Connect Group PLC
("Connect Group" or "the Group")

Unaudited Interim Results for the six months ended 28 February 2015

Solid H1 Performance – On track for FY Expectations

Connect Group, a leading specialist distributor, is pleased to announce its interim results for the six months ended 28 February 2015.

Underlying results[1]	**6 months to 28 Feb 2015**	6 months to 28 Feb 2014	Change
Revenue	**£909.9m**	£898.7m	+1.2%
Operating profit	**£27.7m**	£26.8m	+3.3%
Profit before tax	**£24.1m**	£24.0m	+0.2%
Basic earnings per share[2]	**8.6p**	9.1p	(5.5%)
Statutory results			
Revenue	**£909.9m**	£898.7m	+1.2%
Operating profit	**£17.7m**	£24.9m	(28.8%)
Statutory profit before tax	**£14.1m**	£22.1m	(36.1%)
Statutory basic earnings per share	**4.6p**	8.2p	(43.9%)
Interim dividend per share	**2.9p**	2.8p	+3.6%
Free cash flow[3]	**£16.0m**	£11.9m	+34.2%
Net debt[4]	**£157.9m**	£105.0m	(50.4%)

Highlights:

- Underlying revenue up 1.2% and underlying operating profit up 3.3%
- Results include the successful acquisition of Tuffnells from 19 December 2014
- Strong free cash flow generating £16.0m, up 34.2%
- Underlying rebased EPS of 8.6p, down 5.5% as a result of the phasing of post-acquisition profits from the Tuffnells acquisition and rights issue shares
- Rebased DPS of 2.9p up 3.6%, reflecting confidence in the Tuffnells acquisition and ongoing Group prospects

- News & Media:
  - Continued resilience of newspaper and magazine markets
  - Developing the Pass my Parcel offer with Amazon and accelerating investment
- Books:
  - Stabilised performance and assessing longer term opportunities
  - Wordery continuing impressive growth
- Education & Care:
  - Growth in core categories with strength in Primary and Early Years
  - Investments being made to enhance customer proposition
- Parcel Freight:
  - Continued strong sales and profit growth in post-acquisition period
  - Integration and synergies on target

Mark Cashmore, Group Chief Executive, commented:

"The Group has made an encouraging start to the year, making strategic progress across all divisions and successfully completing the major acquisition of Tuffnells. Tuffnells represents a significant step in our growth strategy and we are delighted with its initial performance. We have also been investing across the rest of the Group to position us for sustainable growth and are pleased with the progress we are making."

In addition to those figures reported under IFRS, Connect Group PLC uses adjusted figures as key performance indicators. The Directors believe the adjusted figures give a more representative view of underlying performance. The following definitions have been applied consistently throughout this interim results announcement:

(1) Underlying 2015 and 2014 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 20.5% for H1 2015 and 21.5% for H1 2014.
(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) H1 2015 refers to the half year ended 28 February 2015, H1 2014 refers to the half year ended 28 February 2014 and FY2014 refers to the year ended 31 August 2014.
(7) Rebased EPS and rebased DPS 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.

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 22 April 2015 commencing at 9.00am. Connect Group PLC's Interim Results 2015 are available at www.connectgroupplc.com

An audio webcast will be available on:
http://vm.buchanan.uk.com/2015/connect220415/registration.htm

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

• **Connect News & Media** - Encompassing: Smiths News and Dawson Media Direct. Smiths News is the UK's largest newspaper and magazine wholesaling business with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the majority of the major national publishers as well as a large number of regional publishers serving approximately 30,000 customers across England and Wales, including large general retailers as well as smaller independent newsagents with approximately 40 million newspapers supplied weekly; Dawson Media Direct is an international media direct business supplying newspapers, magazines and inflight entertainment technology and content to over 80 airlines in 50 countries. In October 2014, the Connect Group announced the launch of Pass my Parcel, a new wholly-owned 'click and collect' delivery service to be operated by the News Business with Amazon as its first client. The Directors consider it to be an important organic opportunity with significant potential.

