Connect Group PLC

('Connect Group' or 'the Group' : Formerly Smiths News PLC)

Unaudited Interim Results for the six months ended 28 February 2014

Connect Group, a leading specialist distributor operating in three divisions; News & Media, Books and Education & Care, is pleased to announce interim results for the 6 months ended 28 February 2014.

Underlying results	**6 months to 28 Feb 2014**	Restated[7] 6 months to 28 Feb 2013	Change
Underlying [(1)] revenue	**£898.7m**	£901.7m	-0.3%
Underlying [(1)] profit before tax	**£24.0m**	£23.3m	+3.0%
Underlying [(1)] basic earnings per share	**10.1p**	9.5p	+6.3%
Statutory results			
Revenue	**£898.7m**	£904.7m	-0.7%
Statutory profit before tax	**£22.1m**	£18.4m	+20.1%
Statutory basic earnings per share	**9.1p**	7.0p	+30.0%
Interim dividend per share	**3.1p**	3.0p	+3.3%
Free cash flow [(3)]	**£11.9m**	£10.2m	+16.7%
Net debt [(4)]	**£105.0m**	£109.4m	+4.0%

Highlights:

- Rebranding to 'Connect Group PLC' complete
- Robust Group financial performance; 24% profits outside newspaper and magazine wholesaling activities
- Continued strategic progress across the Group
  - News & Media:
    - Secured over £1.1bn of total annualised revenues through to 2019 and beyond, representing over 77% of contracted revenues
    - Newspaper sales up 0.9% driven by new business wins, cover price inflation, strong promotions and continued progress on cost efficiencies with £3.2m achieved in first half
  - Books:
    - Margin pressure and slower than expected return on investments impacted first half profit performance
    - Wordery continues to drive sales growth, now 11% of total Book sales
  - Education & Care:
    - Strong sales momentum in core categories up 5.0%
      Range alignment and expansion in new catalogues
- Trading in line with current market expectations

Mark Cashmore, Group Chief Executive, commented:

"The Group continues to make good strategic progress despite a challenging start to the year in our Books division. Our News & Media and Education & Care divisions, which represent 91% of Group profits, are performing strongly, with 77% of our News revenue now secured to 2019 or beyond.

"We remain focused on growing profits, generating significant levels of free cash and delivering on our ongoing diversification strategy, which targets the Group generating 50% of profits outside of newspaper and magazine wholesaling by 2016."

The following definitions have been applied consistently throughout this interim results announcement:

(1) Underlying 2014 and 2013 results exclude non-recurring items and amortisation of acquired intangibles and include the results of acquired businesses from the date of acquisition and excludes results from businesses disposed in the prior period.

(2) Underlying earnings per share are calculated using underlying profit before tax and the Group underlying effective tax rate of 21.5% for HY2014 and 24.9% for HY2013.

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

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

(5) Like for like revenues exclude the impact of gains and losses, including contracts, new business and acquisitions reported in the current or prior year total sales.

(6) HY 2014 refers to the six months ended 28 February 2014, FY 2013 refers to the year ended 31 August 2013 and HY2013 refers to the six months ended 28 February 2013.

(7) The Group adopted IAS 19 (revised) in the period which changed the accounting for defined benefit pension schemes. The prior period has been restated resulting in a £1.5m reduction in both underlying and statutory profit before tax. The consequent changes to the prior periods underlying and statutory earning per share are shown in note 2 to the Condensed financial statements.

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 23 April 2014 commencing at 9.30am. Connect Group PLC's Interim Results 2014 are available at www.connectgroupplc.com

An audio webcast will be available on:
http://mediaserve.buchanan.uk.com/2014/connectgroup230414/registration.asp

About Connect Group PLC:

Connect Group PLC is a leading specialist distributor operating in large and diverse markets. The Group has three separate divisions, connecting suppliers to customers in an efficient, knowledgeable and service oriented way:

- Connect News & Media – Encompassing: Smiths News, the UK's largest news wholesaling business with an approximate 55% market share, distributing newspapers and magazines on behalf of all the major national publishers as well as a large number of regional publishers. Smiths News serves approximately 30,000 customers across England and Wales, supplying large general retailers as well as smaller independent newsagents; and Dawson Media Direct, an international media direct business supplying newspapers, magazines and inflight entertainment technology and content to over 80 airlines in 50 Countries,

- Connect Books - Combining a number of recognised brands in print and digital bookselling, including Bertrams, Dawson Books and Wordery. A leading distributor of physical and digital books, the division serves over 8,200 customers in approximately 100 countries, with over 200,000 in stock titles and access to over a further 7 million consumer and 20 million academic titles,

- Connect Education & Care - A leading independent supplier of consumables through The Consortium and West Mercia Supplies with an approximate 5% market share. The division serves over 30,000 customers with an extensive range of over 40,000 products across a branded, own brand and value range, including stationery, arts and craft and cleaning.

Notes to Editors

This document contains certain forward-looking statements with respect to Connect Group PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document. Unless otherwise required by applicable law, regulation or accounting standard, Connect Group PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Connect Group PLC. For more detailed information, please see the interim announcement for the half-year ended 28 February 2014 which can be found on the Investor Relations section of the Connect Group PLC website – www.connectgroupplc.com. However, the contents of Connect Group PLC's website are not incorporated into and do not form part of this document.

OPERATING REVIEW

INTRODUCTION

The Group produced a robust financial performance despite lower levels of profitability in our Books division. Total revenues were £899m broadly level with the prior year, with underlying PBT of £24.0m up 3.0% in the first half. This solid performance is underpinned by growth in our News & Media and Education & Care divisions. Free cash flow also remained strong at £11.9m, up 17% versus the prior year.

News & Media performed well, with News Distribution having now secured over £1.1bn or 77% of its contracted annual revenues through to at least 2019 and in some cases beyond. This coupled with additional business wins reaffirms our market leading position in this sector. In February we commenced the exclusive distribution of Metro Newspaper, a dedicated service to 2,000 drop points every weekday, totalling 800,000 copies a week.

Books has benefited from the rapid growth of Wordery, which will deliver annualised revenues of over £20m from a standing start just 18 months ago. The challenge within our Books division is from a combination of margin and sales mix, as well as slower than anticipated returns from recent investments which has impacted profitability in the first half.

Education & Care continues to perform in line with our expectations with revenue growth in its core markets up 5.0% and further geographical expansion into Scotland and Northern Ireland.

Underlying EPS of 10.1p is up 6.3% versus the restated H1 EPS of 9.5p last year, reflecting growth in underlying PBT and lower taxation charges.

Given the Group's stated progressive dividend policy, continued solid profit performance and strong cashflow, the Board has declared an interim dividend of 3.1p, an increase of 3.3%.

RE-BRANDING

Further to the announcement in March of our intention to change name, this is our first set of results incorporating our new corporate identity: Connect Group PLC. This rebranding represents another major milestone for the Group as we embrace the wider impacts of our diversification strategy. Rebranding as 'Connect Group' reflects the progress we have made since becoming an independent company in 2006, both in terms of breadth and depth of the Group, as well as the scope of our ambition for the future.

In eight years as an independent PLC we have diversified from being a news wholesaler to a larger and broader based specialist distributor. The essence of our strategy has been to take our core skills and competencies and apply these to carefully chosen new markets.

The Group began by growing share of the newspaper and magazine market to 55%; expanded into consumer books in 2009 and later into academic and digital books as well as specialist media distribution, which came with the acquisition of Dawson Holdings in 2011. More recently, we have moved into the growing education and care markets. In the first half 24% of profits came from activities outside of newspaper and magazine wholesaling, and we remain committed to our target to achieve 50% by 2016.

At demerger, the name of Smiths News PLC described the business as it was then, but it no longer reflects the Group we are today or our ambitions for the future.

Connect Group will now have three separate divisions:

- Connect News & Media – Encompassing: Smiths News, the UK's largest news wholesaling business and Dawson Media Direct, the international media direct business.

- Connect Books - Combining a number of recognised brands in print and digital bookselling, including Bertrams, Dawson Books and Wordery.

- Connect Education & Care - A leading independent supplier of consumable products through The Consortium and West Mercia Supplies.

All three of these divisions connect suppliers to customers in an efficient, knowledgeable and service oriented way. The Connect Group structure provides a flexible and expandable branding architecture, which also allows for future growth and diversification.

GROUP STRATEGY

Our strategy recognises that the skills and competencies we have are applicable to other markets. In particular, our expertise in delivering market leading service in the most efficient and sustainable way to suppliers and customers.

This is underpinned by leading technology and talented people which have supported our diversification strategy and delivered substantial returns to shareholders consistently since demerger in 2006.

We have sought to secure our newspaper and magazine business through a combination of extending contracts and by extracting substantial cost efficiencies. This approach has driven our success and will remain an important part of our future plans.

We have also undertaken a selective acquisition strategy to diversify our revenue base into new specialist distribution sectors and we remain committed to our target of 50% of profits from outside of newspaper and magazine wholesaling by 2016, through a combination of organic growth in Books and Education & Care, as well as carefully chosen future acquisitions.

CONNECT NEWS & MEDIA

News Wholesale:

Smiths News, our news wholesale business, had a strong first half. Underlying operating profits were up 4.1% to £20.5m, total revenues were £748.6m, down 1.6%, which is an improvement on our ongoing -3.0% to -5.0% forecast range. Like-for-Like revenues were down 2.8%, the difference to total revenue performance being regional press gains and the annualised impact of gains from the News UK contract win last year.

The newspaper market continues to show a resilient performance. Total newspaper revenue is up 0.9% with like for like revenue down 0.5%. Sales have benefited from continued cover price inflation and strong supermarket promotions.

Magazine sales remain challenging with a like for like decline of 8.1%, a marginal improvement on previous years run rates.

