffnells, and supported by the performance of our other divisions.
- Delivered in full our annual target of £5m cost efficiencies and our three-year programme to August 2015 of £20m cost savings.

Develop digital and online propositions

What we said we'd do
- Continue to invest in digital propositions that enhance our customer offer and provide both competitive advantage through service improvement and efficiency gains.
- Further growth of Wordery in UK and international markets; increasing the share of Wordery sales achieved through its bespoke website, wordery.com.
- Develop the e-commerce capability of the News & Media and Education & Care divisions.
- Maximise productivity and efficiency gains from the introduction of new supply chain technology across all our divisions.

What we did
- The growth of Wordery, our direct to consumer service, has continued to surpass expectations; revenue now exceeds £38m per annum with strong growth in sales through our bespoke website which we have continued to invest in.
- Our investments in websites and e-commerce mean we are leading the transition from traditional printed catalogues to more flexible and efficient online marketing, with online sales now amounting to 25% of all orders from schools.
- Our SNapp app was the Innovation Excellence Winner of the SAP UK Quality Awards and went on to win Silver at SAP's International Awards.
- We launched a new version of Dawsonera, our academic portal – feedback has been encouraging and we remain committed to the strategy of providing a comprehensive service, encompassing both printed and online content.

Identify and secure further acquisitions

What we said we'd do
- Identify and pursue opportunities to acquire businesses in new but complementary specialist distribution markets.
- Secure further acquisitions that complement our existing businesses adding scale and capability in our existing markets.
- Ensure the rapid integration of new businesses, exploiting synergies and maximising value.
- Acquisitions will be pursued as and when the timing is right for the Group.

What we did
- The acquisition of Tuffnells for an initial consideration of £114m has transformed the shape and future prospects of the Group. It provides entry to a new and growing market, and it enhances our position as a leading UK specialist distributor – giving us national coverage and access to a wide variety of new customers and sales opportunities.
- The early integration to the wider Group has gone well, with the immediate synergies being realised and the transition to new leadership under Chris Ward achieved by the end of August. We are now well placed to go forward – driving the growth of the core business as well as looking at organic and cross group opportunities.

Deliver further efficiencies across the Group

What we said we'd do

- Implement management action plans to improve the profitability, efficiency and productivity of the Books division.
- Achieve in full the three-year target of £20m cost savings in Smiths News by 2015.
- Identify and develop clear plans for sustainable cost reduction beyond 2015 of circa £5m per annum.
- Continue to optimise the cost base of our divisions and central group services through ongoing process review.

What we did

- The Books division has made good progress after a challenging year in 2014. The new management team is fully established and has done an excellent job in first stabilising the business and then setting out a clear strategy for sustainable growth.
- Our strategy for a sustainable recovery included a thorough review of what is a more complex series of markets and services than appears at first sight. A key action was to restructure the division into four business units, each with a distinct market focus and a clear strategy for growth.
- This year the cost efficiency programme in Smiths News has delivered £5m of sustainable savings, meaning we achieved in full the £20m target we set over the last three years. Looking ahead we are targeting a further £5m per annum for the next two years.
- We have continued to focus on leveraging Group capabilities and deliver cost and commercial synergies.

Invest in new processes and information systems

What we said we'd do

- Maintain our competitive advantage in the application of industry leading technology.
- Innovate to achieve further service and cost leadership which deliver benefits to the Group but also across our supply chains.
- Develop our information systems and business intelligence to better understand and respond to customer needs and market dynamics.
- Continue investment in our distribution networks to ensure we optimise the size, quality and location of our distribution centre.

What we did

- Our smart technology has brought further benefits to service and supported our efficiencies. In 2014 we trialled the use of handheld scanners to improve accuracy of picking and reduce costs; this has proved successful and is currently being rolled out across all locations.
- SNapp, our mobile and online customer service application, now has over 3,000 registered users and we are beginning to see a reduction in call volumes at our call centres as a result of its deployment and upgrade.
- The app was the Innovation Excellence Winner of the SAP UK Quality Awards and went on to win Silver at SAP's International Awards.
- Supporting the Books business units, our distribution hub in Norwich has undergone a root and branch operational process review, assessing staffing, workflow, technology and service levels. This has further improved the efficiency of the pack-line technology introduced in 2013, underpinned by improvements to service that are driven by key performance indicators.

Maintain competitive advantage through our people

What we said we'd do

- Embed the Connect Group values across our existing and any newly acquired businesses.
- Invest to ensure we recruit, train and develop the right people – supporting them in their career aspirations and providing opportunity for personal growth.
- Improve the speed and quality of communications with staff; implementing a business-wide 'team talk' programme which encompasses regular briefing and local action planning; encouraging a forward looking, and growth orientated culture.
- Maintain our investment in key individuals and leadership roles which are crucial to our success and future capability.

What we did

- Throughout the Group our people have responded with enthusiasm to the initiatives and new ways of working. Diversification has also broadened our skills and given us greater strength in depth, supporting our ability to achieve our full potential.
- In our Parcel Freight division, we have introduced a variety of incentives to attract new drivers and launched an apprentice scheme for young people to address an industry wide shortage of qualified drivers.
- In our workplace, we support our people with learning and development opportunities that lead to long lasting and satisfying careers. Our goal is to give everyone the opportunity to flourish by providing access to formal training as well as a range of self-learning modules.
- The new management team in our Books division is now fully established and has done an excellent job in first stabilising the business and then setting out a clear strategy for sustainable growth.

Our strategy
Key performance indicators

Total Group revenue
£m

2011	1,734.4
2012	1,803.9
2013	1,806.9
2014	1,808.5
2015	**1,875.1**

Target To grow revenue on an average five-year compound rate.

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

Adjusted profit before tax
£m

2011	38.6
2012	47.5
2013	49.9
2014	50.0
2015	**56.5**

Target To grow underlying profitability each year.

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

Adjusted EPS
pence

2011	14.0
2012	17.9
2013	19.0
2014	19.6
2015	**19.7**

Target To grow earning per share in line with underlying profit growth.

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

DPS
pence

2011*	7.2
2012*	7.8
2013*	8.4
2014*	8.8
2015	**9.2**

Target To grow DPS in line with underlying profit growth.

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

* Rebased for Rights Issue December 2014.

Free cash flow
£m

2011	22.5
2012	27.2
2013	32.6
2014	37.2
2015	**39.8**

Target To grow free cash flow each year.

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

Net debt ratio
%

2011	1.3
2012	1.6
2013	1.5
2014	1.4
2015	**1.9**

Target To reduce leverage each year towards 1.0x target prior to any new acquisitions.

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

Key:

- Deliver top line growth
- Develop digital and online propositions
- Identify and secure further acquisitions
- Deliver further efficiencies across the Group
- Invest in new processes and information systems
- Maintain competitive advantage through our people

Our strategy moving forward

We aim to build clear leadership positions in our chosen markets, delivering sustainable profit growth and strong returns for our shareholders.

We will achieve this by implementing best practice processes and efficiency across our operating businesses, drawing on our collective strengths and capitalising on commercial, operational and capital management opportunities.

The following are our key strategic goals and measures of success:

Profitable long-term growth

Enhance our market leading proposition, strengthening our supply chain relationships, and customer service standards.

Developing, attracting and retaining profitable new business.

Our success will be measured by:
- Growing PBT and EPS to create long-term shareholder value.
- Growing organic revenue streams which enhance Group diversification and long-term returns.

Further efficiencies across the Group

Continue to optimise the cost base through network and operational efficiencies across the Group.

Further optimising the Group and divisional operating model, achieving synergies and leveraging Group scale and strengths.

Our success will be measured by:
- Identifying and developing clear plans for sustainable cost reduction beyond 2016 of at least £5m per annum.
- Delivering planned synergies from the acquisitions of Tuffnells and enlarged Group.

Strong cash generation and capital management

Continuing to focus on strong cash generation to support our progressive dividend policy.

Our success will be measured by:
- Returning free cash flow higher than the previous years.
- Deleveraging and reducing our net debt/EBITDA, targeting net debt of £100m by 2018.
- Developing a return on capital metric to track total returns.

Leveraging Group capability

Capitalising on the increased scale and scope of the Group's activities to find additional commercial opportunities.

Exploring and implementing opportunities for cross Group working that enhance the capabilities and competitive advantage of individual divisions and their operating businesses.

Our success will be measured by:
- The extent and growth of shared services and efficiency of Group operating model.
- The achievement of UK national coverage across a greater range of distribution services.
- Delivered cost saving and synergies resulting from Group scale and capability.

Developing organic revenues in News & Media

Investing in commercial initiatives that grow and further diversify the Group's revenues on an organic basis.

While primarily focused on News & Media, staying alert to opportunities in other divisions.

Balancing a medium-term contribution and return on investment with a long-term view of opportunity and market positioning.

Our success will be measured by:
- A more balanced portfolio of revenue in the News & Media division over time.
- Expanding our territorial reach, winning new clients and adding new services in the emerging 'Click & Collect' market.
- A positive contribution from investments within targeted timescales.

Competitive advantage through our people

Recruiting and retaining market leading, engaged people to deliver the Group's vision.

Developing and strengthening a culture of excellence that supports the growth and retention of talent; further enhancing our supply chain relationships and reinforcing the Group's Values.

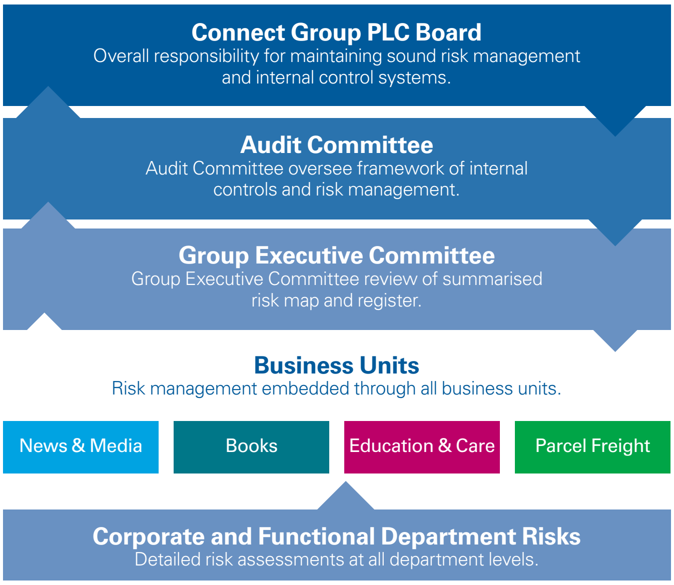
Our success will be measured by:
- Staff retention and turnover figures.
- Staff engagement surveys.

Risk management

The Group has robust risk management processes in place including the identification and review of its principal risks, an annual risk appetite assessment and robust monitoring and reporting of its internal control environment.

Strategic principal risks
The director's assessment of the Group's principal risks are aligned to the strategic business planning process, the outputs from the annual risk appetite exercise and the business/divisions internal risk committees. Risks are mapped for impact and likelihood, ownership assigned, and reviewed quarterly by the Group Executive and Audit Committee including the appropriateness of mitigating actions.

Risk management process
The Internal Risk Committee for each business is responsible for monitoring the nature and extent of the risks across the business and conducts a quarterly risk assessment based on identified business objectives. Annual Group wide risk assessments are undertaken and risks which are identified across the risk universe are then consolidated, refined and calibrated to each area of the business with support from the Group Head of Internal Audit. Key risks are plotted on risk maps with description and owners recorded in the risk register. In addition, the risk map and risk registers of each of the four divisions are separately reviewed by the Managing Director of each business with the Audit Committee annually. In support of the risk management process and embedded in the divisions is an annual process and controls self-assessment and automated audit issue tracking solution. Additional risk management support is provided by external experts in areas of technical complexity.



Principal risk	Movement of risk compared to FY14 risk map	Potential impact	Mitigating actions and assurance
Structural market changes are deeper/quicker than predicted, including print migration to digital.	→ No structural changes across our markets. Risk remains consistent with FY14.	Sales decline in newspaper and magazines are worse than expected (-3% to -5% range) and/or the Books market is impacted, each resulting in lower profit and negative market sentiment related to printed media.	A consistent pattern and clear view of market volumes ensures more accurate forecasting and combines with an expectation of continued declines for newspapers and magazines. Management continues to identify efficiencies to compensate for market declines. Connect Parcel Freight is a significant contributor toward the Group, mitigating market declines for newspapers and magazines. The Group's organic strategy including Pass My Parcel and Jack's Beans, seeks to further protect the Group from over exposure to individual market risks.
Uncertainty of Government policy could adversely impact current business performance.	→ Post-election risk remains uncertain on how Government changes will impact discretionary spend. Risk remains consistent with FY14.	Reductions in discretionary spending may impact sales of newspapers, magazines, parcels and books with reductions in government spending potentially reducing consumables budgets in schools.	Annual budgets and quarterly forecasts set realistic expectations internally and externally allowing for or changing objectives to meet short and medium-term financial targets. Management has a track record of delivering revenues and efficiencies to compensate for market impacts.
Major supplier or customer loss or consolidation impacts the trading relationship.	→ No significant change in customer relationships. Risk remains consistent with FY14.	Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In Connect News & Media, publishers typically award five-year contracts supporting the market structure. Connect Books, Connect Education & Care and Connect Parcel Freight operate in very fragmented markets with fewer significant suppliers or customers. Strong relationships across the supply chain help the Group to understand and demonstrate its strengths for the benefit of its suppliers and customers.

Principal risk	Movement of risk compared to FY14 risk map	Potential impact	Mitigating actions and assurance
Competitive environment becomes more challenging.	↓ Risk reduced in likelihood compared with FY14 as we factor potential impact into our planning expectations.	Challenges to sales growth and margin performance remain a key risk/focus. Current performance and strategic actions have placed the Group in a strong position to meet these challenges although impact remains the same.	Market scale and expertise provides the ability to offer value and service to customers. Connect Books, Connect Education & Care and Connect Parcel Freight monitor and track propositions to ensure competitive positioning, able to adjust pricing throughout the period if required.
Failure to prevent cyber-attacks that cause disruption or loss of systems and/or commercially/employee sensitive data.	↓ Increased volume of unsuccessful attacks noted but not malicious. Likelihood rating increased but impact decreased.	Customer service and/or satisfaction could be adversely impacted leading to compensation, increased costs for rectification and/or increased future investment requirements. Continued risk of penalty through breach of regulation such as the Data Protection Act.	External specialist advice supports a strong central governance framework including responsibilities for reviewing the Group's exposure, measuring effectiveness of existing controls and recommending new controls if required. Controls further enhanced through implementing a robust security governance framework, establishing a vulnerability management solution and strengthening of the security architecture and process landscape.
Failure to deliver business plan and financial returns on recent acquisitions.	↓ Performance on track and outlook in line with investment plans. Likelihood of risk reduced whilst impact remains the same as FY14.	Sales and profit expected from acquisitions may not be met and/or reputation of the Group and support for future acquisitions are challenged. Cultural change for acquisitions results in reduced performance and financial returns.	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made. Performance to plans are reviewed monthly with post investment analysis producing a more thorough review of each acquisition within 12 months after completion. Detailed integration process, governance and support framework ensures effective and timely adoption of standards and process into recent acquisitions.
Legislative changes or interpretation impacting the engagement of employees and delivery contractors resulting in an increase in the number of employees and costs.	↑ Post Government Budget announcements brings clarity on changes in minimum/living wage rate increases, resulting in increase in risk rating.	Increased number of employees or cost per employee increases the cost base and potentially creates greater redundancy costs from future efficiency programmes.	Contractors have clearly articulated agreements defining tasks they are contracted to provide to News with annually set commercial terms. Minimum number of employees are directly impacted by living wage, however knock-on impact across grades will be monitored. Regular checks are carried out by Internal Audit across the network ensures understanding and compliance.
Failure by DMD to prevent breach of airside security causes disruption or loss.	→ Continued strong security controls and monitoring. Risk remains consistent with FY14.	Costs could increase through additional security requirements and/or penalties with severe reputational damage potentially causing the loss of contracts for our media business.	External security advice supports internal staff to review DMD's exposure, measure effectiveness of controls and recommend new controls if required. In addition, insurance is taken out to cover the Group from major risks.
Increasing reliance on centralised system solutions, complex operations and networks are not supported by sufficiently robust business continuity planning and disaster recovery solutions to prevent disruption outside of expected tolerances.	→ Robust processes are embedded in central solution and operating as business as usual. Risk remains consistent with FY14.	Trading capability, customer experience and sales/margin performance impacted through inability to operate due to systems outages or location access.	Investment is made by the organisation to provide disaster recovery capability across the Group for all essential systems. External expertise is used to provide guidance and a disaster recovery facility. In addition, a programme led centrally ensures business continuity planning procedures and standards are embedded across the business divisions.
Loss of key executives and subsequent loss of knowledge and skills in established and recently acquired businesses impacts current and future business performance.	↑ Heavy reliance placed on executives and their experience to manage/guide expansion into new markets. Likelihood not changed but impact increased reflecting growth of the Group.	Loss of key skills and leadership impacts the capability of the Group to deliver its strategic goals.	Performance and capability management processes in place, reviewed by the Remuneration Committee and Group Executive Committee. Succession planning for critical roles and development plans for key individuals reviewed by the Nominations Committee. Integration plans in place to support key executives within Connect Parcel Freight.
Three-year strategic business plan and scale of business change at risk from constraints on capacity of divisional premises and equipment/systems to meet growth plans, leading to increased investment costs and reduced profitability.	NEW Growth of the business, integration of Connect Parcel Freight and diversification into new markets brings increasing challenge on warehousing and IT/support/operational systems and equipment.	Inability of warehousing/operational/IT and support systems to meet growth expectations of the Group, creates poor customer experience, increased investment costs and reduced profitability.	FY15 business planning process has considered this risk and has ensured appropriate investment is budgeted to ensure growth targets are achieved, including a capital expenditure budget of circa £20m for FY16 and FY17.
Effort and/or specialist skills required to complete organisational change are missing from new structures/teams, thus increasing demand on existing management skills and impacting current business performance.	NEW Operational and cultural integration of Connect Parcel Freight in addition to changes across the Group based on the FY15 strategic imperatives, creates new risk.	Management's focus on current business operations and performance is distracted by organisational change and new initiatives. Management become overstretched and demotivated by demands of the Group and exit, taking valuable skills and knowledge with them.	Key imperatives identified for organisational and cultural change, leading to investment in resources and skills that are required to deliver the successful integration/development of new businesses and business critical initiatives, including investment in expert skills in change management and project management.

Group Chief Executive's review

I believe we will look back on 2015 as a seminal year for the make-up and prospects of the Group.

Group overview

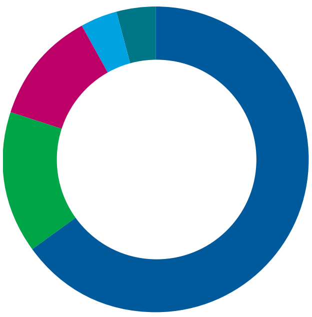
The Group has had a strong year, achieving profit ahead of expectations, and strengthening the foundations for future growth. We have made progress with our strategy in each of our divisions and the acquisition of Tuffnells has delivered a step change in the balance of profit from activities outside of newspapers and magazine wholesaling. Our increased investment in organic revenue initiatives, including Pass My Parcel in News & Media and Wordery in Books, is an indicator of our commitment and ambition, and an exciting development that will support future growth.

In parallel with our strategic progress the Group continues to deliver strong returns for shareholders. Adjusted profit before tax is £56.5m, up 13.0% (2014: £50.0m). Statutory profit before tax is £29.0m (2014: £43.1m) affected by the impact of the acquisition related costs taken in the year. Free cash flow of £39.8m is up 7.0% supporting a full year dividend of 9.2p, up 4.5%. The Group is now deriving over 35% of profit from activities outside of newspaper and magazine wholesaling, confirming the success of our strategy to diversify into new distribution markets.

It was pleasing to have received the overwhelmingly positive support of shareholders for the acquisition of Tuffnells and the associated rights issue. We are delighted with the early progress and confident the Parcel Freight division will be earnings enhancing in its first full year, adding significant value to the Group with its combination of attractive market characteristics, growth and synergy opportunities.

I believe we will look back on 2015 as a seminal year for the make-up and prospects of the Group. We have chosen our targets and investments carefully and now are better positioned than ever to leverage our skills and competencies across a range of opportunities.

Percentage of profits from activities



- News – 65%
- Parcel Freight – 15%
- Education & Care – 12%
- Media – 4%
- Books – 4%

Progress in our operating divisions

The Group's divisions have responded well to their respective challenges, each making good strategic progress.

News & Media continues to deliver a market leading performance, maintaining its virtuous circle of operational efficiencies supporting improvements to service. In a quiet year for contract awards both Smiths News and DMD have consolidated previous gains and delivered further sustainable efficiencies which have more than offset the impact of declining sales. The investment in Pass My Parcel offers the prospect of new and growing revenues in the 'Click & Collect' market which dovetails well to our operational network and capabilities.

Books recovered well from a difficult year in 2014. The new management team has stabilised performance by addressing operational issues, introducing a stronger sales culture and rigorously assessing the profitability and performance of our customer channels. The Books market continues to be disrupted by a combination of changes to technology and consumer purchasing, but this also brings opportunity and the outstanding success of Wordery is an excellent example of where and how we can compete to win. Our acquisition of the minority 49% interest in August 2015 gives us sole ownership of Wordery, allowing for further investment in what is now a key asset of the division. It is pleasing to note that performance of the division has steadily improved through the year giving confidence in its return to sustainable growth.

Education & Care continues to see growth in its core education market driven by underlying demographics; the opportunity to expand our territorial reach and the increasing local control of education spending gives further opportunity for growth.

Our investment in new warehouse systems will support long-term efficiencies and improvements to service. Their introduction did, however, involve higher costs this year as the systems were implemented, affecting profit performance, particularly in the first half. Our continued strength in the Early Years and Primary sectors is underpinned by innovative marketing and a range of exclusive products and content for schools and nurseries. Investments in e-commerce are creating further competitive advantage and drive customer loyalty by offering greater flexibility in our pricing and promotion, while reducing dependency on printed catalogues.

The Group's divisions have responded well to their respective challenges, each making good strategic progress.

Parcel Freight has made an excellent transition and contribution to the Group. The fundamentals of its markets are strong with growth in underlying demand and opportunities for further network expansion. We also have ambitious plans for the division – both to increase capacity and to leverage synergies across the Group. Since December 2014 we have opened two depots, with a further two due to open in late October 2015; we have plans for at least three more over the next three years. The wider integration to the Group is progressing as planned and the appointment of Chris Ward as Managing Director ensures we have fresh leadership while retaining the knowledge of much of the existing senior team at Tuffnells.

Strategy and direction

The Group's strategy is clear and cohesive – we specialise in large and complex supply chains, adding value to suppliers and customers through a combination of scale efficiencies, expertise and smart technology. Since 2006 we have sought to balance our historic strength in news distribution by entering new markets that leverage our skills and assets. Our stated strategic direction has been to achieve 50% of profit outside of newspaper and magazine wholesaling. We have made good progress towards that goal with a more balanced portfolio of activities. As we move forward, leveraging the collective skills and strength of the Group will be a key means to growing profit and winning share in our markets, for the benefit of all our stakeholders.

The Group continues to make progress towards these goals. The acquisition of Tuffnells, once fully embedded in the Group will facilitate entry into a large and growing market with characteristics that are an ideal fit to our skills and expertise. Tuffnells' expertise in the IDW sector and its essential role in the supply chain of many of its key customers is typical of the specialist services and long-term partnerships that are defining characteristics of the Group's chosen markets.

The growth of the Group also allows us to pursue opportunities that leverage our skills and capabilities in new and emerging markets. Investments in new ventures are carefully targeted but the forecasts here are inherently less certain and timescales can sometimes need to be flexed. Our accelerated investment in Pass My Parcel is a good example. The long-term prospects in this sector are substantial and we have the operational ability to deliver a unique service – but the market is developing quickly and it has become clear that success requires us to push ahead at pace, investing to establish a strong proposition that will in itself create demand as well as responding to it.

People

In leading the Group since 2006 I have many times witnessed the outstanding ability of our people to respond to organisational change and operational need. This year was no different and we are again indebted to them for their efforts and commitment to the Company.

The new opportunities and challenges across the Group have brought fresh talents to the fore. Throughout the Group our people have responded with enthusiasm to the initiatives and new ways of working. Diversification has also broadened our skills and given us greater strength in depth, supporting our ability to achieve our full potential.

Looking forward I am confident that just as we have, in our businesses, acquired a better balance of core strengths and future opportunity, so too, in our people, we have grown the necessary skills and experience to succeed. The Group's Values support a high performance culture which rewards those who deliver results. Growth and diversification has also broadened our skills, giving us a greater strength in depth, which compliments a universal determination to succeed.

As always, my colleagues on the Group Executive have been an invaluable source of support, challenge and insight – a healthy dynamic as we make progress and look to leverage our capabilities. I am indebted to them for their support and essential contribution to the leadership of the Group.

Mark Cashmore
Group Chief Executive

Connect News & Media

Jonathan Bunting
Managing Director

The News & Media division has maintained a market leading performance, while supporting additional investment costs for its organic sales initiatives.

News highlights
- Operating profit +3.3% excluding the impact of World Cup sales in FY14
- Total FY15 sales comfortably within strategic forecast of -3% to -5% per annum
- Resilient newspaper revenues with slower decline in magazines
- FY15 £5m cost savings fully achieved with a further £5m p.a. targeted in each of the next two years
- Organic opportunities developing at pace

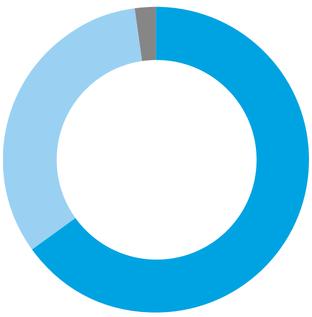
Media highlights
- Media business revenue and profit continuing in line with expectations
- Further contract wins with Virgin Atlantic & Eurostar
- Launch Media Wall concept at Gatwick Airport

Divisional Adjusted operating profit £m

	News	Media	Total
2013	40.0	1.8	41.8
2014	42.9	2.3	45.2
2015	**41.4**	**2.3**	**43.7**

■ News
■ Media

Sales mix by segment



■ Newspapers – 65%
■ Magazines – 33%
■ Media – 2%

Overview
The News & Media division has maintained a market leading performance, while supporting additional investment costs for its organic sales initiatives. Adjusted operating profit of £43.7m is down 3.3% (2014: £45.2m), including the impact of investments made in Pass My Parcel. Excluding the prior year benefit of World Cup sales, Adjusted operating profit would be up by 3.3%. The division's core of newspaper and magazine wholesaling continues to deliver sustainable efficiencies through network and process review, achieving over £5m in cost savings this year. Investment in Pass My Parcel has been accelerated and good progress is being made with this exciting initiative.

Markets
Overall newspapers and magazine sales continue to perform within our medium-term strategic forecast which anticipates a decline in revenue of between 3%–5% per year.

Newspaper sales were down 3.4% on a like-for-like (LFL) basis with continued price increases running ahead of inflation. Magazine sales, though weaker at 4.6% down, saw an improvement in trend, particularly monthly titles which have performed considerably more strongly than in recent years. Combined sales of all categories were £1.5bn, down 2.9% on last year.

The supply of print media to international airlines and key travel points has seen consistent demand from publishers and travel operators. Underlying revenue for DMD was £25.4m, up 1.0% on last year. Sales of in-flight digital media continue to grow and we have won a number of new contracts in this area.

Operational progress
Smiths News has delivered operating efficiencies of £5m, achieving in full the £20m efficiency target we set three years ago. The consolidation of small and medium-sized depots into our hub and spoke model has underpinned infrastructure savings in a way that also improves service and creates process efficiencies for ourselves and industry partners. Our largest depot at Birmingham now serves over 6,000 customers encompassing the entire West Midlands and its borders. This model of regional super-hub can be replicated elsewhere in our network and the business has clear plans to achieve further efficiencies of £5m per annum in each of the next two years. Network initiatives this year included the closure of our Bolton depot and the consolidation of Peterborough into Birmingham; we are currently implementing the merger of Crawley into Slough which will take effect in October 2015.

It was a quiet year for contracts as there were no national publisher tenders in the year. This reflects the cycle of contract renewals which has secured contracts for the supply of newspapers and magazines representing over 85% of our revenue until at least 2019. A small regional press gain was made in the year in Liverpool. The Metro distribution contract has successfully bedded in since commencing in 2014. This year our distribution was extended to cover Liverpool, and additional areas of London.

Our smart technology has brought further benefits to service and supported our efficiencies. In 2014 we trialled the use of handheld scanners to improve accuracy of picking and reduce costs; this has proved successful and is currently being rolled out across all locations. SNapp, our mobile and online customer service application, now has over 3,000 registered users and we are beginning to see a reduction in call volumes at our call centres as a result of its deployment and upgrade. Releases this year have widened the scope of services and feedback from users is strong. The app was the Innovation Excellence Winner of the SAP UK Quality Awards and went on to win Silver at SAP's International Awards.

The continued investment in systems to support improved customer service and operational efficiency is reliant on a robust technology infrastructure. In 2014 we reported a number of system outages caused by failures from external providers. These issues have been resolved and the systems have been stable throughout 2015. In addition we have reviewed and enhanced our disaster recovery and business continuity planning to minimise any disruption outside of acceptable tolerances.

DMD renewed and won a number of contracts in the year, including agreements with AA/US Airways, Cathay Pacific (Germany) and LaTam European. On the publisher side our agreement to distribute copies for the Mirror Group was extended for a further two years. The drive to offer a full range of print and digital media also brought successes in the year with Eurostar awarding DMD the contract for all its digital programming on its new connected trains, the Digiredoo media portal expanding to a further eight airport passenger lounges across three airlines and rail operators.

In May we launched a new Media Wall display unit at Gatwick Airport which has proved successful and popular with publishers seeking exposure at these high profile locations – in its first year it will distribute over 20m copies free of charge to airline travellers, and we plan to expand the concept to other locations.

Interest in in-flight media continues to grow. We now service 17,000 iPads for 24 airlines, up by 21% on last year, and boosted by a contract to supply over 3,000 units to Virgin Atlantic.

Pass My Parcel

Pass My Parcel uses our existing network to deliver parcels to local collection points on behalf of online retailers. With a leading offer of twice daily deliveries it supports the fastest turnaround from ‘click to collection’ of any UK distributor.

Launched in October 2014 with Amazon as our first client, the first 550 stores proved to be highly operationally effective from our low volume trial, giving confidence that the concept could be rolled out more quickly than initially planned. We have therefore accelerated our plans, investing £2m in the year and recruiting over 3,000 Parcel Shops in readiness for the 2015 seasonal peak. The service is now supported by 35 of our Smiths News depots, and we plan on continuing to expand our geographic reach to achieve national coverage, investing between £2m and £3m in the current financial year.

The volume of orders has increased as awareness of the service and the size of the parcel shop network has grown. A pipeline of interest from other potential clients has reinforced our view of the opportunity in this market over time and indicated that a wider network and expansion of services would create a ‘tipping point’ of volume and demand. In October 2015 we reached agreement in principle with a leading online retailer to provide a mobile enabled returns service which will further drive volume and awareness. We continue to discuss the potential of Pass My Parcel with a number of other online and high street retailers.

We remain excited about the prospects for Pass My Parcel and are fully committed to investing for the long-term opportunity. In only our first year we have progressed from concept to a network which already covers an estimated two-thirds of the UK’s online demand. Plans for the coming year include the addition of more services and clients, supported by further expansion of the retail base towards our goal of national coverage with a network of 5,000 to 6,000 stores.

Other new revenues

In December, working with Amazon Logistics, from our depots in Newcastle we trialled an opportunity to deliver parcels to households. The trial showed potential and was extended to Brighton and Southampton; we are currently preparing for expansion into new areas ahead of the 2015 peak Christmas trading. We plan to explore these opportunities further over the coming year.

Jack’s Beans, our vended coffee offer, continues to grow with 300 retailers now serviced from our news distribution network. The offer builds on our retailer relationships and uses our existing distribution facilities, allowing us to service outlets by integrating deliveries with our daily newspaper and magazine operation. The introduction of a fixed rental charge for the vending machines has proved attractive, supporting further expansion, while limiting risk.

Future plans

The strategy for the division is clear and well established. At its core is a combination of lean and efficient operating processes, delivering service levels that set the benchmark for excellence and innovation in our markets. Our historic markets, though declining, remain large and relatively predictable – we will continue to mitigate reduced sales with sustainable operating efficiencies, while leveraging our network and technology to offer additional services and secure new revenues in growing and complementary sectors. Supporting both the core and new markets we will invest in our physical network, in technology and in people to maintain our competitive advantage and facilitate growth.

Leveraging the Group

By using our specialist distribution network, Pass My Parcel offers some of the fastest deliveries of any UK carrier. Customers ordering by 11.45am can pick up the same day from 4.00pm; orders placed by 7.45pm can be picked up the next day from 6.30am. Pass My Parcel operates seven days a week and because our 3,000 pick-up points are based at local stores we offer customers the ultimate in speed and convenience.

pass my parcel
Leave it to us

Justin Adams
Managing Director

Connect Books has made good progress in stabilising the business and establishing a strategy for recovery and future growth.