• **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 156,000 in stock titles and access to over a further seven million consumer and twenty million academic titles.

• **Connect Education & Care** - A leading independent supplier of consumable products to the Education and Care markets through The Consortium and West Mercia Supplies. The division currently holds an approximate 5 per cent. market share of the estimated addressable market, and 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.

• **Connect Parcel Freight** - Tuffnells is a leading provider of next-day B2B delivery of mixed parcel freight consignments, specialising in items of irregular dimension and weight ("IDW"), examples of which include bulky furnishings, building materials and automotive parts. Tuffnells offers distribution coverage throughout the UK through a network of 35 depots and operates a largely depot-to-depot operational model, providing over 10 million deliveries per annum, through a wide range of services to over 4,200 customers focusing on SMEs.

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 2015 and the Report and Accounts for the year ended 31 August 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.

INTERIM MANAGEMENT REPORT

OPERATING REVIEW

INTRODUCTION

The Group has delivered a solid first half performance. Total revenues were £909.9m, up 1.2% and in a period of investment, underlying operating profit was up 3.3% to £27.7m, with underlying PBT of £24.1m marginally ahead of last year. This includes the ten week contribution of Tuffnells Parcels Express ("Tuffnells") since its acquisition on 19 December 2014. The Group continues to generate strong free cash flow at £16.0m which is up 34.2% versus the prior period.

News & Media has made a strong start to the year, with continued resilience in its core newspaper and magazine markets, and planned cost savings well on track. Pass my Parcel has proved operationally effective and plans are in place to accelerate investment over the next six months.

The new team in the **Books** division has made good progress in stabilising the business and it is encouraging to see a marked improvement in performance since the second half last year. The Group is carefully addressing a range of operational and commercial opportunities which give confidence in the prospects for further improvement. Wordery continues its impressive trajectory with an excellent performance over Christmas and further growth of sales from both marketplace sites and Wordery.com.

Education & Care continues to grow in its core education categories, with strong performances in Primary and Early Years. Investments have been made in H1 that will enhance our customer proposition. The early customer feedback is encouraging and whilst we recognise the competitive trading environment, the division is well placed for peak trading in the summer.

The acquisition of Tuffnells, the associated rights issue and the creation of our **Parcel Freight** division in December 2014 was a milestone for the Group. We are delighted with the early progress and integration of the business. Sales volumes in January and February have been strong with performance maintained across the key financial metrics and service KPIs. The wider integration of the business is progressing well and our plans to deliver synergies are on track.

Underlying EPS of 8.6p was diluted, as expected, by the phasing of post-acquisition profits from the Tuffnells acquisition and rights issue shares. As previously indicated, we anticipate that the acquisition of Tuffnells will be earnings per share accretive in the first full year of ownership. In view of the strong cash generation, confidence in the recent acquisition and the Board's ongoing confidence in the prospects for the Group, the Board has declared an interim dividend of 2.9p, up 3.6%.

CONNECT NEWS & MEDIA

News Distribution:

The News distribution business continues to deliver a market leading performance.

Total newspaper and magazine revenues were £733.9m, down 2.0%, which is ahead of our medium term strategic forecast of -3 to -5% despite lower newspaper cover price inflation than we have seen in recent years. Magazines, however, have seen an encouraging improvement in trend in the period. On a like-for-like basis total newspaper and magazine revenues were down 3.3%. Underlying operating profit was up marginally to £20.5m.

The division remains on track to deliver at least £5m of cost savings in the current year, exceeding our goal to reach £20m in savings over the past three years. This is a pleasing reflection of our ongoing ability to identify and deliver efficiencies and looking ahead we remain confident of delivering a further £10m of annual cost savings over the next two years.