In February we commenced the exclusive distribution of Metro newspaper, a significant undertaking for the Smiths News business, servicing 2,000 drop points every weekday and totalling 200 million copies a year. Operated from the News UK Broxbourne print centre it is a good example of how our skills can be extended in to new areas.

We have also recently announced the extension of the Frontline and Seymour contracts worth an annualised £215m. This means we have now secured over £1.1bn of total annualised revenues through to 2019 or beyond, representing over 77% of our contracted revenues.

Cost savings remain an integral part of our ongoing strategy and a combination of process and network efficiency has delivered a further £3.2m in the first half. We remain on track to deliver our 3 year target of £20m of cost savings by 2015, having now achieved a total of £12m in the first eighteen months.

Looking ahead, we continue to investigate opportunities in customer service and administration. We are about to launch an on-line application for retailers, providing an alternative to telephone ordering. In the medium term the opportunity to move to electronic and paperless trading will support planned savings for the Group.

Media:

Dawson Media Direct, (DMD) our international media supply business, has also had a strong first half delivering revenues of £12.3m, up 4.2%, and underlying operating profits at £1.0m up 36.0%.

Market dynamics remain strong with continued demand from publishers and airlines. Longer term, international air traffic is predicted to grow at 3.7% per annum and although our sales are not directly related to this, it is a good indicator of potential future demand.

The business has also made good progress with contract renewals. We have extended our British Airways contract, securing revenues through to 2019. This is DMD's largest contract, amounting to 50 million copies per annum. The agreement with Daily Mirror also secures an additional 18 million copies per annum at Stansted, Leeds/Bradford, Luton and Belfast.

Our digital side of the business also made good progress in the half. We now have bespoke content on 11,000 ipads on board 17 airlines across the world. Our airside media / information portal Digiredoo which can be accessed in airport lounges is also gaining traction with additional trials in Manchester, Paris, Frankfurt and Sydney.

Lastly, the operational integration with Smiths News which took effect last year is working well and delivering year on year savings. An extension of this is a relocation of our London Travel business moving to the site adjacent to DMD's headquarters, near Heathrow.

CONNECT BOOKS

As we highlighted in our pre close statement at the beginning of March, Books has had a challenging first half. At an overall sales level the business has performed broadly to plan. Total revenue of £106.6m increased 8.4% on last year driven by growth in Wordery and annualisation of acquisitions made last year. Underlying operating profits fell by 33.8% to £2.3m in the first half, as a result of a combination of sales mix, margin dilution and slower returns on a number of growth initiatives.

Weaker than anticipated digital and academic sales are being mitigated by strong growth in Wordery sales, now in excess of £20m per annum and 11% of total book sales.

The changing sales environment has created a greater than expected mix impact on margin, with lower margin direct to consumer sales performing more strongly than higher margin categories such as academic and digital. The challenge in academic markets reflects both tighter university budgets and strong competition from both publishers and aggregators. In addition, we have experienced further margin erosion from pressure in UK trade and libraries.

We continue to invest to support our digital proposition. This included upgrading the existing UK platform, developing French, Spanish and German language platforms and acquiring new content. We believe this is the right strategy to maintain our strong position in the UK and help expansion in mainland Europe where demand for digital is more nascent. It is clear, however, that revenue will take longer to come on-stream than originally expected.

We have therefore reflected recent market dynamics and actual sales performance in our full year projections and implemented a clear plan to address the short-term challenges, which includes:

- Maintaining our focus on the academic opportunity, by driving digital and international sales
- Continuing to grow Wordery through new international marketplace channels and the migration of customers to stronger margin Wordery.com
- Improving margin with a focus on both buying and selling prices
- Rigorous control of operating costs whilst maintaining service levels.

Whilst we are confident that these measures will deliver the required improvements, we will continue to focus on driving returns to meet our expectations.

We believe this is an appropriate response to the market trends we have seen specifically over the last few months. Looking forward, Connect Books has a range of growth opportunities across its portfolio of activities, and the recent progress of Wordery is an excellent example of our innovation and potential in this space.

CONNECT EDUCATION & CARE

Education & Care continues to perform in line with our expectations and our original investment case. Total revenue at £31.2m is up 2.5% with the core categories of education, early years and care up a combined 5.0%. Underlying operating profits were at £3.0m, up 3.4% on the prior year.

Core Education continues to see steady growth with good sales gains from Academy schools and we have seen good results from our geographic expansion plans, with strong gains in Scotland and more recently winning business under the Northern Ireland framework agreement.

Growth in Early Years at 12.0% is also encouraging as we gain traction with some of the larger Nursery groups. Whilst the International Education market remains difficult to predict, we are pleased to see sales growing strongly, up 29%.

Our 'Other' category which accounts for 9% of total revenue is down 17.8%. This is an amalgam of non-core sales that have been impacted, as expected, by the loss of some local authority business.

We continue to invest in our sales and service proposition including new demand planning software, and are currently introducing a warehouse management system to improve efficiency and support the progress we have already made in CRM, websites and customer portals. Our new catalogues were launched in February for the Consortium and March for West Mercia Supplies (WMS). These remain as two strong and distinct brands, but the ranges have been brought closer together, adding 5000 more products to the WMS range. Early indications are that the new catalogue has been positively received ahead of our peak trading in June / July.

Looking ahead, clear and tangible opportunities exist to capture a greater share of existing customer spend in education. Our investments into our proposition positions us well for our peak trading period which comes towards the end of the school year. This is a critical time for the Education category and we are well advanced with our planning to ensure we can deliver excellent service to back a compelling and well marketed customer proposition.

SUMMARY AND OUTLOOK

The Group remains in a strong position to build on the progress we have made in the first half. The rebranding has been delivered effectively, helping to evolve our identity while retaining the heritage and equity of our trading companies. It also gives us a flexible divisional structure that can accommodate future growth and diversification in line with our ambitions.

Two of our three divisions, representing 91% of Group profits, are performing strongly. We have faced recent challenges in the Books division but have a clear recovery plan in place.

Recent trading is in line with current market expectations. The Board remains confident of our medium term outlook and our strategy to maintain and grow the core while diversifying into new sectors remains the right choice. The Group’s cash flow dynamics and new committed facilities help us to maintain a strong financial position with adequate facilities for future acquisitions.

We continue to be alert to acquisition opportunities and the Group remains committed to the previously stated target of 50% of profits to be generated from activities outside of newspaper and magazine wholesaling by 2016.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS – UNDERLYING

£m	6 months to Feb 2014	6 months to Feb 2013 Restated[7]	Change
Total revenue	898.7	901.7	(0.3%)
Gross profit	99.8	98.1	1.7%
Operating costs	(73.0)	(71.3)	(2.4%)
Underlying operating profit	**26.8**	**26.8**	-
Net finance costs	(2.8)	(3.5)	20.0%
Underlying profit before tax	**24.0**	**23.3**	3.0%
Taxation	(5.2)	(6.2)	14.5%
Tax rate	*21.5%*	*26.5%*	*19%*
Underlying profit after tax	**18.8**	**17.1**	9.9%

Group underlying revenues were £898.7m, down 0.3% and underlying Group operating profit of £26.8m was unchanged with the prior year, with growth in the News & Media and Education & Care divisions being mitigated by a decline in the Books division.

Finance costs of £2.8m were down £0.7m on the restated prior year number following the adoption of the IAS 19 (revised) accounting standard. This recognises a pension interest cost of £0.4m in the current period and a cost in the six months ended February 2013 of £0.7m compared to the pension interest credit of £0.8m recognised under the previous standard in the prior period. Interest cost on borrowings incurred in the period was £2.1m compared to £2.6m for the period ended February 2013.

Underlying Group profit before tax of £24.0m increased 3.0% on the restated £23.3m for the prior year.

The taxation charge for the period of £5.2m represented an effective tax rate of 21.5% (Feb 2013: 26.5%, Aug 2013: 22.8%). Underlying Group profit after tax of £18.8m increased 9.9%.

Both net finance charges and the effective tax rate for the six months to 28 February 2014 are indicators for the second six months of the year to 31 August 2014.

On a statutory basis Group profit before tax of £22.1m increased 20.1% on the prior year, as a result of the reduction in non-recurring and other items to £1.9m from £4.9m in the prior period, further enhancing the underlying profit before tax growth of 3%.

EPS AND DIVIDEND

	Underlying		Statutory	
	6 months to Feb 2014	6 months to Feb 2013 Restated[7]	**6 months to Feb 2014**	6 months to Feb 2013 Restated[7]
Profit after tax (£m)	**18.8**	17.1	**17.0**	12.6
Non-controlling interest (£m)	**(0.1)**	0.1	**(0.1)**	0.1
Profit attributable to equity shareholders (£m)	**18.7**	17.2	**16.9**	12.7
Basic number of shares (millions)	**184.9**	181.9	**184.9**	181.9
Basic EPS	**10.1p**	9.5p	**9.1p**	7.0p
Diluted number of shares (millions)	**194.9**	193.8	**194.9**	193.8
Diluted EPS	**9.6p**	8.9p	**8.7p**	6.6p
Dividend per share	**3.1p**	3.0p	**3.1p**	3.0p

The underlying profit after tax of £18.8m, adjusted for £0.1m of non-controlling interest, equates to £18.7m of profit attributable to equity shareholders. This resulted in a basic underlying EPS of 10.1p, an increase of 0.6p or 6.3% on the prior year.

Including non-recurring and other items, statutory profit after tax of £17.0m, adjusted for £0.1m of non-controlling interest, equates to £16.9m of statutory profit attributable to equity shareholders. This resulted in a basic statutory EPS of 9.1p, an increase of 2.1p or 30.0% on the prior year.