Books Highlights

- Good progress in stabilising the business and establishing a strategy for sustainable growth
- Improved H2 performance generating full year profit growth +5%
- Improvements in operational performance driving productivity and service
- Wordery continuing impressive performance; minority interest acquired August 2015
- Improving performance in Wholesale; Libraries remain challenging
- Contract renegotiations positively impacting margin

Divisional Adjusted operating profit £m

2013	7.2
2014	2.5
2015	**2.6**

Sales mix by segment

- Wholesale – 45%
- Libraries – 23%
- Direct to consumer – 21%
- International – 11%

Overview

In response to an extremely difficult year in 2014, Connect Books has made good progress in stabilising the business and establishing a strategy for recovery and future growth. Adjusted operating profit of £2.6m, is up 4.6% on last year (2014: £2.5m); this headline result reflecting a steadily improving underlying trend after the significant profit reduction in 2014.

The new leadership team, is now fully established and the division has a well-defined strategy to focus on those markets and services which offer the most potential for sustainable value creation. The growth of Wordery, our direct to consumer service, has continued to surpass expectations; its revenue now exceeds £38m per annum with strong growth in sales through our bespoke website.

Market conditions

Connect Books operates with four market focused business units each with its own challenges, dynamics and opportunities. The business units encompass: Wholesale; Direct to Consumer, Libraries and International.

The total UK consumer market for books grew by 2.6%, driven by price increases with volumes remaining broadly flat. Helped by direct to consumer sales from Wordery we grew our share of the market by 40 basis points to 5.5%.

The traditional sales channel to independent and high street booksellers remains under pressure from the growth of internet retailers and consumer eBooks. In contrast, our fulfilment services on behalf of online retailers continue to flourish, with further benefits flowing from the growth of Wordery. In August 2015 we acquired the 49% minority interest in Wordery giving us sole ownership of this fast growing and exciting arm of our Books division.

The library market, particularly the UK public library market, remains under pressure for funding, affecting the volume of books ordered. In response, we have restructured our business and reviewed pricing and where necessary renegotiated contracts and services to ensure they provide a sustainable economic return over time.

The supply of eBooks to our academic library customers remains an important part of our offer, complementing the service for printed books. In July we launched a new version of Dawsonera, our academic portal. Feedback has been encouraging and we remain committed to the strategy of providing a comprehensive service, encompassing both printed and online content.

International academic markets have varied by region. Overall we have experienced an improvement in market conditions, with good demand from customers served by our Northern Europe hubs at Amsterdam and Paris. The market served by our operations in Spain has been more challenging although these represent only 0.6% of our overall business.

Recovery and growth

After conducting a thorough review of the markets and services encompassed by Connect Books, the new leadership team has established clear priorities for a sustainable return to growth.

Sales and marketing activity has been structured into four business units, each with a distinct customer group, and with accountability for sales, profit and service. The business units encompass: Wholesale (serving booksellers and internet retailers), Libraries (serving UK academic and public libraries, including digital services), Wordery (serving direct to consumer sales), and International (serving European and Worldwide academic customers).

The new structure has created greater visibility of customer opportunity, as well as highlighting activities that were uneconomic or not adding value. In such a changing marketplace it is essential that we review services and charge accordingly. Where necessary, we have taken the decision to renegotiate contracts with customers and suppliers, working constructively with our supply chain partners to find solutions that work for all parties. In a few cases this has not been possible and we have reached agreement to withdraw.

Supporting the Books business units, our supply chain operation in Norwich has undergone a root and branch operational process review, assessing staffing, workflow, technology and service levels. This has further improved the product flow through the warehouse, and the efficiency of our operations such as the pack-line technology introduced in 2013, underpinned by improvements to service that are driven by KPIs. In parallel, we reviewed our carrier performance with the aim of improving service consistency. We have structured the supply chain operation to operate as a virtual third party supplier, operating to standards and costs agreed with the business units. This in turn creates greater focus and accountability as well as improving visibility of the marginal cost of activities.

Future priorities

We expect the books market to remain challenging and in a state of flux for some time to come. In this environment, the role of the specialist distributor must evolve if they are to continue adding value to the supply chain.

Our vision is to be "the best connectors to content and great to do business with." As such we aim to leverage our position as a strong multi-channel aggregator where we chose to compete, in order to provide customers the best one stop shop for printed or digital content, and publishers the most efficient, dynamic and respected route to market for their products.

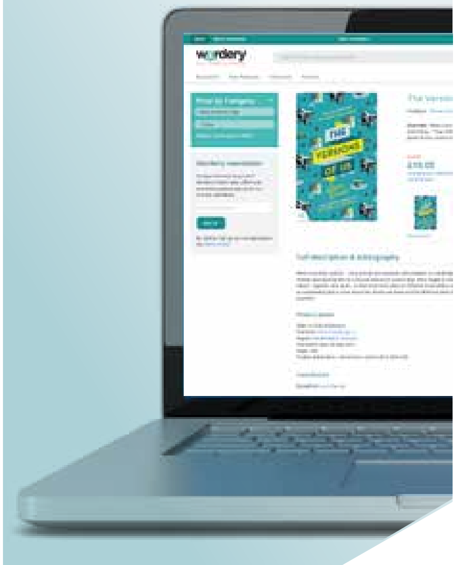
In pursuit of growth, we plan to win new business and drive incremental sales by underpinning a competitive pricing structure with transparency of service, improved range availability, market insight and other added value services. In parallel with this strategy, our distribution operation will deliver scale efficiencies and we will invest further in technology to meet what are increasingly complex and specialised customer requirements.

In only a short period, the new leadership team has started to reinvigorate the business and delivered a sustainable improvement in performance. Looking ahead, Connect Books is now well placed to make further progress and accelerate growth in the coming year.

Market insight

With more than 9m books on offer, Wordery is one of the UK's fastest growing online book sellers. A reputation for service, has helped to attract over 5m customers and free worldwide delivery means we are increasing our reach abroad. We have books in hundreds of languages, listed under thousands of categories. Whatever the book they're looking for, customers should find it on wordery.com.

wordery
your online bookshop



Connect Education & Care

Glenn Leech
Managing Director

Our Education & Care division has had a solid year with an encouraging performance in the second half, giving confidence for the year ahead.

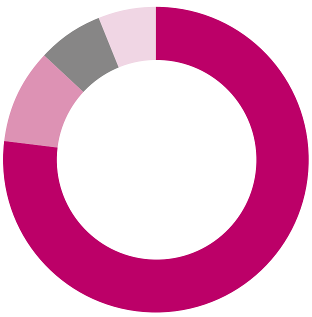
Education & Care Highlights

- Core sales +1.8%
- Gross margin +100 basis points with continued strength in Primary and Early Years
- Solid peak trading given market conditions
- Improving performance in H2 with operating profit +4%
- Full year results negatively impacted by a temporary increase in operational costs
- E-commerce strategy succeeding; now 25% of all school orders placed online
- New catalogue range and own-brand sales driving margin growth
- Continue to target an increased share of school spend and geographical expansion

Divisional Adjusted operating profit £m

2013	7.4
2014	7.8
2015	**7.8**

Sales mix by segment



- Education – 77%
- Early years – 10%
- Other – 7%
- Care – 6%

Overview

Our Education & Care division has had a solid year with an encouraging performance in the second half, giving confidence for the year ahead. Adjusted operating profit for the full year of £7.8m is broadly flat on last year (2014: £7.8m); impacted by a temporary increase in costs relating to the introduction of a new warehouse management system in the autumn of 2014, which supressed profit performance in the first six months.

Full year sales across our core education and care categories were up by 1.8%, including a solid Peak performance, with especially strong growth in Early Years (up 15.6%) and Primary (up 6.7%). Pleasingly, we have recently renewed the largest framework agreement in Wales, covering 15 of the 22 local authorities. Sales from the Care sector were down by 3.2% although performance has improved in the second half after implementation of our new strategy. The growth of e-commerce is a further highlight, with online sales now amounting to 25% of all orders from schools and nurseries.

Markets

The market for education consumables has good long-term prospects with demographic trends supporting an increase in pupil numbers, a key factor in total school funding. Balancing this growth, the marketplace is increasingly competitive as schools become more professional in their procurement processes and respond to budget tightening by more readily switching between suppliers to find best value. The Care sector is also growing, again driven by demographic trends.

These dynamics continue to offer opportunity for Connect Education & Care. Our strategy is to win market share by making buying easier than with our competitors, targeting our ranges and promotions more accurately, and supporting the entire offer with a high quality despatch and delivery service. Our investments in websites and e-commerce mean we are leading the transition from traditional printed catalogues to more flexible multi-channel trading and marketing.

Investing for the future

The ongoing investments in our web sites and e-commerce solutions have, this year, delivered significant improvements to the customer experience. Progress is reflected in the increase of online ordering: over 25% of our schools' orders are now placed online (2014:18%), and overall web traffic is up by 21%.

Among other online enhancements we have introduced new search tools, product recommendations and content marketing which helps customers achieve best value. The launch of the new catalogue (online and print) and strong promotion of own brand ranges has boosted margin.

Our Classroom Partnership initiative with Scholastic has also proved a success. By providing teachers with a combination of lesson plans and easy to access support materials, we enhance our curriculum authority and deliver added value to customers. Linking the materials, where appropriate, to our own brand products generates further value to all parties.

Looking ahead, we believe the move to online ordering is an inevitable industry trend. We are determined to lead the way, establishing a strong presence and reputation for excellent service and ease of buying.

The introduction of a new warehouse management system in the autumn of 2014 resulted in some disruption and significant additional costs as processes bedded down. Teething issues have now been resolved and the operation is running more smoothly with benefits starting to flow through. By June 2015, our peak trading period, the service and cost ratios had improved. Longer term, the new systems and increased warehouse capacity will support further growth and are essential to achieving best in class service over the long term.

The performance of our Care business has lagged behind education in recent years. While this sector is growing, the emergence of large national providers has altered the dynamics, introducing intense price competition for the larger contracts. After a thorough assessment, our offer will in future be focused on our more profitable to serve contracts and customers. The care market is growing and by leveraging our technology and services from the education sector we will be well placed to succeed.

Future plans

Our strategy for growth remains unchanged; we will continue to target an increased 'share of wallet' from existing customers, as well as continuing to expand reach to new customers beyond our 'heartland' of South West UK. To increase customer loyalty and engagement we will further enhance our core offer with unique promotions, information and curriculum support.

The expansion of online trading supports these goals, and the gradual evolution of Connect Education & Care from its legacy as a catalogue based distributor to a multi-channel online marketing business will continue at pace. Plans next year include further investment in website build and design, supported by more in depth customer insight and targeted retail distribution. In the medium term we aim to achieve 50% of all schools orders being placed online.

Our strategy for growth is not dependent on acquisitions, but we remain alert to opportunities that would create scale economies and complement the division's existing businesses.

Scale efficiency

Long-term partnerships

Making ordering easy and building customer loyalty is behind our investment in e-commerce. New websites include smart search functions to help navigate the 40,000 product catalogue – product comparisons and 'switch and save' options help customers get best value from their budget. Our classroom initiative gives teachers professional lesson plans and suggests the associated products that will help to deliver the national curriculum – all part of building partnerships and sharing our expertise with schools and nurseries across the UK.

Connect Parcel Freight

Chris Ward
Managing Director

Acquired in December 2014, Tuffnells has made excellent progress since joining Connect Group.

Parcel Freight Highlights

- Strong profit and revenue performance since acquisition
- Scale business with unique characteristics in a growing market
- Ongoing focus on operational performance
- Investment in service and supply chain creates opportunity for new and premium offers
- Integration and cost synergies on track
- Chris Ward appointed as MD and further strengthening of the existing management team

Divisional Adjusted operating profit £m

2013 (Acquired December 2014)	9.7

Top 5 segments by revenue

- Other Markets – 42%
- Construction – 16%
- Textiles – 16%
- Automotive – 14%
- Office supplies – 6%
- Metals & Engineering – 6%

Overview

Acquired in December 2014, Tuffnells has made excellent progress since joining Connect Group. Revenue of £114.4m is up by 19.6% and Adjusted operating profit of £9.7m is up by 10.8% on a pro forma basis against the same pre-acquisition period last year. Performance has been driven by a combination of strong demand from existing customers and planned expansion and investment into new areas.

Markets

The market for next day mixed freight is experiencing sustained growth, helped by the recovery of the UK economy. Many of our core customers are small to medium-sized enterprises operating in the industrial, manufacturing and retail sectors. These customers have benefited from the gradual improvement in economic confidence which we hope will continue, and as an integral partner in their supply chains we are growing together. Our market position is further strengthened by the trend of large players moving away from unconventional IDW freight to more regular parcel delivery.

Our investment in service and supply chain integration has also created opportunity for new and premium offers. In addition to the standard distribution we have seen increased demand for guaranteed time-windows, tailgate delivery and consignment tracking. These premium services enhance our role as a supply chain partner, attract higher rates and provide a competitive point of difference from generic parcel carriers.

The failure of City Link in December 2014 created further trading opportunities. The consignment profile of City Link's customers did not mirror our mixed freight core and specialism in items of irregular weight and dimension. Our response has been to take on additional business where this dovetails well with our current operation, but not to chase volume at the expense of reduced service quality or diluted margin.

Sustaining growth

Increasing capacity to meet the growth in demand, while maintaining service levels and containing costs, has been our priority this year.

In February 2015 we opened a new depot in north London. Already it is operating at high capacity, and by helping to ease pressure at other depots has contributed to improving overall customer service. An additional new depot was opened in Norwich in September 2015, with a further new opening scheduled for Leicester in late October 2015. During the year we also enlarged the vehicle fleet by 102 vehicles. Looking ahead, we plan to open at least three further depots over the next three years, responding to and creating demand with a network that will facilitate expansion of premium services.

Supporting the improvement of the network, the Group has also committed to upgrading the facilities at current depots. A two-year rolling programme commenced in July 2015 to review the working environment at all our depots, prioritising investments in infrastructure that will improve capacity, operational efficiency and on-site safety.

High service levels are not only important for customers; they drive efficiency by minimising rectification costs and increase capacity by improving the throughput of consignments. Across the year, on time delivery has averaged over 96%. This is well ahead of industry average, supported by our customer profile which typically has a high percentage of regular deliveries and strong local relationships. These efficiencies support a high quality and high value offer that is the basis of Tuffnells service proposition.

Moving forward, a key challenge is to maintain these leading service levels in parallel with our ambitions for growth. Achieving this will require strong operational disciplines. Equally important is a clear understanding of our customer profiling – ensuring we acquire the business that fits our skills and capabilities, and not venturing into what would be less profitable distribution.

The shortage of qualified drivers is a well-documented industry issue that limits in-house capability and is a potential constraint on the pace of growth. Following the failure of City Link we were able to recruit over 50 drivers, but the challenge is ongoing. In response, we have introduced a variety of incentives to attract new drivers and launched an apprentice scheme for young people. As a division of Connect Group we can provide further opportunities for those with the talent and ambition to develop their careers.

Acquisition by the Group has also provided access to complementary skills and technology. The integration of Tuffnells is on track but will take some time to complete and we expect the benefits to flow through over time. Leveraging the Group's expertise in the use of technology, particularly handheld scanning devices and their integration to information systems, is one of our first priorities. The Group currently has over 9,000 scanning devices in operation across the divisions, giving scope for efficiencies and the development of further bespoke software that will provide a competitive point of difference.

Leadership and priorities

In June 2015, Chris Ward was appointed Managing Director of Tuffnells, taking full leadership responsibility after completing his induction in August. His predecessor, Lloyd Dunn, supported Chris during the transition and has now stepped away from the business. His contribution to the progress and heritage of Tuffnells has been significant and we are grateful for the support he has shown since our acquisition. The majority of the other members of the senior team remain in their roles, providing continuity and the retention of key skills and knowledge.

The strategy of Tuffnells is already well established. We will drive growth by an ambitious combination of network capacity and service enhancements, embedding our partnership role in customers' supply chains. Underpinning these plans, the market for mixed freight is in sustained growth, with an increasing trend among many small enterprises to outsource distribution to specialists. We are confident of further progress in the year ahead.

Specialist service

Bespoke distribution

A specialist in distributing items of irregular weight and dimension, Tuffnells can handle some of the most awkward of deliveries. We take pride in building close relationships with customers, becoming an extension of their business and partner in distribution. Whether it be a one-off or a regular delivery there's a service to suit customers' needs – from our economy service to guaranteed next day by 9.30am.

Financial review

Nick Gresham
Chief Financial Officer

2015 was a strong year for the Group achieving Adjusted profit ahead of expectations, making considerable strategic progress and establishing clear growth opportunities.

Financial measure	FY15 result and narrative	Guidance FY16
Adjusted results Further reference Note 3, page 80 Note 10, page 87.	– Adjusted operating profit of £63.8m was up 14.9% (FY14: £55.5m) with the benefit of Tuffnells acquisition profits being partially offset by the football World Cup profits in News & Media in FY14 not repeating. – Adjusted profit before tax of £56.5m is up 13% (FY14: £50.0m). – Basic Adjusted earnings per share of 19.7p is up 0.5% (FY14: 19.6p), using a weighted share number of 230.9m which is up 23.9% (FY14: 186.3m) as a result of the December 2014 Rights Issue. – Fully diluted Adjusted earnings per share of 19.0p is level (FY14: 19.0p).	The Group has started FY16 trading in line with current forecasts and provides updates to the markets throughout the year. The Group profit for FY15 incorporated 36 weeks of trading for Tuffnells following acquisition in December 2014.
Finance cost Further reference Note 7, page 86.	– Net finance costs were £7.3m (FY14: £5.5m). – Net bank interest and related charges were £5.8m (FY14: £4.7m) as a result of higher average borrowings following the part debt funding of Tuffnells acquisition. In addition, finance costs include a charge for the impact of fair value movements in interest rate hedges of £0.2m (FY14: £0.4 credit).	The Group continues to have a proportion of its debt protected by interest rate hedges, finance costs in FY16 are expected to remain at a similar level to FY15, with lower average borrowings offset by a higher average rate.
Non-recurring and other items Further reference Note 4, page 81. Future deferred consideration impact Note 12, page 89.	– Non-recurring and other items after tax totalled £24.0m (FY14: £5.9m). – Network and reorganisation costs were £4.4m (FY14: £3.0m), acquisition and disposal costs £15.1m (FY14: £0.9m) including £3.5m for deal expenses and cost of integration plus £11.6m of deferred consideration, amortisation and impairment of acquired intangibles £7.9m (FY14: £3.0m). – The total cash cost was £8.2m (FY14: £4.4m).	The Group expects to incur network and reorganisation costs in FY16 at a similar level to FY15. The cash impact is expected to be in line with the profit impact of network and reorganisation.
Statutory results Further reference Note 10, page 87.	– Statutory profit before tax of £29.0m is down 32.8% (FY14: £43.1m) largely as a result of acquisition related costs incurred in the period. – Basic earnings per share of 9.3p is down 44.6% (FY14: 16.8p). – Fully diluted earnings per share of 9.0p is down 44.4% (FY14: 16.2p).	The Group expects statutory results performance to follow underlying results performance.
Taxation Further reference Note 8, page 87.	– The underlying tax charge was £11.1m (FY14: £9.3m), the effective underlying tax rate was 19.7% (FY14: 18.7%) as a result of lower UK statutory tax rate being more than offset by a lower level of prior year adjustments. – The statutory tax charge was £7.6m (FY14: £8.3m), the effective statutory tax rate was 26.3% (FY14: 19.4%) with a tax credit on non-recurring and other items of £1.0m in FY14 compared to a credit of £3.5m in FY15.	The Group expects its future tax charges to be broadly in line with standard UK corporation tax rates.
Dividend per share Further reference Note 9, page 87.	– The interim dividend per share of 2.9p up 3.3% (FY14: 2.8p) was paid on 10 July 2015. – The proposed final dividend of 6.3p up 5.0% (FY14: 6.0p) will be payable to shareholders on the register at 15 January 2016 on 12 February 2016. – The total proposed dividend for FY15 of 9.2p is up 4.5% (FY14: 8.8p).	The Group has a progressive dividend policy, expecting to grow future dividends as the Group achieves future profit and cash growth.

Financial measure	FY15 result and narrative	Guidance FY16
Cash and debt Further reference Note 19, page 93 Group cash flow statement, page 72.	– The Group continues to deliver strong free cash flows delivering £39.8m (FY14: £37.2m), up 7.0%. – This included a working capital outflow of £8.0m (FY14: inflow of £1.2m), capital expenditure £9.2m (FY14: £10.3m), net interest paid £5.8m (FY14: £6.1m), taxation £8.7m (FY14: £9.8m), pension funding £5.4m (FY14: £4.6m) and other cash inflows of £1.5m (FY14: £3.3m). – As at 31 August 2015 net debt was £153.4m (FY14: £93.0m) including acquisition outflows of £114.0m and proceeds from the issue of shares of £52.6m. Net debt is a combination of £164.3m of gross debt and £10.9m of cash held in local entities held to finance local operations. – The Group borrowings are cyclical during the financial year resulting in average borrowings £40m higher than the closing position and maximum borrowings of £196m.	The Group expects to continue delivering strong free cash flows in FY16. The Group expects to continue to pay down borrowings from net cash by approximately £10m in FY16, before any new acquisitions. The Group's targeted net debt <£100m by August 2018.
Covenants Further reference Note 20, page 94.	– The Group remains comfortably within each of its banking covenants. – Net debt/Adjusted EBITDA was 1.9x (FY14: 1.4x) versus a covenant limit of 2.75x. – Interest charge cover was 15.0x (FY14: 11.8x) versus a covenant minimum of 3.0x. – Fixed charge cover was 3.4x (FY14: 4.7x) versus a covenant minimum of 2.0x. – Guarantors cover exceeded 80% annual consolidated turnover, gross assets and pre-tax profits.	
Bank facilities Further reference Note 20, page 94.	– The Group extended its facilities in November 2014 and now has £250m of committed bank and Treasury facilities in place as at 31 August 2015 through to November 2018 (FY14: £200m). – The facility comprises a term loan of £100m with limited repayment over the term period and a revolving credit facility of £150m. – Interest rate hedges, used to manage exposure to interest rate fluctuations, covered 72% of the Group's core borrowings	The Group expects to continue to have headroom within these facilities in line with those seen in FY15.
Pensions Further reference Note 6, page 82.	– The Group operates four defined benefit schemes, four are closed to new entrants and two for future accrual. – The Smiths News section of the WH Smith pension trust has assets of £536.8m and an actuarial deficit of £23.0m as at June 2013. As at 31 August 2015 the IAS19 surplus of £135.6m (FY14: £75.7m) was not recognised in the accounts as the amount available on a reduction of future contributions is £nil. A March 2015 actuarial valuation has commenced. – The Group recognises the present value of the agreed schedule of future contributions as a pension liability of £13.8m on the balance sheet (FY14: £17.3m). – The Consortium defined benefit schemes have combined assets of £15.9m and a combined actuarial deficit of £1.4m as at December 2010. As at 31 August 2014 the IAS19 deficit was £3.6m. – The Tuffnells defined benefit scheme has assets of £10.6m and an actuarial deficit of £2.5m as at 1 April 2013. As at 31 August 2015 the IAS19 deficit was £0.7m. – The total cash contribution of defined benefit schemes and expenses in the cash flow statement for FY15 was £5.4m (FY14: £4.6m).	The Group expects cash contributions for FY16 to be at a similar level to FY15.
Balance sheet Further reference Group balance sheet, page 70.	– As at 31 August 2015 total equity surplus was £9.2m (FY14: £42.1m deficit). – As at 31 August 2015 distributable reserves were £33.9m (FY14: £55.3m). – There have been no material events after the balance sheet date.	The Group expects to continue to generate profits and retained earnings further increasing the equity surplus position in FY16.
Shares Further reference Note 10, page 87.	– In December 2014 the Group successfully completed a two for seven Rights Issue, issuing 54m shares which impact both the weighted and fully diluted share numbers. – As at 31 August 2015 the weighted average basic number of shares issued was 230.9m (FY14: 206.4m). – As at 31 August 2015 the fully diluted number of shares was 238.5m (FY14: 213.4m). – Fully diluted shares include 4.1m for employee incentive schemes (FY14: 5.4m) and 3.5m shares (FY14: 1.6m) being the weighted impact of future share schemes and shares allotted in relating to Tuffnells deferred consideration.	The Group expects the full year impact of the December 2014 Rights Issue and future employee incentive scheme requirements to further increase weighted shares to 245m in FY16.
Acquisitions Further reference Note 12, page 89. Impact of Tuffnells acquisition on financial key performance indicators note 2, page 79.	– During the year, the Group purchased Tuffnells Parcels Express Ltd for a cash consideration of £114.0m, with a further potential deferred consideration payable of £15.3m. – In the year to August 2015 the Group consolidated a 36 week period of results for Tuffnells, including £114.4m of revenue and £9.7m of operating profit. – The Group completed the acquisition of 49% minority interest in Wordery, in August 2015 for an initial cash consideration of £5.1m and further potential consideration of £3.3m.	On a 12 month basis to 31 August 2015, Tuffnells results would be revenue of £162.6m and operating profit of £14.3m
Critical accounting policies Further reference Note 1, page 73.	– The directors believe that the accounting policies below represent those which require the greatest exercise of judgement. The directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results. – Retirement benefit obligations. – Business combinations and goodwill. – Revenue recognition. – Property contracts. – Taxation judgements.	
Going concern and viability assessment Further reference Note 1, page 73 Note 19, page 93	– The Group meets its day-to-day working capital requirements through its bank facilities of up to £250m. 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 the Strategic 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 in 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.	

Corporate responsibility report

The Group is committed to responsible practice, taking an active approach to monitoring and improving our impact on the environment, our markets, our workplaces and wider communities.

As a leading player in all our markets we are conscious of the opportunity for wider reaching progress by working with our supply chain partners. Through a combination of industry bodies and individual partnership discussions we seek to make an active difference, supporting industry best practices that improve the overall efficiency and sustainability of our supply chains.

People

In our workplace, we support our people with learning and development opportunities that lead to long lasting and satisfying careers. Our goal is to give everyone the opportunity to flourish by providing access to formal training as well as a range of self-learning modules. The Group's graduate and apprentice programmes offer development for those with the commitment and potential to succeed at an accelerated pace.

Maintain competitive advantage through our people

My Learning is a training and development tool that is designed for every employee to access. The system, which was launched in April, has been rolled out in three of our four divisions. My Learning will be available to all Parcel Freight staff in 2016. During the first five months after launch, around a quarter of employees have logged in and used My Learning.

92%

of users rated e-content on My Learning as good and above.

The Group's support of charities and community initiatives is underpinned by the enthusiasm and commitment of our staff. Our Link-Up programme encourages and supports those who wish to become involved, whether that is as fundraisers or active volunteers. We place an emphasis on local involvement as well as supporting a selected number of national campaigns. Across the Group's locations our staff have supported over 200 charities – from running local cake stalls to completing life changing challenges.

Environment

The Group has continued to focus on carbon emissions reduction achieving a 5% carbon footprint reduction. This performance is driven by a reduction in the consumption of fuel and utilities and the implementation of energy saving measures. The LED programme has continued to be a success with further warehouses having efficient lighting schemes installed; progress is demonstrated by the 19% reduction seen in the Group's Scope 2 emissions. The increase in Scope 3 emissions has largely been due to an increase in sub-contracted delivery mileage as a consequence of increased business.

Carbon emissions data

Excluding Connect Parcel Freight

Fuel type/Scope	1 Mar 2013 to 28 Feb 2014 Tonnes of CO_2e	**1 Mar 2014 to 28 Feb 2015 Tonnes of CO_2e**
Scope 1	5,046	**4,006**
Scope 2	6,372	**5,141**
Scope 3	13,702	**14,726**
Total	25,120	**23,872**

Greenhouse gas 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 2013 – 28 February 2014	13.96	6.18	0.17
	1 March 2014 – 28 February 2015	13.55	6.24	0.17

Intensity Ratios are excluding the turnover, employees and square metres of premises of Connect Parcel Freight

Notes

The data collected for this report is in respect of the year 1 March 2014 to 28 February 2015, being the period that the Company reports for the Carbon Trust Standard certification. The Carbon Emissions data comparisons are made on a like-for-like basis for the period of 1 March 2013 to 28 February 2014, excluding Connect Parcel Freight. The Group acquired Tuffnells Parcels Express on 19 December 2014; prior to this Tuffnells was not subject to a comparable reporting regime for carbon emissions and did not have processes in place appropriately to record and monitor usage. Owing to the size and complexity of the business the Group believes the most accurate and beneficial approach is to compile a full year's data for the Connect Parcel Freight division, at which point, the Group's greenhouse gas (GHG) emissions can be re-baselined to include all UK activities across all divisions.

The Group considers it to be impractical to collate data from global operations (a number of satellite locations overseas). These are 'de minimis' emissions in relation to the Group's overall carbon 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 has also decided voluntarily to report on selected Scope 3 emissions, namely, Connect News & Media's subcontracted mileage (where possible to obtain) and employee business travel. Total GHG were calculated following ISO-14064-1:2006 standards and using DEFRA (2015 and 2012) emissions factors.

Scope 1 (gas and fuel) emissions relate primarily to the consumption of gas to heat the Groups' 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.

The Group has continued to focus on carbon emissions, achieving a 5% carbon footprint reduction.

Carbon reduction

CRC Year (Mar-Feb)	Number of Allowances
2010–11	9, 969
2011–12	8,371
2012–13	9,698
2013–14	8,141
2014–15	7,854

Total allowances reflect the amount of electricity and gas consumed by Connect Group PLC, as measured in each compliance year of the UK Government's Carbon Reduction Commitment. The CRC is managed, on behalf of the UK government's Department of Energy & Climate Change (DECC), by the Environment Agency (in England) and by Natural Resources Wales (in Wales).

Policy and governance

Our people policies are reviewed on an ongoing basis and the Board takes an active role in reviewing any significant changes and monitoring concerns raised through our confidential whistleblowing procedures.

The Group works to ensure a culture that is free from discrimination and harassment in any form. Proper consideration is given to staff and job applicants with disabilities and, should employees develop a disability while working for the Group, every effort is made to continue their employment and provide retraining if required.

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

	Male	%	Female	%
All employees	4,896	73	1,773	27
Board of Directors	7	100	0	0
Senior managers*	26	79	7	21

* Senior managers comprises the Group's Executive Committee and its four divisional executive committees, each of whom has responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company.

Swindon 105.5

In July 2015 Smiths News funded a mobile broadcasting unit for local charity and community radio station Swindon 105.5. The station works with disadvantaged people, offering opportunity to gain confidence, make friends and improve life skills that can help in a social and work context.

Corporate responsibility report continued

Stickability

The Group's partnership with Bath Rugby Foundation has delivered a unique literacy programme to over 60 primary schools in the south west. Specialist teachers lead the programme with the help of volunteers from the Company and sporting stars from the Bath Rugby team. In March 2015 Bath Rugby Foundation and the Stickability programme was the south west regional winner of a Department for Education Character Award. In June 2015, the programme was acknowledged with 'highly commended' in Community Break Thru Awards, organised by the House of Commons, All Party Parliamentary Rugby Union Committee.

Values

At Connect Group, we work to five clear values, which underpin our approach to service, help to drive our progress, and enable us to grow in partnership with our customers.

The five values help to unite the Group and are essential to all that we do.

Trusted Service

We win by giving outstanding service.

A Better Way

We are determined to get better at what we do, and how we do it.

Fresh Thinking

We have the courage to embrace change and try new things.

Mutual Respect

We show and earn respect, acting with integrity in all that we do.

Partnership

We are in it together – building stronger working relationships for shared success.

For more information on our values and how they shape our approach to doing business, visit the Group's website www.connectgroupplc.com.

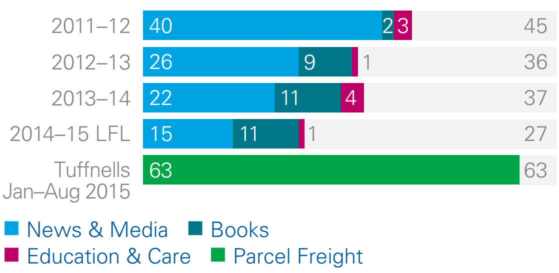
Connect Group is committed to upholding the human rights of our employees and believes that respect, fairness and integrity are an important part of the responsible way we manage our business. These principles are reflected in our Values and are an integral part of each of our HR policies. The Group has in place ethical trading standards that we expect our supply chain partners to adhere to in our trading with them. To encourage staff in raising any matters of concern the Group operates a well-publicised confidential 'speak-up' line.