The launch of Pass my Parcel with Amazon has proved operationally effective albeit on low volumes during the initial phase; this has confirmed our confidence in the potential of the offer. From a standing start in October, we are now operational in over 700 stores and in view of the opportunity available, we plan to, increase the number of parcel shops to approximately 3,000 stores within the next six to nine months, from our previous target of up to 2,000 stores. This wider network of shops will facilitate the expansion of our offer to include further services (for example, returns collection) and will help to drive volumes and secure new clients. This acceleration in investment in the parcel shop network will result in an additional outlay of circa £2.0m, which will be largely funded by additional cost savings.

The strength of our network has also resulted in the additional opportunity to work with Amazon Logistics delivering parcels to consumers' homes, leveraging our News & Media assets and footprint to build our B2B relationship. The trial of this offer began in Newcastle in January and encouraging results have led to the expansion of the trial to Brighton and Southampton.

Jack's Beans, our premium coffee offer, has also grown to over 200 stores in line with our plans to target outlets with high traffic flow and sales potential.

Media:

The media business, DMD, has had a good performance in the first half, continuing to exploit opportunities in the print and digital sectors with sales up 3.5% following contract wins last year. Most recently, the business has secured a deal with Virgin Atlantic to supply 2,500 iPads, building on the 14,000 already issued across 20 airlines worldwide. Increased sales on diluted margins resulted in underlying operating profit of £1.0m in line with H1 2014.

CONNECT BOOKS

The division has delivered a much improved operational performance compared to the second half of last year in what remain challenging conditions, stabilising the business and laying further foundations for a sustainable medium term recovery. Our strategy to concentrate on profitable sales resulted in revenues of £103.4m being down 3.0%. Underlying operating profit was £1.9m compared to £2.3m in H1 2014.

The operational performance at our Norwich hub has improved, further stabilising performance and embedding more efficient practices that will underpin operational progress into the second half and beyond. The new management team has delivered a meaningful and ongoing improvement in trend and the division exited the first half at a run rate that puts it on track to achieve management's full year expectations.

Wordery continues its impressive growth, with annualised sales expected to exceed £35m by year end. Notably, Wordery achieved its first ever '£1m sales week' in December and the proportion of sales through wordery.com has grown to 15% of total Wordery sales.

The books market dynamics remain complex and continue to evolve in response to changing technology, consumer buying behaviour and, in the case of libraries, continued pressure on funding models. Over the last six months we have carefully assessed both our offer and the way in which we service our multiple customer bases. A range of opportunities for improvement is emerging which we will continue to review on a segment by segment basis.

CONNECT EDUCATION & CARE

Education and Care division continues to show progress with total revenues up 0.9% to £31.5m and core sales growth of 3.0%, with particular strength in Primary and Early Years. Increased investments and the associated costs have temporarily impacted underlying operating profit for the period which as a result were down 6.7% to £2.8m. However, these investments position the division well for peak trading.

The education market remains competitive, nevertheless the underlying fundamentals support future growth and, in line with our strategy, there remains good scope for both geographic expansion and increased share of school spend. Therefore, we continue to invest in a number of areas, including further improvements to range and catalogues, backed by a programme of classroom partnership, which delivers high quality curriculum materials and lesson plans to assist teachers.

We are building the business' digital presence and during the first half e-commerce has remained a key focus. Our new websites include an improved interface, smart-search function, 'switch and save' baskets, and integration to the most common schools accounting software. 25% of orders are now placed on line – up from circa 15% when we acquired the business in 2012. This ongoing evolution of the business from a supplier of consumables, through printed catalogues, to a digitally enabled business, with classroom authority and industry leading capability is continuing in line with our strategy and investment profile outlined at the time of the acquisition.

In addition to the marketing initiatives we have taken the opportunity to introduce new systems ahead of the peak trading period. Most significantly, we have invested in a new warehouse management system – which will result in major improvement in processes, but which has increased costs in the first half as staff were trained and work-flows aligned. The new system will improve efficiency, service quality and increase our operational capacity and the combination of these marketing and operational investments is expected to deliver benefits through the second half of the year.