Dilutive shares increased the basic number of shares at February 2014 by 10.0m to 194.9m (Feb 2013: 193.8m) and resulted in a diluted underlying EPS of 9.6p, an increase of 0.7p or 7.9% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 7.0m dilutive shares (Feb 2013: 7.4m) and a weighted average of 3.0m additional shares being the time apportioned deferred share capital relating to the acquisition of The Consortium (Feb 2013: 4.5m) which were issued in January 2014.

The Board have approved an interim dividend of 3.1p, up 3.3% on last year, highlighting our continued confidence in the Group's strong cash generation and future prospects.

The interim dividend will be paid on 11 July 2014 to shareholders on the register at the close of business on 13 June 2014.

CONNECT NEWS & MEDIA – NEWS DISTRIBUTION INCOME STATEMENT

£m	**6 months to Feb 2014**	6 months to Feb 2013	**Change**	**LFL(5)**
Total revenue	**748.6**	**761.1**	**(1.6%)**	**(2.8%)**
Gross profit	61.7	62.1	(0.6%)	
Operating costs	(41.2)	(42.4)	2.8%	
Underlying operating profit	**20.5**	**19.7**	**4.1%**	
Gross margin	8.2%	8.2%	-	
Cost ratio	(5.5%)	(5.6%)	10bps	
Operating margin	2.7%	2.6%	10bps	

Smiths News total revenues of £748.6m declined 1.6% on prior year with like-for-like revenues down 2.8%, following stronger newspaper and magazine performances against recent run rates.

Gross margin of £61.7m remained in line with the prior year with margin mix changes being offset by increased regional contract wins and the new Metro contract, which does not record sales but does record gross margin.

The cost ratio of 5.5% improved by 10 bps reflecting £3.2m of Network cost savings achieved in the period, partially offset by investment across the business to investigate future savings and new services.

Smiths News underlying operating profit of £20.5m increased 4.1% and resulted in an operating margin of 2.7%, up 10 bps versus prior year.

CONNECT NEWS & MEDIA – MEDIA INCOME STATEMENT

£m	**6 months to Feb 2014**	6 months to Feb 2013*	**Change**	**LFL(5)**
Total revenue	**12.3**	**11.8**	**4.2%**	**1.8%**
Gross profit	6.1	5.2	17.3%	
Operating costs	(5.1)	(4.4)	(15.9%)	
Underlying operating profit	**1.0**	**0.8**	36.0%	
Gross margin	49.6%	44.1%	550 bps	
Cost ratio	(41.5%)	(37.3%)	(420bps)	
Operating margin	8.1%	6.8%	130bps	

**Excludes the results for the MMC business disposed of in April 2013.*

Media revenues of £12.3m increased 4.2% on the prior year, reflecting new business wins and extended contracts.

Gross margin of 49.6% has increased 550bps and the cost ratio of 41.5% has declined by 420 bps the net result being a 130 bps increase in operating margin driven predominantly by the impact of new contracts in the period.

Underlying operating profit of £1.0m increased 36.0% on the prior year and resulted in an operating margin of 8.1%, up 130 bps versus prior year.

CONNECT BOOKS INCOME STATEMENT

£m	6 months to Feb 2014	6 months to Feb 2013	Change	LFL(5)
Total revenue	**106.6**	**98.3**	8.4%	**(0.3%)**
Gross profit	19.4	18.7	0.5%	
Operating costs	(17.1)	(15.2)	(8.6%)	
Underlying operating profit	**2.3**	**3.5**	**(33.8%)**	
Gross margin	18.1%	19.0%	(90bps)	
Cost ratio	(16.0%)	(15.5%)	(50 bps)	
Operating margin	2.2%	3.6%	(140bps)	

Bertrams total revenues of £106.6m were up 8.4% driven by the growth in Wordery and the annualisation of acquisitions in the last 12 months.

Like-for-like revenues were down 0.3% with weaker than anticipated digital and academic sales being mitigated by strong growth in Wordery.

Gross margin of 18.1% decreased 90bps due to a combination of margin pressure in UK trade and libraries sales and sales mix with lower margin direct to consumer sales performing more strongly than the higher margin categories such as academic and digital.

The cost ratio of 16.0% with costs increasing by £1.9m, reflecting investment in new sales channels.

The combination of sales mix, margin distribution and lower returns on growth initiatives reduced Bertrams underlying operating profit by 33.8% to £2.3m, and resulted in an operating margin of 2.2%, down 140 bps versus prior year.

CONNECT EDUCATION AND CARE INCOME STATEMENT

£m	6 months to Feb 2014	6 months to Feb 2013	Change	LFL(5)
Total revenue	**31.2**	**30.5**	2.5%	**3.2%**
Gross profit	12.6	12.0	5.0%	
Operating costs	(9.6)	(9.1)	(5.5%)	
Underlying operating profit	**3.0**	**2.9**	**3.4%**	
Gross margin	40.5%	39.3%	120bps	
Cost ratio	(31.0%)	(29.8%)	(120bps)	
Operating margin	9.5%	9.5%	-	

The Consortium total revenues of £31.2m were up 2.5%. Like-for-like revenues were up 3.2% with core categories of education, early years and care up a combined 5.0%.

Gross margin of 40.5% increased 120 bps on the prior year. The cost ratio of 31.0% increased 120 bps on the prior year**.**

The Consortium operating profit of £3.0m was up 3.4% on the prior year, resulting in an operating margin of 9.5%, in line with the prior year.

NON-RECURRING AND OTHER ITEMS

£m	6 months to Feb 2014	6 months to Feb 2013
Integration costs	-	(0.5)
Network reorganisation costs	(0.3)	(1.0)
Release of Property Provisions	0.6	-
Acquisition costs	(0.4)	(2.1)
Amortisation of acquired intangibles	(1.3)	(1.4)
Impairment of acquired intangibles	(0.5)	-
Disposal of MMC	-	0.1
Total loss before tax	**(1.9)**	**(4.9)**
Taxation	0.1	0.4
Total loss after tax	**(1.8)**	**(4.5)**

Non-recurring and other items for the period totalled £1.8m after tax for the period, compared to £4.5m in the prior year.

Network reorganisation costs

During the period we have spent a further £0.3m within the depot network from a restructuring program designed to deliver cost savings targeted by the Group. The largest amount incurred in the period relates to redundancy costs.

We have incurred lower integration and network reorganisation costs in Smiths News in the period whilst maintaining the level of cost savings. We expect the run rate in the second half of the year to be more in line with last years figure (H2 2013: £2.9m) supporting the cost savings in both the second half of the year and FY15.

Release of property provision

During the period the Group has released £0.6m relating to historic reversionary lease provisions following the settlement of two historic claims.

Acquisition costs

Acquisition costs are predominantly the final apportionment of deferred consideration from the acquisition of the Consortium in April 2012.

Impairment of acquired intangibles

During the period we have reviewed the carrying value of acquired intangibles from the acquisition of Blackwells customer relationships in May 2013 and as a result of lower than anticipated sales conversion we have written off £0.5m. Following this impairment the net book value of the asset at 28 February 2014 was £1.3m.

Amortisation of acquired intangibles

Amortisation of £1.3m is in line with expectations and leaves a balance of £16.6m to be amortised over future years.

FREE CASH FLOW

£m

	6 months to Feb 2014	6 months to Feb 2013
Underlying profit before interest and tax	26.8	26.8
Depreciation & amortisation	3.7	3.7
Underlying EBITDA	30.5	30.5
Working capital	(2.8)	(7.2)
Capital expenditure	(4.5)	(3.7)
Net interest paid	(4.2)	(2.1)
Taxation	(5.2)	(5.0)
Ongoing pension funding	(2.1)	(3.1)
Other movements	0.2	0.8
Free cash flow (3)	**11.9**	**10.2**

The Group continued to generate strong free cash flow in the period, delivering £11.9m up £1.7m or 17% on the prior year.

Working capital showed a small outflow supporting ongoing sales growth initiatives. The outflow was lower than the prior period following two years of stock investment.

Capital expenditure includes £3.0m for Smiths News investments in network, equipment, systems and new retail services; £1.3m for Bertrams investments in its digital platform, Wordery offer and warehouse machinery; £0.2m in the Consortium from the investment in warehouse management systems.

Net interest of £4.2m includes £1.7m of arrangement fees and costs relating to our new bank facilities, which will be amortised in profit and loss over the life of the agreement.

Pension funding of £2.1m is a reduction on the prior year, as expected, following the March 2012 valuation and subsequent deficit repair contribution reduction agreed in July 2013.

NET DEBT AND BANK FACILITIES

£m

	As at Feb 2014	**As at Aug 2013**	**As at Feb 2013**
Opening net debt (4)	**(98.5)**	**(100.5)**	**(100.5)**
Free cash flow	11.9	32.6	10.2
Dividend paid	(11.7)	(16.0)	(10.6)
Non-recurring items	(1.9)	(5.9)	(2.2)
Acquisitions	(0.3)	(5.1)	(3.4)
Other	(4.5)	(3.6)	(2.9)
Closing net debt (4)	**(105.0)**	**(98.5)**	**(109.4)**

Closing net debt at the end of the period was £105.0m versus £98.5m at August 2013 and £109.4m at February 2013. Debt at the end of the first half year is usually higher than the year end position given the weighting of free cash generation in the second half and higher dividend payment in the first half of the year.

Net debt: EBITDA at the end of February 2014 was 1.6x versus 1.5x at August 2013 and 1.6x at February 2013. This remains comfortably within our main covenant ratio of 2.75x.

In January 2014 the Group completed a refinancing through a syndicate of 5 banks which secured £200m of committed facilities through to November 2018. The new facility provides funding for over four years and comprises a term loan, with limited amortisation, and a revolving credit facility with margin and covenants favourable to the previous facility.