2015	News & Media	Books	Education & Care	Parcel Freight	Group totals LFL[2]	Group totals Group
Major injuries	1	2	0	9	3	12
Injuries resulting in over three days absence from work/hospitalisation	14	9	1	54	24	78
All RIDDORs[1]	15	11	1	63	27	90

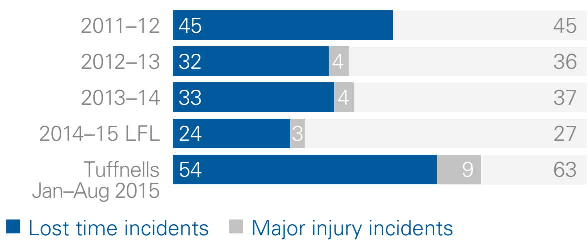
	2014	2013	2012	2011	2010	2010 LFL[3]	2009
Major injuries	4	4	0	2	1	1	2
Injuries resulting in over three days absence from work/hospitalisation	33	32	45	53	70	43	40
All RIDDORs[1]	37	36	45	55	71	44	42

1 RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.
2 LFL: excludes the impact of the acquisition of Parcel Freight in 2015 to compare on a like-for-like basis with previous years.
3 LFL: excludes the impact of the new contract areas and depots acquired in 2010 to compare on a like-for-like basis with previous years.

RIDDOR Totals by Division & Year



RIDDOR Totals by Type & Year



Health and Safety report

The Group is committed to maintaining the highest standards of health and safety, so as to protect our employees, customers and contractors.

The Group Executive and the Board are committed to delivering tangible improvements in health and safety culture, performance and practice. A report of Group health and safety is provided to the Group Executive each month, and the Audit Committee and Board conduct regular reviews of incidents, trends and overall performance. The result is a clear focus on health and safety throughout the Group, providing a firm base from which to achieve our targets over the coming years.

Governance of corporate responsibility

The Group sets annual objectives and targets for the areas covered in the report above. These are considered and reviewed by the Board and progress is monitored throughout the year by the Group Executive and Executive teams in each division. Health and safety performance is reviewed regularly by the Board throughout the year.

Approval

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

Gary Kennedy
Chairman
21 October 2015

Board of Directors

Gary Kennedy
Chairman. Aged 57

Date of appointment
2 March 2015

Background and experience
Gary Kennedy joined the Board as a non-executive director and Chairman designate on 2 March 2015 and became Chairman on 1 May 2015. He was formerly Group Director of Finance and Enterprise Technology at Allied Irish Bank plc from 1997 to 2005, following executive positions at Nortel Networks and Deloitte. He has also previously been a non-executive director of Elan Corporation plc and Irish Bank Resolution Corporation Ltd, as well as having served on the Board of the Industrial Development Authority of Ireland for ten years. He is currently Chairman of Greencore Group plc and Green REIT plc and is also a non-executive director of Friends First Holdings Ltd.

Andrew Brent
Independent Non-executive Director. Aged 56

Date of appointment
1 September 2008

Background and experience
Andrew Brent joined the Board on 1 September 2008. He was most recently Chief Customer and Marketing Officer at Barclays Bank and prior to that held senior marketing positions in a number of leading companies including BSkyB, Alliance Boots Plc, Burger King Inc., Iceland Frozen Foods Plc and Proctor and Gamble Inc.

Anthony Cann
Independent Non-executive Director. Aged 68

Date of appointment
31 August 2006

Background and experience
Anthony Cann joined the Board on 31 August 2006. He is a solicitor, now non-practising, and was the worldwide Senior Partner of Linklaters, an international law firm, from 2001 until 2006. He is currently a non-executive director of Panmure Gordon & Co. plc, a Trustee of The Social Investment Business Foundation, a director of The Social Investment Business Ltd and Chairman of the Governors of Haberdashers' Adams' Federation Trust.

John Worby
Senior Independent Non-executive Director. Aged 64

Date of appointment
31 August 2006

Background and experience
John Worby joined the Board on 31 August 2006 and is the Senior Independent Director. He retired as Group Finance Director of Genus plc in March 2013, having previously been Group Finance Director and Deputy Chairman of Uniq plc (formerly Unigate plc). He is the Senior Independent Director and Chairman of the Audit Committee of Carr's Milling Industries PLC, a non-executive director and Chairman of the Audit Committee of Fidessa Group plc and a member of the Financial Reporting Review Panel.

Stuart Marriner
Company Secretary & General Counsel

Board Committees

Audit Committee
John Worby, Chairman
Andrew Brent
Anthony Cann
Gary Kennedy

Nominations Committee
Gary Kennedy, Chairman
Andrew Brent
Anthony Cann
John Worby

Remuneration Committee
Anthony Cann, Chairman
Andrew Brent
Gary Kennedy
John Worby

Mark Cashmore
Group Chief Executive. Aged 55

Date of appointment
31 August 2006

Background and experience
Mark Cashmore joined the Board on 31 August 2006 as Group Chief Executive. He started his career with Pernod Ricard before moving to United News & Media in 1989. Between 1989 and 1999 he held senior positions in a number of news distribution businesses, including Sales Director of United Magazine Distribution, USM and Seymour. He joined WH Smith News in 1999 and was appointed Magazine Sales Director in 2001 and Managing Director in June 2006.

Jonathan Bunting
Managing Director, Connect News & Media. Aged 43

Date of appointment
1 April 2010

Background and experience
Jonathan Bunting joined the Board on 1 April 2010. He joined WH Smith News as a graduate recruit 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 as Trade Marketing Director. He was appointed Commercial Director in August 2006, Chief Commercial Officer in April 2010 and Managing Director, Smiths News on 1 May 2012. In April 2014, Jonathan became Managing Director of the Connect News & Media division.

Nick Gresham
Chief Financial Officer. Aged 44

Date of appointment
1 August 2010

Background and experience
Nick Gresham joined the Group and was appointed to the Board on 1 August 2010. Prior to joining, he held various senior financial roles in GUS plc and Home Retail Group plc over a ten year period, including Group Financial Controller, Finance Director of the Financial Services division and Finance Director of Homebase. Before joining GUS Nick worked for Virgin Retail and Debenhams.

Group Executive

The Group Executive committee comprises of:

Mark Cashmore
Group Chief Executive

Jonathan Bunting
Managing Director, Connect News & Media

Nick Gresham
Chief Financial Officer

See previous page for biographies.

Justin Adams
Managing Director, Connect Books. Aged 50

Background and experience
Justin Adams joined the Group in November 2014. Prior to joining, Justin was the Chief Executive Officer at Sealskinz. Prior to that, he sat on the Greene King plc board and spent over five years as the Managing Director for the Brewing Division. Before joining Greene King, he worked for Diageo, where he had responsibility for Guinness Germany, and Maxxium Worldwide where he was Managing Director UK & Ireland.

Glenn Leech
Managing Director, Connect Education & Care. Aged 40

Background and experience
Glenn Leech joined WH Smith News in 2004 as Human Resources Director. Prior to joining WH Smith News, Glenn spent seven years at Ford Motor Company, during which time he held a number of managerial positions in Employee Relations, HR Business Operations and as an HR Project Manager. He was appointed Group Human Resources Director on 1 September 2011 and Managing Director, The Consortium on 26 October 2013. In April 2014, Glenn became Managing Director of the Connect Education & Care division.

Max Livingstone-Learmonth
Group Strategy Director. Aged 38

Background and experience
Max Livingstone-Learmonth joined the Group in March 2011 as Head of Corporate Development. Max has 15 years of strategy and corporate acquisitions experience and prior to joining the Group was a director at PricewaterhouseCoopers. He was appointed Group Strategy Director and joined the Group Executive on 1 September 2014.

Sarah Miles
Group Human Resources Director. Aged 47

Background and experience
Sarah Miles joined the Group in August 2013. Prior to joining, Sarah led the Chartered Institute of Personnel and Development's expansion into Asia. Prior to that, she spent 12 years at PepsiCo in a variety of HR leadership roles, most recently as Senior HR Director of PepsiCo's UK Manufacturing & Logistics divisions where she also had HR responsibility for Finance, IT and Special Projects. Before joining PepsiCo she worked for Pearson and Marks and Spencer.

Chris Ward
Managing Director, Connect Parcel Freight. Aged 43

Background and experience
Chris Ward joined the Group in June 2015. Chris has a wealth of operational experience, spanning a number of blue chip companies, including Accenture, Boots UK and most recently B&Q, where he was the Chief Operating Officer (Business Transformations) with responsibility for operational functions across supply chain, logistics, IT and property as well as strategy and organisational change.

Richard Webb
Group IT & Services Director. Aged 50

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

Corporate governance
Introduction by the Chairman

The refreshing of the Board enables fresh insight, brings new competencies, skills and experience and builds on our existing talent, further strengthening the Board and standing us in good stead for moving the Group forward to its next phase of growth.

Having joined the Board in March, I have observed first-hand the commitment of the Board to apply and embed sound principles of governance, not only at a Board level, but to also drive that focus throughout the culture of the organisation. This governance leadership operating within a clear framework has guided the Group successfully through another year of change.

In 2014, the Board carried out an evaluation of non-executive director succession in preparation for the forthcoming retirements of Dennis Millard, Anthony Cann and John Worby, and commenced the process of refreshing the Board. During the year, the initial phase of this process was completed, when I succeeded Dennis after he stepped down as Chairman and retired from the Board on 1 May. I would like to thank Dennis for the enormous contribution he has made to the Company since the demerger from WH Smith PLC in 2006 and on behalf of the Board we wish him well for the future.

The process to recruit further non-executive directors is nearing completion, as explained in our Nominations Committee report on page 42, and appointments are expected to be made shortly. The refreshing of the Board enables fresh insight, brings new competencies, skills and experience and builds on our existing talent, further strengthening the Board and standing us in good stead for moving the Group forward to its next phase of growth.

As a result of the change of Chairman, and in light of the expected retirements of Anthony Cann and John Worby and appointment of two new non-executive directors, the Board has decided to postpone the external board evaluation which was due to have taken place this year to allow for a more meaningful process to be conducted once the new non-executive directors are in place and have settled in to their roles. Details of the internal evaluation process undertaken this year along with an overview of the results are set out on page 36.

Induction and training have been a key priority for the Board during the year. On a personal level, upon joining the Board I received a tailored induction programme, which included visiting each of the Group's businesses and meeting a cross-section of employees, and this has facilitated a smooth transition between Chairmen. During the year, the Board received regular presentations and updates to ensure that all directors keep abreast of regulatory and legislative requirements, thereby promoting the effectiveness of the Board as a whole and maintaining responsible stewardship of the Company in line with the interests of our shareholders.

Key Board activities during 2015 included:

- Approvals in connection with the Tuffnells acquisition and Rights Issue
- Non-executive director succession, recruitment and induction
- Refreshing and strengthening governance

Shareholders' interests are central to our Boardroom discussions. At our 2015 AGM, we were particularly pleased with the positive votes received for our proposed resolutions. We continue to engage with our major shareholders to ensure that shareholders' interests are safeguarded and to promote the success of the Company over the longer term. In light of the significant change in the performance of our Books division in FY14 and the need to establish a clear recovery plan, the grant of the FY15 long-term incentive awards to executive directors and senior managers was postponed until June 2015 whilst we consulted with major shareholders and investor bodies on the proposed performance targets. We are not proposing any changes to the Company's remuneration policy, which was approved by shareholders last year, however, the annual report on remuneration set out on pages 50 to 58 will be subject to an advisory vote at the forthcoming AGM.

Following its successful acquisition in December 2014 (as explained further on pages 22 and 23), we continue to integrate the Tuffnells business into all aspects of our group-wide governance framework. Further to strengthen this framework, during the year we reviewed our key policies and launched a governance repository so that all of our employees can easily access the minimum standards expected for the operation of our business wherever they are located 24/7. To complement our new repository and fully to embed our governance culture across the Group, we have also reviewed and refreshed our employee induction arrangements, in addition to providing specific tailored webinar training programmes in areas such as anti-bribery and corruption, data protection and competition law.

Good governance processes and procedures set the right tone for the efficient functioning of our Board and I look forward to maintaining that focus during the next 12 months.

Gary Kennedy
Chairman

Corporate governance

The following section of the Annual Report and Accounts, together with the Audit Committee report on pages 38 to 40, the Nominations Committee report on pages 41 and 42 and the Directors' remuneration report on pages 43 to 60, describes how the Company has applied the main principles contained within the UK Corporate Governance Code 2012 (the '2012 Code').

In September 2014 a revised version of the Code (the '2014 Code') was published by the Financial Reporting Council. This includes updated principles in respect of remuneration, risk management, internal control and going concern. Whilst formal compliance with the 2014 Code will only apply to the Company from the financial year ending 31 August 2016 (and will therefore be reported in next year's Annual Report) the Board has already taken steps to address the revisions made in the 2014 Code, in particular in respect of risk management and internal control, by ensuring a robust assessment of principal risks and the introduction of our viability statement.

The 2012 Code and the 2014 Code, which set out the principal governance rules which apply to UK companies listed on the London Stock Exchange, are publicly available at www.frc.org.uk.

Statement of compliance with the Code

The Company confirms that, throughout the year ended 31 August 2015, it has complied in full with the 2012 Code.

Governance framework

The Group operates within a clear governance framework, which is outlined in the diagram below and set out in this report. The Group's risk management framework along with the Group's principal risks are described in the Strategic report on pages 1 to 29.

Chairman – Gary Kennedy

Group Board – Seven directors: the Chairman, three executive directors and three independent non-executive directors (including the senior independent director)

Audit Committee

The Chairman and the three independent non-executive directors

Pages 38 to 40 for report

Nominations Committee

The Chairman and the three independent non-executive directors

Pages 41 and 42 for report

Remuneration Committee

The Chairman and the three independent non-executive directors

Pages 43 to 60 for report

Approvals Committee

Two standing members, the Group Chief Executive and Chief Financial Officer plus (for operating company transactions) the relevant Executive member

Group Chief Executive – Mark Cashmore

Group Executive – Nine members comprising the executive directors (Group Chief Executive, Chief Financial Officer and Managing Director of Connect News & Media), the Managing Directors of Connect Books and Connect Education & Care and Connect Parcel Freight, the Group Human Resources Director, Group IT & Services Director and Group Strategy Director

Corporate governance continued

Reporting requirements table

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

Reporting requirement	Location
Description of the Group's strategy and business model.	Strategic report See pages 6 to 11
Environmental impact, including data on greenhouse gas emissions.	Corporate responsibility report See pages 26 to 29
Employee diversity data and human rights.	Corporate responsibility report See pages 26 to 29
Statement that the directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.	Corporate governance and Audit Committee report See pages 37 and 39
Identification of search consultancy used and any connections with the Company.	Nominations Committee report See page 42
Description of the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the external audit team.	Audit Committee report See page 39
Confirmation that the directors have carried out a robust assessment of the principal risks facing the Company.	Principal Risks and Corporate governance See pages 12, 13 and 36
Explanation of how the directors have assessed the prospects of the Company over the longer term and whether there is a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due.	Corporate governance and Audit Committee report See pages 37 and 39
Explanation of how the Audit Committee has monitored the Company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness.	Audit Committee report See pages 39 and 40
Explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor to enable shareholders to understand why it recommended reappointing or changing the auditor.	Audit Committee report See page 40
Remuneration policy report, including future policy tables and notes; performance scenario charts; and remuneration obligations in service contracts.	Directors' remuneration report See pages 45 to 50
Annual report on remuneration, including: single total figure tables; the link between pay and performance; directors' shareholdings and share interests; Group Chief Executive pay comparison to Company performance; relative importance of spend on pay; remuneration paid to external advisers; and statement of shareholder voting on the 2013/14 remuneration report.	Directors' remuneration report See pages 50 to 60

The Board

Board composition

On 14 October 2015, the Board comprised the Chairman, three executive directors and three independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience and qualifications, are set out on pages 30 and 31.

There is a clear division of responsibility at the head of the Company; Gary Kennedy (Chairman) being responsible for running the Board and Mark Cashmore (Group Chief Executive) being responsible for managing the Group's businesses and implementing Group strategy. The division of responsibilities between the Chairman and Group Chief Executive has been set out in writing and agreed by the Board. The Board considers that it is of an appropriate size to oversee the Group's businesses, with a structure that ensures that no individual or group dominates the decision-making process.

As noted in the Nominations Committee report on page 42, following a thorough succession and recruitment process, Gary Kennedy was appointed as non-executive director and Chairman designate on 2 March 2015 and succeeded Dennis Millard as Chairman after he stepped down as Chairman and retired from the Board on 1 May 2015. The process to identify new non-executive directors to succeed Anthony Cann and John Worby is nearing completion and appointments are expected to be made shortly. Further information regarding Board succession planning can be found in the Nominations Committee report on pages 41 and 42.

Dennis Millard, who was Chairman until his retirement on 1 May 2015 and Gary Kennedy, who became Chairman on 1 May 2015, both met the independence criteria set out in the Code on appointment as Chairman. Andrew Brent, who served as a non-executive director throughout the year and up to the date of this report, meets the independence criteria set out in the Code. The Board considers that Anthony Cann and John Worby (Senior Independent Director), who served as non-executive directors throughout the year and up to the date of this report, remain independent in character and judgment notwithstanding that they both completed nine years' service in August 2015. In determining the independence of the non-executive directors, the Board has due regard to directorship tenure and it is expected that both Anthony Cann and John Worby will step down from the Board in the first half of 2016 following a smooth transition as part of the induction programme for the new non-executive directors.

Role of the Board
The Board is responsible for the overall strategy and performance of the Group, and had eight scheduled meetings and, due to the acquisition of Tuffnells Parcels Express and the associated Rights Issue, five additional meetings during the year. It manages the Company through a formal schedule of matters reserved for its decision. Such matters include:
- overall strategic direction and management of the Group, including acquisitions and disposals;
- approval of long-term objectives and commercial strategy;
- approval of the annual operating and capital expenditure budgets;
- approval of major capital expenditure;
- approval of material agreements and non-recurring projects;
- changes relating to the Company's capital structure;
- approval of the 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 the Company's website, www.connectgroupplc.com, and from the Company Secretary on request.

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

Directors
All new directors receive induction training on joining the Board, which is tailored to meet the needs of the individual. The induction programme is supplemented by ongoing training and development, the need for which is regularly assessed by the Board. 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;
- separate presentations by business and functional teams;
- annual reviews with the Chairman to identify any training and development needs;
- advice and regular updates from the Company Secretary on governance, regulatory and legislative changes affecting the business and their duties as a director; and
- access to independent professional advice at the Company's expense.

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, since 2011 it has been the Board's practice that all directors stand for re-election at the Annual General Meeting, which accords with the 2012 Code (notwithstanding that the Company, which is a 'smaller company' for the purposes of the 2012 Code, is not formally required to re-elect all directors on an annual basis).

The Board is satisfied that the Chairman and all of the non-executive directors have sufficient time available to contribute external expertise and experience in areas of importance to the Group, and in so doing make an effective and valuable contribution to the Board.

Details of the directors' service contracts, remuneration, share interests and shareholdings in the Company are shown in the directors' remuneration report on pages 43 to 60.

Directors' conflicts of interest
The Companies Act 2006 provides that a director must avoid situations where he can have a direct or indirect interest that conflicts or might conflict with the interests of the Company ('situational conflicts'). The Company's Articles contain provisions that allow the Board to consider and, if it sees fit, to authorise situational conflicts.

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 are recorded in the Board minutes and in a register of directors' conflicts which is reviewed annually by the Board.

Board committees
The Board delegates specific responsibilities to its Audit, Nominations, Remuneration and Approvals Committees, each with its own formal terms of reference which are reviewed annually and then referred to the Board for approval.

Details of the Audit, Nominations and Remuneration Committees, including their role and responsibilities, can be found in the Audit Committee report on pages 38 to 40, the Nominations Committee report on pages 41 and 42 and the directors' remuneration report on pages 43 to 60.

The terms of reference for each of the committees have been updated during the year and are available on the Company's website, www.connectgroupplc.com, and from the Company Secretary on request.

Attendance at Board and committee meetings
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
No. of meetings	**8**	**5**	**4**	**2**	**6**
Dennis Millard[2]	6	5	3	2	4
Gary Kennedy[3]	4	0	2	0	3
Jonathan Bunting	8	5	–	–	–
Mark Cashmore	8	5	–	–	–
Nick Gresham	8	5	–	–	–
Andrew Brent	8	4	4	2	6
Anthony Cann	8	5	4	2	6
John Worby	8	5	4	2	6

1 The five additional Board meetings held during the year were in relation to the acquisition of Tuffnells Parcels Express and the associated Rights Issue, one of which was held by telephone conference call, at which all of the directors, with the exception of Andrew Brent, were in attendance.
2 Dennis Millard retired on 1 May 2015 and attended all Board and Committee meeting prior to that date, with the exception of the Remuneration Committee meeting held on 29 April 2015.
3 Gary Kennedy was appointed on 2 March 2015 and has attended all Board and Committee meetings since that date.

Corporate governance continued

The Board has met twice since 31 August 2015 and both meetings were attended by all of the directors. In addition, the Audit Committee and Nominations Committee have met once and the Remuneration Committee has met twice since 31 August 2015.

Board effectiveness

The Board has a formal process for evaluating its effectiveness, the effectiveness of its committees and of individual directors and, in line with the 2012 Code (albeit not mandatory for 'smaller companies'), aspires to carry out an externally facilitated evaluation every three years. Although the last external evaluation was conducted in 2012, it was agreed by the Board that as 2015 was a transitional year for the role of Chairman and in light of the expected retirements of Anthony Cann and John Worby in early 2016, the external evaluation due to take place in 2015 be postponed.

Accordingly, this year the Board adopted an internal evaluation process which took place between July and September and consisted of: each director completing an extensive questionnaire covering Board and committee procedures and effectiveness, Board balance and diversity and individual contributions to Board and committee meetings; a one-to-one discussion between the Chairman and each director to discuss their contribution and performance during the year and training needs, if any; and a meeting of the non-executive directors led by the Senior Independent Director to discuss the Chairman's performance (giving due consideration to his short period of time on the Board) and provide feedback.

The responses to the questionnaire were considered by the Board at its September meeting. The evaluation confirmed the conclusion drawn from previous evaluations that the Board generally operated effectively, robustly and with mutual respect. There were a number of actions that were agreed to ensure that the Board, its committees and individual directors continue to work effectively, including: further improving the quality and succinctness of Board reporting; increasing Board exposure to the business; updating the approach to benchmarking as a consequence of a broader and more diverse group; continuing to address diversity as part of the Board's succession plans; and, incorporating additional non-executives only meetings into the Board calendar.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control including risk management and for reviewing its effectiveness. Such a system is designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has an established framework of internal controls including financial, operational and compliance controls. In addition, there is an ongoing process for identifying, evaluating and managing the principal business risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity. This process was in place throughout the year under review and up to the date of approval of this report and accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'FRC Guidance'). In light of the risk management process and review work undertaken by the Board and Audit Committee, the Board is satisfied that it carried out a robust assessment of the principal risks facing the Group as required by the 2014 Code. Further details of the Group's risk management framework, along with the Group's principal risks and how they are being monitored are set out in the Strategic report on pages 12 and 13.

The Board is responsible for the overall strategic direction and management of the Group and undertakes an annual review of its risk appetite, outputs of which are considered when conducting the annual business planning 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 35.

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

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

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

The system of financial control also includes:

- a comprehensive system of budgeting and planning together with monitoring and reporting the performance of the Group's 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;
- a full 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, pensions and insurance, for review by the Board or Audit Committee.

Additional operational and compliance controls include:

- key performance indicators to monitor customer service levels in each business;
- independent customer satisfaction surveys;
- independent employee relations surveys;
- a corporate responsibility programme which addresses the impact of the Company's activities on the environment, workplace, marketplace and community;
- a Corporate Responsibility Committee which is responsible for reviewing delivery against corporate responsibility objectives, with annual updates provided to the Board;
- an internal risk committee in each division to assess key risks to the operations and financial controls and the mitigating actions to address them;
- an Environmental Policy, which is reviewed annually by the Board;
- an Anti-Corruption Policy which is reviewed annually by the Board;
- a Health and Safety Policy, which is reviewed annually by the Board;
- Health and Safety Risk Management teams, working with the businesses to assess health and safety risks and introduce systems to mitigate them. Details of major business incidents are reported to the Internal Risk Committees 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 provided to the Board on a regular basis;
- a commitment by the Company to ensure that its personnel meet high standards of integrity and competence. The Company's systems cover recruitment, training and development of personnel, and the communication of Company policies and procedures throughout the organisation;
- business recovery plans to enable each of the Group's businesses to continue with minimum disruption to customers in the event of a disaster. These plans are assessed as part of the annual Key Controls

Self-Assessment exercise, conducted across all divisions and functions, and reported through to the Risk Committees, Group Executive and Audit Committee. Periodically, business continuity planning is reviewed by Internal Audit as part of its annual audit planning process;
- an annual Compliance Statement process for the Group Executive and divisional executive teams;
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties;
- a Code of Business Conduct which takes into account the interests of all stakeholders;
- a Whistleblowing Policy and associated speak up line whereby employees can report in confidence incidences of suspected fraud; and
- a Data Protection Policy setting strict guidelines for the use of confidential customer and supplier data.

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

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

The Audit Committee has carried out a review of the effectiveness of the Company's systems of risk management and internal control during the year, including financial, operational and compliance controls. This assessment considered all significant aspects of risk management and internal control arising during the period covered by this report including the work of internal audit. During the course of this review, the Audit Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant in the context of the Group taken as a whole.

In accordance with provision C.2.2 of the 2014 Code, the directors have assessed the prospect of the Company over a period of three years, which was selected for the following reasons:
i. the Group's strategic planning cycle covers a three-year period;
ii. for major investment projects three years is considered by the Board to be a reasonable time horizon for an assessment of the outcome; and
iii. the business model can be evolved for significant changes in market structure or government policy over the three-year period.

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

Based on the results of these analyses, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over both the period to November 2017 and the three-year period of their viability assessment.

Annual Report and Accounts 2015

During the year, the Board requested the Audit Committee to undertake a review of the Annual Report and Accounts 2015 to ensure that, taken as a whole, it provided shareholders with a fair, balanced and understandable assessment of the Company's position and performance, business model and strategy. Following recommendation by the Audit Committee and discussion by the Board, the directors confirm that they consider that the Annual Report and Accounts 2015 is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance and prospects.

Relations with shareholders

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

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

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

During the year the Board used the authority granted to it by shareholders at the 2014 AGM to hold a General Meeting on not less than 14 clear days' notice. The meeting, held on 1 December 2014, approved the acquisition of Tuffnells Parcels Express and a 2 for 7 Rights Issue.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Chief Financial Officer update the Board following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers. The Chairman and the Senior Independent Director make themselves available during the year to attend meetings with major shareholders.

Approval

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

Gary Kennedy
Chairman
21 October 2015

Audit Committee report

Membership

John Worby (Chairman)
Andrew Brent
Anthony Cann
Gary Kennedy

Overview
The 2014/15 financial year has seen the Committee continue to promote effective governance of the Group's financial accounts and reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditor as well as oversight of the Group's risk management, internal control systems (including whistleblowing reporting processes) and compliance framework and activities.

During the year, we also welcomed Gary Kennedy onto the Committee following Dennis Millard's retirement on 1 May 2015. Looking ahead to the 2015/16 financial year, having served as a non-executive director since 2006, I am planning to step down from the Board in the first half of 2016 following the appointment of a new non-executive director and completion of a smooth transition to the new Chairman of the Committee.

All the members of the Committee are independent non-executive directors, with the exception of Gary Kennedy, who as Chairman of the Board is deemed by the UK Corporate Governance Code (the 'Code') not to be regarded as independent. As already mentioned, Dennis Millard also served on the Committee until he retired as Chairman of the Board on 1 May 2015 and likewise was deemed by the Code not to be regarded as independent. However, as the Company is a 'smaller company' for the purposes of the Code, the Chairman of the Board is permitted to be a member, but not chair of the Committee provided he was considered independent at the date of appointment. In the light of their extensive financial experience, the Committee believes that the membership of Dennis Millard was and Gary Kennedy is beneficial to the functioning of the Committee and both provided a valuable contribution.

Given my membership of the Financial Reporting Review Panel and my experience as Group Finance Director of Genus plc until March 2013, I continue to be considered by the Board to have recent and relevant experience to chair the Committee in accordance with the requirements of the Code. Each of the other members of the Committee has extensive business experience.

Role and 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 Code, are reviewed annually by the Committee and then 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 results announcements and reviewing significant financial reporting issues and judgments which they contain;
- reviewing the content of the Annual Report and Accounts and advising the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- keeping under review the effectiveness of the Company's internal financial controls and internal control and risk management systems including monitoring and reviewing the effectiveness of the Group's internal audit function;
- considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing the policy on the engagement of the external auditor to supply non-audit services;
- ensuring the Company maintains suitable arrangements for employees, customers, contractors and other external parties to raise matters of concern in confidence (Whistleblowing); and
- reviewing the Group's regulatory compliance framework and the systems and controls for the prevention of fraud 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.

Meetings

The Committee met four times during the year as part of our standard schedule to consider matters planned around the Group's financial calendar and we have met once since 31 August 2015. All Committee members 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 Group Chief Executive, Chief Financial Officer, Managing Director Connect News & Media, Group Head of Internal Audit and the Company Secretary & General Counsel. Other members of the Company's executive management and Group 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 Group Head of Internal Audit without others being present. In the year, the Committee met twice with representatives from Deloitte without management present and held a separate private meeting with the Group Head of Internal Audit.

We believe that the activities of the Committee during the year have enabled us to gain a good understanding of the Group's strategic priorities, the risks and challenges faced by each business division as well as the adequacy and timeliness of appropriate actions being taken to address them, thereby also assisting the Board in its review of the Annual Report and Accounts 2015, including the effectiveness of the Group's system of internal control and risk management. Further, in carrying out our duties, the Committee has at all times acted in accordance with its terms of reference and ensured, through ongoing monitoring and review, the independence and objectivity of the external auditor.

Activities during the year

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

Financial reporting
During the year we reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to, and the content of, the financial statements for the half year to 28 February 2015 and the full year to 31 August 2015 to ensure that they included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position and performance, business model and strategy. In undertaking this review, we considered a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgments made in preparing the financial statements. The Committee concluded that it was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

The significant issues and key judgments considered by the Committee in relation to the 2014/15 financial statements included the following:

- Business combinations and goodwill – The Committee considered the acquisition accounting treatment of Tuffnells Parcels Express and the intangible assets and goodwill created. The Committee noted the acquired balances and fair value adjustments and the key assumptions, including useful economic life, of acquired intangibles and concurred with the treatment adopted. Consideration was also given to the carrying value of intangible assets and goodwill in relation to past acquisitions, including whether there has been any impairment in the carrying value of such assets. In light of the recent performance in the Books division, specific consideration was given to the expected impact of the new strategy. The Committee noted that the assumptions regarding future performance were reasonable and sensitivity modelling resulted in headroom above the carrying value.
- Property contracts – Management's estimation of the exposure to operating and contingent leases and the resultant provisions required were reviewed. The Committee agreed that the provisions held were reasonable and that the 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 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 IAS19 calculation of surplus /deficit and the total IFRIC14 liability recognised on the balance sheet for future actuarial deficit contributions and satisfied itself that the treatment was reasonable.
- Inventories and Trade Receivables – Given the size of balances and potential impact on the Income Statement, the Committee reviewed the reasonableness of management estimates of carrying value, paying attention to slow moving inventory and aged receivables. The Committee was satisfied that the provisions made for slow-moving inventory and for doubtful receivables were reasonable.
- Non-recurring and other items – The Committee considered the appropriateness of the measure of Adjusted profits and the classification and transparency of items separately disclosed as non-recurring and other items. It was satisfied that the presentation of Adjusted profits provided a reasonable view of underlying performance of the Group and that there was transparent and consistent disclosure of the items shown separately as non-recurring and other items.
- Revenue recognition – The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with their contractual obligation during the period, paying attention to period end cut-off and the level of expected customer returns.
- Financial instruments and Hedge accounting – The Committee considered the fair value movement in interest rate swaps, paying particular attention to the change in debt levels as a result of which certain interest rate swaps were reclassified as effective. The Committee satisfied itself that the treatment in respect of the Income Statement and Reserves was reasonable.

Going Concern and viability
The Committee also reviewed the paper prepared by the Chief Financial Officer to support the Going Concern and viability assessment referred to on page 37 of the Annual Report and concurred that the profit and cash forecasts supported the view that the Group can meet its liabilities as they fall due for the foreseeable future and the three-year period of the viability assessment.

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

At each meeting, we received updates from Internal Audit on the principal risks facing the Group and mitigating actions in place to address them for relevance and appropriateness of identified actions. These risks are set out in risk maps, registers and various legal and regulatory risk reports. Executives responsible for key risk areas across the Group periodically presented to the Committee their plans to monitor and control these key risks which included presentations and discussion on IT Information Security (including cyber risks), Health & Safety strategy, Compliance to PCI Standards and common themes arising from the annual Key Controls Self-Assessment process that has been implemented by management. Executives from each business division also reviewed with the Committee the key risks and mitigating actions being taken in their respective business area.

Audit Committee report continued

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

As a result of this work, the Committee reported to the Board that, in the context of the Group taken as a whole, it was not aware of any significant deficiencies or material weakness in the Company's systems of internal control.