CONNECT PARCEL FREIGHT

The acquisition of Tuffnells in December 2014 was a significant step in the achievement of the Group's strategy to diversify into specialist and complementary distribution markets. As Connect Group's largest acquisition to date, Tuffnells benefits from a well-defined commercial and operational model which provides us with significant competitive advantage in a strongly growing sector. Furthermore, its national footprint will extend the Group's reach and facilitate longer term opportunities across the Group.

Tuffnells is focused on handling a complex consignment range, both the number of parcels/freight per consignment and their size and weight, with high service levels. It is a scale business operating in a large and growing market, known as the Irregular Dimensions and Weight ("IDW") market. For the 12 months to 31 December 2014, the business delivered revenues of £143.6m and EBITDA of £16.5m. Furthermore, in the three years prior to acquisition, Tuffnells achieved revenue CAGR of 7.6% and adjusted EBITDA CAGR of 9.8%. Looking ahead, we estimate that Tuffnells' core addressable IDW market is currently worth an estimated £740m with forecast growth of 3 – 4% per annum and an increasing trend of outsourcing further reinforcing the attractive characteristics of the sector.

Since acquisition, Tuffnells has seen continued strong sales and profit growth. Sales were up 16.9% to £28.4m driven by increases in both volumes and the average price per consignment whilst operating profit at £1.5m was up 11.6% for the same 10 week pre-acquisition period last year. Due to the phasing of annual profits within Tuffnells and new rights issue shares there was a dilution to the Group's overall earnings per share during the 10 week post acquisition period. However, as previously indicated, we anticipate that the acquisition of Tuffnells will be earnings per share accretive in the first full year of ownership.

The previously stated network expansion plans to expand from 34 depots at the time of acquisition to 40 by 2017 will add new capacity as well as freeing up capacity at existing depots for further growth. In line with this strategy one new depot in Borehamwood has been opened since acquisition and an additional opening is planned for Norwich in June 2015.

Volumes since December have been buoyant with gains spread over all regions and key market segments. Since January we have won almost 300 new customers, equating to new annualised revenues of £4.5m.

The division has maintained its historically high standards of operational service, achieving over 96.5% of deliveries on time and in full. These high levels of service and efficiency are a key driver of profitability, minimising rectification costs and returns, and represent a strong result for the first period trading as part of the Group.

Overall, we are extremely pleased with the business we acquired and with trading in the first months since acquisition. Progress on integration within the wider Group and delivery of the forecast synergies is also developing well and we are on target in all key areas.

BOARD CHANGES

In line with the Board's non-executive director succession plans, on 2 March 2015, we announced that Gary Kennedy would join the Board as a non-executive director and Chairman-designate with immediate effect. On 1 May 2015, Gary will become non-executive Chairman when Dennis Millard steps down as Chairman and retires from the Board.

We would like to take this opportunity to reiterate our thanks to Dennis Millard for his leadership, enthusiasm, dedication and contribution to the success of the Group during his time as a director and Chairman, and to welcome Gary to the Board.

SUMMARY AND OUTLOOK

In summary the Group has made a solid start to the year underpinned by our investments in the period. Encouraging operational progress has been made across each division and all are performing in line with our expectations. The acquisition of Tuffnells to create our Parcel Freight division has gone well and the strong early performance of the division is particularly pleasing.

Our diversification strategy is on track. The integration of Tuffnells is underway and we have also made further progress with our organic sales initiatives including Pass my Parcel in News & Media, Wordery in Books and e-commerce in Education & Care.

Looking ahead we have clear plans to capitalise on the opportunities for each division and are well positioned for the second half. Current trading is in line with expectations for the full year and as a reflection of the Board's confidence in future prospects and the continued strong free cash flow generation, the Board today has declared an interim dividend of 2.9p per share, a 3.6% increase on the prior year.