GOING CONCERN

As stated in note 1 to the condensed financial statements, the directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly they continue to adopt the going concern basis in preparing the condensed financial statements.

PENSION

The Group operates a combination of defined benefit schemes, the most significant of which is closed to new members and future accrual, as well as defined contribution schemes.

The largest scheme across the Group is the Smiths News defined benefit pension scheme (the Trust) which as at 28 February 2014 had an IAS 19 surplus of £58.2m (Aug 2013: £53.2m). However as the pension scheme is closed to further accrual, this IAS 19 surplus is not available as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this surplus on the balance sheet.

The Smiths News section of the WH Smith Pension Trust, had an actuarial deficit as at the last triennial actuarial valuation effective 31 March 2012 of £33.0m. The deficit in the scheme when last estimated at 19 June 2013 was £23.0m. The Group continues to recognise the present value of the agreed deficit repair contributions as a pension liability of £18.8m (FY2013 £20.3m).

The Group adopted IAS 19 (Revised) in the period ended 28 February 2014. This involved a change in accounting policy such that pension interest reflected in the income statement, is calculated on the net balance sheet position at the beginning of the period. The non-cash pension charge recognised in the six months was £0.5m. The comparatives have been restated following this required change in accounting policy with non-cash interest charges for the half year ended 28 February 2013 of £0.7m (compared to a £0.8m non-cash credit shown under the previous policy) and the full year ended 31 August 2013 of £1.5m (compared to a £1.5m non-cash credit shown under the previous policy).

RISKS AND UNCERTAINTIES

The Group has a comprehensive risk management framework with a consistent approach now embedded across the Group. The Board is responsible for the Group's strategy and system of controls and risk management. The Audit Committee annually reviews the effectiveness of the Group's internal controls and risk management system along with an annual review of the Board's risk appetite. Risks identified across the risk universe are consolidated, refined and calibrated to each area of the business with support from Internal Audit. Key risks are plotted on risk maps with description and owners recorded in the risk register. The Group Executive team regularly reviews and monitors the Group's summarised risk map and register before presentation to the Audit Committee. The Group's major risks are detailed below.

Risk	**Potential impact**	**Mitigating actions and assurance**
Structural market changes are deeper /quicker than predicted, including print migration to digital	Sales declines in newspaper and magazines are worse than expected - 3% to 5% range and /or Books growth impacted 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 continue to identify efficiencies to compensate for market declines. The Groups diversification strategy seeks to protect it from over exposure to individual market risks.
Failure to identify new organic opportunities or new acquisitions required to meet growth targets	Sales and profits expected from growth initiatives may not be met and /or contribution on growth initiatives impacts performance of base businesses	A strong pipeline of growth and investment opportunities are reviewed by individual business teams, Group Executive and/or PLC Board depending on their size and potential impact on the Group. Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made.
Economic recession causes reduction in household expenditure and /or Government spending	Reductions in discretionary spending may impact sales of newspapers, magazines 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 changes the wholesale relationship	Impact on supply of product or route to market may erode margin and/or increase cost to serve	In Smiths News, 5 year contracts with publishers support the market structure. Bertrams and The Consortium both 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.
Competitive environment becomes more challenging	Sales growth opportunities are reduced and /or margin is eroded from price discounting required to hold market share	Market scale and expertise provides the ability to offer value and service to customers. Bertrams and the Consortium monitor and track propositions to ensure competitive positioning.
Failure to prevent cyber attacks that cause disruption or loss of systems and /or commercially /employee sensitive data	Customer service and /or satisfaction could be adversely impacted leading to compensation, increased costs for rectification and /or increased future investment requirements	External specialist advice supports an internal position with the responsibility to review the Groups exposure, measure effectiveness of existing controls and recommend new controls if required.

Failure to deliver business plans and financial returns on recent acquisitions	Sales and profits expected from acquisitions may not be met and /or reputation of the business and support for future acquisitions are questioned	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.
Loss of key Executives disrupts business performance and potentially longer term strategy	Vacant positions, focus on recruitment of required skills /experience and induction could lead to disruption in business performance and execution of longer term strategy	The Remuneration Committee are responsible for Executive retention and recruitment and have succession plans and notice periods in place to protect against potential disruption.
Legislative changes or interpretation impacting the engagement of delivery contractors results in an increase in the number of employees	Increased number of employees increase the cost base and potentially create greater redundancy costs from future efficiency programmes	Contractors have clearly articulated agreements defining tasks they are contracted to provide to Smiths News. Regular checks are carried out by the Internal Audit team cross the Smiths News network to ensure understanding and compliance.
Failure to prevent breach of airside security that cause disruption or loss	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 DMDs exposure, measure effectiveness of controls and recommend new controls if required. In addition, insurance is taken out to cover the Group from major risks.
Financial risk and exposure through fraud, poor management controls and /or fluctuating key financial assumptions	Direct loss through fraud, or poor controls around debtors and stock could result in reduced profits. Key financial assumptions budgeted for pension, interest and tax could move adversely reducing expected profits	Strong operational processes are supported by a Group accounting policies manual to ensure appropriate financial controls are consistently applied. In addition, insurance is taken out to cover the Group from major risks. Annual budgets and quarterly forecasts set realistic expectations internally and externally allowing for or changing objectives to meet short and medium term financial targets.

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Income Statement (Unaudited)
For the 6 months to 28 February 2014

£m	Note	6 months to Feb 2014			6 months to Feb 2013 Restated[1]			Audited 12 months to Aug 2013 Restated[1]		
		Under-lying	**Non-recurring and other items**	**Total**	Under-lying	Non-recurring and other items	Total	Under-lying	Non-recurring and other items	Total
Revenue	3	**898.7**	**-**	898.7	901.7	3.0	904.7	1,806.9	3.9	1,810.8
Operating profit	3	**26.8**	**(1.9)**	24.9	26.8	(4.9)	21.9	56.4	(10.8)	45.6
Investment revenues		0.1	-	0.1	-	-	-	0.3	-	0.3
Finance costs		(2.9)	-	(2.9)	(3.5)	-	(3.5)	(6.8)	(0.2)	(7.0)
Profit before tax	3	**24.0**	**(1.9)**	22.1	23.3	(4.9)	18.4	49.9	(11.0)	38.9
Taxation	6	(5.2)	0.1	(5.1)	(6.2)	0.4	(5.8)	(12.1)	1.3	(10.8)
Profit for the period		**18.8**	**(1.8)**	17.0	17.1	(4.5)	12.6	37.8	(9.7)	28.1
Profit attributable to equity shareholders		18.7	(1.8)	16.9	17.2	(4.5)	12.7	37.8	(9.7)	28.1
Profit attributable to non-controlling interests		0.1	-	0.1	(0.1)	-	(0.1)	-	-	-
Profit for the period		**18.8**	**(1.8)**	17.0	17.1	(4.5)	12.6	37.8	(9.7)	28.1
Earnings per share										
Basic	*8*	*10.1p*		*9.1p*	*9.5p*		*7.0p*	*20.8p*		*15.4p*
Diluted	*8*	*9.6p*		*8.7p*	*8.9p*		*6.6p*	*19.6p*		*14.5p*
Equity dividends per share	*7*			*3.1p*			*3.0p*			*9.3p*

1- Details of the restatement can be found in Note 2.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)
For the 6 months to 28 February 2014

£m	Note	6 months to Feb 2014	6 months to Feb 2013 Restated[1]	Audited 12 months to Aug 2013 Restated[1]
Profits on cash flow hedges		0.5	-	1.7
Actuarial gains on defined benefit pension scheme	5	1.7	9.9	4.3
Effect of asset limit on defined benefit pension scheme	5	(1.8)	(1.7)	3.4
Tax relating to components of other comprehensive income		(0.3)	(1.8)	(1.9)
Other comprehensive income		0.1	6.4	7.5
Total other comprehensive income for the period		**0.1**	**6.4**	7.5
Profit for the period		17.0	12.6	28.1
Total comprehensive income for the period		**17.1**	**19.0**	**35.6**

1- Details of the restatement can be found in Note 2.

Total comprehensive income for the period was fully attributable to the equity holders of the parent company.

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Balance Sheet (Unaudited)
As at 28 February 2014

£m	Note	As at Feb 2014	As at Feb 2013	Audited as at Aug 2013
Non-current assets				
Intangible assets	11	67.0	66.7	68.2
Property, plant and equipment		25.6	23.3	26.6
Interest in joint venture and associate		4.2	4.1	4.1
Derivative financial instruments		1.0	-	0.4
Retirement benefit assets		0.2	-	0.2
Deferred tax assets		7.4	8.0	8.1
		105.4	**102.1**	**107.6**
Current assets				
Inventories		45.9	43.1	44.2
Trade and other receivables		122.3	115.6	127.1
Cash and cash equivalents	12	12.5	10.1	10.1
		180.7	**168.8**	**181.4**
Total assets		**286.1**	**270.9**	**289.0**
Current liabilities				
Trade and other payables		(180.1)	(169.7)	(188.7)
Current tax liabilities		(7.3)	(8.2)	(8.1)
Obligations under finance leases		(0.7)	(1.1)	(1.0)
Bank overdrafts and other borrowings	12	(67.9)	(83.6)	(72.8)
Provisions	14	(3.9)	(7.9)	(7.5)
Derivative financial instruments		(0.8)	(1.0)	(0.8)
Retirement benefits obligation	5	(4.1)	(5.8)	(4.1)
		(264.8)	**(277.3)**	**(283.0)**
Non-current liabilities				
Bank loans and other borrowings	12	(48.3)	(34.0)	(34.0)
Retirement benefit obligation	5	(17.8)	(19.6)	(19.2)
Deferred tax liabilities		(4.8)	(4.4)	(4.5)
Long-term provisions	14	(1.7)	(4.4)	(2.8)
Obligations under finance leases		(0.6)	(0.8)	(0.8)
Derivative financial instruments		-	(1.5)	-
Other non-current liabilities		(1.4)	(1.2)	(1.6)
		(74.6)	**(65.9)**	**(62.9)**
Total liabilities		**(339.4)**	**(343.2)**	**(345.9)**
Total net liabilities		**(53.3)**	**(72.3)**	**(56.9)**
Equity				
Called up share capital		9.5	9.2	9.2
Share Premium Account		5.1	0.9	1.2
Other reserves		(284.0)	(285.7)	(282.2)
Retained earnings		216.0	203.4	214.9
Total shareholders' equity		**(53.4)**	**(72.2)**	**(56.9)**
Non-controlling interests in equity		0.1	(0.1)	-
Total equity		**(53.3)**	**(72.3)**	**(56.9)**