Internal audit function

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

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

- the scope, resource and activities of the internal audit function and the adequacy of audit coverage particularly following the acquisition of Tuffnells Parcels Express in December 2014;
- Internal Audit's strategy, work plans and its achievements against planned activity;
- a summary of the reports on the results of individual audit reviews, key controls self-assessments, significant findings, management action plans, and timeliness of resolution; and
- the performance of the internal auditors.

Whistleblowing, bribery and fraud

The Group operates a telephone hotline whereby employees can report in confidence suspected incidences of fraud, bribery or non-compliance with Group policies and practices. All such incidences are investigated by Internal Audit and/or management and reported to the respective business's Internal Risk Committee and the Committee. On completion of an investigation, findings are reported to the appropriate Internal Risk Committee and the Committee.

During the year, we reviewed incidences of suspected fraud, bribery or other malpractices reported across the Group, none of which were considered to be significant. Separately, we also approved an updated Whistleblowing Policy and supporting procedure, setting out clear notification, investigation and escalation processes which embrace recent changes in legislation and the Group's desire to encourage reporting, investigation and prosecution of misfeasance.

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.

Deloitte was reappointed as external auditor following a tender process in 2013. Going forward, the Company has adopted a policy to put the external audit contract out to tender at least every ten years. In line with professional standards, Deloitte has a policy of rotating engagement partners every five years. As this year's audit was the fifth overseen by Alex Butterworth, a new partner has been appointed to oversee the FY16 audit.

To assess the effectiveness of the external audit, each member of the Committee, the Chief Financial Officer, the Head of Group Finance and divisional finance directors completed an extensive questionnaire covering matters such as the external auditor's processes for internal review of accounting judgments, including understanding of the key issues; the expertise and technical knowledge within the external audit teams to audit effectively the Company; the scope, delivery and execution of the audit plan; and the robustness and perceptiveness of the external auditor. The findings were reviewed by the Committee in the year and we concluded that the external audit process had been effective. Areas identified for improvement were also communicated to Deloitte for action.

The Company has a formal policy on its relationship with the external auditor which the Committee reviews annually. 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 Group spend is likely to exceed 70% of the annual audit fee for the financial year.

In the year, we noted that Deloitte were also retained as the Company's independent remuneration adviser. However, as signalled in last year's report, mindful of their length of tenure as remuneration adviser and the fact that Deloitte are also the Company's auditors, the Remuneration Committee conducted a tender for remuneration services during the year and appointed New Bridge Street as remuneration adviser with effect from 1 August 2015.

The fees paid to Deloitte during the year in respect of non-audit services amounted to £242,000 which included £215,000 relating to transactional services in connection with the Tuffnells acquisition. The Committee considered and was satisfied that it was appropriate for Deloitte to undertake this work and that doing so did not affect their independence. Details of the fees paid to Deloitte during the year in respect of audit and non-audit services are shown in Note 3 to the Accounts.

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

Approval

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

John Worby
Chairman of the Audit Committee
21 October 2015

Nominations Committee report

Membership

Gary Kennedy (Chairman)
Andrew Brent
Anthony Cann
John Worby

The Nominations Committee was chaired by Dennis Millard until his retirement from the Board on 1 May 2015. Gary Kennedy, who was appointed to the Board as a non-executive director and Chairman designate on 2 March 2015 and became Chairman of the Board on Dennis Millard's retirement, has been Chairman of the Committee since 1 May 2015. The other members of the Committee are Andrew Brent, Anthony Cann and John Worby, who are all independent non-executive directors.

Role and 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.

Meetings

The Committee met twice during the year and has met once since 31 August 2015. All Committee members were in attendance at each of the meetings. The Group Chief Executive and Group Human Resources Director, having been invited by the Committee, attended the meetings held on 11 September 2014 and 11 September 2015. All of the executive directors and a representative from MWM Consulting, (MWM) having been invited by the Committee, attended the meeting held on 23 January 2015.

Activities during the year

In the year ended 31 August 2015 and up to the date of this report the Committee has considered the following matters:

- the Group's Statement of Ambition in relation to diversity and inclusion in the context of Board recruitment plans;
- the outcome and expressions of opinion from the 2014 Board evaluation in relation to non-executive director succession planning and the skills, expertise and knowledge which might enhance the Board's performance;
- the identification and drawing up of a shortlist of suitable candidates to succeed Dennis Millard; and the subsequent selection and appointment of Gary Kennedy as a non-executive director and Chairman of the Company;
- the identification and drawing up of a shortlist of suitable candidates to succeed Anthony Cann and John Worby;
- the Board and Group Executive succession plans, with feedback on specific individuals being incorporated into their development plans;
- the diversity annual progress report and analytics;
- its own effectiveness; and
- its terms of reference.

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 the Group's objectives and longer-term strategy. Accordingly, the Board has approved a Statement of Ambition in relation to diversity and inclusion in its broadest sense, encompassing gender, experience and background. The Statement of Ambition sets out the Group's aspiration to increase female representation 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. However, it is mindful that there are currently no female members on the Board (2014: 0%). As such, the Committee has set an aspiration to increase female representation of the non-executive directors on the Board to 25% by 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 in the recruitment process currently underway for the forthcoming retirements of Anthony Cann and John Worby, we have encouraged our recruitment partner to present more balanced candidate recommendations with at least one credible and qualified female candidate provided within the shortlist.

The Board is also mindful that:

- there is 11% (2014: 13%) female representation on the Group Executive Board; and
- excluding those Managing Directors who are also members of the Group Executive Board, the female representation on the divisional Executive Boards is:
  - 50% (2014: 50%) on the Connect News & Media Executive Board;
  - 25% (2014: 13%) on the Connect Books Executive Board;
  - 17% (2014: 17%) on the Connect Education & Care Executive Board; and
  - 0% (2014: 0%) on the Connect Parcel Freight Executive Board.

and it is intended to adopt the approach outlined above to facilitate an increase in female representation on the Group and divisional Executive Boards.

Nominations Committee report continued

To facilitate increased female representation generally, the Committee receives annual progress reports including diversity analytics across the Group.

Further information on gender diversity, including the proportions of women in senior management and within the organisation overall, is contained in the Corporate responsibility report on page 27.

Succession planning

As reported last year, mindful that Dennis Millard, Anthony Cann and John Worby would each have served as directors for nine years in August 2015, in 2014 the Committee undertook an evaluation of non-executive director succession. In accordance with its usual appointment process, having evaluated the composition of the Board and its Committees and the required balance of skills, knowledge, experience and diversity, including gender, it prepared detailed role specifications, including the expected time commitment and duties to be performed. MWM, a leading external search agency, was appointed to assist with the search to identify suitable candidates with the aim of appointing a successor to the Chairman as a first step and by no later than the AGM in early 2016 appointing further non-executive directors to succeed Anthony Cann and John Worby.

Accordingly, during the first half of the year the primary focus of the Committee was to identify suitable candidates to succeed Dennis Millard as Chairman of the Company. Following a thorough process, which included considering comprehensive profiles prepared by MWM, initial and second interviews between shortlisted candidates and each member of the Board as well as considering detailed references in respect of the shortlisted candidates, the Committee recommended that Gary Kennedy be appointed to the role. The Board accepted the recommendation and Gary Kennedy was duly appointed as a non-executive director and Chairman designate on 2 March 2015 and became Chairman on Dennis Millard's retirement on 1 May 2015.

The process to identify suitable candidates to succeed Anthony Cann and John Worby, who are both expected to step down from the Board during the first half of 2016, is nearing completion and appointments are expected to be made shortly.

The Committee confirms that MWM has no other connection with the Company, that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory.

Approval

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

Gary Kennedy
Chairman of the Nominations Committee
21 October 2015

Directors' remuneration report

Annual statement from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 August 2015. Following the format we adopted last year to comply with the new reporting and voting regime, this year's report is split into three separate sections:

– This annual statement, which summarises and explains the key decisions and changes during the year;
– The remuneration policy report on pages 45 to 50, which was approved by shareholders at our 2015 AGM with almost 97% support and is subject to a binding shareholder vote at least every three years; and
– The annual report on remuneration on pages 50 to 60, which sets out the basis for the remuneration paid to directors for FY15 and the implementation of the policy for FY16.

The annual statement and annual report on remuneration will be subject to an advisory vote at the 2016 AGM.

The Connect Group PLC remuneration policy continues to be based on a core set of principles that support the strategic and financial ambitions of the Company – attracting and retaining key talent within a reward framework designed to promote the long-term interests of Connect Group PLC, aligned to shareholder interests.

Key remuneration decisions during the year

In light of the significant underperformance in the Books division in FY14, the Committee decided to delay the grant of the FY15 long-term incentive plan (LTIP) awards to ensure that targets included an appropriate growth plan for the Books division. This also enabled us to take account of the acquisition of Tuffnells Parcels Express and the related Rights Issue, which was announced by the Company on 12 November 2014. We consulted with our major shareholders and investor representative bodies and, in light of those consultations and the feedback received, reasonable targets were set balancing the interests of shareholders whilst delivering appropriate and motivating incentivisation for executives.

It is the intention to carry out a full review in FY16 of all of our incentive arrangements following the appointment of new remuneration advisers (see below) and to coincide with the appointment of a new Committee Chairman.

Since it is now approaching ten years since the Company demerged from WH Smith PLC, certain of our employee share plans will expire in August 2016 in accordance with their terms. Whilst the Committee has taken the opportunity to update the plans to reflect current market practice and to provide a degree of flexibility, they will operate in the same way as the existing plans in so far as the principal terms are concerned, and in accordance with the remuneration policy approved by shareholders at our 2015 AGM. Further information and the principal terms of the new plans can be found in the Notice of the 2016 AGM. Any changes to their operation as a consequence of the planned review to be undertaken in FY16 will be subject to a new shareholder vote on the remuneration policy.

The process to refresh the Board and its committees, including the search for my successor, has continued during the year and a recommendation to the Board is expected to be made shortly. We also undertook a full review of remuneration services during the year and, following a competitive tender process, appointed New Bridge Street as remuneration advisers with effect from 1 August 2015.

Pay and performance in FY15

Executive directors' base salaries were increased by 2% with effect from 1 January 2015, in line with salary increases for employees throughout the Group.

As a result of achieving Group Adjusted profit before tax for FY15 of £56.5m and personal performance, Mark Cashmore's and Nick Gresham's annual bonus is 71% of salary. As a result of achieving Group adjusted profit before tax of £56.5m and News & Media division adjusted profit before tax for bonus purposes of £42.7m for FY15 and personal performance, Jonathan Bunting's annual bonus is 68% of salary.

As a result of achieving an economic profit of £8.6m for FY15, each of the executive directors received an Economic Profit Plan (EPP) pay-out of 30.7% of salary, representing 61.5% of the maximum opportunity.

The LTIP awards granted in November 2012 were measured for the three-year period up to 31 August 2015 against challenging aggregate EPS targets. As a result of achieving three-year aggregate EPS of 66.1p, 63.5% of these awards vested on 14 October 2015.

Further details on pay and performance in FY15 are set out on pages 50 to 53.

Directors' remuneration report continued

Implementation of the remuneration policy for FY16

Salary increases are effective from 1 January onwards and have not yet been determined for executive directors. Any increase is expected to be in line with salary increases for employees throughout the Group.

The following table provides an executive summary of the remuneration arrangements expected to apply for executive directors for the financial year ending 31 August 2016:

FY16	Mark Cashmore	Nick Gresham	Jonathan Bunting
Current salary	£428,400	£285,600	£285,600
Salary (w.e.f. 1 January 2016)	To be determined, increases in line with all employees		
Annual bonus maximum opportunity	100% of salary		
EPP maximum opportunity[1]	50% of salary		
Long-term incentive maximum opportunity	50% of salary		
Pension	20% of salary		

1 Largely to take into account the effect of an increased number of participants in the plan, the funding level of the EPP has been increased so that the target opportunity per person remains the same for an equivalent level of performance achievement.

Concluding remarks

The Committee believes that the remuneration arrangements are consistent with the Group's strategic objectives and in line with general institutional guidelines. Having been a non-executive director and Chairman of the Remuneration Committee since 2006, I intend to step down from the Board in the first half of 2016 following the appointment of a non-executive director to succeed me as Chairman of the Committee and, as mentioned above, it is intended that this new Committee chair will lead a full remuneration review during the second half of FY16. The Committee takes an active interest in and welcomes shareholders' views. We pay close attention to the voting on the remuneration report and hope to receive your support at the forthcoming AGM.

Anthony Cann
Chairman of the Remuneration Committee

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.

Remuneration policy report

This section of the directors' remuneration report sets out the Company's policy on remuneration for executive and non-executive directors, which was approved by shareholders at the AGM on 4 February 2015 and is subject to a binding shareholder vote at least every three years. No changes are currently proposed to the policy.

The policy remains to attract, retain and motivate high calibre directors and senior managers with the necessary skills to deliver the Group's strategy within a framework designed to promote the long-term success of Connect Group PLC, aligned with shareholder interests. In forming the policy the Committee has adopted the principles set out in Section D of the 2012 UK Corporate Governance Code (compliance with the 2012 Code is explained further in the Corporate governance statement on page 33 to 37).

Executive directors

Policy table for executive directors

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

Element	Purpose and link to strategy	Operation	Maximum	Performance metrics
Salary	To provide a core, fixed amount of reward for the role, which reflects the skills and experience of the individual and the size and scope of the role, sufficient to recruit and retain individuals of the necessary calibre to execute the strategy.	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. – Performance of the individual and the business. Normally, salaries are reviewed annually with any changes effective from 1 January each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases for employees throughout the Group. However, larger increases may be awarded where the Committee considers it appropriate to reflect, for example: – Significant changes in the size and complexity of the Group and/or of the role. – Individuals being moved to market positioning over time.	None.
Benefits	To provide market competitive benefits for the nature and location of the role, sufficient to recruit and retain individuals of the necessary calibre to execute the strategy.	Executive directors are eligible to receive a market competitive benefits package 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.	Benefit provision, for which there is no prescribed monetary maximum, 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	To provide an appropriate and market competitive pension benefit, sufficient to recruit and retain individuals of the necessary calibre to execute the strategy.	Executive directors may participate in the Group's defined contribution pension schemes, under which a personal contribution of up to 5% of salary will be matched by the Company. Additional contributions, to the defined contribution scheme or as a non-pensionable salary supplement, may also be made. Under the terms of the Group's defined contribution pension schemes, executive directors may also receive death in service benefit.	The maximum aggregate employer contribution/salary supplement is 20% of salary.	None.

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum	Performance metrics
Annual Bonus	To incentivise and reward execution of the strategy and delivery of annual performance. Deferral provides longer term alignment with shareholders and assists retention.	Executive directors are eligible to participate at the discretion of the Committee each year. Payout levels are determined by the Committee after year end based on performance against targets set at the start of the 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 relevant business divisions. Half of the bonus is deferred into shares for two years, subject to continued employment under the terms of the Deferred Bonus Plan (DBP). In future years, the Committee retains discretion to change the deferred amount and/or the deferral period. Clawback and dividend equivalent provisions apply (see notes below).	Annual maximum opportunity is 100% of salary.	Performance is assessed over one financial year using performance measures and targets determined annually by the Committee to reflect prevailing financial, strategic and personal objectives. The majority of the bonus will be based on financial performance. For individuals with responsibility for a specific business unit, performance measures and targets specific to the performance of that business unit may be included. The current performance measure framework is disclosed on page 51. Achievement of threshold performance will result in payment of 10% of salary. The amount payable in respect of achievement of target performance is determined by the Committee on an annual basis.
Economic Profit Plan	To incentivise and reward capital efficient generation of profits over and above the cost of capital. The pooling of amounts for future years and the element of deferral provides longer term alignment with shareholders and assists retention.	Executive directors are eligible to participate in the EPP at the discretion of the Committee each year. In respect of each financial year, a percentage of the Economic Profit created in that year is allocated to an Economic Profit Pool (the Pool). Each year, one third of the Pool is distributed to participants and the remaining two thirds is carried forward to future years. Distributions to participants are in proportion to their base salaries, subject to the maximum described in this table. Half of the annual distribution from the Pool is deferred into shares for two years, subject to continued employment under the terms of the DBP. In future years, the Committee retains discretion to change the deferred amount and/or the deferral period. The Committee may at any time amend or terminate the plan. Clawback and dividend equivalent provisions apply (see the notes below).	Maximum amount that can be distributed to a participant in any one year is 50% of salary.	Economic Profit is defined as Profit After Tax less the Company's cost of capital employed, calculated in respect of a financial year. For the purposes of this calculation, as-reported Profit After Tax is used and the cost of capital represents the as-reported interest charge on the Company's debt and a notional charge for equity calculated based on the average as-reported equity. The Committee retains discretion to make adjustments to the calculation to ensure it remains fair and reasonable. The percentage of Economic Profit allocated to the Pool each year is dependent on the Economic Profit generated. Where the Economic Profit is below a minimum target, no allocation to the Pool will be made. Where the Economic Profit is negative, the value of the Pool will be reduced.

Element	Purpose and link to strategy	Operation	Maximum	Performance metrics
LTIP	To incentivise and recognise execution of the business strategy, delivery of performance and shareholder value over the longer term. Also provides longer term alignment with shareholders and assists retention.	Executive directors are eligible to receive awards under the Connect Group PLC Long-term Incentive Plan (LTIP) first approved by shareholders in 2006, at the discretion of the Committee each year. Awards are made in the form of nil-cost options, the vesting of which is conditional on the achievement of performance targets. The Committee may at any time amend (subject to shareholders approval if the proposed amendments are to the advantage of existing or new participants) or terminate the plan. Clawback and dividend equivalent provisions apply (see the notes below).	Under the rules of the plan, the maximum award in respect of a financial year is 200% of salary. The current level of award is 50% of salary as described on pages 52 and 53 of this report.	Vesting is based on the achievement of performance targets set in respect of key Group financial performance measures over a period of at least three years, currently earnings per share (EPS). For achievement of threshold performance target, a maximum of 20% of the award will vest.

Notes to the policy table

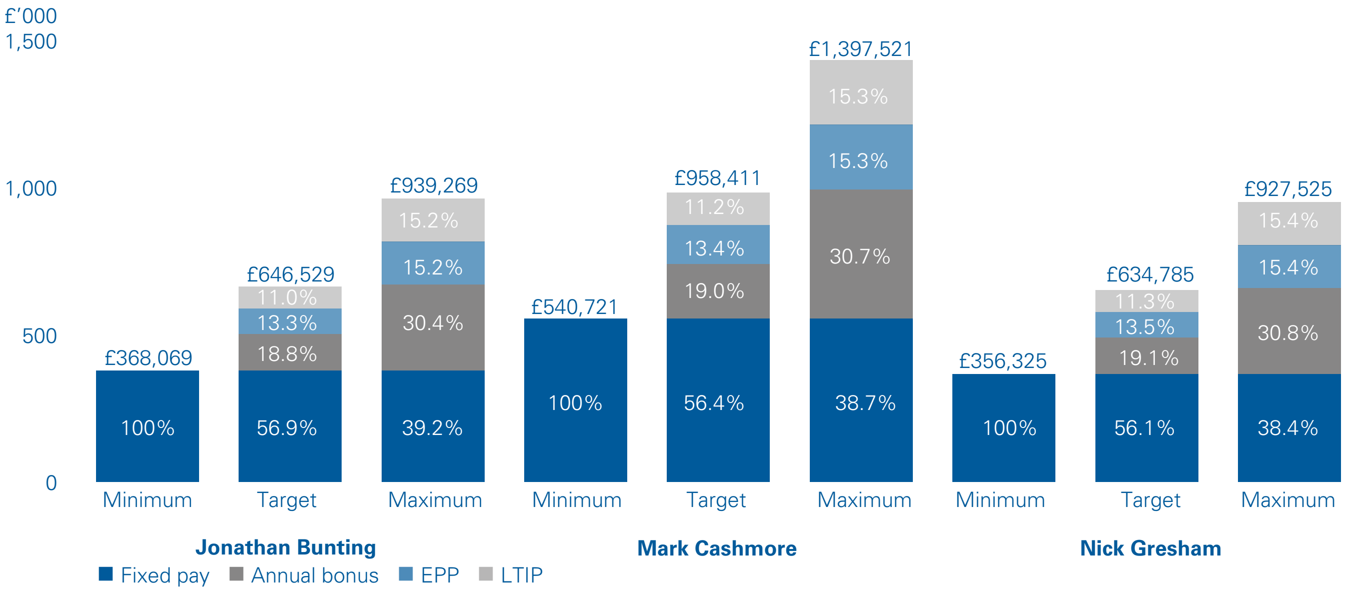
(a) Legacy and mandated payments
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above (i) where 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.

(b) Dividend equivalents
For awards under the DBP and LTIP made in 2013 and in subsequent years, the Committee may determine that participants be entitled to receive an amount equal to the value of dividends paid 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 vest.

(c) Clawback
The Company operates clawback and malus provisions across all of its incentive plans (annual bonus, EPP, 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 unvested share awards and/or a reimbursement to the Company of part or all of any cash or share payments received if those circumstances occur within two years of payment. Such circumstances include, but are not limited to: (a) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (b) serious reputational damage of the Company, any member of the Group or the relevant business unit as a result of the participant's misconduct; or (c) gross misconduct by the participant.

Application of the remuneration policy

The charts below illustrate how the composition of the executive directors' remuneration packages varies at different levels of performance in the second year to which the remuneration policy applies, both as a percentage of total remuneration and as a total value:



(a) Fixed pay comprises base salary, benefits and pension benefits.
(b) The base salary is at 14 October 2015.
(c) The value of benefits receivable under these scenarios is taken to be the value of benefits received in FY15 (as calculated under the single figure of remuneration, set out on page 50).
(d) The value of pension benefits under these scenarios is 20% of salary, comprising a pension supplement of 15% of salary and a Company pension contribution of 5% of salary.
(e) The on-target level of annual bonus is 42.5% of the maximum opportunity (100% of salary for all executive directors).
(f) The on-target level of EPP pay-out is 60% of the maximum opportunity (50% of salary for all executive directors).
(g) The on-target level of vesting under the LTIP is 50% of the value of the award at grant (50% of salary for all executive directors).
(h) The maximum value of the LTIP is 100% of the value of the award at grant and does not include any share price appreciation.

Directors' remuneration report continued

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 and experience to help deliver the business strategy, while seeking to pay no more than it believes is necessary to facilitate the appointment.

Executive directors would be appointed on a remuneration package in line with the policy table for executive directors. Salaries would be set at an appropriately market competitive level to reflect skills and experience, and, if considered appropriate, the Committee may set salaries towards the lower end of the market range to allow future salary progression to reflect performance in role. In accordance with the policy table, the Committee also has discretion to include other benefits such as housing or relocation benefits, if relevant to reflect specific individual circumstances. The maximum level of variable remuneration which may be awarded (excluding any compensatory awards referred to below) would be as set out in the policy table.

Where an individual forfeits outstanding incentive awards with a previous employer as a result of accepting appointment within the Group, 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 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 Listing Rules, but in accordance with the principles and limits set out in this section.

Contracts of service and loss of office policy

The contracts of employment with the executive directors are rolling contracts which were entered into on the dates shown in the table below. It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon twelve-months' notice and upon nine months' notice by the executive director. The contracts of employment do not include any provisions for predetermined compensation for early termination. The Committee may terminate the contract immediately by making a payment in lieu of notice consisting of base salary only for the unexpired period of notice. In normal circumstances, such a payment would be made in monthly instalments over the period, subject to a duty to mitigate, and will be reduced by the amount in respect of income receivable from alternative employment.

	Date of contract	Notice period by Company	Notice period by director
Jonathan Bunting	1 April 2010	12 months	9 months
Mark Cashmore	5 September 2013	12 months	9 months
Nick Gresham	23 August 2010	12 months	9 months

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. In the event of termination, the following will apply:

Annual Bonus	Unless the Committee determines otherwise, there is no participation in the Annual Bonus in respect of the financial year in which cessation occurs. The Committee retains discretion to allow participation in respect of the financial year in which cessation occurs where considered appropriate, and in these circumstances the maximum opportunity would normally be reduced pro rata to reflect the portion of the year in employment and any payment would remain subject to performance and, if practicable, would be assessed and paid (in cash) following the normal year end assessment process.
EPP	Unless the Committee determines otherwise, there will be no distribution from the EPP in respect of the financial year in which cessation occurs. The Committee retains discretion to allow a distribution in respect of the financial year in which cessation occurs where considered appropriate, and in these circumstances the maximum opportunity would normally be reduced pro rata to reflect the portion of the year in employment and any payment would remain subject to the original calibration of the EPP performance framework for that year and would be assessed and paid (in cash) as part of the normal year end assessment process. No further distributions may be made and all rights in respect of the Pool would lapse.
DBP	If cessation of employment occurs by reason of death, injury, disability, redundancy, retirement by agreement with the Company, or the employing entity no longer being part of the Group, the deferred shares will vest and will remain exercisable up to six months after the date of cessation (except where cessation is by reason of death, when awards remain exercisable for a period of 12 months). If cessation occurs for any other reason, the extent to which the shares vest and the period in which they can be exercised will be determined at the discretion of the Committee.

LTIP	If cessation of employment occurs by reason of death, injury, ill-health, disability, redundancy, retirement by agreement with the Company, or the employing entity no longer being part of the Group, LTIP awards will be reduced to reflect the proportion of the performance period that has elapsed at the date of cessation (unless the Committee determines that exceptional circumstances apply and that a greater proportion should vest) and will become exercisable, to the extent that the award vests in accordance with the performance conditions, on the original vesting date. If cessation occurs for any other reason, the award will lapse unless the Committee determines that exceptional circumstances apply, in which case the award will be reduced to reflect the proportion of the performance period that has elapsed at the date of cessation and will become exercisable, to the extent that the award vests in accordance with the performance conditions, on the original vesting date. Vested awards will remain exercisable up to six months after the date of cessation (except where cessation is by reason of death, when awards remain exercisable for a period of 12 months).

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 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. The executive directors do not currently hold any non-executive directorships.

Consideration of pay and employment conditions elsewhere in the Group
The Committee considers the general basic salary increase and employment conditions for employees throughout the Group, including trade union represented employees, when determining the annual salary increases and remuneration of the executive directors. Employees have not been directly consulted on the design of the Company's senior executive remuneration policy.

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

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

Element	Purpose and link to strategy	Operation
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 fees 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.

Directors' remuneration report continued

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

Letters of appointment
All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, subject to review thereafter; these are available for inspection at the Company's registered office during normal business hours and at the AGM. Appointments may be terminated by either party giving three months' notice. In line with the 2012 UK Corporate Governance Code, all non-executive directors are subject to annual re-election by shareholders at the AGM.

Annual report on remuneration

This section of the directors' remuneration report sets out how the remuneration policy (as described on pages 45 to 49) was applied during the year ended 31 August 2015 and how it will be applied for the year ending 31 August 2016.

Implementation of the remuneration policy for the year ended 31 August 2015

Executive directors
Remuneration paid for FY15 and FY14 (audited)
The table below sets out the single total figure of remuneration for each of the executive directors for the financial year ended 31 August 2015.

	Year	Salary £'000	Benefits[a] £'000	Annual Bonus[b] £'000	Economic Profit Plan[c] £'000	LTIP[d] £'000	Pension benefits[e] £'000	**Total £'000**
Jonathan Bunting	FY15	284	25	194	88	92	56	**739**
	FY14	277	26	175	77	132	55	**742**
Mark Cashmore	FY15	426	27	305	132	121	84	**1,095**
	FY14	410	26	52	116	284	82	**970**
Nick Gresham	FY15	284	14	203	88	87	56	**732**
	FY14	276	16	56	77	143	57	**625**

(a) Benefits include the taxable value of a company car or car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year, as applicable to each director and as described on page 53.
(b) Half of any award will be deferred into Company shares for a period of two years. Further details of the FY15 Annual Bonus Plan are shown on pages 51 and 52.
(c) Half of any award will be deferred into Company shares for a period of two years. Further details of the FY15 Economic Profit Plan are shown on page 52.
(d) The awards reported in FY15 were granted on 15 November 2012 and were adjusted following the Rights Issue in December 2014 to take account of the discount at which the new shares subject to the Rights Issue were offered to shareholders, in order to maintain their original value. 63.5% of the awards vested on 14 October 2015 (based on performance to 31 August 2015) and have been valued at 159.75p, being the market price of the shares on the date of vesting. Accordingly, Jonathan Bunting's vested award is in respect of 57,580 shares; Mark Cashmore's vested award is in respect of 75,891 shares; and Nick Gresham's vested award is in respect of 54,701 shares. The awards reported in 2013/14 were granted on 17 November 2011 and were adjusted following the Rights Issue in December 2014 in order to maintain their original value. The awards vested in full on 15 October 2014 (based on performance to 31 August 2014) and have been valued at 147.84p, being the market price of the shares on the date of vesting (164p), adjusted for the impact of the Rights Issue. Accordingly, Jonathan Bunting's award is in respect of 89,596 shares; Mark Cashmore's award is in respect of 192,289 shares; and Nick Gresham's award is in respect of 96,888 shares. Further details on these awards can be found on pages 53 to 55.
(e) Pension benefits comprise total pension supplement, whether taken as an addition to basic pay or pension contribution, and Company pension contribution.
(f) No dividend equivalent payments were payable during the year.
(g) All of the executive directors served throughout the year.

Salary (audited)
The salaries of executive directors are reviewed annually, with any new salaries normally taking effect from 1 January. When conducting any review, the Committee takes into account a range of factors including the Group's performance, changing size and complexity, market conditions, the prevailing market rates for similar positions in a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group.

Following the annual salary review in December 2014, the salary of Jonathan Bunting was increased from £280,000 to £285,600 (+2.0%), the salary of Mark Cashmore was increased from £420,000 to £428,400 (+2.0%) and the salary of Nick Gresham was increased from £280,000 to £285,600 (+2.0%), which were in line with salary increases throughout the Group.

Benefits (audited)
Each executive director receives a car or car cash allowance and private medical insurance. The Company may also provide other benefits such as relocation expenses to reflect specific individual circumstances.

Pension (audited)
The executive directors participate in the Company's defined contribution pension schemes. Jonathan Bunting participates in the money purchase section of the WH Smith Pension Trust and Mark Cashmore and Nick Gresham participate in the Smiths News section of the WH Smith Retirement Savings Plan. Under these plans executive directors contribute up to 5% of salary which is matched by the Company. In addition, each executive director receives a 15% salary supplement which may be taken as an additional pension contribution or as an addition to basic pay.

As part of the Company's pension arrangements, the dependants of Jonathan Bunting are eligible for payment of a lump sum in the event of death-in-service equivalent to eight times salary. The dependants of Mark Cashmore and Nick Gresham are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

Annual Bonus Plan (audited)
The Annual Bonus Plan is designed to incentivise and reward execution of the Company's strategy over the short and medium-term. The bonus potential for executive directors is up to 100% of salary for 'maximum' performance. Payments are delivered through a mix of cash and shares, the balance of which is determined annually by the Committee. Shares are delivered in the form of nil-cost options under the Deferred Bonus Plan and vest after two years subject to continued employment.

In line with best practice, clawback provisions apply to cash bonuses paid and malus and clawback provisions apply to share awards granted from 2014 onwards.

Performance measures and targets are determined annually by the Committee to reflect prevailing financial and individual objectives, the individual objectives being intrinsically linked to the Group's strategic goals. The majority of the bonus is based on financial performance.

The tables below set out the measures, targets and bonus payable at maximum, target and threshold levels of performance, set at the beginning of FY15, for each executive director.

	Maximum level of bonus payable (% of salary)		
	Group PBT – £57.6m[1]	News & Media PBT – £43.6m[1]	Individual objectives (outstanding performance)
Jonathan Bunting	20%	50%	30%
Mark Cashmore	70%	–	30%
Nick Gresham	70%	–	30%

	Target level of bonus payable (% of salary)		
	Group PBT – £55.4m[1]	News & Media PBT – £42.1m[1]	Individual objectives (hgh performance)
Jonathan Bunting	6.75%	15.75%	20%
Mark Cashmore	22.5%	–	20%
Nick Gresham	22.5%	–	20%

	Threshold level of bonus payable (% of salary)		
	Threshold PBT – £53.2m[1]	News & Media PBT – £40.6m[1]	Individual objectives (good performance)
Jonathan Bunting	0%	0%	10%
Mark Cashmore	0%	–	10%
Nick Gresham	0%	–	10%

1 A pro rata bonus is payable for Adjusted profits between threshold level and target level and between target level and maximum level.

Bonus payable for the achievement of Group and News & Media Adjusted PBT performance conditions
For the financial year under review, Group Adjusted PBT was £56.5m and News and Media division Adjusted PBT for bonus purposes was £42.7m. Against the sliding scales above, this has resulted in annual bonus payments of 46.25% of base salary for Mark Cashmore and Nick Gresham out of 70% (solely in relation to Group Adjusted PBT). Jonathan Bunting's annual bonus payments were 13.375% of base salary out of 20% (for Group Adjusted PBT performance) and 29.45% of salary (out of 50%) for News & Media Adjusted PBT.