INTERIM MANAGEMENT REPORT

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS – UNDERLYING

£m	**6 months to Feb 2015**	**6 months to Feb 2014**	**Change**
Total revenue	**909.9**	**898.7**	**1.2%**
Gross profit	107.4	99.8	7.7%
Operating costs	(79.7)	(73.0)	(9.3%)
Underlying operating profit	**27.7**	**26.8**	3.3%
Net finance costs	(3.6)	(2.8)	(29.7%)
Underlying profit before tax	**24.1**	**24.0**	0.2%
Taxation	(4.9)	(5.2)	4.4%
Tax rate	*20.5%*	*21.5%*	
Underlying profit after tax	**19.2**	**18.8**	2.1%

Group underlying revenues were £909.9m, up 1.2% and underlying Group operating profit of £27.7m was up 3.3%, reflecting an unchanged performance in News & Media, a decline in both the Books and Education & Care divisions, offset by the strong performance of the new Parcel Freight division since its acquisition in December 2014.

Net finance costs of £3.6m were up £0.8m in the year, predominantly driven by the increased leverage and borrowings as a result of the acquisition of Tuffnells. Interest cost on borrowings incurred in the period was £2.4m compared to £2.1m for the prior year period. Other finance costs include amortisation of banking arrangement fees of £0.3m (Feb 2014: £0.1m), fair value movements on interest rate hedges and foreign exchange differences of £0.4m (2014: £0.1m) and interest cost on pension obligations of £0.3m (Feb 2014:£0.4m).

Underlying Group profit before tax was marginally up to £24.1m.

The underlying tax charge for the period of £4.9m was down £0.3m and reflected an effective tax rate of 20.5% (Feb 2014: 21.5%), lower as a result of the falling UK Corporation tax rate. Future effective tax rates are expected to be broadly in line with standard UK Corporation tax rates.

Underlying Group profit after tax of £19.2m was up 2.1%.

EPS AND DIVIDEND

	Underlying		Statutory	
	6 months to Feb 2015	6 months to Feb 2014	**6 months to Feb 2015**	6 months to Feb 2014
Profit after tax (£m)	**19.2**	18.8	**10.4**	17.0
Non-controlling interest (£m)	**(0.2)**	(0.1)	**(0.2)**	(0.1)
Profit attributable to equity shareholders (£m)	**19.0**	18.7	**10.2**	16.9
Basic number of shares (millions) - rebased	**221.0**	205.1	**221.0**	205.1
Basic EPS – reported	**8.6p**	10.1p	**4.6p**	9.1p
Bonus Factor	-	0.9015	-	0.9015
Basic EPS - rebased(7)	**8.6p**	9.1p	**4.6p**	8.2p
Diluted number of shares (millions) - rebased	**226.4**	216.2	**226.4**	216.2
Diluted EPS – reported	**8.4p**	9.6p	**4.5p**	8.7p
Diluted EPS - rebased(7)	**8.4p**	8.7p	**4.5p**	7.8p
Dividend per share – reported	**2.9p**	3.1p	**2.9p**	3.1p
Bonus Factor	**-**	0.9015	**-**	0.9015
Dividend per share - rebased(7)	**2.9p**	2.8p	**2.9p**	2.8p

The acquisition of Tuffnells was part funded by a rights issue and as a result of this, it is necessary to rebase the prior year comparatives by the rights issue bonus factor adjustment of 0.9015, which reflects the extra shares in issue. The impact is that 2014 Basic EPS is rebased from 10.1p to 9.1p, and last year's interim dividend per share is rebased from 3.1p to 2.8p.

On an underlying basis, profit after tax of £19.2m resulted in an EPS of 8.6p, a decrease of 5.5% on the prior year, as was expected, by the phasing of Tuffnells post-acquisition profits and associated rights issue shares.

Including non-recurring and other items, statutory profit after tax of £10.4m, adjusted for £0.2m of non-controlling interest, equates to £10.2m of profit attributable to equity shareholders. This resulted in a basic statutory EPS of 4.6p, a decrease of 3.6p from a rebased 8.2p on the prior year.

The weighted average number of shares has increased by 15.9m to 221.0m reflecting the total new shares in issue from the rights issue, which came into effect on 17 December 2014. We expect the full year weighted share number to be 231m for FY 2015.