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 6 months to 28 February 2014

£m	Share Capital	Share Premium Account	Other[1] Reserves	Retained Earnings	Total shareholders' equity	Non-controlling interests in equity	Total equity
Balance at 1 September 2012	**9.2**	**0.6**	**(284.1)**	**196.7**	**(77.6)**	**-**	**(77.6)**
Profit for the period				12.7	12.7	(0.1)	12.6
Gain on cashflow hedges	-	-	-	-	-	-	-
Actuarial gain on defined benefit pension scheme	-	-	-	9.9	9.9	-	9.9
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	(1.7)	(1.7)	-	(1.7)
Tax relating to components of other comprehensive income	-	-	-	(1.8)	(1.8)	-	(1.8)
Total comprehensive income for the period	-	-	-	19.1	19.1	(0.1)	19.0
Issue of share capital	-	0.3	-	-	0.3	-	0.3
Dividends paid	-	-	-	(10.6)	(10.6)	-	(10.6)
Employee share schemes	-	-	(1.6)	(2.9)	(4.5)	-	(4.5)
Recognition of share based payments	-	-	-	1.1	1.1	-	1.1
Balance at February 2013 – restated [1]	**9.2**	**0.9**	**(285.7)**	**203.4**	**(72.2)**	**(0.1)**	**(72.3)**
Profit for the period	-	-	-	15.4	15.4	0.1	15.5
Gain on cash flow hedges	-	-	1.7	-	1.7	-	1.7
Actuarial loss on defined benefit pension scheme	-	-	-	(5.6)	(5.6)	-	(5.6)
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	5.1	5.1	-	5.1
Tax relating to components of other comprehensive income	-	-	-	(0.1)	(0.1)	-	(0.1)
Total comprehensive income for the period	-	-	1.7	14.8	16.5	0.1	16.6
Issue of share capital	-	0.3	-	-	0.3	-	0.3
Dividends paid	-	-	-	(5.4)	(5.4)	-	(5.4)
Employee share schemes	-	-	1.8	2.9	4.7	-	4.7
Recognition of share based payments	-	-	-	(0.8)	(0.8)	-	(0.8)
Balance at 31 August 2013 – restated [1]	**9.2**	**1.2**	**(282.2)**	**214.9**	**(56.9)**	**-**	**(56.9)**
Profit for the period	-	-	-	16.9	16.9	0.1	17.0
Gain on cash flow hedges	-	-	0.5	-	0.5	-	0.5
Actuarial gain on defined benefit pension scheme	-	-	-	1.7	1.7	-	1.7
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	(1.8)	(1.8)	-	(1.8)
Tax relating to components of other comprehensive income	-	-	-	(0.3)	(0.3)	-	(0.3)
Total comprehensive income for the period	**-**	**-**	**0.5**	**16.5**	**17.0**	**0.1**	**17.1**
Issue of share capital	0.3	3.9	-	(4.0)	0.2	-	0.2
Dividends paid	-	-	-	(11.9)	(11.9)	-	(11.9)
Employee share schemes	-	-	(2.3)	-	(2.3)	-	(2.3)
Recognition of share based payments	-	-	-	0.5	0.5	-	0.5
Balance at 28 February 2014	**9.5**	**5.1**	**(284.0)**	**216.0**	**(53.4)**	**0.1**	**(53.3)**

[1]– Details of the restatement can be found in Note 2.

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Group Cash Flow Statement (Unaudited)

For the 6 months to 28 February 2014

£m	Note	6 months to Feb 2014	6 months to Feb 2013	Audited 12 months to Aug 2013
Net cash from operating activities	**9**	**17.0**	**13.7**	**37.9**
Investing activities				
Acquisitions		(0.3)	(3.1)	(5.1)
Purchase of property, plant and equipment		(2.7)	(3.4)	(5.0)
Purchase of intangible assets		(1.8)	(0.6)	(2.8)
Net cash used in investing activities		**(4.8)**	**(7.1)**	**(12.9)**
Financing activities				
Interest paid		(4.2)	(2.1)	(4.0)
Dividends paid		(11.9)	(10.6)	(16.0)
Repayments of obligations under finance leases		(0.5)	(0.7)	(2.0)
Proceeds on issue of shares		0.3	0.3	0.7
Purchase of shares for Employee Benefit Trust		(4.5)	(3.2)	(2.3)
Drawdown/ (repayment) of borrowings		16.0	(3.0)	(3.0)
(Decrease)/ Increase in short term borrowings		(4.9)	17.5	6.7
Net cash used in financing activities		**(9.7)**	**(1.8)**	**(19.9)**
Net increase in cash and cash equivalents		**2.5**	**4.8**	**5.1**
Effect of foreign exchange rate changes		(0.1)	0.2	(0.1)
		2.4	5.0	5.0
Opening net cash and cash equivalents		10.1	5.1	5.1
Closing net cash and cash equivalents		**12.5**	**10.1**	**10.1**

Analysis of net debt

£m	Note	As at Feb 2014	As at Feb 2013	Audited as at Aug 2013
Cash and cash equivalents	12	12.5	10.1	10.1
Current borrowings	12	(67.9)	(83.6)	(72.8)
Non-current borrowings	12	(48.3)	(34.0)	(34.0)
Finance lease liabilities		(1.3)	(1.9)	(1.8)
Net debt		**(105.0)**	**(109.4)**	**(98.5)**

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2014

1 General Information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Going Concern

The Group meets its day to day working capital requirements through its committed bank facility of £200m which runs until November 2018.

The Group's forecasts, taking into account the board's future expectations of the Group's performance, indicate that there is substantial headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities. Those bank facilities together with renewed long term contracts with a number of publishers mean that the Group is well placed to manage its business risks successfully.

As a result the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial information.

The Group's principal areas of estimation and judgement remain unchanged since the year end and are set out in note 1 (c) on page 67 of the Annual Report for the year ended 31 August 2013.

2 Significant accounting policies

The unaudited condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in these unaudited condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 August 2013, with the exception of IAS 19 (revised) which has been applied for the first time since 1 September 2013.

The application of IAS 19 (revised) affects the accounting for defined benefit pension schemes and, to aid comparison, the Condensed financial statements and affected notes for the six months ended 28 February 2013 and the year ended 31 August 2013 have been restated as if IAS 19 (revised) had been applied for these periods.

The impact of adopting IAS 19 (revised) was a net reduction in profit after tax of £1.5m for the six months ended 28 February 2013 and £3.0m for the year ended 31 August 2013, as shown in the table below. The impact to underlying earnings per share of the above changes for the six months ended 28 February 2013 is a reduction of 0.8p (1.6p for the year ended 31 August 2013). The impact on underlying diluted earnings per share for the six months ended 28 February 2013 is a reduction of 0.8p (1.5p for the year ended 31 August 2013). There is no impact on cash flows (including tax payments) or covenants.

The comparative period has also been restated to show the results of the MMC business, disposed of in April 2013, within non-recurring and other items, reducing underlying sales by £3.9m and underlying operating profit by £0.1m for the six months ended 28 February 2013.

The impact on the Group's Income statement for the period ended 28 February 2013 and the year ended 31 August 2013 is as follows:

Group Income Statement £m	6 months to Feb 2013			Audited 12 months to Aug 2013		
	Reported	Adjustment	Restated	Reported	Adjustment	Restated
Disposal of MMC	26.9	(0.1)	26.8	56.5	(0.1)	56.4
Underlying Operating profit	26.9	(0.1)	26.8	56.5	(0.1)	56.4
Investment revenues	0.7	(0.7)	-	1.8	(1.5)	0.3
Finance costs	(2.7)	(0.8)	(3.5)	(5.3)	(1.5)	(6.8)
Profit before tax – underlying	24.9	(1.6)	23.3	53.0	(3.1)	49.9
Taxation	(6.2)	-	(6.2)	(12.1)	-	(12.1)
Profit for the period - underlying	18.7	(1.6)	17.1	40.9	(3.1)	37.8
Underlying EPS - basic	10.3p	(0.8p)	9.5p	22.4p	(1.6p)	20.8p
Underlying EPS - diluted	9.7p	(0.8p)	8.9p	21.1p	(1.5p)	19.6p
Profit before tax – underlying	24.9	(1.6)	23.3	53.0	(3.1)	49.9
Non-recurring and other items	(5.0)	0.1	(4.9)	(11.1)	0.1	(11.0)
Profit before tax – Statutory	19.9	(1.5)	18.4	41.9	(3.0)	38.9
Taxation – including non-recurring	(5.8)	-	(5.8)	(10.8)	-	(10.8)
Profit for the period - Statutory	14.1	(1.5)	12.6	31.1	(3.0)	28.1
Statutory EPS - basic	7.8p	(0.8p)	7.0p	17.1p	(1.6p)	15.4p
Statutory EPS - diluted	7.3p	(0.7p)	6.6p	16.0p	(1.5p)	14.5p

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2014

Group statement of Changes in Equity	**6 months to 28 February 2013**			
£m	Previously reported	Impact of adopting IAS 19 (revised)	Impact of pension liability recognition*	Restated
Effect of asset limit	(14.1)	0.8	-	(13.3)
Recognition of schedule of contributions	-	-	11.6	11.6
Impact of IFRIC14 on defined benefit schemes	(14.1)	0.8	11.6	(1.7)
Actuarial gain	10.1	(0.2)		9.9
Tax relating to components of other comprehensive income	1.1	-	(2.9)	(1.8)
Other comprehensive income	**(2.9)**	**0.6**	**8.7**	**6.4**
Profit after tax	14.1	(1.5)	-	12.6
Total comprehensive income	**11.2**	**(0.9)**	**8.7**	**19.0**

*- Relates to a restatement recognised at 31 August 2013 when the Group reconsidered its accounting for deficit contributions of pension schemes to recognise future contributions as an IFRIC 14 liability on the balance sheet.