Bonus payable for the achievement of individual objectives
For the financial year under review the executive directors were each given a number of objectives against which the individual element of the annual bonus was assessed. For Mark Cashmore and Nick Gresham these included oversight of investment into the Group's key organic growth drivers of e-commerce in Education & Care, Wordery and Pass My Parcel, the successful acquisition and ongoing integration of Tuffnells into the Group and the completion of the strategic review for the Books division, which are key strategic objectives for the Company as highlighted in the Chairman's and Chief Executive's Statements. Taking account of the successes during the year, including in Education & Care overall web traffic up by 21% and 25% of all school orders being placed online, growth in Wordery sales of 66%, the successful acquisition and ongoing integration of Tuffnells into the Group and its continued strong performance together with the stabilisation and implementation of a sustainable growth strategy for the Books division, the Committee determined that a bonus of 25% of salary should be payable out of the maximum 30%. For Jonathan Bunting objectives included the establishment of a diversification strategy and the continued successful delivery of the cost out programme, which are key strategic objectives for the News & Media division. Taking account of the overall strong year with sales comfortably within strategic forecasts, the successful launch and accelerated rollout of Pass My Parcel to 3,000 stores, the progress of Jack's Beans selling nearly half a million cups of coffee across the 350 outlet network and the delivery of £5m of sustainable savings, the Committee determined that a bonus of 25% of salary should be payable out of the maximum 30% of salary.

Directors' remuneration report continued

As a result of achieving these levels of performance, the following total annual bonuses are payable, of which half will be payable in cash in November 2015 and half will be payable in the form of shares, the receipt of which is deferred for two years:
- Jonathan Bunting: 67.825% of salary (£193,708);
- Mark Cashmore: 71.25% of salary (£305,235); and
- Nick Gresham: 71.25% of salary (£203,490).

Economic Profit Plan (audited)
Under this plan, executive directors and other members of the Group Executive may receive each year a cash payment and/or be granted a share award under the terms of the Deferred Bonus Plan, based on the value of an economic profit Pool. The value of the Pool is determined by the economic profit (calculated as profit after tax less the cost of capital employed) created in each financial year, the percentage of economic profit paid into the Pool each year being determined by the achievement of economic profit targets set annually based on the Group's business plan. One third of the Pool is then distributed to participants each year (allocated in the proportion of each participant's base salary to the participants' total base salaries) and two thirds is carried forward to form part of the Pool for the following year. The main objectives of the plan are to retain key executives and to incentivise the executive management team to generate profits over and above the Group's cost of capital.

The Committee may at any time amend or terminate the plan and, in line with best practice, malus and clawback provisions apply in the event of a material misstatement of the Company's financial results, material miscalculation of any performance metric, serious reputational damage to the Company or relevant business unit as a result of a participant's misconduct or gross misconduct of the participant.

The table below sets out the target range and payments into the Pool at minimum, target and maximum levels of economic profit for the 2014/15 financial year. Payments into the Pool are pro rated between minimum level and target level and between target level and maximum level.

Economic Profit (EP)	Payment into Pool	Value of contribution
£5.7m	2.5% of EP	£142,500
£7.3m	5.0% of EP	£365,000
£9.0m	7.5% of EP	£675,000

For the year to 31 August 2015, the economic profit of £8.568m resulted in a contribution to the Pool of 6.9% of economic profit (£0.588m) bringing the total value of the Pool to £1.453m.

Each executive director is able to receive an allocation of up to a maximum of 50% of base salary, of which half is paid in cash and half is paid in the form of shares, the receipt of which is deferred for two years. Of the total Pool, in November 2015 Jonathan Bunting will receive £87,766, Mark Cashmore will receive £131,650 and Nick Gresham will receive £87,766, representing 30.7% of base salaries.

Long-Term Incentive Plan (LTIP)
The LTIP is the primary long-term incentive for executive directors and key senior executives. The maximum opportunity under the plan rules is 200% of salary, although current policy is to grant awards to executive directors of 50% of salary. Awards are granted in the form of nil-cost options, the vesting of which is conditional on the achievement of performance targets.

The Committee reviews the performance measure and targets annually to ensure that they remain challenging, appropriate, and a driver of business strategy. In recent years, performance has been measured against aggregate earnings per share (EPS) over three years, which the Committee believes is the most appropriate measure of the Company's performance.

The Committee may at any time amend (subject to the approval of shareholders if the proposed amendments are to the advantage of existing or new participants) or terminate the plan and, in line with best practice, malus and clawback provisions apply in the event of a material misstatement of the Company's financial results, material miscalculation of any performance metric, serious reputational damage to the Company or relevant business unit as a result of a participant's misconduct or gross misconduct of the participant.

Following the review of executive remuneration arrangements carried out during 2013, from 2013 onwards, awards will attract dividend equivalents in order further to strengthen alignment with shareholders' interests. In line with best practice, an amount equal to dividends paid during the performance period will be paid retrospectively at the end of the performance period, either in cash or in shares, but only on the number of shares that ultimately vest. No dividends will be accrued on any part of an award that lapses.

Performance targets for vested LTIP awards (audited)

For awards granted on 15 November 2012, the three-year aggregate EPS targets are as follows:

Performance period	Aggregate EPS performance target[1,2]	Proportion exercisable
	Below 62.4p	Zero
	62.4p	20%
	Pro rating applies between these points	Between 20% and 100%
Three years ended 31 Aug 2015	69.2p or more	100%

1 For the purposes of the above targets, EPS is determined by reference to basic earnings per share, as defined by IAS33, before non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency.
2 The EPS targets were adjusted in December 2014 to take into account the Rights Issue.
3 For the purposes of measuring performance against targets, reported EPS for FY13, FY14 and FY15 has been adjusted to reflect the adoption of pension accounting standard IAS19 (revised) from 1 September 2013.

Measured on the basis described above, aggregate EPS over the three years ended 31 August 2015 is 66.1p and resulted in 63.5% of the awards vesting on 14 October 2015, as set out in the following table:

Director	Number of shares granted[1]	Number of shares vested	Number of shares lapsed	Value of vested shares (£'000)[2]
Jonathan Bunting	90,678	57,580	33,098	92
Mark Cashmore	119,514	75,891	43,623	121
Nick Gresham	86,144	54,701	31,443	87

1 Adjusted for the December 2014 Rights Issue.
2 Based on the closing price as at 14 October 2015 (159.75p).

LTIP awards granted in FY15 (audited)

On 8 June 2015, executive directors were granted the following awards.

Director	Basis of award granted	Share price at date of grant (p)[1]	Number of shares granted	Face value of award (£)	% Vesting at threshold	Performance period
Jonathan Bunting	50% of salary	161.42	86,730	140,000	20%	Three financial years to 31 August 2017
Mark Cashmore	50% of salary	161.42	130,095	210,000	20%	
Nick Gresham	50% of salary	161.42	86,730	140,000	20%	

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.

Sharesave Scheme (audited)

The Company operates an HM Revenue and Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'), which is open to all employees (including executive directors) who have completed one year's service and who enter an approved savings contract for a term of three years. The maximum amount which can be saved is £500 per month, the total savings at the end of the term being used to purchase shares at 80% of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Directors' remuneration report continued

Executive directors' share interests (audited)

The table below sets out details of outstanding share awards held by executive directors.

	Date of grant	Number of shares at 1 September 2014	Number of shares Rights Issue adjustment 17 December 2014	Number of shares granted during the year	Number of shares exercised during the year	Number of shares at 31 August 2015	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period
Jonathan Bunting										
Deferred Bonus Plan										
FY12 Annual Bonus Plan	15.11.12	36,348	3,973	–	(40,321)	–	0.00	152.92	153.78	15.11.14-15.11.15
FY12 Economic Profit Plan	15.11.12	27,730	3,031	–	(30,761)	–	0.00	152.92	153.78	15.11.14-15.11.15
FY13 Annual Bonus Plan	14.11.13	30,846	3,372	–	–	34,218	0.00	210.25	–	14.11.15-14.11.16
FY13 Economic Profit Plan	14.11.13	28,666	3,134	–	–	31,800	0.00	210.25	–	14.11.15-14.11.16
FY14 Annual Bonus Plan	22.12.14	–	–	56,848	–	56,848	0.00	153.92	–	22.12.16-22.12.17
FY14 Economic Profit Plan	22.12.14	–	–	25,077	–	25,077	0.00	153.92	–	22.12.16-22.12.17
LTIP										
2011	17.11.11	80,766	8,830	–	(89,596)	–	0.00	93.17	153.78	15.10.14-17.11.21
2012	15.11.12	81,742	8,936	–	–	90,678	0.00	152.92	–	14.10.15-15.11.22
2013	14.11.13	64,209	7,019	–	–	71,228	0.00	210.25	–	Oct 2016-14.11.23
2014	08.06.15	–	–	86,730	–	86,730	0.00	161.42	–	Oct 2017-08.06.25
Sharesave Scheme										
2011	01.06.11	11,183	1,222	–	(12,405)	–	72.74	94.50	150.75	01.08.14-31.01.15
2015	24.06.15	–	–	7,009	–	7,009	128.40	143.00	–	01.09.18-28.02.19
Total		**361,490**	**39,517**	**175,664**	**(173,083)**	**403,588**				
Mark Cashmore										
Deferred Bonus Plan										
FY12 Annual Bonus Plan	15.11.12	59,686	6,525	–	(66,211)	–	0.00	152.92	153.33	15.11.14-15.11.15
FY12 Economic Profit Plan	15.11.12	48,187	5,268	–	(53,455)	–	0.00	152.92	153.33	15.11.14-15.11.15
FY13 Annual Bonus Plan	14.11.13	41,464	4,533	–	–	45,997	0.00	210.25	–	14.11.15-14.11.16
FY13 Economic Profit Plan	14.11.13	40,260	4,401	–	–	44,661	0.00	210.25	–	14.11.15-14.11.16
FY14 Annual Bonus Plan	22.12.14	–	–	17,054	–	17,054	0.00	153.92	–	22.12.16-22.12.17
FY14 Economic Profit Plan	22.12.14	–	–	37,615	–	37,615	0.00	153.92	–	22.12.16-22.12.17
LTIP										
2011	17.11.11	173,339	18,950	–	(192,289)	–	0.00	93.17	153.33	15.10.14-17.11.21
2012	15.11.12	107,736	11,778	–	–	119,514	0.00	152.92	–	14.10.15-15.11.22
2013	14.11.13	92,747	10,139	–	–	102,886	0.00	210.25	–	Oct 2016-14.11.23
2014	08.06.15	–	–	130,095	–	130,095	0.00	161.42	–	Oct 2017-08.06.25
Sharesave Scheme										
2012	30.05.12	4,580	500	–	–	5,080	70.85	93.50	–	01.08.15-31.01.16
2014	25.06.14	2,278	249	–	–	2,527	142.42	182.00	–	01.09.17-28.02.18
2015	24.06.15	–	–	5,607	–	5,607	128.40	143.00	–	01.09.18-28.02.19
Total		**570,277**	**62,343**	**190,371**	**(311,955)**	**511,036**				
Nick Gresham										
Deferred Bonus Plan										
FY12 Annual Bonus Plan	15.11.12	34,530	3,775	–	(38,305)	–	0.00	152.92	151.02	15.11.14-15.11.15
FY12 Economic Profit Plan	15.11.12	19,360	2,116	–	(21,476)	–	0.00	152.92	151.02	15.11.14-15.11.15
FY13 Annual Bonus Plan	14.11.13	30,561	3,341	–	–	33,902	0.00	210.25	–	14.11.15-14.11.16
FY13 Economic Profit Plan	14.11.13	28,031	3,064	–	–	31,095	0.00	210.25	–	14.11.15-14.11.16
FY14 Annual Bonus Plan	22.12.14	–	–	18,191	–	18,191	0.00	153.92	–	22.12.16-22.12.17
FY14 Economic Profit Plan	22.12.14	–	–	25,077	–	25,077	0.00	153.92	–	22.12.16-22.12.17
LTIP										
2011	17.11.11	87,340	9,548	–	(96,888)	–	0.00	93.17	151.02	15.10.14-17.11.21
2012	15.11.12	77,655	8,489	–	–	86,144	0.00	152.92	–	14.10.15-15.11.22
2013	14.11.13	63,615	6,954	–	–	70,569	0.00	210.25	–	Oct 2016-14.11.23
2014	08.06.15	–	–	86,730	–	86,730	0.00	161.42	–	Oct 2017-08.06.25
Sharesave Scheme										
2011	01.06.11	4,473	489	–	(4,962)	–	72.74	94.50	150.75	01.08.14-31.01.15
2014	25.06.14	9,113	996	–	–	10,109	142.42	182.00	–	01.09.17-28.02.18
Total		**354,678**	**38,772**	**129,998**	**(161,631)**	**361,817**				

(a) Full details of the Annual Bonus Plan, Economic Profit Plan, LTIP and Sharesave Scheme are set out on pages 5] to 53.
(b) There are no further performance conditions attached to the Deferred Bonus Plan awards, which are exercisable subject only to continued employment.
(c) No option price is payable on either the grant or exercise of Deferred Bonus Plan and LTIP awards.
(d) The share price on the date of grant for Deferred Bonus Plan and LTIP awards is the average closing price on the three dealing days prior to the date of grant, used to calculate the numbers of shares under awards.
(e) The number of shares shown under the LTIP is the maximum (100%) number that could be received by the executive director if the aggregate EPS performance targets are fully met.
(f) The aggregate EPS performance target range for each of the LTIP awards is as follows: 2011 – three years ended 31 August 2014 – 53.3p to 57.5p; 2012 – three years ended 31 August 2015 – 62.4p to 69.2p; 2013 – three years ending 31 August 2016 – 66.3p to 74.7p; 2014 – three years ending 31 August 2017 – 59p to 67.2p. In each case, 20% of awards vest for achievement of the minimum target and 100% of awards vest for achievement of the maximum target (pro rating applies between the minimum and maximum targets). For the purposes of measuring EPS against targets, reported EPS for FY13, FY14 and FY15 has been adjusted to reflect the adoption of pension accounting IAS 19 (revised) from 1 September 2013. The EPS targets in respect of the 2012 and 2013 awards were adjusted in December 2014 to take account of the Rights Issue.
(g) To enable the Company to consult with major shareholders and investor bodies regarding performance targets that included an appropriate growth plan for the Books division, and also took into account the acquisition of Tuffnells Parcels Express and the related Rights Issue, the 2014 awards, which would normally have been granted on completion of the Rights Issue in December 2014, were not granted until 8 June 2015.
(h) The aggregate EPS over the three years ended 31 August 2014 was 65.6p and resulted in the 2011 LTIP awards vesting and being exercisable in full from 15 October 2014.
(i) The aggregate EPS over the three years ended 31 August 2015 was 66.1p and resulted in 63.5% of the 2012 LTIP awards vesting and being exercisable from 14 October 2015 For Jonathan Bunting this represented 57,580 shares, for Mark Cashmore 75,891 shares and for Nick Gresham 54,701 shares.
(j) 36.5% of the 2012 LTIP awards lapsed on 14 October 2015. For Jonathan Bunting this represented 33,098 shares, for Mark Cashmore 43,623 shares and for Nick Gresham 31,443 shares.
(k) The pre-2015 Sharesave Scheme option prices have been adjusted for the December 2014 Rights Issue.
(l) No awards or options have lapsed during the year ended 31 August 2015.
(m) No awards or options have been granted or exercised by executive directors between 1 September 2015 and 21 October 2015.
(n) The market price of the shares at the end of the financial year was 154.25p (2014: 153p); the highest and lowest share price during the financial year were 191p and 136p respectively.
(o) The aggregate gains of directors arising from the exercise of Deferred Bonus Plan and LTIP awards in the year totalled £962,028.

The table below shows, in relation to each executive director, the total number of share awards and options with and without performance measures, those vested but unexercised and those exercised during the year.

	Share awards and options			
	With performance measures[1]	Without performance measures[2]	Vested but unexercised	Exercised during the year
Jonathan Bunting	338,232	238,439	–	173,083
Mark Cashmore	544,784	278,207	–	311,955
Nick Gresham	340,331	183,117	–	161,631

1 LTIP.
2 Deferred Bonus Plan and Sharesave Scheme.

The non-executive directors (including the Chairman) do not participate in the Company's share schemes.

Executive directors' shareholdings (audited)
The table below sets out the beneficial interests of the executive directors and their immediate families in the ordinary shares of the Company.

	31 August 2015	31 August 2014
Jonathan Bunting	**210,506**	87,962
Mark Cashmore	**691,560**	444,756
Nick Gresham	**148,084**	152,221

There has been no change in the executive directors' shareholdings shown above between 1 September 2015 and 21 October 2015.

Shareholding requirements
Executive directors are required to build up over a period of five years and then maintain a target holding of ordinary shares of 150% of salary (increased from 100% of salary in June 2013, the additional 50% to be built up at the rate of 10% each year between 2013 and 2018) and other members of the executive management team are required to build up over a period of five years and then maintain a target holding of 100% of salary (increased from 75% of salary in June 2013, the additional 25% to be built up at the rate of 5% each year between 2013 and 2018). Until those levels are reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, the executives will not be allowed to sell shares beyond 25% of shares vesting under share incentive arrangements.

In exceptional circumstances, executive directors may seek permission from the Remuneration Committee temporarily to go below their target holding. During FY15 Nick Gresham was given permission by the Remuneration Committee to sell 135,475 shares in order to part-fund his property purchase on the understanding that he would build up a holding to the required level as soon as possible by retaining 100% of shares vesting under existing awards (net of the sale of shares required to meet any tax liability incurred). As reported in last year's directors' remuneration report, in 2013 Jonathan Bunting was given permission by the Remuneration Committee to sell his holding of 180,174 shares in order to part fund his relocation on the understanding that he would build up a holding to the required level as soon as possible.

Assuming a market price of 154.25p, Jonathan Bunting currently holds shares with a value of 114% of salary, Mark Cashmore currently holds shares with a value of 249% of salary and Nick Gresham holds shares with a value of 80% of salary.

Directors' remuneration report continued

Employee Benefit Trust

The Company's Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's executive share schemes. 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 2015 was 2,807,124. The accounting treatment is shown in the Group statement of changes in equity on page 71.

Dilution of share capital by employee share plans

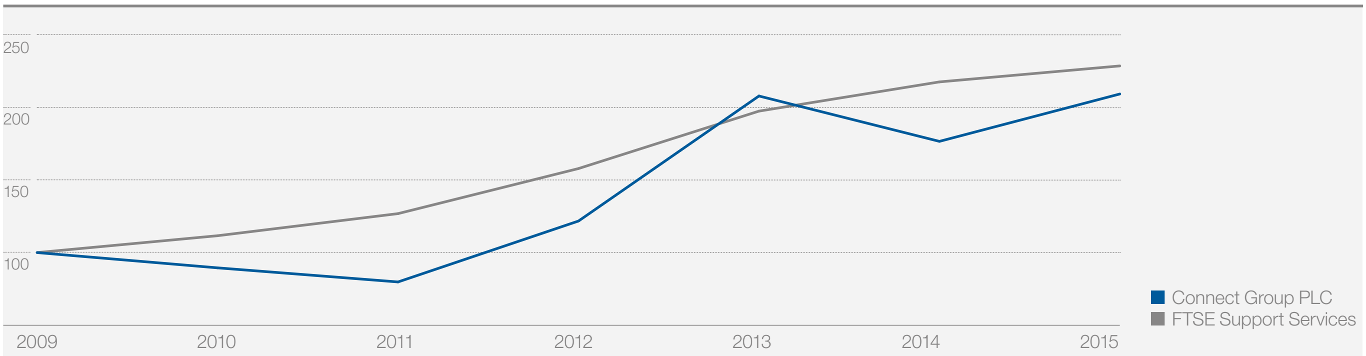
Awards granted under the Company's Sharesave Scheme are satisfied by the issue of new shares when the options are exercised. All other share plans are satisfied by market purchase shares. The Company monitors the number of shares issued under the Sharesave Scheme and as at 31 August 2015 had issued 2,518,812 new shares since 31 August 2006 (demerger), representing 1.03% of the issued share capital, well within the all share plans dilution limit of 10% in any rolling ten-year period set by The Investment Association.

Performance graph and table

The graph below illustrates the Company's Total Shareholder Return (TSR) performance (share price growth adjusted for reinvested dividends) against the FTSE Support Services Sector over the past six years. The FTSE Support Services Sector was chosen because it represents a broad equity market index of which the Company is a constituent. In line with the regulations, the table below the graph sets out the remuneration data for the Group Chief Executive during each of the last six financial years (Mark Cashmore held this position for all six years).

TSR performance graph

Cumulative TSR rebased to 100



Group Chief Executive remuneration

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

Percentage change in Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's total remuneration (excluding the value of any EPP, LTIP and pension benefits) between the financial year ended 31 August 2014 and 31 August 2015, compared to that of all UK- based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY14 – FY15		
	Base salary	Benefits	Annual Bonus
Group Chief Executive	3.8	2.6	481.4
UK employees	3.9	7.7	22.1[1]

1 The 2014 employee remuneration is rebased for current employment numbers taking account of the Tuffnells Parcels Express acquisition in December 2014.

Relative importance of spend on pay

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

	FY14 £m	**FY15 £m**	% change
Total employee pay	93.4	**136.5**	46.2
Adjusted Group profit before tax	50.0	**56.5**	13.0
Income tax paid	9.8	**8.7**	-11.2
Dividends paid	17.7	**21.4**	20.9

The figures above are as set out in the Group income statement on page 69 and on pages 82, 87 and 99 in the Notes to the Accounts. Total employee pay is the total pay for all Group employees. Adjusted Group profit before tax has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

Payments for loss of office (audited)

There were no payments in relation to loss of office during FY15.

Non-executive directors

As detailed in the remuneration policy on page 49, non-executive directors receive fees reflective of the time commitment, demands and responsibilities of the role. There were no changes to the fees paid to non-executive directors during the year under review.

Non-executive directors' 'single figure' of remuneration for FY15 and FY14 (audited)

	Year	Basic fees[a] £'000	Additional fees £'000	**Total £'000**
Gary Kennedy[b]	FY15	70	–	**70**
	FY14	–	–	**–**
Andrew Brent	FY15	35	–	**35**
	FY14	35	–	**35**
Anthony Cann	FY15	35	5	**40**
	FY14	35	5	**40**
Dennis Millard[b]	FY15	73	–	**73**
	FY14	110	–	**110**
John Worby	FY15	35	5	**40**
	FY14	35	5	**40**

(a) Gary Kennedy is and Dennis Millard was paid a single fee which includes chairmanship of the Nominations Committee.
(b) Gary Kennedy was appointed to the Board on 2 March 2015 and Dennis Millard retired from the Board on 1 May 2015. All other non-executive directors served throughout the year.

Non-executive directors' shareholdings (audited)

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

	31 August 2015	31 August 2014
Gary Kennedy	**20,000**	–
Andrew Brent	**12,987**	10,101
Anthony Cann	**38,571**	30,000
John Worby	**15,428**	12,000

There has been no change in the non-executive directors' shareholdings shown above between 1 September 2015 and 21 October 2015.

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.

	Date of appointment	Notice period/ unexpired term
Gary Kennedy	2 March 2015	3 months/3 months
Andrew Brent	1 September 2008	3 months/3 months
Anthony Cann	31 August 2006	3 months/3 months
John Worby	31 August 2006	3 months/3 months

Directors’ remuneration report continued

Implementation of the remuneration policy for the year ending 31 August 2016

Executive Directors

Salary and benefits

New salaries effective from 1 January 2016 have not yet been determined for executive directors, however, any increase is expected to be in line with salary increases for employees throughout the Group.

The executive directors will continue to receive benefits as described on page 50.

Pension

The executive directors will continue to participate in the Company’s defined contribution pension schemes, the terms of which are described on page 50. In addition, each executive director receives a 15% salary supplement, which may be taken as an additional pension contribution or as an addition to basic pay.

Annual Bonus Plan

The Committee has reviewed and approved the Annual Bonus Plan for FY16, the structure of which remains unchanged.

The achievement of profit targets remains essential to Connect Group PLC’s success and, as such, 70% of the maximum bonus opportunity will continue to be measured against a sliding scale range of Adjusted profit before tax, with the remaining 30% based on personal performance determined by the achievement of individual objectives linked to the Group’s strategic goals. The targets are considered to be commercially sensitive and the profit targets for FY16 will be disclosed in next year’s directors’ remuneration report.

Of any bonus payable, one half will be paid in cash and one half in the form of a deferred share award, the receipt of which is deferred for two years.

Economic Profit Plan

The Committee has reviewed and approved the Economic Profit Plan for FY16. The maximum bonus opportunity remains unchanged and as the targets for FY16 are considered to be commercially sensitive they will be disclosed in next year’s directors’ remuneration report. Largely to take into account the effect of an increased number of participants in the plan (the Group Executive now comprising nine members compared to seven in FY14), the payments into the Pool at minimum, target and maximum levels of economic profit, which are set out in the table below, have been increased for FY16 to maintain individual pay out levels in accordance with the original scheme design, which aims to deliver a target level of payment equivalent to 30% of base salary for the achievement of stretching targets.

Target (Economic Profit)	Rationale	Payment into Pool
Minimum	EP at business plan minimum PBT	7.5% of EP
Target	EP at business plan target PBT	10.0% of EP
Maximum	EP at business plan maximum PBT	12.5% of EP

Each year executive directors will be able to receive an allocation of one third of the Pool (subject to a cap of up to 50% of base salary in any year), of which half is paid in cash and half is paid in the form of a share award, the receipt of which is deferred for two years.

Long-Term Incentive Plan (‘LTIP’)

LTIP awards of 50% of salary will be granted to the executive directors in November 2015, subject to the following three-year aggregate EPS performance targets:

Performance period	Aggregate EPS performance target	Proportion exercisable
Three years ending 31 Aug 2018	Below 60p	Zero
	60p	20%
	Pro rating applies between these points	Between 20% and 100%
	68p or more	100%

The Committee has considered this range of targets carefully, taking account of market expectations and the business plan. The sliding scale incorporates a significant level of stretch ahead of the three-year business plan.

Non-executive directors

Fees

Following a review of non-executive director fees in comparable companies, the fee paid to Andrew Brent will be increased from £35,000 to £40,000 with effect from 1 January 2016.

The fees paid to new non-executive directors (excluding the Chairman) on appointment will also be increased, as follows:

	Current fee	New fee
Basic fee	£35,000	£40,000
Additional fee[1]	£5,000	£10,000

1 Payable for chairing a Board Committee.

The current level of fees has remained unchanged since 2006 and this increase will bring them in line with market practice.

Governance

Remuneration Committee

The Remuneration Committee is chaired by Anthony Cann and its other members throughout the year were Andrew Brent and John Worby. Gary Kennedy was appointed a member of the Committee on joining the Board on 2 March 2015. Dennis Millard stepped down as a member of the Remuneration Committee on retirement on 1 May 2015. Anthony Cann, Andrew Brent and John Worby are all independent non-executive directors and Gary Kennedy was independent on appointment as Chairman.

	Meetings attended	Possible meetings
Anthony Cann	6	6
Andrew Brent	6	6
Gary Kennedy	3	3
Dennis Millard	4	5
John Worby	6	6

The Committee's terms of reference, which are available on the Company's website 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 as set out below and is satisfied that the advice received has been objective and independent.

Advisor	Services provided	Fees paid and basis of charge	Other services provided to the Group
Deloitte LLP (Deloitte)	General advice on executive remuneration matters	£18,750 Charged on a time spent basis	External auditor and certain other services (as detailed in the Audit Committee report on page 40)
Herbert Smith Freehills LLP (HSF)	Legal advice and services in relation to the drafting and proposed adoption of the new share plans	£19,500 Charged on a time spent basis	General legal advice
New Bridge Street	General advice on executive remuneration matters	£11,059 Charged on a time spent basis	None

New Bridge Street Consultants ('NBS') were formally appointed by the Committee as its independent advisers on 1 August 2015 following a competitive tender process, replacing Deloitte who also provide audit services to the Company. NBS is a 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.

Sarah Miles, Group Human Resources Director, also materially assisted the Committee in carrying out its duties, except in relation to her own remuneration.

Directors' remuneration report continued

Shareholder consultation

The Committee welcomes dialogue with shareholders on executive remuneration, and consulted with major shareholders and investor representative bodies regarding the performance targets set for the 2014 LTIP awards granted in June 2015.

Shareholder voting at the AGM

At the Annual General Meeting held on 4 February 2015 two resolutions were put to shareholders in respect of directors' remuneration; the advisory vote on the directors' remuneration report and the binding vote on the directors' remuneration policy. The votes cast were as follows:

	For (inc. discretionary)		Against		Total	Withheld
Resolution	Number	%	Number	%	Number	Number
To approve the directors' remuneration report (excluding the policy)	168,688,733	98.31	2,908,409	1.69	171,597,142	3,969,664
To approve the directors' remuneration policy	169,133,401	96.62	5,909,368	3.38	175,042,769	524,037

Approval

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

Anthony Cann
Chairman of the Remuneration Committee
21 October 2015

Other statutory disclosures

Directors' report

This Annual Report and Accounts includes the Directors' report and the audited accounts of Connect Group PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 August 2015. The information required to be disclosed in the Directors' report is provided in the following sections of the Annual Report and Accounts, which are incorporated into the Directors' report by reference:

- Strategic report on pages 1 to 29;
- Corporate governance on pages 32 to 37;
- Audit Committee report on pages 38 to 40;
- Nominations Committee report on pages 41 and 42;
- Remuneration report on pages 43 to 60;
- this section, Other statutory disclosures;
- Directors' responsibilities statement on page 64; and
- Notes to the Accounts as detailed in this section.

Strategic report

The Strategic report, including a review of the business of the Group during the financial year ended 31 August 2015 and a description of the Group's strategy, principal risks and uncertainties and business model is set out on pages 1 to 29 of the Annual Report and Accounts.

By their nature, the statements concerning the risks and uncertainties 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 Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Both the Strategic report and the Directors' report have 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.

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 33 to the Accounts.

Post balance sheet events

There were no post balance sheet events.

Profit and dividends

The profit for the financial year, after taxation, was £21.4m (2014: £34.8m).

The directors recommend the payment of a final dividend for the year of 6.3p per ordinary share (2014: 6.0p) on 12 February 2016 to members on the Register at the close of business on 15 January 2016.

This final dividend, together with the interim dividend of 2.9p per ordinary share paid on 10 July 2015, makes a total dividend of 9.2p per ordinary share for the year ended 31 August 2015 (2014: 9.1p).

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 Accounts.

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

Holders of ordinary shares are entitled to: attend and speak at general meetings of the Company; to appoint one or more proxies and, if they are corporations, to appoint corporate representatives; and to exercise voting rights. Holders of ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of ordinary shares are entitled to receive the Company's Annual Report and 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.

Other statutory disclosures continued

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 56.

Purchase of own shares

At the Annual General Meeting held on 4 February 2015, authority was given for the Company to purchase, in the market, up to 18,948,033 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during the financial year. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2016 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2015, 54,855,669 ordinary shares in the Company were issued, of which 54,137,236 relate to the Rights Issue of 2 for 7 new ordinary shares at a price of 102p per ordinary share, announced on 12 November 2014 and completed on 17 December 2014, and 718,433 relate to the allotment of shares under the Sharesave Scheme at prices between 70.85p and 140p. All of the new ordinary shares issued during the year rank pari passu with those previously in issue.

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

Interests in voting rights

As at 31 August 2015, 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	Number	% of voting rights	Nature of holding
Silchester International Investors LLP	18,332,319	9.94	Indirect Interest
Henderson Global Investors	15,522,275	8.46	Indirect Interest
Ameriprise Financial, Inc.	10,012,566	5.44	Indirect Interest
Prudential plc	13,063,367	5.36	Direct
Interest Aberforth Partners LLP	10,051,763	5.32	Indirect Interest
Hargreave Hale Limited	9,656,422	5.11	Indirect Interest

There have been no changes to the notifiable interests in the period 1 September 2015 to 21 October 2015.

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.

Significant agreements – change of control

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

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

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover.

Directors

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 54, 55 and 58.

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

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

Employees

Details of the Group's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the Corporate responsibility report on pages 26 to 29.

Greenhouse gas emissions

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

Political donations

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (2014: £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 Accounts.

Disclosure of information to auditor

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

Auditor

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

Annual General Meeting

The Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on 4 February 2016 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
21 October 2015

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 and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:
– select suitable accounting policies and then apply them consistently;
– make judgments and accounting estimates that are reasonable and prudent;
– state whether applicable International Financial Reporting 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 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 and signed on its behalf by:

Mark Cashmore
Group Chief Executive
21 October 2015

Nick Gresham
Chief Financial Officer
21 October 2015

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

Opinion on financial statements of Connect Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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.

The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 33. 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 Financial Reporting Standard 101 Reduced Disclosure Framework.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement contained within the Financial Review that the group is a going concern.

We have nothing material to add or draw attention to in relation to:

- 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;
- the disclosures on pages 12–13 that describe those risks and explain how they are being managed or mitigated;
- 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 ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on page 37 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 agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Acquisition accounting for Tuffnells Parcel Express During the year the Group acquired Tuffnells Parcel Express for an initial consideration of £114.0m, and contingent consideration of £15.3m. There is a risk that acquisitions are not accounted for correctly in line with IFRS 3 'Business combinations'. The risk relates to the assumptions and assertions used by management to forecast future trading performance to determine both the fair value of acquired assets and future contingent consideration payments. This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1, and financial statement disclosure requirements provided in Note 12.	For the acquisition of Tuffnells Parcel Express we made use of our valuations specialists to support our review of the acquisition accounting, and in particular the valuation methodology of acquired intangible assets identified, and the associated assumptions including the discount rate and royalty rates. In addition, we obtained calculations for the fair value adjustments made to the acquired balance sheet and assessed whether the period of assessment was correct together with confirming that the adjustments were supported by actual post-acquisition trading data, or external third party evidence. For contingent consideration, we agreed the underlying data in the contingent consideraton calculation to signed sale and purchase agreement and the trading performance for the audited entity for the current period, and approved budgets for future performance. We assessed whether management's treatment of contingent consideration payment arrangements for former onwers, as either additional purchase consideration or post-acquisition remuneration is appropriate.

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

Risk	How the scope of our audit responded to the risk
Impairment of Goodwill and Other Intangibles At 31 August 2015, the Group recognised £96.3m of goodwill and £78.5m of other intangibles. There is a risk regarding the potential impairment of the carrying value of these assets. The Group's assessment of impairment of goodwill and other intangibles arising on historical acquisitions is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount rates, and growth rates based on management's view of future business prospects. This is further heightened as a result of the decline in performance within the Books division in previous years. This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1, and financial statement disclosure requirements provided in Note 11.	We challenged the adequacy and reasonableness of assumptions used in management's impairment calculations and the appropriateness of judgements and forecasts used to conclude on asset impairment including a specific review and challenge of discount rates and growth rates, the appropriateness of the level of aggregation of individual cash generating units and the methodology applied. We benchmarked the discount rates with published rates for the external peer group and agreed the cash generating unit (CGU) groupings to information reviewed by management to make decisions about their business. We also challenged the forecast cashflows used in the model against historical performance, post period trading data, and external market trend data. We used internal valuation specialists to challenge the key assumptions relating to the estimated future cash flows, growth rates and the discount rate applied to the separate cash generating units through comparing against industry benchmarks on similar assets and comparison against the prevailing group cost of capital at the year end. We finally considered reasonable possible changes in assumptions and compared these to management's sensitivity analysis. We recalculated these sensitised scenarios by considering the highest discount rate applied by peer group companies, capping the short term growth rates at long term rates and capping the growth assumed in the budgets at historical growth levels. Based on the above we assessed whether the annual report disclosure included specific growth and discount rates for those deemed to be significant CGUs, and whether there was appropriate disclosure in respect of sensitised scenarios. In respect of the Books division, we specifically challenged the cashflow forecast assumptions based on management's latest approved budgets in light of the performance of the Books division in previous years. This involved understanding the reasons for the historical performance and its impact on the forecast assumptions.
Defined Benefit Pension Schemes At 31 August 2015, the Group recognised a net retirement benefit obligation of £18.1m, representing 4 schemes across the Group. The determination of the value of the retirement benefit obligations requires significant judgement in the selection of key assumptions and is highly sensitive to such assumptions. Management made significant judgements in respect of mortality, price inflation, discount rates, pension increases and earnings growth in deriving the value of the retirement benefit obligations. Specifically on the Pension Trust scheme there are two further main aspects. Firstly, given the surplus position on the scheme on an IAS19 basis, there is a judgement taken whereby this surplus is not available for use by the Group, and therefore it is restricted to nil. Secondly, due to there also being a schedule of contributions in place to fund the Pension Trust scheme, separate to the surplus above, there is a requirement under IFRIC14 to recognise a liability in respect of this funding commitment. This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1, and financial statement disclosure requirements provided in Note 6.	We used our internal actuarial experts to assist us in assessing the assumptions applied in determining the pension obligations, particularly given recent market volatility, and determined whether the key assumptions are reasonable. This included benchmarking the assumptions in respect of the discount rate, pension increases earnings growth, inflation and mortality assumptions to those used in the market, and reviewing available yield curves and inflation data to recalculate a reasonable range for the key assumptions. We challenged management to understand the sensitivity of changes in assumptions and quantify a range of reasonable rates that could be used in their calculation. Further, we discussed the output of sensitivity analysis with management and the third party actuarial advisers. Specifically for the Pension Trust scheme we have reviewed the agreements with the pension trustees to identify the availability of any funding surplus to the Group, and in addition, confirmed the schedule of contributions and recalculated management's estimate to challenge the liability recognised in accordance with IFRIC 14 is appropriate.

Risk	How the scope of our audit responded to the risk
Revenue Recognition Revenue recognition represents a risk due to the high volume of revenue transactions that exist through the year, and the sale or return basis on which the News business operates. As a result therefore the risk is focused on cut-off at the year-end date. This requires significant management judgement to determine the level of returns anticipated at the end of the year, and therefore appropriate cut-off of revenue. This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1.	We use internal IT specialists to assist us in providing assurance over the automation of controls within the revenue cycle. In addition we use external industry data to evaluate the sales trends within the business, to identify any anomalies or unusual transactions which could impact on the cut-off of revenue. In respect of goods sold on a sale or return basis, we evaluate management's judgement with regards to the level of sale returns through the use of historical return data and evidence of actual returns post year-end.

Last year our report included a risk in relation to inventory provisioning which is not included in our report this year due to the reduction in inventory within the Books division combined with the performance of the Books division in comparison to FY14.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 39.

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.

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.

We determined materiality for the group to be £2.2m (2014: £2.2m), which is 5% of Adjusted pre-tax profit (2014: 5% of statutory pre-tax profit). Pre-tax profit has been adjusted in 2015 for non-recurring acquisition related costs of £15.1m as these are considered to be one-off material costs incurred in the year and therefore not representative of the underlying trading performance of the Group. This approach is different to the prior year, where we used 5% of statutory pre-tax profit as there were no material acquisition related costs to consider.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £44,500, 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 the audit work at eight (2014: five) components. All eight of these components were subject to a full audit. These eight components represent the principal business units and account for 99% of the group's net assets, 98% of the group's revenue and 97% of the group's pre-tax profit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the eight components was executed at levels of materiality applicable to each individual entity which were lower than group materiality.

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

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the group audit team visits each component at least once a year.

Opinion 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; and
– 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.

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

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Alexander Butterworth ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
21 October 2015

Connect Group PLC
Group income statement
for the year ended 31 August 2015

£m	Note	2015 Adjusted[1]	2015 Non-recurring and other items	2015 Total	2014 Adjusted[1]	2014 Non-recurring and other items	2014 Total
Continuing operations							
Revenue	2	**1,875.1**	**–**	**1,875.1**	1,808.5	–	1,808.5
Operating profit	2,3	**63.8**	**(27.5)**	**36.3**	55.5	(6.9)	48.6
Investment revenue	7	**–**	**–**	**–**	0.4	–	0.4
Finance costs	7	**(7.3)**	**–**	**(7.3)**	(5.9)	–	(5.9)
Profit before tax		**56.5**	**(27.5)**	**29.0**	50.0	(6.9)	43.1
Income tax expense	8	**(11.1)**	**3.5**	**(7.6)**	(9.3)	1.0	(8.3)
Profit for the year		**45.4**	**(24.0)**	**21.4**	40.7	(5.9)	34.8
Profit attributable to equity shareholders		**45.5**	**(24.0)**	**21.5**	40.5	(5.9)	34.6
(Loss)/Profit attributable to non-controlling interest		**(0.1)**	**–**	**(0.1)**	0.2	–	0.2
		45.4	**(24.0)**	**21.4**	40.7	(5.9)	34.8
Earnings per share							
Basic	10	**19.7p**		**9.3p**	19.6p		16.8p
Diluted	10	**19.0p**		**9.0p**	19.0p		16.2p
Equity dividends per share (paid and proposed)	9			**9.2p**			8.8p

1 Before non-recurring and other items. Non-recurring and other items are set out in Note 4 to the accounts. These measures are described in Note 1d of the accounting policies.

Connect Group PLC
Group statement of comprehensive income
for the year ended 31 August 2015

£m	Note	2015	2014
Items that will not be reclassified to the Group Income Statement			
Actuarial gain on defined benefit pension scheme	6	**53.5**	14.8
Impact of IFRIC 14 on defined benefit pension scheme	6	**(52.8)**	(16.2)
Tax relating to components of other comprehensive income that will not be reclassified	8	**(0.1)**	0.1
		0.6	(1.3)
Items that may be reclassified to the Group Income Statement			
(Loss)/gain on cash flow hedges	29	**(0.6)**	0.6
Currency translation differences		**(0.1)**	(0.2)
Tax relating to components of other comprehensive income that may be reclassified	8	**–**	(0.1)
		(0.7)	0.3
Other comprehensive income for the year		**(0.1)**	(1.0)
Profit for the year		**21.4**	34.8
Total comprehensive income for the year		**21.3**	33.8
Total comprehensive income attributable to equity shareholders		**21.4**	33.6
Total comprehensive income attributable to non-controlling interest		**(0.1)**	0.2

Connect Group PLC
Group balance sheet
at 31 August 2015

£m	Note	2015	2014
Non-current assets			
Intangible assets	11	**174.8**	65.7
Property, plant and equipment	14	**44.6**	29.0
Interest in jointly controlled entities	15	**4.5**	4.3
Derivative financial instruments	20	**–**	0.6
Retirement benefit assets	6	**0.4**	0.3
Deferred tax assets	23	**7.5**	7.2
		231.8	107.1
Current assets			
Inventories	16	**42.0**	45.3
Trade and other receivables	17	**147.3**	128.1
Cash and cash equivalents	19	**10.9**	20.4
		200.2	193.8
Total assets		**432.0**	300.9
Current liabilities			
Trade and other payables	18	**(203.5)**	(192.3)
Current tax liabilities		**(5.4)**	(6.1)
Bank loans and other borrowings	19	**(56.5)**	(60.9)
Obligations under finance leases	21	**(2.9)**	(0.9)
Retirement benefit obligations	6	**(3.3)**	(4.1)
Provisions	24	**(10.4)**	(3.4)
		(282.0)	(267.7)
Non-current liabilities			
Retirement benefit obligations	6	**(15.2)**	(17.2)
Bank loans and other borrowings	19	**(98.4)**	(48.4)
Obligations under finance leases	21	**(6.5)**	(3.2)
Derivative financial instruments	20	**(0.2)**	–
Other non-current liabilities	22	**(1.0)**	(1.4)
Deferred tax liabilities	23	**(13.5)**	(3.2)
Non-current provisions	24	**(6.0)**	(1.9)
		(140.8)	(75.3)
Total liabilities		**(422.8)**	(343.0)
Total net assets/(liabilities)		**9.2**	(42.1)
Equity			
Called up share capital	28(a)	**12.2**	9.5
Share premium account	28(c)	**55.2**	5.3
Demerger reserve	29(a)	**(280.1)**	(280.1)
Own shares reserve	29(b)	**(4.1)**	(5.2)
Hedging & translation reserve	29(c)	**(0.5)**	(0.3)
Retained earnings	30	**226.5**	228.5
Total shareholders' equity		**9.2**	(42.3)
Non-controlling interests in equity		**–**	0.2
Total equity		**9.2**	(42.1)

The accounts were approved by the Board of Directors and authorised for issue on 21 October 2015 and were signed on its behalf by:

Registered number – 05195191

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer

Connect Group PLC
Group statement of changes in equity
for the year ended 31 August 2015

£m	Share capital	Share Premium account	Demerger reserve	Own shares reserve	Hedging & translation reserve	Retained earnings	Non-controlling interests in equity	Total
Balance at 31 August 2013	9.2	1.2	(280.1)	(1.5)	(0.6)	214.9	–	(56.9)
Profit for the year	–	–	–	–	–	34.6	0.2	34.8
Gain on cash flow hedges	–	–	–	–	0.6	–	–	0.6
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	14.8	–	14.8
Impact of IFRIC 14 on defined benefit pension scheme	–	–	–	–	–	(16.2)	–	(16.2)
Currency translation differences	–	–	–	–	(0.2)	–	–	(0.2)
Tax relating to components of other comprehensive income	–	–	–	–	(0.1)	0.1	–	–
Total comprehensive income for the year	–	–	–	–	0.3	33.3	0.2	33.8
Issue of share capital	0.3	4.1	–	–	–	–	–	4.4
Purchase of own shares	–	–	–	(6.3)	–	–	–	(6.3)
Dividends paid	–	–	–	–	–	(17.7)	–	(17.7)
Employee share schemes	–	–	–	2.6	–	(2.6)	–	–
Recognition of share based payments	–	–	–	–	–	0.6	–	0.6
Balance at 31 August 2014	9.5	5.3	(280.1)	(5.2)	(0.3)	228.5	0.2	(42.1)
Profit/(loss) for the year	–	–	–	–	–	21.5	(0.1)	21.4
Loss on cash flow hedges	–	–	–	–	(0.6)	–	–	(0.6)
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	53.5	–	53.5
Impact of IFRIC 14 on defined benefit pension scheme	–	–	–	–	–	(52.8)	–	(52.8)
Currency translation differences	–	–	–	–	(0.1)	–	–	(0.1)
Tax relating to components of other comprehensive income	–	–	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	–	–	–	(0.7)	22.1	(0.1)	21.3
Issue of share capital	2.7	49.9	–	–	–	–	–	52.6
Reclassification between reserves	–	–	–	–	0.5	(0.5)	–	–
Purchase of own shares	–	–	–	(4.2)	–	–	–	(4.2)
Dividends paid	–	–	–	–	–	(21.4)	–	(21.4)
Employee share schemes	–	–	–	5.3	–	(5.3)	–	–
Adjustment arising from change in NCI	–	–	–	–	–	(5.1)	(0.1)	(5.2)
Recognition of share based payments net of tax	–	–	–	–	–	8.2	–	8.2
Balance at 31 August 2015	**12.2**	**55.2**	**(280.1)**	**(4.1)**	**(0.5)**	**226.5**	**–**	**9.2**

Connect Group PLC
Group cash flow statement
for the year ended 31 August 2015

£m	Note	2015	2014
Net cash inflow from operating activities	27	**46.5**	47.4
Investing activities			
Dividends received from associates		**0.2**	0.2
Acquisitions	12	**(105.7)**	(0.3)
Purchase of property, plant and equipment		**(4.7)**	(6.8)
Purchase of intangible assets		**(4.5)**	(3.5)
Net cash used in investing activities		**(114.7)**	(10.4)
Financing activities			
Interest paid		**(5.8)**	(6.1)
Dividend paid		**(21.4)**	(17.7)
Purchase of equity in subsidiary	13	**(5.1)**	–
Repayments of obligations under finance leases		**(2.9)**	(1.3)
Proceeds on issue of shares		**52.6**	0.7
Purchase of shares for Employee Benefit Trust		**(4.2)**	(6.3)
Repayments of borrowings		**–**	(34.0)
New bank loans raised		**50.0**	50.0
Decrease in borrowings		**(4.4)**	(11.9)
Net cash from/(used in) financing activities		**58.8**	(26.6)
Net (decrease)/increase in cash and cash equivalents		**(9.4)**	10.4
Effect of foreign exchange rate changes		**(0.1)**	(0.1)
		(9.5)	10.3
Opening net cash and cash equivalents		**20.4**	10.1
Closing net cash and cash equivalents	19	**10.9**	20.4
Analysis of net debt			
Cash and cash equivalents	19	**10.9**	20.4
Current borrowings	19	**(56.5)**	(60.9)
Non-current borrowings	19	**(98.4)**	(48.4)
Net borrowings		**(144.0)**	(88.9)
Finance lease liabilities	21	**(9.4)**	(4.1)
Net debt		**(153.4)**	(93.0)

Connect Group PLC
Notes to the accounts

1. Accounting policies

(a) Basis of consolidation

Connect Group PLC ('the Company') is a company incorporated in the UK under Companies Act 2006. The Group accounts for the year ended 31 August 2015 comprise the Company and, its subsidiaries (together referred to as the 'Group') and the Group's interests in jointly controlled entities and associates. Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition. All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts. Further to the EU IAS Regulation (Article 4) the Group accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Unless otherwise noted references to 2015 and 2014 relate to fiscal year ended 31 August 2015 and 31 August 2014 as opposed to calendar year.

The accounts were authorised for issue by the Directors on 21 October 2015.

(b) Basis of preparation

Accounting basis of preparation

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

The Group Accounts have been prepared in accordance with 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 arising from transactions with the jointly controlled entities are eliminated to the extent of the Group's interest in the entities. Unrealised losses are eliminated in the same way as unrealised gains.

Going concern

As detailed in Note 20, at the year end the Group had committed bank facilities in place of £250m, with associated covenants. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance and the Group's negative working capital position, show that the Group should be able to operate within the level of its current financing covenants for the foreseeable future.

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

(c) Estimates and judgements

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

The significant judgements made in the accounts for the year ended 31 August 2015 are:

Retirement benefit obligation

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

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

Revenue recognition

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

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

Valuation of acquired intangibles

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

Connect Group PLC
Notes to the accounts continued

1. Accounting policies continued

Onerous property contracts

Property provisions require an estimate to be made of the net present value of the future costs of vacant and sublet properties. The calculation includes estimates of future cost involved, including management's estimate of the long-term letting potential of the properties. Potential liabilities could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement any such contingent liability in respect of assignment prior to the 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 exposure to leases is reviewed on a regular basis and provisions are made when management estimate that it is probable that economic outflow will result.

Taxation judgements

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

(d) Adjusted measures

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow', 'Adjusted revenue', 'Adjusted profit', 'Adjusted earnings eps share' 'Adjusted EBITDA' and 'non-recurring and other items' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies.

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

Adjusted revenue; is defined as revenue including the revenue of businesses from the date of acquisition and excludes revenue of businesses disposed of in the prior year.

Adjusted operating profit; is defined as operating profit including the operating profit of businesses from the date of acquisition and excludes non-recurring and other items and operating profit of businesses disposed of in the prior year.

Adjusted profit before tax; is defined as Adjusted operating profit less finance costs attributable to Adjusted operating profit and before non-recurring and other items; including amortisation of intangibles and network and reorganisation costs.

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

Non-recurring and other items; are material items of income or expense excluded in arriving at Adjusted operating profit to enable a more representative view of underlying performance. These include certain Mergers & Acquisitions related costs, amortisation of intangibles, integration costs, business restructuring costs and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in the accounts where necessary to provide further understanding of the financial performance of the Group.

Free cash flow; is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the proceeds on the disposal of freehold properties, payments of obligations under finance leases, the repayment of bank loans, EBT share purchase and cash flows relating to non-recurring and other items.

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

Net debt; is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases.

(e) Revenue

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

(f) Operating profit

Operating profit is stated after charging non-recurring and other items of an exceptional nature and after the share of results of associates but before investment income and finance costs.

1. Accounting policies continued

(g) Taxation

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

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

(h) Dividends

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

(i) 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.

(j) Jointly controlled entities and associates

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

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

(k) 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.

Connect Group PLC
Notes to the accounts continued

1. Accounting policies continued

(l) 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.

(m) 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.

(n) 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.

(o) Trade receivables

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

(p) Trade payables

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

(q) Treasury

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

1. Accounting policies continued

Derivative financial instruments and hedge accounting

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

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

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

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

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

Foreign currencies

Financial statements of foreign operations

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

Net investment in foreign operations

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

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.

(r) 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 cashflows.

(s) Retirement benefit costs

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

The WH Smith Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 (revised) surplus in the pension scheme of £135.6m (2014:£75.7m) available on a reduction of future contributions is £nil (2014:£nil). The Group recognises an onerous liability for the future agreed deficit contributions, a liability of £13.8m (2014: £17.3m).

Connect Group PLC
Notes to the accounts continued

1. Accounting policies continued

(t) 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'.

(u) Share schemes

Share based payments

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

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

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

(v) Changes in accounting policies

New Standards and Interpretations not yet applied

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

- IFRS 9 'Financial Instruments: Classification and measurement' – effective for accounting periods beginning on or after 1 January 2018.
- IFRS 15 'Revenue from Contracts with Customers' – effective for accounting periods beginning on or after 1 January 2018.
- IFRS 10 and IAS 28 (amended) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' – effective for accounting periods beginning on or after 1 January 2016.
- IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' – effective for accounting periods beginning on or after 1 January 2016.
- IAS 19 (amended) 'Defined Benefit Plans: Employee Contributions' – effective for accounting periods beginning on or after 1 July 2014.

Annual Improvements 2012-2014 Cycle – effective for accounting periods beginning on or after 1 January 2016, specifically amendments to IAS 34 'Interim Financial Reporting'.

IFRIC 21 'Levies' – effective for accounting periods beginning on or after 17 June 2014.

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

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

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

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

1. Accounting policies continued

New Standards and Interpretations applied for the first time:

– The following Standards with an effective date of 1 January 2014 and 1 July 2014 have been adopted without any significant impact on the amounts reported in these financial statements:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 10, IFRS 12 and IAS 27 (amended) 'Investment Entities'
- IFRS 11 'Joint Arrangements'
- IAS 12 (amended) 'Deferred Tax: Recovery of Underlying Assets'
- IAS 27 (revised) 'Separate Financial Statements'
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'
- IAS 32 (amended) 'Offsetting Financial Assets and Financial Liabilities'
- IAS 39 (amended) 'Novation of Derivatives and Continuation of Hedge Accounting'.

Annual Improvements 2010–2012 Cycle – effective for accounting periods beginning on or after 1 July 2014, specifically amendments to IFRS 2 'Share Based Payments' and IFRS 8 'Operating Segments'.

Annual Improvements 2011–2013 – effective for accounting periods beginning on or after 1 July 2014, specifically amendments to IFRS 3 'Business Combinations' and IFRS 13 'Fair Value Measurement'.

2. Segmental analysis

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

These operating segments are:

Connect News & Media: News Distribution (also referred to as Smiths News)	The UK market leading distributor of newspapers and magazines to 30,000 retailers across England and Wales from 42 distribution centres.
Connect News & Media: Media (also referred to as DMD)	A supplier of newspaper and magazines to airlines and a provider of inflight services.
Connect Books (also referred to as Bertrams, Dawson Books and Wordery)	A leading UK distributor of physical and digital books to high street and on-line retailers, public libraries, academic institutions and direct to consumers with a strong international presence, supplying 100 countries.
Connect Education and Care (also referred to as The Consortium)	A leading distributor of education and care consumable products servicing 30,000 customers across the UK.
Connect Parcel Freight (also referred to as Tuffnells)	A leading provider of next day B2B delivery of mixed parcel freight consignments.

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

	Revenue	
£m	**2015**	2014
Connect News & Media: News Distribution	**1,479.3**	1,524.8
Connect News & Media: Media	**25.4**	25.1
Connect Books	**190.1**	193.7
Connect Education and Care	**65.9**	64.9
Connect Parcel Freight	**114.4**	–
Total Group	**1,875.1**	1,808.5

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

	2015			2014		
£m	**Adjusted operating profit**	**Non-recurring and other items**	**Operating profit**	Adjusted operating profit	Non-recurring and other items	Statutory operating profit
Connect News & Media: News Distribution	**41.4**	**(18.2)**	**23.2**	42.9	(2.1)	40.8
Connect News & Media: Media	**2.3**	**(0.4)**	**1.9**	2.3	(0.3)	2.0
Connect Books	**2.6**	**(2.2)**	**0.4**	2.5	(2.5)	–
Connect Education and Care	**7.8**	**(2.1)**	**5.7**	7.8	(2.0)	5.8
Connect Parcel Freight	**9.7**	**(4.6)**	**5.1**	–	–	–
Total group	**63.8**	**(27.5)**	**36.3**	55.5	(6.9)	48.6
Net finance expense			**(7.3)**			(5.5)
Profit before taxation			**29.0**			43.1

Connect Group PLC
Notes to the accounts continued

2. Segmental analysis continued

Information about major customers

Included in revenues arising from newspaper and magazine wholesaling are revenues of approximately £155.1m (2014: £162.1m) which arose from sales to the Group's largest customer. No other single customer contributed 8% or more of the Group's revenue in either 2015 or 2014.

Segment assets and liabilities

	Assets		Liabilities		Net assets/(liabilities)	
£m	**2015**	2014	**2015**	2014	**2015**	2014
Connect News & Media: News	**93.1**	144.5	**(293.0)**	(261.1)	**(199.9)**	(116.6)
Connect News & Media: Media	**18.9**	18.8	**(7.2)**	(7.2)	**11.7**	11.6
Connect Books	**79.9**	79.8	**(63.2)**	(56.9)	**16.7**	22.9
Connect Education and Care	**63.6**	57.8	**(18.9)**	(17.8)	**44.7**	40.0
Connect Parcel Freight	**176.5**	–	**(40.5)**	–	**136.0**	–
Consolidated assets/(liabilities)	**432.0**	300.9	**(422.8)**	(343.0)	**9.2**	(42.1)

Segment depreciation, amortisation and non-current asset additions

	Depreciation		Amortisation		Additions to non-current assets	
£m	**2015**	2014	**2015**	2014	**2015**	2014
Connect News & Media: News	**(4.2)**	(4.0)	**(1.8)**	(1.4)	**8.0**	7.7
Connect News & Media: Media	**(0.1)**	(0.1)	**(0.4)**	(0.3)	**0.2**	–
Connect Books	**(0.7)**	(0.6)	**(2.5)**	(2.4)	**1.9**	2.5
Connect Education and Care	**(0.5)**	(0.5)	**(2.0)**	(1.7)	**1.8**	1.2
Connect Parcel Freight	**(1.8)**	–	**(4.7)**	–	**131.8**	–
Consolidated total	**(7.3)**	(5.2)	**(11.4)**	(5.8)	**143.7**	11.4

Additions to non-current assets includes intangible assets and property, plant and equipment. The intangible assets (£110.2m) and fair value of the property, plant and equipment (£18.6m) acquired on the acquisition of Tuffnells are included within Connect Parcel Freight.

Geographical analysis

	Revenue by destination		Non-current assets by location of operation	
£m	**2015**	2014	**2015**	2014
United Kingdom	**1,791.9**	1,729.9	**223.7**	98.6
Europe	**48.8**	51.2	**0.2**	0.2
Rest of World	**34.4**	27.4	**–**	–
Consolidated total	**1,875.1**	1,808.5	**223.9**	98.8

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

3. Operating profit

The Group's results are analysed as follows:

		2015			2014		
£m	Note	**Adjusted**	**Non recurring and other items**	**Total**	Adjusted	Non recurring and other items	Total
Revenue		**1,875.1**	**–**	**1,875.1**	1,808.5	–	1,808.5
Cost of inventories recognised as an expense		**(1,562.1)**	**–**	**(1,562.1)**	(1,607.7)	–	(1,607.7)
Write down of inventories recognised as an expense		**(0.1)**	**–**	**(0.1)**	(0.6)	–	(0.6)
Other cost of sales		**(76.0)**	**–**	**(76.0)**	(1.2)	–	(1.2)
Cost of sales		**(1,638.2)**	**–**	**(1,638.2)**	(1,609.5)	–	(1,609.5)
Gross profit		**236.9**	**–**	**236.9**	199.0	–	199.0
Distribution costs		**(92.3)**	**–**	**(92.3)**	(73.9)	–	(73.9)
Administrative expenses		**(76.3)**	**(12.9)**	**(89.2)**	(65.6)	(3.4)	(69.0)
Share-based payment expense	31	**(1.3)**	**(6.7)**	**(8.0)**	(1.5)	–	(1.5)
Amortisation of intangibles	11	**(3.5)**	**(7.9)**	**(11.4)**	(2.8)	(3.0)	(5.8)
Impairment	11	**–**	**–**	**–**	–	(0.5)	(0.5)
Administrative expenses		**(81.1)**	**(27.5)**	**(108.6)**	(69.9)	(6.9)	(76.8)
Share of profits from jointly controlled entities	15	**0.3**	**–**	**0.3**	0.3	–	0.3
Operating profit		**63.8**	**(27.5)**	**36.3**	55.5	(6.9)	48.6

3. Operating profit continued

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

£m	Note	2015	2014
Depreciation on property, plant & equipment	14	**7.3**	5.2
Amortisation of intangible assets	11	**11.4**	5.8
Operating lease charges			
– occupied land and buildings		**9.3**	8.5
– equipment and vehicles		**12.1**	0.8
Operating lease rental income – land and buildings		**(0.1)**	(0.1)
Loss on disposal of fixed assets		**0.2**	–
Staff costs	5	**136.5**	93.4

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	2015	2014
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.1
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.4**	0.3
Other services	**0.2**	0.1
Total non-audit fees	**0.2**	0.1
Total fees	**0.6**	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 Corporate governance report on page 33. In the current year the Group incurred £0.2m of non-audit fees with Deloitte relating to acquisition/transaction support, remuneration advice and other advisory services. In the prior year the Group incurred £0.1m of non-audit fees with Deloitte relating to remuneration advice and other advisory services.

4. Non-recurring and other items

£m		2015	2014
Network reorganisation costs	(a)	**(4.4)**	(3.0)
Acquisition and disposal costs	(b)	**(15.1)**	(0.9)
(Charge)/release of property provisions	(c)	**(0.1)**	0.5
Impairment	(d)	**–**	(0.5)
Amortisation of acquired intangibles	(e)	**(7.9)**	(3.0)
Total before taxation		**(27.5)**	(6.9)
Income tax expense		**3.5**	1.0
Total after taxation		**(24.0)**	(5.9)

The Group incurred a total of £24.0m (2014: £5.9m) in non-recurring and other items, after tax.

This comprises:

(a) Network reorganisation costs
Network and reorganisation costs of £4.4m are predominantly rationalisation costs to drive efficiency savings in Smiths News. They also include costs to support the strategic review and reorganisation of the Books division and one off costs for the implementation of the warehouse management system in Education & Care.

(b) Acquisition and disposal costs
Acquisition related costs for the Tuffnells acquisition include £3.5m for deal expenses and cost of integration plus £11.6m of deferred contingent consideration which is payable conditional on the financial performance and on continued employment of former owners. A further £3.1m of equity raise expenses were charged direct to reserves. Details of the acquisition are included in Note 12. In the prior year acquisition and disposal costs of £0.9m relate primarily to reviewing and targeting future acquisitions, together with the final apportionment of deferred consideration from the acquisition of The Consortium in April 2012 and costs associated with the acquisition of Martin Lavell in September 2013.

(c) (Charge)/release of property provisions
A charge of £0.1m was made in relation to vacant property arising from network reorganisation. In the prior year the Group released £0.5m relating to the historical property reversionary lease provisions following the settlement of two historical claims.

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4. Non-recurring and other items continued

(d) Impairment

No impairment was recognised during the year. During the year to 31 August 2014 the carrying value of acquired intangibles from the acquisition of Blackwell customer relationships in the Books division was reviewed and as a result of lower than anticipated sales conversion an amount of £0.5m was written off.

(e) Amortisation of acquired intangibles

Amortisation of acquired intangibles of £7.9m (FY14: £3.0m) has been incurred relating to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. The amortisation charge has increased compared to the prior year due to the acquisition of Tuffnells. The net book value of acquired intangibles of £65.4m will be amortised over future years.

5. Staff costs and employees

(a) Staff costs

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

£m	Note	**2015**	2014
Wages and salaries		**117.7**	82.5
Social security		**7.8**	6.6
Pension costs	6	**3.0**	2.8
Share based payments	31	**8.0**	1.5
Total		**136.5**	93.4

Pension costs shown above exclude charges and credits for pension scheme financing and actuarial gains and losses arising on the pension scheme. Share based payments includes £6.7m in respect of deferred contingent consideration arising from the acquisition of Tuffnells.

(b) Employee numbers

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

Number	**2015**	2014
Operations	**5,160**	3,446
Support functions	**1,504**	932
Total	**6,664**	4,378

6. Retirement benefit obligation

Defined benefit pension schemes

The Group now operates four defined benefit schemes, of which the WH Smith Pension Trust (the ‘Pension Trust’) represents 93% of the total obligation at 31 August 2015. As part of the acquisition of the Consortium, the Group acquired the assets and liabilities in respect of two other defined benefit schemes (the ‘Consortium CARE’ and ‘Platinum’ schemes). The Group acquired the assets and liabilities of Tuffnells Parcels Express Pension Scheme on its acquisition of The Big Green Parcel Holding Company Limited on 19 December 2014.

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.