Group statement of Changes in Equity	**12 months to 31 August 2013**		
£m	Previously reported	Impact of adopting IAS 19 (revised)	Restated
Impact of IFRIC14 on defined benefit schemes	0.3	3.1	3.4
Actuarial gain	4.5	(0.2)	4.3
Gain on cash flow hedges	1.7	-	1.7
Tax relating to components of other comprehensive income	(1.9)	-	(1.9)
Other comprehensive income	**4.6**	**2.9**	**7.5**
Profit after tax	31.1	(3.0)	28.1
Total comprehensive income	**35.7**	**(0.1)**	**35.6**

The adoption of IAS 19 (revised) has had no impact on the balance sheet position of the Group and no impact on the cashflows of the Group.

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3 Segmental analysis of results

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 wholesale (referred to as Smiths News)	The UK market leading distributor of newspapers and magazines to 30,000 retailers across England and Wales from 46 distribution centres.
Connect News & Media: Media (referred to as DMD)	A supplier of newspaper and magazines to airlines and an emerging player in inflight entertainment.
Connect Books (referred to as Bertrams)	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 95 countries.
Connect Education and Care (referred to as The Consortium)	A leading distributor of education and care consumable products servicing 30,000 customers.

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

	Revenue			**Operating profit**		
£m	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013	**6 months to Feb 2014**	6 months to Feb 2013 Restated[1]	12 months to Aug 2013 Restated[1]
Newspaper and magazine wholesaling	**748.6**	761.1	1,529.3	**20.5**	19.7	40.0
Book wholesaling	**106.6**	98.3	187.9	**2.3**	3.5	7.2
Education and care	**31.2**	30.5	63.8	**3.0**	2.9	7.4
Media and marketing	**12.3**	11.8	26.0	**1.0**	0.8	1.8
Total group - underlying	**898.7**	901.7	1,806.9	**26.8**	26.8	56.4
Non-recurring and other items	-	3.0	3.9	**(1.9)**	(4.9)	(10.8)
Total group – statutory	**898.7**	**904.7**	**1,810.8**	**24.9**	21.9	45.6
Net finance expense				**(2.8)**	(3.5)	(6.7)
Profit before taxation				**22.1**	18.4	38.9

[1] – Details of the restatement can be found in Note 2.

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3 Segmental analysis of results (continued)

Segment assets and liabilities

	Assets			Liabilities			Net (liabilities) /assets		
£m	**HY 2014**	HY 2013	FY 2013	**HY 2014**	HY 2013	FY 2013	**HY 2014**	HY 2013	FY 2013
Newspaper & magazine wholesaling	**119.4**	129.9	142.3	**(247.0)**	(274.1)	(266.5)	**(127.6)**	(144.2)	(124.2)
Book wholesaling	**85.8**	72.5	75.7	**(61.4)**	(49.4)	(54.6)	**24.4**	23.1	21.1
Education and care	**62.7**	50.9	55.0	**(23.4)**	(11.9)	(17.5)	**39.3**	39.0	37.5
Media & marketing	**18.2**	17.6	16.0	**(7.6)**	(7.8)	(7.3)	**10.6**	9.8	8.7
Consolidated assets/ (liabilities)	**286.1**	**270.9**	**289.0**	**(339.4)**	**(343.2)**	**(345.9)**	**(53.3)**	**(72.3)**	**(56.9)**

Segment depreciation, amortisation and non-current asset additions

	Depreciation			Amortisation			Additions to non-current assets		
£m	**HY 2014**	HY 2013	FY 2013	**HY 2014**	HY 2013	FY 2013	**HY 2014**	HY 2013	FY 2013
Newspaper & magazine wholesaling	**(1.9)**	(2.2)	(4.3)	**(0.6)**	(0.7)	(1.3)	**1.7**	2.5	6.7
Book wholesaling	**(0.3)**	(0.2)	(0.4)	**(1.0)**	(0.9)	(2.2)	**1.3**	1.8	5.6
Education and care	**(0.2)**	(0.2)	(0.5)	**(0.7)**	(0.6)	(1.2)	**0.2**	0.3	1.6
Media & marketing	**(0.1)**	(0.1)	(0.1)	**(0.1)**	(0.2)	(0.3)	**-**	0.1	-
Consolidated total	**(2.5)**	**(2.7)**	**(5.3)**	**(2.4)**	**(2.4)**	**(5.0)**	**3.2**	**4.7**	**13.9**

Geographical analysis

	Revenue by destination			Non-current assets by location of operation		
£m	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
United Kingdom	879.1	867.9	1,734.4	105.1	101.9	107.4
Europe	15.7	24.5	47.9	0.3	0.2	0.2
Rest of World	3.9	12.3	28.5	-	-	-
Consolidated total	**898.7**	**904.7**	**1,810.8**	**105.4**	**102.1**	**107.6**

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4 Non-recurring and other items

£m	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
Integration costs	**-**	(0.5)	(1.1)
Network re-organisation costs	**(0.3)**	(1.0)	(3.3)
Acquisition costs	**(0.4)**	(2.1)	(3.7)
Release of property provisions	**0.6**	-	-
Amortisation of acquired intangibles	**(1.3)**	(1.4)	(2.8)
Interest	**-**	-	(0.2)
Impairment of acquired intangibles	**(0.5)**	-	-
Disposal of MMC	**-**	0.1	0.1
Total before tax	**(1.9)**	(4.9)	(11.0)
Taxation	**0.1**	0.4	1.3
Total after taxation	**(1.8)**	(4.5)	(9.7)

Non-recurring and other items for the period totalled £1.8m after tax for the period, compared to £4.5m in the prior year.

Network reorganisation costs

During the period we have spent a further £0.3m within the depot network from a restructuring program designed to deliver cost savings targeted by the Group. The largest amount incurred in the period relates to redundancy costs.

We have incurred lower integration and network reorganisation costs in Smiths News in the period whilst maintaining the level of cost savings. We expect the run rate in the second half of the year to be more in line with last years figure (H2 2013: £2.9m) supporting the cost savings in both the second half of the year and FY15.

Release of property provision

During the period the Group has released £0.6m relating to historic reversionary lease provisions following the settlement of two historic claims.

Acquisition costs

Acquisition costs are predominantly the final apportionment of deferred consideration from the acquisition of the Consortium in April 2012.

Impairment of acquired intangibles

During the period we have reviewed the carrying value of acquired intangibles from the acquisition of Blackwells customer relationships in May 2013 and as a result of lower than anticipated sales conversion we have written off £0.5m. Following this impairment the net book value of the asset at 28 February 2014 was £1.3m.

Amortisation of acquired intangibles

Amortisation of £1.3m is in line with expectations and leaves a balance of £16.6m to be amortised over future years.

5 Retirement benefit obligation

Defined benefit pension schemes

The Group operates three defined benefit schemes, of which the WH Smith Pension Trust (the 'Pension Trust') represents over 96% of the total obligation at 28 February 2014 (31 Aug 2013: 96%). 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 amounts recognised in the balance sheet are as follows:

£m	**As at Feb 2014**	As at Feb 2013 Restated[1]	As at Aug 2013
Present value of defined benefit obligation	(428.0)	(417.7)	(419.2)
Fair value of assets	483.2	469.3	469.6
Net surplus	**55.2**	**51.6**	**50.4**
Amounts not recognised due to asset limit	(58.1)	(54.4)	(53.2)
Additional liability recognised due to minimum funding requirements	(18.8)	(22.6)	(20.3)
Pension liability	**(21.9)**	**(25.4)**	**(23.3)**
Pension asset	**0.2**	**-**	**0.2**

[1]*– Details of the restatement can be found in Note 2.*

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £58.1m at 28 February 2014 (FY2013: £53.2m 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 (FY2013: £nil). The valuation of the defined benefit schemes for the IAS 19 (revised) 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.

During the period the triennial actuarial valuation of the Smiths News section of the WH Smith Pension Trust, effective 31 March 2012 was agreed at £33.0m. The deficit in the scheme was £23.0m when last estimated at 19 June 2013, reduced from £50.0m at the last valuation date of March 2009. The next valuation date for the scheme will be 31 March 2015.

As a result of the reduced actuarial deficit, future cash contributions by the Group will be £4.1m per annum, reduced from £5.8m per annum, through to March 2019. The Group recognises the present value of these agreed contributions as a pension liability of £18.8m (FY2013 £20.3m).

IAS 19 (Revised) has been adopted in the six month period ended 28 February 2014. This required a change in accounting policy to reflect pension interest in the income statement calculated on the net balance sheet position at the beginning of the period. The resulting non-cash pension charge for the period ended 28 February 2014 was £0.5m, the prior periods of the period to 28 February 2013 and the year ended 31 August 2013 were restated as described in note 2.