6. Retirement benefit obligation

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Consortium CARE	Platinum	Tuffnells Parcels Express	2015	WH Smith Pension Trust	Consortium CARE	Platinum	2014
Present value of defined benefit obligation	**(401.2)**	**(18.7)**	**(0.8)**	**(11.3)**	**(432.0)**	(431.6)	(18.4)	(0.6)	(450.6)
Fair value of assets	**536.8**	**14.7**	**1.2**	**10.6**	**563.3**	507.3	14.4	0.9	522.6
Net surplus/(loss)	**135.6**	**(4.0)**	**0.4**	**(0.7)**	**131.3**	75.7	(4.0)	0.3	72.0
Amounts not recognised due to asset limit	**(135.6)**	**–**	**–**	**–**	**(135.6)**	(75.7)	–	–	(75.7)
	–	**(4.0)**	**0.4**	**(0.7)**	**(4.3)**	–	(4.0)	0.3	(3.7)
Additional liability recognised due to minimum funding requirements	**(13.8)**	**–**	**–**	**–**	**(13.8)**	(17.3)	–	–	(17.3)
Pension liability	**(13.8)**	**(4.0)**		**(0.7)**	**(18.5)**	(17.3)	(4.0)	–	(21.3)
Pension asset	**–**	**–**	**0.4**	**–**	**0.4**	–	–	0.3	0.3

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £135.6m at 31 August 2015 (2014: £75.7m surplus) which the Group does not recognise in the accounts as the investment policy being used means that the amount available on a reduction of future contributions is expected to be £nil (2014: £nil). The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

WH Smith Pension Trust

The process to complete the triennial valuation as at 31 March 2015 is underway and is scheduled to be reported during 2016. The actuarial valuation of the Smiths News section of the WH Smith Pension Trust, at June 2013 was a deficit of £23.0m. A cash contribution of £4.1m was made during the year to reduce the funding shortfall.

Future cash contributions by the Group to the pension trustees and investment manager total £4.1m per annum through to March 2019. The Group recognises the present value of these agreed contributions as a pension liability of £13.8m (2014: £17.3m).

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0.6m in 2015. The funding valuation of the Consortium CARE scheme as at 31 December 2013 was a deficit of £1.5m. The Platinum scheme's 31 December 2013 funding valuation showed no deficit. The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2013 was an agreed liability of £2.5m (1 April 2010: £0.15m). Guaranteed Minimum Pension ("GMP") equalisation is expected to lead to an increase in scheme liabilities at some future date on the Consortium Care and the Tuffnells Parcels Express scheme

Across all four of the Group schemes the expected level of contributions for 2016 is £4.2m.

The weighted average duration of the schemes is 17 years for the Pension Trust, 20 years for the Consortium Care scheme, 29 years for the Platinum scheme and 21 years for the Tuffnells Parcels Express scheme.

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

% p.a.	2015	2014
Discount rate	**3.80**	3.85
Inflation assumptions – CPI	**2.25**	2.25
Inflation assumptions – RPI	**3.25**	3.25

Demographic assumptions for WH Smith pension trust:

Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.7	23.7	21.7	23.9
Member currently aged 45	23.0	25.2	23.1	25.4

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6. Retirement benefit obligation continued

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2013	**469.6**	**(419.2)**	**(73.5)**	**(23.1)**
Current service cost	(1.3)	1.2	–	(0.1)
Net interest cost	20.6	(18.2)	(3.3)	(0.9)
Total amount recognised in income statement	**19.3**	**(17.0)**	**(3.3)**	**(1.0)**
Actual less expected return on scheme assets	44.6	–	–	44.6
Actuarial losses arising from experience	–	0.8	–	0.8
Actuarial loss arising from changes in financial assumptions	–	(33.3)	–	(33.3)
Actuarial loss arising from changes in demographic assumptions	–	2.6	–	2.6
Change in surplus not recognised	–	–	(16.2)	(16.2)
Amount recognised in other comprehensive income	44.6	(29.9)	(16.2)	(1.5)
Employer contributions	4.6	–	–	4.6
Benefit payments	(15.4)	15.4	–	–
Amounts included in cash flow statement	**(10.8)**	**15.4**	**–**	**4.6**
At 31 August 2014	**522.7**	**(450.7)**	**(93.0)**	**(21.0)**
Current service cost	(0.5)	–	–	(0.5)
Net interest cost	20.0	(17.2)	(3.6)	(0.8)
Total amount recognised in income statement	**19.5**	**(17.2)**	**(3.6)**	**(1.3)**
Actual less expected return on scheme assets	28.7	–	–	28.7
Actuarial gains arising from experience	–	25.1	–	25.1
Actuarial loss arising from changes in financial assumptions	–	(2.2)	–	(2.2)
Actuarial gains arising from changes in demographic assumptions	–	1.9	–	1.9
Change in surplus not recognised	–	–	(52.8)	(52.8)
Amount recognised in other comprehensive income	**28.7**	**24.8**	**(52.8)**	**0.7**
Employer contributions	5.3	0.1	–	5.4
Employee contributions	0.1	(0.1)	–	–
Benefit payments	(23.6)	23.6	–	–
Amounts included in cash flow statement	**(18.2)**	**23.6**	**–**	**5.4**
Acquisition of subsidiary	10.6	(12.5)	–	(1.9)
At 31 August 2015	**563.3**	**(432.0)**	**(149.4)**	**(18.1)**
Included within Non-current assets				**0.4**
Included within Current liabilities				**(3.3)**
Included within Non-current liabilities				**(15.2)**

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		**2015**	2014
Swap financing portfolio[1]	Unquoted	**431.9**	477.0
Interest rate and inflation swaps	Unquoted	**79.5**	6.2
Loan fund[2]	Unquoted	**25.4**	24.2
Equities (CARE, Tuffnells)	Unquoted	**21.0**	10.4
Bonds (CARE, Platinum)	Unquoted	**5.0**	4.7
Cash (CARE,Platinum, Tuffnells)		**0.5**	0.2
		563.3	522.7

1 Investments with the aim of generating a return above LIBOR to finance the interest and inflation swaps in the Pension Trust. At 31 August 2015 this comprised £179m total return swap and £252m in a fund comprising a range of assets from government bonds, hedge funds and equities that targets a return above LIBOR.

2 The loan fund looks to generate a return over a portfolio of loans.

6. Retirement benefit obligation continued

The assets held in the swap financing portfolio provide a swap-based hedge against the change in value of a proportion of the Trust's liabilities for changes in long-term interest rates and inflation expectations.

The actual return on scheme assets during 2015 was a gain of £48.7m (2014: a gain of £65.2m).

The value of the assets held by the trust in Connect Group PLC issued financial instruments is £nil (2014: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	+/–0.5%	–£34.8m/+£39.1m
Rate of inflation	+/–0.5%	+£36.3m/–£33.3m
Life expectancy	+/–1 year	+£15.2m/–£15.2m

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	**2015**	2014	2013	2012	2011
Present value of defined benefit obligation	**(432.0)**	(450.7)	(419.2)	(395.3)	(348.3)
Fair value of assets	**563.3**	522.7	469.6	433.1	375.1
Impact of IFRIC 14 on defined benefit pension schemes	**(149.4)**	(93.0)	(73.5)	(73.8)	(63.1)
Net deficit in the schemes	**(18.1)**	(21.0)	(23.1)	(36.0)	(36.3)
Experience adjustments on scheme liabilities	**25.1**	0.8	(1.4)	(1.0)	(4.1)
Experience adjustments on scheme assets	**28.7**	44.6	27.9	34.0	(45.8)

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £20.7m (2014: a loss of £21.4m).

The group's defined benefit pension plans have a number of areas of risk, the most significant of which and they ways in which the Group has sought to manage them are set out below:

Risk	Description
Changes in bond yields	Falling bond yields tend to increase the funding and accounting liabilities. The assets held in the swap financing portfolio of the WH Smith PensionTrust provide a swap-based hedge against the change in value of a proportion of the Trust's liabilities for changes in long-term interest rates and inflation expectations, reducing the exposure to changes in bond yields. The Care, Platinum and Tuffnells 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.
Inflation risk	The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The assets held in the swap financing portfolio of the WH Smith Pension Trust provide a swap-based hedge against the change in value of a proportion of the Trust's liabilities for changes in long-term interest rates and inflation expectations, reducing the exposure to inflation. For the Care, Platinum and Tuffnells schemes the majority of the assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
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.

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6. Retirement benefit obligation continued

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2015, Company contributions totalled £3.0m (2014: £2.8m) 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. Investment revenue and finance costs

£m	Note	2015	2014
Net change in fair value of derivative assets		–	0.4
Investment revenue		**–**	0.4
Interest on bank overdrafts and loans		**(5.8)**	(4.7)
Net interest expense on defined benefit obligation	6	**(0.8)**	(0.9)
Interest payable on finance leases		**(0.4)**	(0.2)
Net change in fair value of derivative assets		**(0.2)**	–
Unwinding of discount on provisions – trading		**(0.1)**	(0.1)
Finance costs		**(7.3)**	(5.9)
Net finance costs		**(7.3)**	(5.5)

8. Income tax expense

	2015			2014		
£m	**Adjusted**	**Non-recurring and other items**	**Total**	Adjusted	Non-recurring and other items	Total
Current tax	**12.4**	**(2.3)**	**10.1**	12.3	(1.0)	11.3
Adjustment in respect of prior year UK corporation tax	**(1.1)**	**(0.9)**	**(2.0)**	(2.4)	–	(2.4)
Total current tax charge	**11.3**	**(3.2)**	**8.1**	9.9	(1.0)	8.9
Deferred tax – current year	**(0.2)**	**(0.3)**	**(0.5)**	(0.4)	–	(0.4)
Deferred tax – prior year	**–**	**–**	**–**	(0.2)	–	(0.2)
Total tax on profit	**11.1**	**(3.5)**	**7.6**	9.3	(1.0)	8.3
Effective tax rate	**19.7%**		**26.3%**	*18.7%*		*19.4%*

The effective Adjusted income tax rate for the year was 19.7% (2014: 18.7%). After adjusting for the impact of non-recurring and other items of £3.5m (2014: £1.0m), the effective statutory income tax rate was 26.3% (2014: 19.4%).

The tax rates used in the 2015 and 2014 reconciliations of the tax charge are the main rates of UK corporation tax, those being 20.6% (2014: 22.2%).

Reconciliation of the tax charge

£m	2015	2014
Profit before tax	**29.0**	43.1
Tax on profit at the standard rate of UK corporation tax 20.6% (2014: 22.2%)	**5.9**	9.5
Permanent differences	**3.5**	1.3
Share schemes	**–**	(0.2)
Adjustment in respect of prior year UK corporation tax	**(2.0)**	(2.6)
Impact of overseas tax rates	**0.2**	0.3
Total tax charge	**7.6**	8.3

8. Income tax expense continued

Tax charges to other comprehensive income and directly in equity

£m	2015	2014
Current tax relating to the defined benefit pension scheme	(0.8)	(0.7)
Current tax relating to share based payments	(0.6)	(0.5)
Deferred tax relating to derivative financial instruments	–	0.1
Deferred tax relating to share based payments	0.6	(0.5)
Deferred tax relating to retirement benefit obligations	0.9	0.6
Tax charges to other comprehensive income and directly in equity	0.1	(1.0)

9. Dividends

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

	2015 Per share	2014 Per share[1]	2015 £m	2014 £m
Paid & proposed dividends for the year				
Interim dividend – paid	2.9p	2.8p	7.0	5.8
Final dividend – proposed	6.3p	6.0p	15.4	12.3
	9.2p	8.8p	22.4	18.1
Recognised dividends for the year				
Final dividend – prior year	6.0p	5.7p	14.4	11.9
Interim dividend – current year	2.9p	2.8p	7.0	5.8
	8.9p	8.5p	21.4	17.7

1 Rebased dividend per share adjusts last year's reported figures by the rights issue bonus factor adjustment of 0.9015 following the 2 for 7 rights issue in December 2014

The proposed final dividend for the year ended 31 August 2015 of 6.3p is subject to approval by shareholders at the Annual General Meeting on 4 February 2016 and in line with IAS10 – 'Events after the reporting period', this dividend has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 12 February 2016 to shareholders on the register at close of business on 15 January 2016.

10. Earnings per share

	2015			2014		
	£m Earnings	Weighted average number of shares million	Pence per share	£m Earnings	Weighted average number of shares million	Pence Rebased[1] per share
Weighted average number of shares in issue		233.9			208.0	
Shares held by the ESOP (weighted)		(3.0)			(1.6)	
Basic earnings per share (EPS)						
Adjusted earnings attributable to ordinary shareholders	45.5	230.9	19.7p	40.5	206.4	19.6p
Non recurring and other items	(24.0)			(5.9)		
Earnings attributable to ordinary shareholders	21.5	230.9	9.3p	34.6	206.4	16.8p
Diluted earnings per share (EPS)						
Effect of dilutive share options		7.6			7.0	
Diluted Adjusted EPS	45.5	238.5	19.0p	40.5	213.4	19.0p
Diluted EPS	21.5	238.5	9.0p	34.6	213.4	16.2p

1 Rebased Earnings per share and rebased Dividends per share adjust last year reported figures by the rights issue bonus factor adjustment of 0.9015 following the 2 for 7 rights issue in December 2014

Dilutive shares increased the basic number of shares at 31 August 2015 by 7.6m to 238.5m (31 August 2014: 213.4m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 4.1m dilutive shares (31 August 2014: 5.4m) and a weighted 3.5m shares being the time apportioned share capital relating to the deferred consideration for the acquisition of The Big Green Parcel Holding Company Limited.

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11. Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 1 September 2014	44.2	22.0	3.0	0.7	6.0	6.8	82.7
Additions	–	–	–	–	1.6	3.6	5.2
Acquisition of subsidiary	52.1	26.8	30.5	0.8	–	–	110.2
Transfers between asset classes	–	–	–	–	2.3	5.1	7.4
Disposals	–	–	–	–	(0.8)	(1.7)	(2.5)
At 31 August 2015	**96.3**	**48.8**	**33.5**	**1.5**	**9.1**	**13.8**	**203.0**
Accumulated amortisation:							
At 1 September 2014	–	8.5	1.4	0.6	3.9	2.6	17.0
Amortisation charge	–	5.1	2.6	0.2	1.6	1.9	11.4
Transfers between asset classes	–	–	–	–	0.7	1.6	2.3
Disposal	–	–	–	–	(0.8)	(1.7)	(2.5)
At 31 August 2015	**–**	**13.6**	**4.0**	**0.8**	**5.4**	**4.4**	**28.2**
Net book value at 31 August 2015	**96.3**	**35.2**	**29.5**	**0.7**	**3.7**	**9.4**	**174.8**
Cost:							
At 1 September 2013	44.2	21.7	3.0	0.7	5.6	25.3	100.5
Additions	–	0.3	–	–	1.6	1.9	3.8
Disposals	–	–	–	–	(1.2)	(20.4)	(21.6)
At 31 August 2014	**44.2**	**22.0**	**3.0**	**0.7**	**6.0**	**6.8**	**82.7**
Accumulated amortisation:							
At 1 September 2013	–	5.6	0.9	0.5	3.5	21.8	32.3
Amortisation charge	–	2.4	0.5	0.1	1.6	1.2	5.8
Impairment	–	0.5	–	–	–	–	0.5
Disposals	–	–	–	–	(1.2)	(20.4)	(21.6)
At 31 August 2014	**–**	**8.5**	**1.4**	**0.6**	**3.9**	**2.6**	**17.0**
Net book value at 31 August 2014	**44.2**	**13.5**	**1.6**	**0.1**	**2.1**	**4.2**	**65.7**

During the year to 31 August 2015, goodwill and intangibles totalling £110.2m arose on the Group's acquisition of Tuffnells on 19 December 2014. Further details are disclosed in Note 12. The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £0.7m (2014: £0.9m).

In prior year the Group acquired the trade and assets of Martin Lavell giving rise to the recognition of an intangible asset of £0.3m for customer relationships.

Goodwill and Intangibles by CGU

Goodwill of £4.1m and acquired intangibles totalling £5.1m arose from the acquisition of the business and assets of Bertrams on 20 March 2009 have been allocated to the Connect Books combined cash generating unit (CGU).

The acquisition of Dawson Holdings PLC on 23 August 2011, resulted in goodwill of £18.1m and acquired intangibles of £7.8m. These have been allocated to the two remaining individual CGU's identified at the time of the acquisition; Dawson Books and Media Direct.

On the acquisition of Hedgelane Limited on 23 April 2012, the Group recognised goodwill of £20.9m and acquired intangibles of £10.4m which have been allocated to the Education and Care CGU.

The acquisition of 100% of the issued share capital of Houtschild Internationale Boekhandel B.V. on 13 June 2012 produced a further £0.3m of goodwill.

The acquisition of Erasmus on 17 January 2013 generated £0.8m of goodwill and £0.3m of acquired intangible assets.

The acquisition of certain Blackwell contracts on 20 May 2013 generated £2.0m of acquired intangibles.

The acquisition of trade and assets of Martin Lavell acquired on 1 September 2013 generated acquired intangibles of £0.3m.

The acquisition of Tuffnells on 19 December 2014 generated £52.1m of goodwill and £58.1m of intangible assets. Further details are disclosed in Note 12. None of the goodwill arising on the acquisition in the year is expected to be deductible for tax purposes.

11. Intangible assets continued

Goodwill is not amortised, but tested annually for impairment or more frequently if there are indications that goodwill might be impaired with the recoverable amount being determined from value in use calculations. The recoverable amounts of the combined cash generating units are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following 3 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The rate used to discount the forecast cash flows range from 12.1% to 12.5%, being the Group's risk Adjusted pre-tax WACC, specific for each cash generating unit. Pre-tax discount rates are derived from the Group's post-tax WACC of 8% risk adjusted by 2%. The calculation of value in use is sensitive to the discount rate and growth rates used. Given the improved outlook in the performance of Connect Books, higher growth rates included in the assumptions for this division increase the value in use. Management believes that no reasonable potential change in the above key assumptions would cause the carrying value to exceed its recoverable amount.

	Goodwill			Acquired Intangibles			Total		
£m	**2015**	2014	On acquisition	**2015**	2014	On acquisition	**2015**	2014	On acquisition
Connect Books	**17.6**	17.6	17.6	**4.2**	5.6	12.7	**21.8**	23.2	30.3
Connect Media	**5.7**	5.7	5.7	**1.2**	1.6	2.6	**6.9**	7.3	8.3
Connect News	**–**	–	–	**0.2**	0.2	0.3	**0.2**	0.2	0.3
Connect Education and Care	**20.9**	20.9	20.9	**6.2**	7.8	10.4	**27.1**	28.7	31.3
Connect Parcel Freight	**52.1**	–	52.1	**53.6**	–	58.1	**105.7**	–	110.2
	96.3	44.2	96.3	**65.4**	15.2	84.1	**161.7**	59.4	180.4

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 2015 is £24.5m and £28.5m respectively with a remaining amortisation period of 7 and 9.5 years respectively.

12. Acquisitions

The acquisition of Tuffnells made during the period contributed £114.4m to the Group's revenue and £9.7m to the Group's operating profit before acquired intangible amortisation and acquisition related costs.

The estimated contributions of the acquired business to the results of the Group, as if the acquisition had been made at the beginning of the period, are as follows:

	£m
Revenue	159.8
Operating profit before intangible amortisation and acquisition related costs	14.4

The net cash outflow in respect of the acquisition of the Big Green Parcel Holding Company Limited (Tuffnells) in the year comprised:

	£m
Cash consideration	(114.0)
Cash acquired	8.3
Net cash outflow relating to acquisition	**(105.7)**
Acquisition related costs (recorded in non-recurring and other items)	(3.2)
Total cash outflow in respect of acquisitions	**(108.9)**

Acquisitions are accounted for under the acquisition method of accounting. The Group undertakes a process to identify the fair values of the assets acquired and the liabilities assumed, including the separate identification of intangible assets in accordance with IFRS3 'Business Combinations'. Until this assessment is complete, the allocation period remains open up to 12 months from the acquisition date.

On 19 December 2014, Smiths News Holdings Limited acquired 100% of the issued share capital of The Big Green Parcel Holding Company Limited (Tuffnells) for a cash consideration of £114.0m and deferred contingent consideration of up to £15.3m, payable over three years following the acquisition contingent on both profit targets and the continued employment of certain former owners. The acquisition has been accounted for in accordance with IFRS3 Business Combinations. The Big Green Parcel Holding Company Limited's main trading subsidiary is Tuffnells Parcels Express Limited. Tuffnells Parcels Express Limited is a leading UK provider of next-day B2B delivery of mixed freight and parcel consignments, specialising in items of irregular dimension and weight, examples of which include bulky furnishings, building materials and automotive parts. The acquisition is a new division for the Group known as Connect Parcel Freight and the acquisition represents another important step in the Group's diversification strategic aim of delivering 50% of Adjusted profits from activities outside of newspaper and magazine wholesaling.

The initial cash cost of the acquisition was £114.0m, financed by a combination of increased debt facilities and a £55m Rights Issue. The initial cash cost of £114.0m plus £0.5m of deferred consideration is consideration as defined by IFRS3 and has been allocated against the identified net assets with the balance recorded as goodwill.

IFRS3 requires that any payments that are contingent on future employment be charged to the income statement. The total £15.3m of deferred consideration includes £14.8m that is contingent on both profit targets and the continued employment of the former owners of The Big Green Parcel Holding Company Limited. This comprises:

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12. Acquisitions continued

- Up to £4.8m of deferred share capital and £3.8m in cash being the fair value of deferred contingent consideration payable conditional on the financial performance and on continued employment in the 12 month period from 1 September 2014 to 31 August 2015;
- Up to a further £2.0m of deferred share capital and £1.1m of cash payable conditional on the financial performance and continued employment in the 12 month period from 1 September 2015 to 31 August 2016; and
- Up to a further £2.0m of deferred share capital and £1.1m of cash payable conditional on the financial performance and continued employment in the 12 month period from 1 September 2016 to 31 August 2017.

The remaining £0.5m deferred consideration is contingent solely upon future profit targets across the 36 month period from 1 September 2014 to 31 August 2017 and is included on the Director's best estimate of the likely overall payment. The provisional effect of the acquisition on the Group's assets and liabilities is as follows:

Allocation of purchase price

£m	Acquired balance sheet	Fair value adjustments	Fair value
Fixed assets	21.7	(3.1)	18.6
Stock	0.6	–	0.6
Trade and other receivables	13.1	(0.1)	13.0
Acquired intangible assets	–	58.1	58.1
Deferred tax	0.9	(9.9)	(9.0)
Other liabilities	(4.6)	(4.2)	(8.8)
Trade and other payables	(14.4)	(2.1)	(16.5)
Net debt	8.3	–	8.3
Pensions	(1.9)	–	(1.9)
Net assets			62.4
Cash consideration			114.0
Contingent purchase consideration			0.5
Total Consideration			114.5
Goodwill arising on acquisition			52.1

The fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

The excess of the fair value of the consideration paid over the fair value of the assets acquired is represented by customer related intangibles of £26.8m, the value of the 'Big Green Parcel Machine' trade name of £30.5m and other intangibles of £0.8m with residual goodwill arising of £52.1m. The goodwill represents:

- The value of the acquired workforce.
- Potential to leverage the expertise and achieve synergies with other Connect Group distribution businesses.

The potential undiscounted amount of all future payments that Connect Group plc could be required to make under the contingent consideration arrangement, which has been measured based on current expectations of future performance is £15.3m and the fair value is £15.3m.

In the prior year the Group acquired the trade and assets from Martin Lavell Ltd on 1 September 2013, a significant distributor in the Business-to-Business sector of newspaper and magazine supplies in London, for a consideration of £0.3m. The acquisition gave rise to the recognition of a £0.3m intangible asset for customer relationships.

13. Acquisition of non-controlling interests

On 27 August 2015, the Group purchased the remaining 49% of shares in Magpie Investments Limited for an initial cash consideration of £5.1m with a deferred consideration of £3.3m which is contingent on both profit targets and continued employment of the former owners. This deferred contingent consideration will be charged to the income statement over a five year period to August 2020.

14. Property, plant and equipment

£m	Land & Buildings Freehold properties	Land & Buildings Long term leasehold	Land & Buildings Short term leasehold	Fixtures & fittings	Equipment & vehicles	Total
Cost:						
At 1 September 2014	4.9	0.4	12.0	8.3	39.0	64.6
Additions		0.1	0.7	0.4	8.5	9.7
Acquisition of subsidiary	10.6	0.9	1.1	0.8	5.2	18.6
Transfer between asset classes	–	(0.1)	(0.2)	2.2	(9.3)	(7.4)
Disposals	–	–	(0.4)	(0.4)	(6.8)	(7.6)
At 31 August 2015	**15.5**	**1.3**	**13.2**	**11.3**	**36.6**	**77.9**
Accumulated depreciation:						
At 1 September 2014	0.5	0.3	8.2	5.9	20.7	35.6
Depreciation charge	0.2	–	0.8	1.0	5.3	7.3
Transfer between asset classes	–	–	–	(0.6)	(1.7)	(2.3)
Disposals	–	–	(0.3)	(0.3)	(6.7)	(7.3)
At 31 August 2015	**0.7**	**0.3**	**8.7**	**6.0**	**17.6**	**33.3**
Net book value at 31 August 2015	**14.8**	**1.0**	**4.5**	**5.3**	**19.0**	**44.6**
Cost:						
At 1 September 2013	4.9	0.4	11.9	7.3	38.7	63.2
Additions	–	–	0.5	1.3	5.8	7.6
Disposals	–	–	(0.4)	(0.3)	(5.5)	(6.2)
At 31 August 2014	**4.9**	**0.4**	**12.0**	**8.3**	**39.0**	**64.6**
Accumulated depreciation:						
At 1 September 2013	0.4	0.3	7.8	5.5	22.6	36.6
Depreciation charge	0.1	–	0.8	0.7	3.6	5.2
Disposals	–	–	(0.4)	(0.3)	(5.5)	(6.2)
At 31 August 2014	**0.5**	**0.3**	**8.2**	**5.9**	**20.7**	**35.6**
Net book value at 31 August 2014	**4.4**	**0.1**	**3.8**	**2.4**	**18.3**	**29.0**

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 £5.8m at 31 August 2015 (2014: £4.1m).

15. Interests in jointly controlled entities

The Group's share of the results, assets and liabilities of jointly controlled entities is as follows:

£m	**2015**	2014
Revenue	**9.7**	9.6
Profit after tax	**0.3**	0.3
Non-current assets	**1.0**	1.2
Current assets	**2.6**	2.6
Total assets	**3.6**	3.8
Current liabilities	**(1.9)**	(2.3)
Non-current liabilities	**(0.1)**	(0.1)
Total liabilities	**(2.0)**	(2.4)
Goodwill	**2.9**	2.9
Share of net assets	**4.5**	4.3

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15. Interests in jointly controlled entities continued

The jointly controlled entities of the Group are as follows:

FMD Limited

The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2014: 50%). The latest statutory accounts of FMD Limited were drawn up to 30 April 2015.

Rascal Solutions Limited

The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2014: 50%). The latest statutory accounts of Rascal Solutions Limited are drawn up to 31 August 2015.

BlueBox Avionics Limited

The Group has a 50% interest in the ordinary shares of Bluebox Avionics Limited, a company incorporated in England (2014: 50%). The latest statutory accounts of Bluebox Avionics Limited were drawn up to 31 August 2014.

16. Inventories

£m	2015	2014
Goods held for resale	41.2	45.3
Raw materials and consumables	0.8	–
Inventories	42.0	45.3

17. Trade and other receivables

£m	2015	2014
Trade receivables	123.6	107.9
Allowance for doubtful debts	(1.3)	(0.7)
	122.3	107.2
Other debtors	12.7	12.4
Prepayments and accrued income	12.3	8.5
Trade and other receivables	147.3	128.1

Trade receivables

The average credit period taken on sale of goods is 21 days (2014:21 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 £8.5m (2014:£8.5m) 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	2015	2014
30–60 days	5.2	5.3
61–90 days	1.3	1.4
91–120 days	0.7	0.6
Over 120 days	1.3	1.2
	8.5	8.5

Included within the 2015 number is an expected seasonal peak of £3.1m (2014:£4.6m) largely within the 30–60 day ageing relating to the Education and Care division.

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

- One customer (2014: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total was £15.2m (2014: £15.3m); and
- A further four customers (2014: six) had individual balances that represented more than 5% of the total trade receivables balance. The total of these were £30.5m (2014: £42.2m).

17. Trade and other receivables continued

Movement in the allowance for doubtful debts:

£m	2015	2014
At 1 September	**0.7**	0.7
Impairment losses recognised	**1.1**	0.7
Amounts written off as uncollectible	**(0.4)**	(0.6)
Amounts recovered during the year	**(0.1)**	(0.1)
At 31 August	**1.3**	0.7

Ageing of past due and impaired trade receivables:

£m	2015	2014
30–60 days	**0.1**	–
61–90 days	**–**	0.1
91–120 days	**0.1**	0.1
Over 120 days	**1.1**	0.5
	1.3	0.7

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Other debtors and prepayments

The largest items included within this balance are £6.8m (2014: £7.6m) of publisher debtors and £5.0m (2014: £4.0m) of accrued revenue.

18. Trade and other payables

£m	2015	2014
Trade payables	**156.8**	156.1
Other tax and social security	**7.5**	3.1
Other creditors	**11.8**	11.9
Accruals and deferred income	**27.4**	21.2
	203.5	192.3

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 32 days (2014: 30 days). No interest is charged on trade payables. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2015	2014
Cash and cash equivalents	**6.2**	**3.2**	**0.9**	**0.6**	**10.9**	20.4
Term loan – disclosed within current liabilities	**–**	**–**	**–**	**–**	**–**	–
Term loan – disclosed within non-current liabilities	**(98.4)**	**–**	**–**	**–**	**(98.4)**	(48.4)
Revolving credit facility	**(55.0)**	**(1.5)**	**–**	**–**	**(56.5)**	(60.9)
Total borrowings	**(153.4)**	**(1.5)**	**–**	**–**	**(154.9)**	(109.3)
Net borrowings	**(147.2)**	**1.7**	**0.9**	**0.6**	**(144.0)**	(88.9)
Total borrowings						
Amount due for settlement within 12 months	**(55.0)**	**(1.5)**	**–**	**–**	**(56.5)**	(60.9)
Amount due for settlement after 12 months	**(98.4)**	**–**	**–**	**–**	**(98.4)**	(48.4)
	(153.4)	**(1.5)**	**–**	**–**	**(154.9)**	(109.3)

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Available Group bank facilities are outlined in Note 20. At 31 August 2015, the Group had £95.1m (2014: £90.7m) of undrawn committed borrowing facilities in respect of which all conditions precedents had been met. Interest payable under the current facility 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.

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20. Financial Instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures and their delegated authorities. Treasury's role is to ensure that appropriate financing is available for running the businesses of the Group on a day to day basis, allowing for investments and acquisitions whilst minimising interest cost. No transactions of a speculative nature are undertaken. Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents as disclosed in Note 19 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group Statement of Changes in Equity.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by monitoring forecast and actual cash flows. The facilities that the Group has at its disposal to further reduce liquidity risk are described below.

As at 31 August 2015, the Group had £250m committed bank facilities in place (2014: £200m). The facility was extended in November 2014 to £250m to support the acquisition of Tuffnells.

Bank facilities now comprise:
- A £100m syndicated term loan with £10m repayable in February 2017, August 2017, February 2018 and August 2018 with the balance repayable in November 2018; and
- A £150m syndicated revolving credit facility which expires in November 2018.

The facility described above is subject to the following covenants:
- Leverage cover – the net debt: Adjusted EBITDA ratio which must remain below 2.75x. At 31 August 2015 the ratio was 1.9x.
- Interest cover – the consolidated net interest: Adjusted EBITDA ratio which must remain above 3.0x. As at 31 August 2015 the ratio was 15.0x.
- Fixed charge cover – the ratio of Adjusted EBITDA to consolidated fixed charges is not less than 2.00x to 1. As at 31 August 2015 the ratio was 3.4x; and
- 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 subsidaries of the Connect Group PLC, are Connect Group PLC, Dawson Holdings Limited, Hedgelane Limited, Smiths News Holdings Limited, Smiths News Investments Limited, Smiths News Trading Limited, Bertram Trading Limited, Connect2U Limited, The Consortium for Purchasing and Distribution Limited, Smiths News Instore Limited and Dawson Books Limited, Hammond Bridge Limited, Dawson Books Services Limited, Dawson Guarantee Company Limited, Dawson Limited, The Big Green Parcel Group Limited, The Big Green Parcel Holding Company Limited, The Big Green Parcel Machine Limited and Tuffnells Parcels Express Limited.

At 31 August 2015, the Group had available £95.1m (2014: £90.7m) 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 that results in significant predictable swings within each month of around £40m.

20. Financial Instruments continued

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 2015				
Non derivative financial liabilities				
Bank and other borrowings	(59.3)	(22.7)	(22.2)	(60.4)
Finance leases	(3.3)	(2.9)	(2.8)	(1.3)
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	–	–	–	–
Net settled derivative contracts – payments	(0.4)	(0.4)	(0.3)	(0.1)
Derivative and other financial assets				
Net settled derivative contracts – receipts	–	–	–	–
Total	**(63.0)**	**(26.0)**	**(25.3)**	**(61.8)**
At 31 August 2014				
Non derivative financial liabilities				
Bank and other borrowings	(62.0)	(1.1)	(10.9)	(41.1)
Finance leases	(0.9)	(1.1)	(1.2)	(1.2)
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	0.1	–	–	–
Net settled derivative contracts – payments	(0.3)	–	–	–
Derivative and other financial assets				
Net settled derivative contracts – receipts	0.3	0.3	0.3	0.1
Total	**(62.8)**	**(1.9)**	**(11.8)**	**(42.2)**

Counterparty risk

Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored.