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0.2m in HY2014. The next funding valuation of the Consortium CARE scheme is due on 31 December 2013, the results are still to be finalised. The Platinum scheme's 31 December 2012 funding valuation has now been finalised and produced a small surplus, the Group continues to contribute to the on-going accrual of benefits.

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

% p.a.	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
Discount rate	4.30%	4.45%	4.30%
Inflation assumptions – CPI	2.35%	2.45%	2.35%
Inflation assumptions – RPI	3.35%	3.45%	3.35%

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5 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	Net asset / (liability) on balance sheet
At 1 September 2012	433.1	(395.3)	(73.8)	(36.0)
Current service cost	-	(0.1)	-	(0.1)
Administration expenses paid	(0.1)			(0.1)
Interest cost	-	(8.0)	(1.5)	(9.5)
Interest income on scheme assets	9.0	-	-	9.0
Total amount recognised in income statement	**8.9**	**(8.1)**	**(1.5)**	**(0.7)**
Return on plan assets excluding amounts included in net interest	32.3	-	-	32.3
Actuarial loss arising from experience	-	-	-	-
Actuarial loss arising from changes in financial assumptions	-	(22.4)	-	(22.4)
Actuarial loss arising from changes in demographic assumptions	-	-	-	-
Change in surplus not recognised excluding amounts recognised in net interest	-	-	(1.7)	(1.7)
Amount recognised in other comprehensive income	**32.3**	**(22.4)**	**(1.7)**	**8.2**
Employer contributions	3.1	-	-	3.1
Employee contributions	-	-	-	-
Benefit payments	(8.2)	8.2	-	-
Amounts included in cash flow statement	**(5.1)**	**8.2**	**-**	**3.1**
At 28 February 2013 restated	**469.2**	**(417.6)**	**(77.0)**	**(25.4)**
Current service cost	-	(0.3)	-	(0.3)
Interest cost	-	(8.1)	(1.6)	(9.7)
Interest income on scheme assets	9.0	-	-	9.0
Total amount recognised in income statement	**9.0**	**(8.4)**	**(1.6)**	**(1.0)**
Return on plan assets excluding amounts included in net interest	(4.6)	-	-	(4.6)
Actuarial loss arising from experience	-	(1.4)	-	(1.4)
Actuarial loss arising from changes in financial assumptions	-	0.8	-	0.8
Actuarial loss arising from changes in demographic assumptions	-	(0.4)	-	(0.4)
Change in surplus not recognised excluding amounts recognised in net interest	-	-	5.1	5.1
Amount recognised in other comprehensive income	**(4.6)**	**(1.0)**	**5.1**	**(0.5)**
Employer contributions	3.8	-	-	3.8
Employee contributions	0.1	(0.1)	-	-
Benefit payments	(7.9)	7.9	-	-
Amounts included in cash flow statement	**(4.0)**	**7.8**	**-**	**3.8**
At 31 August 2013	**469.6**	**(419.2)**	**(73.5)**	**(23.1)**

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5 Retirement benefit obligation (continued)

£m	Fair value of scheme assets	Defined benefit obligation	Surplus not recognised	Net asset / (liability) on balance sheet
At 31 August 2013	**469.6**	**(419.2)**	**(73.5)**	**(23.1)**
Current service cost	-	(0.1)	-	(0.1)
Administration expenses	-	(0.1)	-	(0.1)
Interest cost	-	(9.1)	(1.6)	(10.7)
Interest income on scheme assets	10.3	-	-	10.3
Total amount recognised in income statement	**10.3**	**(9.3)**	**(1.6)**	**(0.6)**
Return on plan assets excluding amounts included in net interest	9.1	-	-	9.1
Actuarial losses on scheme liabilities	-	(7.4)	-	(7.4)
Change in surplus not recognised	-	-	(1.8)	(1.8)
Amount recognised in other comprehensive income	**9.1**	**(7.4)**	**(1.8)**	**(0.1)**
Employer contributions	2.1	-	-	2.1
Employee contributions	-	-	-	-
Benefit payments	(7.9)	7.9	-	-
Amounts included in cash flow statement	**(5.8)**	**7.9**	**-**	**2.1**
Other changes	**-**	**-**	**-**	**-**
At 28 February 2014	**483.2**	**(428.0)**	**(76.9)**	**(21.7)**
Included within Non-current assets				**0.2**
Included within Current liabilities				**(4.1)**
Included within Non-current liabilities				**(17.8)**

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6 Income tax expense

£m	**6 months to Feb 2014**			6 months to Feb 2013			12 months to Aug 2013		
	Underlying	Non-recurring and other items	**Total**	Underlying	Non-recurring and other items	**Total**	Underlying	Non-recurring and other items	**Total**
Current tax	5.1	(0.1)	5.0	6.9	(0.4)	6.5	15.7	(1.3)	14.4
Adjustment in respect of prior year UK corporation tax	-	-	-	(0.3)	-	(0.3)	(2.6)	-	(2.6)
Total current tax charge	**5.1**	**(0.1)**	**5.0**	**6.6**	**(0.4)**	**6.2**	**13.1**	**(1.3)**	**11.8**
Deferred tax – current period	(0.1)	-	(0.1)	(0.4)	-	(0.4)	(0.7)	-	(0.7)
Deferred tax – prior year	0.2	-	0.2	-	-	-	(0.3)	-	(0.3)
Total tax on profit	**5.2**	**(0.1)**	**5.1**	**6.2**	**(0.4)**	**5.8**	**12.1**	**(1.3)**	**10.8**
Effective tax rate	*21.5%*		*23.1%*	*26.5%*		*31.5%*	*24.2%*		*27.8%*

The effective underlying income tax rate for the period was 21.5% (Feb 2013: 24.9%). After adjusting for the impact of non-recurring and other items of £0.1m (Feb 2013: £0.4m), the effective statutory income tax rate was 23.1% (Feb 2013: 31.5%).

Reconciliation of the tax charge

£m	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
Profit before tax	**22.1**	**18.4**	38.9
Tax on profit at the standard rate of UK corporation tax 22% (Aug 2013: 24%, Feb 2013: 24%)	4.9	4.4	9.3
Permanent differences – intangible amortisation	0.2	0.3	2.8
Permanent differences – deferred consideration	-	0.4	
Permanent differences – other	0.3	1.1	0.6
Share schemes	(0.5)	(0.1)	(0.4)
Adjustment in respect of prior year UK corporation tax	0.2	(0.3)	(2.9)
Impact of overseas tax rates	-	-	1.4
Total tax charge	**5.1**	**5.8**	10.8

Tax charges to other comprehensive income

£m	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
Current tax relating to the defined benefit pension scheme	0.5	0.9	1.2
Deferred tax relating to derivative financial instruments	(0.1)	-	(0.3)
Deferred tax relating to share based payments	(0.1)	0.2	0.5
Deferred tax related to retirement benefit obligations	(0.6)	(2.9)	(1.4)
Tax charges to other comprehensive income	**(0.3)**	**(1.8)**	**(1.9)**

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7 Dividends

Proposed dividends for the period	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013	**6 months to Feb 2014**	6 months to Feb 2013	12 months to Aug 2013
	Per share	**Per share**	Per share	**£m**	£m	£m
Final dividend	**-**	**-**	6.3p	**-**	-	11.6
Interim dividend	**3.1p**	3.0p	3.0p	**6.1**	5.5	5.5
	3.1p	3.0p	9.3p	**6.1**	5.5	17.1

Recognised dividends for the period						
	Per share	**Per share**	Per share	**£m**	£m	£m
Final dividend – prior year	**6.3p**	5.8p	5.8p	**11.9**	10.6	10.5
Interim dividend – current year	**-**	-	3.0p	**-**	-	5.5
	6.3p	5.8p	8.8p	**11.9**	10.6	16.0

During the six month period to 28 February 2014, the final dividend for the year ended 31 August 2013 of 6.3p (2012: 5.8p) per ordinary share was paid to shareholders. In addition the directors are recommending an interim dividend in respect of the period ended 28 February 2014 of 3.1p per ordinary share (Feb 2013 : 3.0p). This has not been included as a liability in these condensed financial statements. This will be paid on 11 July 2014 to shareholders on the Register at the close of business on 13 June 2014.

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8 Earnings per share

	6 months to Feb 2014			6 months to Feb 2013			12 months to Aug 2013		
	Earnings (£m)	Weighted average number of shares million	Pence per share	Restated[1] Earnings (£m)	Weighted average number of shares million	Restated[1] Pence per share	Restated[1] Earnings (£m)	Weighted average number of shares million	Restated[1] Pence per share
Weighted average number of shares in issue		186.0			183.9			183.9	
Shares held by the ESOP (weighted)		(1.1)			(2.0)			(1.7)	
Basic earnings per share (EPS)									
Underlying earnings attributable to ordinary shareholders	**18.7**	**184.9**	**10.1p**	**17.2**	**181.9**	**9.5p**	**37.8**	**182.2**	**20.8p**
Non-recurring items	(1.8)			(4.5)			(9.7)		
Earnings attributable to ordinary shareholders	**16.9**	**184.9**	**9.1p**	**12.7**	**181.9**	**7.0p**	**28.1**	**182.2**	**15.4p**
Diluted earnings per share (EPS)									
Effect of dilutive securities		10.0			11.9			11.7	
Diluted underlying EPS	**18.7**	**194.9**	**9.6p**	**17.2**	**193.8**	**8.9p**	**37.8**	**193.9**	**19.6p**
Diluted EPS	**16.9**	**194.9**	**8.7p**	**12.7**	**193.8**	**6.6p**	**28.1**	**193.9**	**14.5p**

1 – Details of the restatement can be found in Note 2.