Foreign currency risk

- The Group has entered into forward currency purchases to purchase US dollars to manage exposure to transactional foreign currency risk. The contracts have monthly maturity dates and those outstanding at 31 August 2015 mature by November 2015. At 31 August the outstanding contracts has a notional value of £0.7m. Any gains or losses on forward foreign exchange contracts have been recognised within the income statement. The carrying amount of these instruments approximates their fair value. 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 assets are held in Sterling, with only £4.4m (2014: £3.9m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

The Group regularly monitors its exposure to interest rate risk. The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. 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. As at 31 August 2015, 80% of the Group's borrowings were at fixed rates achieved through hedging.

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

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Notes to the accounts continued

20. Financial Instruments continued

Hedge accounting

There are £60m of interest rate hedges in place until November 2017 and a further £50m in place until November 2018 contracted at an average effective rate of 1.2%.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is based on the market values of equivalent instruments at the balance sheet date, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2015	2014	2015	2014	2015	2014
Outstanding receive floating, pay fixed contracts						
Less than 1 year	–	1.6%	–	£60.0m	–	(£0.3m)
2 to 5 years	**1.2%**	1.0%	**£110.0m**	£60.0m	**(£0.2m)**	£0.9m

The interest rate swaps are settled on a monthly basis. The floating rate on the interest rate swaps is 1 month LIBOR. The Group settles the difference between fixed and floating interest rates on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in the income statement over the period that the floating rate interest payments on debt impact the income statement.

All derivative financial instruments are classified as level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Current		Non-current	
£m	2015	2014	2015	2014
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps – Liabilities	–	–	**(0.2)**	–
	–	–	**(0.2)**	–
Interest rate swaps – Assets	–	–	–	0.6
	–	–	–	0.6

During 2015 a charge of £0.2m was made relating to the portion of the hedge that was deemed ineffective prior to the acquisition of Tuffnells (2014: £0.4m credit).

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities the analysis assumes the amount of liability outstanding at the balance sheet date was 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 2015 would decrease/increase by £0.2m (2014: £0.1m) due to the interest rate swaps that are used to mitigate this risk.

Credit risk

The Group considers its exposure to credit risk at 31 August 2015 to be as follows:

£m	2015	2014
Bank deposits	**10.9**	20.4
Trade receivables	**123.6**	107.9
	134.5	128.3

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

21. Obligations under finance leases

£m	2015 Minimum lease payments	2015 Present value of minimum lease payments	2014 Minimum lease payments	2014 Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	**3.3**	**2.9**	1.0	1.0
In the second to fifth years inclusive	**7.0**	**6.5**	3.4	3.1
Total	**10.3**	**9.4**	4.4	4.1
Less: future finance charges	**(0.9)**	**–**	(0.3)	–
Present value of lease obligations	**9.4**	**9.4**	4.1	4.1
Less: amount due for settlement within 12 months (shown under current liabilities)		**(2.9)**		(0.9)
Amount due for settlement after 12 months		**6.5**		3.2

Group policy is to acquire certain items of its fixtures and equipment under finance leases. The average lease term is four 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	2015	2014
Other creditors	**1.0**	1.4

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 2014	0.6	0.1	2.2	(3.1)	4.2	4.0
Charge to income	0.2	(0.9)	–	1.3	(0.1)	0.5
Charge to other comprehensive income and directly in equity	–	–	(0.6)	–	(0.9)	(1.5)
Acquisition/disposal of subsidiary	1.1	1.1	–	(11.6)	0.4	(9.0)
At 31 August 2015	**1.9**	**0.3**	**1.6**	**(13.4)**	**3.6**	**(6.0)**
Deferred tax assets	2.0	0.3	1.6	–	3.6	7.5
Deferred tax liabilities	(0.1)	–	–	(13.4)	–	(13.5)
At 1 September 2013	0.1	0.6	1.5	(3.5)	4.9	3.6
Charge to income	0.5	(0.4)	0.2	0.4	(0.1)	0.6
Charge to other comprehensive income and directly in equity	–	(0.1)	0.5	–	(0.6)	(0.2)
At 31 August 2014	**0.6**	**0.1**	**2.2**	**(3.1)**	**4.2**	**4.0**
Deferred tax assets	0.7	0.1	2.2	–	4.2	7.2
Deferred tax liabilities	(0.1)	–	–	(3.1)	–	(3.2)

The Company has capital losses carried forward of £40.7m (2014: £23.9m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

The Finance Act 2013, which provides for a reduction in the main rate of UK corporation tax from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This rate reduction has been reflected in the current year calculation of current and deferred tax. Further rate reductions to 19% effective from 1 April 2017 and 18% from 1 April 2020 were announced in the summer budget. As these have not yet been substantively enacted, they have not been reflected in the calculation of deferred tax at the balance sheet date.

Connect Group PLC
Notes to the accounts continued

24. Provisions

£m	Reorganisation provisions	Insurance provision	Deferred contingent consideration	Property provisions	Total
Gross provision:					
At 1 September 2014	0.7	1.4	–	3.6	5.7
Additions	2.3	0.1	5.2	1.0	8.6
Acquisition of business	–	1.3	–	4.1	5.4
Released	(0.2)	–	–	(0.2)	(0.4)
Utilised in year	(1.8)	–	–	(0.6)	(2.4)
At 31 August 2015	**1.0**	**2.8**	**5.2**	**7.9**	**16.9**
Discount:					
At 1 September 2014	–	–	–	(0.4)	(0.4)
Additions	–	–	–	–	–
Acquisition of business	–	–	–	(0.1)	(0.1)
Unwinding of discount utilisation	–	–	–	–	–
At 31 August 2015	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Net book value at 31 August 2015	**1.0**	**2.8**	**5.2**	**7.4**	**16.4**
Gross provision:					
At 1 September 2013	1.4	1.4	1.9	6.4	11.1
Additions	0.7	0.2	0.2	1.3	2.4
Released	(0.1)	–	–	(1.5)	(1.6)
Utilised in year	(1.3)	(0.2)	(2.1)	(2.6)	(6.2)
At 31 August 2014	0.7	1.4	–	3.6	5.7
Discount:					
At 1 September 2013	–	–	–	(0.8)	(0.8)
Additions	–	–	–	(0.1)	(0.1)
Disposals	–	–	–	0.4	0.4
Unwinding of discount utilisation	–	–	–	0.1	0.1
At 31 August 2014	–	–	–	(0.4)	(0.4)
Net book value at 31 August 2014	0.7	1.4	–	3.2	5.3

£m	**2015**	2014
Included within current liabilities	**10.4**	3.4
Included within non-current liabilities	**6.0**	1.9
Total	**16.4**	5.3

Reorganisation provisions include amounts for programmes which consist primarily redundancy costs, that have been announced prior to the year end and are all expected to be utilised during the following financial year.

Insurance provisions represent the expected future costs of employer's liability, public liability and motor accident claims.

The property provision represents the estimated future cost of the Group's onerous and reversionary leases in non-trading properties based on known and estimated rental sub-leases. This provision has been discounted at a risk adjusted rate and this discount will be unwound over the life of the leases. The provision is expected to be utilised over the period to 2024, when all of the leases provisions will have expired. Deferred contingent consideration relates to amounts provided in relation to the acquisition of The Big Green Parcel Holding Company Limited (Tuffnells) on 19 December 2014, the cost being contingent upon achievement of profit targets and the future employment of the former owners of the business.

25. Contingent liabilities and capital commitments

£m	2015	2014
Bank and other loans guaranteed	**5.0**	2.1

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2015 of £3.6m (2014: £6.3m). This excludes the reversionary lease provision included within property provisions in Note 24.

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £1.1m (2014: £nil).

26. Operating lease commitments

The Group as lessee:

Minimum lease payments under non-cancellable operating leases are as follows:

	2015			2014		
£m	**Land & buildings**	**Equipment & vehicles**	**Total**	Land & buildings	Equipment & vehicles	Total
Within one year	**10.2**	**12.4**	**22.6**	7.7	2.1	9.8
In the second to fifth years inclusive	**30.3**	**19.9**	**50.2**	25.6	1.5	27.1
In more than five years	**23.3**	**–**	**23.3**	24.3	–	24.3
	63.8	**32.3**	**96.1**	57.6	3.6	61.2

The Group leases various distribution properties and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

£m	2015	2014
Within one year	**0.1**	0.1
In the second to fifth years inclusive	**0.1**	0.2
	0.2	0.3

Property rental income earned during the year was £0.1m (2014: £0.1m).

27. Net cash inflow from operating activities

£m	2015	2014
Operating profit	**36.3**	48.6
Losses on disposal of assets	**0.2**	–
Share of profits of jointly controlled entities	**(0.3)**	(0.3)
Adjustment for pension funding	**(5.4)**	(4.6)
Depreciation of property, plant and equipment	**7.3**	5.2
Amortisation and impairment of intangible assets	**11.4**	6.3
Share based payments	**8.0**	1.1
Decrease/(increase) in inventories	**3.8**	(1.7)
Increase in receivables	**(7.5)**	(2.4)
(Increase)/decrease in payables	**(4.4)**	7.3
Income tax paid	**(8.7)**	(9.8)
Increase/(decrease) in provisions	**5.8**	(2.3)
Net cash inflow from operating activities	**46.5**	47.4

Connect Group PLC
Notes to the accounts continued

28. Share Capital

(a) Share capital

£m	2015	2014
Authorised:		
300.0m ordinary shares of 5p each	**15.0**	15.0
Issued and fully paid:		
At 1 September	**9.5**	9.2
Shares issued during the year	**2.7**	0.3
244.1m ordinary shares of 5p each (2014:189.3m)	**12.2**	9.5

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2014	189.3
Shares issued during the year	54.8
At 31 August 2015	**244.1**

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 2015, 54,855,669 ordinary 5p shares were issued for a consideration of £55,765,415 resulting in a share premium of £49,889,432 after accounting for equity issue related costs of £3.1m. 54,137,236 shares were as a result of the rights issue in December 2014.

During the year to 31 August 2014, 4,959,905 ordinary 5p shares were issued for a consideration of £4,373,469, resulting in a share premium of £4,125,474. Of these 4,530,012 related to the deferred share capital payable to the former owners of Hedgelane Limited following its acquisition in April 2012, the remainder were issued to satisfy share scheme exercises.

(c) Share premium

£m	2015	2014
Balance at 1 September	**5.3**	1.2
Premium arising on issue of equity shares	**49.9**	4.1
Balance at 31 August	**55.2**	5.3

29. Reserves

(a) Demerger reserve

£m	2015	2014
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 (formerly referred to as ESOP reserve)

£m	2015	2014
Balance at 1 September	**(5.2)**	(1.5)
Acquired in the period	**(4.2)**	(6.3)
Disposed of on exercise of options	**5.3**	2.6
Balance at 31 August	**(4.1)**	(5.2)

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 at 31 August 2015 was 2,807,124 (2014: 2,203,191).

29. Reserves continued

(c) Hedging and translation reserve

£m	2015	2014
Balance at 1 September	**(0.3)**	(0.6)
Net movement in cash flow hedges (net of tax)	**(0.6)**	0.5
Amounts previously recognised in the consolidated statement of comprehensive income (Note 30)	**0.5**	–
Exchange differences on translating net assets of foreign operations	**(0.1)**	(0.2)
Balance at 31 August	**(0.5)**	(0.3)

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 1 September 2013	214.9
Total comprehensive income for the year	33.3
Dividends paid	(17.7)
Employee share schemes	(2.6)
Credit for equity-settled share based payments	0.6
Balance at 31 August 2014	228.5
Total comprehensive income for the year	22.1
Reclassification between reserves (Note 29c)	(0.5)
Acquisition of non-controlling interest (Note 13)	(5.1)
Dividends paid	(21.4)
Employee share schemes	(5.3)
Equity-settled share based payments, net of tax	8.2
Balance at 31 August 2015	**226.5**

31. Share-based payments

The Group recognised total expenses of £8.0m in 2015 (2014: £1.5m) related to equity-settled share-based payment transactions. £6.7m of the charge in 2015 relates to deferred contingent consideration arising from the acquisition of Tuffnells.

Average share price throughout the year was 155.4p (2014: 191.5p).

The Group operates the following share incentive schemes:

Sharesave Scheme

Under the terms of the Smiths News Sharesave Scheme, the Board may grant options to purchase ordinary shares in the Company to eligible employees who enter into an HM Revenue & Customs approved Save-As-You-Earn ('SAYE') savings contract for a term of three or five years. Options are granted at a 20% discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

Executive Share Option Schemes (ESOS)

Under the terms of the Smiths News Executive Share Option Scheme, the Board may grant options to purchase ordinary shares in the Company to executives up to an annual limit of 200% of base salary. The exercise of options is conditional on the achievement of a three year performance target, which is determined by the Remuneration Committee at the time of grant. Provided that the target is met, options are normally exercisable until the day preceding the 10th anniversary of the date of grant.

LTIP

Under the terms of the Connect Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200% of base salary. The vesting of awards is subject to the satisfaction of a three year performance condition, which is determined by the Remuneration Committee at the time of grant. Subject to the satisfaction of the performance condition, awards are normally exercisable until the 10th anniversary of the date of grant.

Deferred Bonus Plan (DBP)

Under the terms of the Connect Group Deferred Bonus Plan, executive directors and key senior executives may be granted each year share awards (in the form of nil cost options) dependent on the achievement of the Annual Bonus Plan and Economic Profit Plan performance targets. Awards are normally exercisable after two years subject to continued employment.

Connect Group PLC
Notes to the accounts continued

31. Share-based payments continued

Details of the options/awards are as follows:

	Sharesave		ESOS		LTIP		DBP	
Number of options/awards	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price
At 31 Aug 2013	2,455,558	98.0p	4,588,168	106.5p	2,544,480	–	997,102	–
Granted	850,683	158.0p	895,607	210.3p	601,195	–	450,021	–
Exercised	(429,893)	86.9p	(503,897)	92.8p	(969,253)	–	(486,519)	–
Expired/Forfeited	(249,010)	101.4p	(255,367)	134.2p	(125,231)	–	(19,219)	–
At 31 Aug 2014	2,627,338	118.9p	4,724,511	126.1p	2,051,191	–	941,385	–
Rights issue adjustment	246,099	–	447,170	–	223,335	–	97,697	–
Granted	1,315,652	128.4p	1,312,575	153.9p	818,203	–	517,016	–
Exercised	(788,584)	76.3p	(1,485,293)	86.9p	(868,573)	–	(592,545)	–
Expired/Forfeited	(307,009)	128.8p	(209,271)	167.5p	(80,326)	–	(15,825)	–
At 31 Aug 2015	**3,093,496**	**123.3p**	**4,789,692**	**132.3p**	**2,143,830**	**–**	**947,728**	**–**
Exercisable at 31 Aug 2015	**363,920**	**73.0p**	**1,706,129**	**84.9p**	**–**	**–**	**–**	**–**
Exercisable at 31 Aug 2014	232,584	80.7p	1,652,486	92.7p	–	–	–	–

The weighted average remaining contractual life in years of options/awards is as follows:

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2015	**2.4**	**7.4**	**8.2**	**1.7**
Outstanding at 31 August 2014	1.5	7.5	8.1	1.7

Details of the options/awards granted or commencing during the current and comparative year are as follows:

	Sharesave	ESOS	LTIP	DBP
During 2015:				
Effective date of grant or commencement date	June 2015	Dec 2014	June 2015	Nov 2014
Average fair value at date of grant or scheme commencement – pence	36.1	22.8	163.0	154.8
During 2014:				
Effective date of grant or commencement date	June 2014	Nov 2013	Nov 2013	Nov 2013
Average fair value at date of grant or scheme commencement – pence	42.5	28.6	193.6	202.4

The options outstanding at 31 August 2015 had exercise prices ranging from nil to 210.3p (2014: nil to 210.3p).

The weighted average share price on the date of exercise was 156p (2014: 200p).

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	LTIP	DBP
2015 options/awards:				
Share price at grant date – pence	160.5	153.9	163.0	154.8
Exercise price – pence	128.4	153.9	–	–
Expected volatility – per cent	35.0	34.0	–	–
Expected life – years	3.0	3.0	–	–
Risk free rate – per cent	1.56	1.27	–	–
Expected dividend yield – per cent	6.0	6.3	–	–
Weighted average fair value – pence	36.1	22.8	163.0	154.8
2014 options/awards:				
Share price at grant date – pence	197.5	210.3	193.6	202.4
Exercise price – pence	158.0	210.3	–	–
Expected volatility – per cent	32.0	31.0	–	–
Expected life – years	3.0	3.0	–	–
Risk free rate – per cent	1.96	1.61	–	–
Expected dividend yield – per cent	6.2	6.2	–	–
Weighted average fair value – pence	42.5	28.6	193.6	202.4

32. 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	**2015**	2014	**2015**	2014
Jointly controlled entities	**3.2**	3.2	**0.6**	0.6

Sales to related parties are for management fees, payment is due on the last day of the month following the date of invoice.

Non-trading transactions

	Loans to related parties	
£m	**2015**	2014
Jointly controlled entities	**0.3**	0.4

The loans to related parties have no set date for repayment and accrue interest at LIBOR + 2%.

Aggregate remuneration of key management personnel

The remuneration of the directors and the executive management team, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 '*Related Party Disclosures*.'

£m	**2015**	2014
Short-term employee benefits	**4.1**	3.0
Post-employment benefits	**–**	–
Share based payments	**0.8**	0.8
	4.9	3.8

Information concerning directors' remuneration, interest in shares and share options are included in the Remuneration report on pages 43 to 59.

Connect Group PLC
Notes to the accounts continued

33. Subsidiary and associated undertakings

Name	Country of incorporation/registration	Proportion of ownership interest
Bertram Trading Limited	England	100%
Bluebox Avionics Limited*	England	50%
Connect Books Limited	England	100%
Connect Care Limited	England	100%
Connect Education Limited	England	100%
Connect Education & Care Limited	England	100%
Connect Limited	England	100%
Connect Logistics Limited	England	100%
Connect News & Media Limited	England	100%
Connect Parcels Limited	England	100%
Connect Parcel Freight Limited	England	100%
Connect Services Limited	England	100%
Connect Specialist Distribution Group Limited	England	100%
Connect 2U Limited	England	100%
Dawson Books Limited	England	100%
Dawson Books Services Limited	England	100%
Dawson Espana Agiencie de Ediciones SL	Spain	100%
Dawson Finance Company Limited	England	100%
Dawson France SAS	France	100%
Dawson Guarantee Company Limited	England	100%
Dawson Holdings Ltd	England	100%
Dawson Iberica SRL	Spain	100%
Dawson Limited	England	100%
Dawson Media Direct China Limited	Hong Kong	100%
Dawson Media Direct Co., Ltd	Thailand	100%
Dawson Media Direct GmbH	Germany	100%
Dawson Media Direct Holdings Inc	USA	100%
Dawson Media Direct Inc	USA	100%
Dawson Media Direct Iberica SL	Spain	100%
Dawson Media Direct Limited	England	100%
Dawson Media Direct Middle East FZ LLC	UAE	50%
Dawson Media Direct NV	Belgium	100%
Dawson Media Direct SAS	France	100%
Dawson Overseas Holdings Limited	England	100%
Dawson UK Limited	England	100%
DMD Holdings Limited	UAE	100%
Erasmus Antiquariaat en Boekhandel B.V.	Holland	100%
Erasmus Buchandlung GmbH	Germany	100%
FMD Limited*	England	50%
Hammond Bridge Limited	England	100%
Hammond Bridge Trustees Limited	England	100%
Hedgelane Limited	England	100%
Houtschild Internationale Boekhandel B.V.	Holland	100%
Jack's Beans Limited	England	100%
Magpie Investments Limited[1]	England	100%
Martin-Lavell Limited	England	100%
Open-Projects Limited	England	50%
Pass My Parcel Limited	England	100%
Phantom Media Limited	England	100%
Rascal Solutions Limited*	England	50%
Smiths News Group Middle East FZ LLC	UAE	100%
Smiths News Holdings Limited	England	100%
Smiths News Limited	England	100%
Smiths News Instore Limited	England	100%

33. Subsidiary and associated undertakings continued

Name	Country of incorporation/registration	Proportion of ownership interest
Smiths News Investments Limited	England	100%
Smiths News Trading Limited	England	100%
Studentpacks Limited	England	100%
Supply Zone Limited	England	100%
Surridge Dawson (Holdings) Limited	England	100%
The Big Green Euro Machine Limited	England	100%
The Big Green Parcel Group Limited	England	100%
The Big Green Parcel Holding Company Limited	England	100%
The Big Green Parcel Machine Limited	England	100%
The Consortium for Purchasing and Distribution Ltd	England	100%
The Consortium Limited	England	100%
Tuffnells Parcels Express Limited	England	100%
Wordery Limited	England	100%
Worldwide Magazine Distribution Limited	England	100%

Except as marked all of the above are subsidiaries of Connect Group PLC. Those marked with an asterisk are joint controlled entities, for details of which refer to Note 15 to the Group accounts.

A full list of subsidiary companies is available from the Company's registered office.

1 The Group increased its shareholding in Magpie Investments Limited during the year (refer to Note 13).

Connect Group PLC
Five-year financial summary (unaudited)
Group income statement

£m	31 August 2015	31 August 2014	31 August 2013	31 August 2012	31 August 2011
			12 months		
Revenue	**1,875.1**	1,808.5	1,806.9	1,803.9	1,734.4
Operating profit before non-recurring items	**63.8**	55.5	56.4	51.2	41.7
Non-recurring items	**(27.5)**	(6.9)	(10.8)	(10.9)	(6.5)
Operating profit	**36.3**	48.6	45.6	40.3	35.2
Net finance charges	**(7.3)**	(5.5)	(6.5)	(3.7)	(3.1)
Non-recurring interest cost	**–**	–	(0.2)	–	–
Profit before tax	**29.0**	43.1	38.9	36.6	32.1
Income tax expense	**(7.6)**	(8.3)	(10.2)	(9.1)	(10.2)
Profit for the period	**21.4**	34.8	28.7	27.5	21.9
Statutory earnings per share					
Basic[1]	**9.3p**	16.8p	14.2p	15.2p	12.1p
Diluted[1]	**9.0p**	16.2p	13.3p	14.7p	11.9p
Adjusted earnings per share					
Basic – continuing operations[1]	**19.7p**	19.6p	19.0p	17.9p	14.0p
Diluted[1]	**19.0p**	19.0p	17.8p	17.4p	13.8p
Dividend per share[1]	**9.2p**	8.8p	8.4p	7.8p	7.2p
Dividend paid (£m)	**21.4**	17.7	16.0	14.9	13.8
Leverage					
Free cash flow	**39.8**	37.2	32.6	27.2	22.5
Operating cash flow	**46.5**	47.4	37.9	28.5	25.2
Total net debt	**(153.4)**	(93.0)	(98.5)	(100.5)	(63.3)
Net debt/EBITDA (covenant 2.75x)	**1.9**	1.4	1.5	1.6	1.3
Interest cover (covenant 3.0x)	**15.0**	11.8	13.9	12.9	14.2
Fixed charge cover (covenant 2.0x)	**3.4**	4.7	5.3	4.9	3.6

1 Rebased Earnings per share and rebased Dividends per share adjust last year reported figures by the rights issue bonus factor adjustment of 0.9015 following the 2 for 7 rights issue in December 2014

Five-year financial summary (unaudited)
Group balance sheet

£m	31 August 2015	31 August 2014	31 August 2013	31 August 2012	31 August 2011
Non-current assets	**231.8**	107.1	107.6	106.1	71.7
Current assets	**200.2**	193.8	181.4	170.0	149.4
Current liabilities	**(282.0)**	(267.7)	(283.0)	(272.2)	(226.6)
Non-current liabilities	**(134.8)**	(73.4)	(60.1)	(76.8)	(77.0)
Long term provisions	**(6.0)**	(1.9)	(2.8)	(4.7)	(4.9)
Net liabilities	**9.2**	(42.1)	(56.9)	(77.6)	(87.4)
Equity	**67.4**	14.8	10.4	9.8	9.7
Retained earnings	**226.5**	228.5	214.9	196.7	187.7
Other reserves	**(284.7)**	(285.6)	(282.2)	(284.1)	(284.8)
Non-controlling interests in equity	**–**	0.2	–	–	–
	9.2	(42.1)	(56.9)	(77.6)	(87.4)

Connect Group PLC
Company balance sheet
As at 31 August 2015

£m	Note	2015	2014
Fixed assets			
Investments in subsidiary undertakings	3	**520.0**	520.0
		520.0	520.0
Creditors: amounts falling due after more than one year	4	**(418.7)**	(449.9)
Total net assets		**101.3**	70.1
Capital and reserves			
Called up share capital	5	**12.2**	9.5
Share premium account	5(c)	**55.2**	5.3
Retained earnings	6	**33.9**	55.3
Total shareholders' funds		**101.3**	70.1

These accounts were approved by the directors on 21 October 2015.

Registered number – 05195191

Signed on behalf of the Board of directors

Mark Cashmore
Director

Nick Gresham
Director

Connect Group PLC
Reconciliation of movements in shareholders' funds
For the year ended 31 August 2015

£m	2015	2014
Opening shareholders' funds	**70.1**	83.4
Dividend paid	**(21.4)**	(17.7)
Shares issued in the year	**52.6**	4.4
Net increase/(decrease) in shareholders' funds	**31.2**	(13.3)
Closing shareholders' funds	**101.3**	70.1

Connect Group PLC
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 FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the company has decided to adopt FRS 101 early and has undergone transition from reporting under IFRSs adopted by the European Union to FRS 101 as issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principle 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.

(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

(c) Financial liabilities and equities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was £nil. There were no other recognised gains or losses. Dividend paid in the year is £21.4m (2014 £17.7m).

3. Investments in subsidiary undertakings

£m	**2015**	2014
Net book value:		
At 1 September	**520.0**	520.0
At 31 August	**520.0**	520.0

An impairment of £142.9m has been recognised historically against the cost of these investments. Further information about subsidiaries, including disclosures about non-controlling interests, is provided in Note 33 to the consolidated financial statements.

4. Creditors: amounts falling due after more than one year

£m	**2015**	2014
Amounts owed to Group companies	**418.7**	449.9

The amounts owed to Group companies are not considered to be repayable within five years. These balances are not interest bearing.

Connect Group PLC
Notes to the Company balance sheet continued

5. Called up share capital
(a) Share capital

£m	2015	2014
Authorised:		
300.0m ordinary shares of 5p each	15.0	15.0

£m	2015	2014
Issued and fully paid ordinary shares of 5p each		
At 1 September	9.5	9.2
Shares issued in the year	2.7	0.3
At 31 August	12.2	9.5

During the year to 31 August 2015, 54,855,669 ordinary 5p shares were issued for a consideration of £55,765,415 resulting in a share premium of £49,889,432 after accounting for equity issue related costs of £3.1m. 54,137,236 shares were as a result of the rights issue in December 2014.

During the year to 31 August 2014, 4,959,905 ordinary 5p shares were issued for a consideration of £4,373,469, resulting in a share premium of £4,125,474. Of these 4,530,012 related to the deferred share capital payable to the former owners of Hedgelane Limited following its acquisition in April 2012, the remainder were issued to satisfy share scheme exercises.

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2014	189.3
Issued in the year	54.8
At 31 August 2015	244.1

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

(c) Share Premium

£m	2015	2014
Balance at 1 September	5.3	1.2
Shares issued in the year	49.9	4.1
Balance at 31 August	55.2	5.3

6. Reserves

£m	Retained earnings
Balance at 1 September 2014	55.3
Dividend paid	(21.4)
Dividend received	–
Balance at 31 August 2015	**33.9**

The company received no dividends during the year.

7. Related party transactions
The Company has taken advantage of the exemption granted by paragraph 8(k) of FRS 101 not to disclose transactions with Connect Group PLC companies and interests of the Group, which are related parties.

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.

Connect Group PLC is registered in England and Wales (Number 5195191).

Company website
Connect Group PLC Annual Reports and results announcements are available via the internet on our website www.connectgroupplc.com. The site provides a wide range of information for investors about the Company including annual reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing AGM information and other useful shareholder information.

Annual Report and Accounts
This Annual Report and Accounts is published on our website at www.connectgroupplc.com 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 Accounts have been notified of its availability on the website.

A paper copy of the Annual Report and Accounts can be obtained by writing to the Company Secretary, Connect Group PLC, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH or you can e-mail your request to investor.relations@connectgroupplc.com.

Annual General Meeting
The AGM will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Thursday 4 February 2016 at 11.30am. The Notice of AGM sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form and present it at the registration desk on arrival.

Proxy Form
Shareholders unable to attend the AGM 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 2 February 2016.

Electronic proxy voting
You may if you wish register the appointment of a proxy for the 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 Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on Tuesday 2 February 2016.

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 2771[1] or from outside the UK +44 (0)121 415 7565). A textphone facility for shareholders with hearing difficulties is available by telephoning 0371 384 2255[1]. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Proxy Form).

1 Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding UK bank holidays.

Financial calendar

Financial year end	31 August 2015
Results announced	14 October 2015
Annual Report published	30 November 2015
Final dividend ex-dividend date	14 January 2016
Final dividend record date	15 January 2016
Annual General Meeting	4 February 2016
Final dividend payment date	12 February 2016
Half-year end	29 February 2016
Interim results announced	April 2016
Interim dividend ex-dividend date	June 2016
Interim dividend record date	June 2016
Interim dividend payment date	July 2016
Financial year end	31 August 2016
Results announced	October 2016

For the dates of events in the second half of the financial calendar, please check the Connect Group PLC website at www.connectgroupplc.com nearer the relevant time for further details, and to ensure that no changes have been made.

The dividend dates shown above are in respect of the Company's ordinary shares of 5p.

Share dealing service
The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing, you may call 03456 037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

Shareholder information continued

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
Rights Issue 17 December 2014

Shareholders who acquired shares

For the purposes of calculating any chargeable gains or losses, any ordinary shares you acquired as a result of the Rights Issue (at a price of 102p each) are treated as being acquired at the same time as your original holding of ordinary shares and the subscription cost added to the base cost of your original holding.

Shareholders who sold or renounced their rights or who allowed their rights to lapse

If you sold any or all of your rights to subscribe for the ordinary shares provisionally allotted to you, or if you allowed your rights to lapse and received a cash payment in respect of them, if the proceeds were 'small' as compared with the market value (on the date of sale or lapse) of your existing holding of ordinary shares in respect of which the rights arose, you will not generally be treated as making a disposal for CGT purposes. Instead, the proceeds received should be deducted from the base cost of your existing holding of ordinary shares. HMRC current practice is to regard a sum as 'small' for these purposes where either (i) the proceeds do not exceed 5% of the market value (at the date of sale or lapse) of the ordinary shares in respect of which the rights arose or (ii) the sum received is £3,000 or less, regardless of whether the 5% test is satisfied.

If the proceeds you received were not 'small' the sale is treated as a disposal and, in order to calculate any chargeable gains or losses, you need to apportion the original base cost of your existing holding of ordinary shares between the sale proceeds and your existing holding of ordinary shares in the ratio of the sale proceeds divided by the sale proceeds plus the market value of your existing holding of ordinary shares (on the date of sale or lapse). Further guidance can be found on the HMRC website www.gov.uk/capital-gains-tax-share-reorganisation-takeover-or-merger.

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of $2^{13}/_{81}$p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of $22^{6}/_{67}$p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original tax base cost of your old WH Smith PLC ordinary shares of $55^{5}/_{9}$p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If your shares result from a holding of old WH Smith PLC shares acquired on or before 31 March 1982, the tax base cost to be used in order to calculate any chargeable gains or losses arising on the disposal of shares is the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of $22^{6}/_{67}$p	61.62p	50.92p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

Glossary of terms

Connect Group PLC (the 'Company')
Connect Group PLC, registered in England and Wales with registered no. 5195191.

The Group
Collectively, Connect Group PLC and its subsidiaries.

Connect News & Media division
The businesses principally operated by the following subsidiaries of Connect Group PLC:

Smiths News
The news businesses operated by Smiths News Trading Limited comprising Smiths News, Instore, Jack's Beans, Pass My Parcel and Newsworks.

Dawson Media Direct (or DMD)
The international media business operated by a number of UK and international subsidiaries.

Connect Books division
The businesses principally operated by the following subsidiaries of Connect Group PLC:

Bertrams
The books business operated by Bertram Trading Limited.

Dawson Books
The books business operated by Dawson Books Limited comprising Dawson Books and the eBook platform 'Dawsonera'.

Houtschild and Erasmus
The international books businesses operated by Houtschild Internationale Boekhandel BV, Erasmus Antiquariaat en Boekhandel BV and Erasmus Buchhandlung GmbH.

Connect Education & Care division
The businesses principally operated by a subsidiary of Connect Group PLC:

The Consortium
The education and care business operated by The Consortium for Purchasing and Distribution Limited comprising of the business of The Consortium.

West Mercia Supplies
The education and care business operated by The Consortium for Purchasing and Distribution Limited comprising of the business of West Mercia Supplies.

Connect Parcel Freight division
The businesses principally operated by a subsidiary of Connect Group PLC:

Tuffnells
The parcel freight business operated by Tuffnells Parcels Express Limited.

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