Dilutive shares increased the basic number of shares at February 2014 by 10.0m to 194.9m (Feb 2013: 193.8m) and resulted in a diluted underlying EPS of 9.6p, an increase of 0.7p or 7.9% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 7.0m dilutive shares (Feb 2013: 7.4m) and a weighted 3.0m shares being the time apportioned deferred share capital relating to the acquisition of The Consortium (Feb 2013: 4.5m) which were issued in January 2014.

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9 Net cash inflow from operating activities

£m	6 months to Feb 2014	6 months to Feb 2013	12 months to Aug 2013
Operating profit	24.9	21.9	45.6
Acquisition costs	-	-	3.2
Pension funding	(2.1)	(3.1)	(6.5)
Depreciation of property, plant and equipment	2.5	2.7	5.3
Amortisation of intangible assets	2.4	2.4	5.0
Impairment of acquired intangible assets	0.5	-	-
Share based payments	0.8	1.1	1.9
(Increase) /decrease in inventories	(1.7)	1.5	0.4
Decrease/ (increase) in receivables	4.3	4.7	(5.8)
(Decrease)/ increase in payables	(6.3)	(12.3)	1.5
Income tax paid	(5.2)	(5.0)	(10.5)
(Decrease) in provisions	(3.1)	(0.2)	(2.2)
Net cash inflow from operating activities	**17.0**	**13.7**	**37.9**

10 Contingent Liability

The Group has a potential liability that 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, which becomes an actual liability will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (the actual liability of Connect Group PLC in any 12 month period is limited to £5m). The company’s share of these leases has an estimated future cumulative gross rental commitment at 28 February 2014 of £7.3m (31 August 2013: £8.4m).

11 Intangible assets

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 and has been allocated to the Book wholesaling 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 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 provisional goodwill of £20.9m and acquired intangibles of £10.4m which have been allocated to the Education and Care CGU.

The acquisition of Houtschild Internationale Boekhandel B.V. on 13 June 2012 lead to the recognition of a further £0.3m of goodwill, which has been allocated to the book wholesaling CGU. 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's contracts on 20 May 2013 generated £2.0m of acquired intangibles, £0.5m of which was subsequently written off in February 2014.

Acquired intangible assets are written off over their expected useful life. Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following 12 months as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% over a 20 year period. The rate used to discount the forecast cash flows is 11%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit. The calculation of value in use is most sensitive to the discount rate and growth rates used. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

		Goodwill				**Acquired Intangibles**				**Total**			
£m	**Date of acquisition**	**On acquisition**	**HY 2014**	HY 2013	FY 2013	**On acquisition**	**HY 2014**	HY 2013	FY 2013	**On acquisition**	**HY 2014**	HY 2013	FY 2013
Bertrams	March 2009	**4.1**	**4.1**	4.1	4.1	**5.1**	**0.9**	1.6	1.2	**9.2**	**5.0**	5.7	5.3
Dawson Books	August 2011	**12.4**	**12.4**	12.4	12.4	**5.3**	**3.8**	4.3	4.1	**17.7**	**16.2**	16.7	16.5
Houtschild	June 2012	**0.3**	**0.3**	0.3	0.3	**-**	**-**	-	-	**0.3**	**0.3**	0.3	0.3
Erasmus	January 2013	**0.8**	**0.8**	0.8	0.8	**0.3**	**0.3**	0.3	0.3	**1.1**	**1.1**	1.1	1.1
Blackwell' s contracts	May 2013	**-**	**-**	-	-	**2.0**	**1.3**	-	2.0	**2.0**	**1.3**	-	2.0
Book wholesaling		**17.6**	**17.6**	17.6	17.6	**12.7**	**6.3**	6.2	7.6	**30.3**	**23.9**	23.8	25.2
Media direct	August 2011	**5.7**	**5.7**	5.7	5.7	**2.3**	**1.7**	2.0	1.8	**8.0**	**7.4**	7.7	7.5
Marketing Services	August 2011	**-**	**-**	-	-	**0.3**	**-**	0.2	-	**0.3**	**-**	0.2	-
Media and marketing		**5.7**	**5.7**	5.7	5.7	**2.6**	**1.7**	2.2	1.8	**8.3**	**7.4**	7.9	7.5
Education and care	April 2012	**20.9**	**20.9**	20.9	20.9	**10.4**	**8.6**	9.6	9.0	**31.3**	**29.5**	30.5	29.9
		44.2	**44.2**	44.2	44.2	**25.7**	**16.6**	18.0	18.4	**69.9**	**60.8**	62.2	62.6
Other intangibles											6.2	4.5	5.6
Total Intangible assets											67.0	66.7	68.2

12 Cash and borrowings

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

£m	Sterling	Euro	USD	Other	Total Feb 2014	At 28 Feb 2013	At 31 Aug 2013
Cash and cash equivalents	10.0	1.3	0.8	0.4	12.5	10.1	10.1
Term loan – disclosed within current liabilities	-	-	-	-	-	(3.0)	(3.0)
Term loan – disclosed within non-current liabilities	(48.3)	-	-	-	(48.3)	(34.0)	(34.0)
Revolving credit facility	(67.9)	-	-	-	(67.9)	(76.4)	(62.9)
Asset backed facility	-	-	-	-	-	(4.2)	(6.9)
Total borrowings	(116.2)	-	-	-	(116.2)	(117.6)	(106.8)
Net borrowings	(106.2)	1.3	0.8	0.4	(103.7)	(107.5)	(96.7)
Total borrowings							
Amount due for settlement within 12 months	(67.9)	-	-	-	(67.9)	(83.6)	(72.8)
Amount due for settlement after 12 months	(48.3)	-	-	-	(48.3)	(34.0)	(34.0)
	(116.2)	-	-	-	(116.2)	(117.6)	(106.8)

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.

At 28 February 2014, the Group had £96.3m (Aug 2013: £70.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

13 Financial instruments

The fair value of interest rate swaps at the reporting date is based on market values of equivalent instruments at the balance sheet date, and is disclosed below. 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). There are no non-recurring fair value measurements.

	Current			Non-current		
	Feb 2014	Feb 2013	Aug 2013	**Feb 2014**	Feb 2013	Aug 2013
Derivatives that are being designated and effective as hedging instruments carried at fair value						
Interest rate swaps - Liabilities	**(0.8)**	(1.0)	(0.8)	**-**	(1.5)	-
	(0.8)	(1.0)	(0.8)	**-**	(1.5)	-
Interest rate swaps - Assets	**1.0**	-	-	**1.0**	-	0.4
	1.0	**-**	**-**	**1.0**	-	0.4

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2014

14 Provisions

£m	Reorganisation provisions	Insurance provisions	Deferred consideration	Property provisions	Total
Gross provision:					
At 1 September 2012	**0.3**	**1.3**	**2.1**	**10.8**	**14.5**
Additions	0.5	-	1.8	0.5	**2.8**
Utilised in period	(0.2)	(0.1)	(2.1)	(1.2)	(3.6)
At 28 February 2013	**0.6**	**1.2**	**1.8**	**10.1**	**13.7**
Discount:					
At 1 September 2012	-	-	-	(2.0)	(2.0)
Additions	-	-	-	-	-
Unwinding of discount utilisation	-	-	-	0.6	0.6
At 28 February 2013	**-**	**-**	**-**	**(1.4)**	**(1.4)**
Net book value at 28 February 2013	**0.6**	**1.2**	**1.8**	**8.7**	**12.3**
Gross provision:					
At 1 March 2013:	**0.6**	**1.2**	**1.8**	**10.1**	**13.7**
Additions	0.9	0.5	-	0.1	1.5
Disposal	-	-	-	(0.9)	(0.9)
Utilised in period	(0.1)	(0.3)	0.1	(2.9)	(1.2)
At 31 August 2013	**1.4**	**1.4**	**1.9**	**6.4**	**11.1**
Discount:					
At 1 September 2012	-	-	-	(2.0)	(2.0)
Additions	-	-	-	0.2	0.2
Unwinding of discount utilisation	-	-	-	1.0	1.0
At 31 August 2013	**-**	**-**	**-**	**(0.8)**	**(0.8)**
Net book value at 31 August 2013	**1.4**	**1.4**	**1.9**	**5.6**	**10.3**
Gross provision:					
At 1 September 2013	**1.4**	**1.4**	**1.9**	**6.4**	**11.1**
Additions	**-**	**0.5**	**0.2**	**-**	**0.8**
Utilised in period	**(1.2)**	**(0.6)**	**(2.1)**	**(1.7)**	**(5.4)**
At 28 February 2014	**0.2**	**1.3**	**-**	**4.7**	**6.5**
Discount:					
At 1 September 2013	**-**	**-**	**-**	**(0.8)**	**(0.8)**
Additions	**-**	**-**	**-**	**-**	**-**
Unwinding of discount utilisation	**-**	**-**	**-**	**0.2**	**0.2**
At 28 February 2014	**-**	**-**	**-**	**(0.6)**	**(0.6)**
Net book value at 28 February 2014	**0.2**	**1.3**	**-**	**4.1**	**5.6**

£m	Feb 2014	Feb 2013	Aug 2013
Included within current liabilities	3.9	7.9	7.5
Included within non-current liabilities	1.7	4.4	2.8
Total	**5.6**	**12.3**	**10.3**

14 Provisions (continued)

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 8%, and this discount will be unwound over the life of the leases. The provision is expected to be utilised over the period to 2019, when all of the leases that have been provided against will have expired.

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

15 Related Party Transactions

No related party transactions had a material impact on the financial performance in the period or financial position of the Group at 28 February 2014 . There have been no material changes to or material transactions with related parties as disclosed in Note 32 of the Annual Report and Accounts for the year ended 31 August 2013.

16 Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board.

Mark Cashmore
Group Chief Executive
23 April 2014

Nick Gresham
Chief Financial Officer
23 April 2014