Dilutive shares also increased the basic number of shares at 28 February 2015 by 5.4m to 226.4m and resulted in a diluted underlying EPS of 8.4p, a decrease of 0.3p on the prior year.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 3.6m shares (Feb 2014: 7.8m) and the weighted impact of 1.8m shares expected to be issued relating to the deferred consideration for the acquisition of Tuffnells.

The Board has approved an interim dividend of 2.9p, up 3.6% on last year, highlighting continued confidence in the Group's strong cash generation and future prospects.

The interim dividend will be paid on 10 July 2015 to shareholders on the register at the close of business on 12 June 2015.

CONNECT NEWS & MEDIA – NEWS DISTRIBUTION INCOME STATEMENT

£m	6 months to Feb 2015	6 months to Feb 2014	Change	LFL(5)
Total revenue	**733.9**	**748.6**	**(2.0%)**	**(3.3%)**
Gross profit	59.9	61.7	(3.0%)	
Operating costs	(39.4)	(41.2)	4.8%	
Underlying operating profit	**20.5**	**20.5**	**0.1%**	
Gross margin	8.2%	8.2%	-	
Cost ratio	(5.4%)	(5.5%)	10 bps	
Operating margin	2.8%	2.7%	10 bps	

News Distribution underlying revenues of £733.9m declined 2.0% on prior year with like-for-like revenues down 3.3%, following continued resilience in its core newspaper and magazine markets despite softer than expected cover price inflation.

Gross margin of £59.9m was slightly lower than the prior year down 3.0% as a result of decreased volumes and margin mix changes, slightly offset by the upturn in recent run rates of higher margin weekly and monthly magazines compared to prior periods.

The cost ratio of 5.4% improved by 10bps reflecting £2.5m of Network cost savings achieved in the period, partially offset by investment to drive new organic revenues.

News Distribution underlying operating profit of £20.5m remained in line with prior year, and resulted in an operating margin of 2.8%, up 10bps on the prior year.

CONNECT NEWS & MEDIA – MEDIA INCOME STATEMENT

£m	6 months to Feb 2015	6 months to Feb 2014	Change	LFL(5)
Total revenue	**12.7**	**12.3**	**3.5%**	**(1.9%)**
Gross profit	6.0	6.1	(0.6%)	
Operating costs	(5.0)	(5.1)	0.8%	
Underlying operating profit	**1.0**	**1.0**	(7.7%)	
Gross margin	47.6%	49.6%	(200 bps)	
Cost ratio	(40.0%)	(41.5%)	150 bps	
Operating margin	7.5%	8.1%	(60 bps)	

Media underlying revenues of £12.7m increased 3.5% on the prior year as a result of a number of new contract wins, and business from a new Thailand hub. On a like for like basis revenues were down 1.9%.

Gross margin of 47.6% has decreased 200bps and the cost ratio of 40.0% has improved by 150bps, with the net result predominantly driven by the impact of new contracts in the period.

Underlying operating profit of £1.0m remains in line with prior year and resulted in an operating margin of 7.5% down 60bps versus prior year.

CONNECT BOOKS INCOME STATEMENT

£m	6 months to Feb 2015	6 months to Feb 2014	Change	LFL[5]
Total revenue	**103.4**	**106.6**	(3.0%)	**1.1%**
Gross profit	19.4	19.4	-	
Operating costs	(17.5)	(17.1)	(2.4%)	
Underlying operating profit	**1.9**	**2.3**	**(18.2%)**	
Gross margin	18.7%	18.1%	60bps	
Cost ratio	(16.9%)	(16.0%)	(90 bps)	
Operating margin	1.8%	2.2%	(40bps)	

Books underlying revenues of £103.4m were down 3.0% as a result of continued difficult trading conditions and a focus on profitable sales, partly offset by the continued impressive growth in Wordery. Like-for-like revenues were up 1.1%. Market conditions remain challenging across most of the segments as the books market continues to evolve in response to changing technology, consumer buying behaviour, and in the case of libraries, continued pressure on funding models.

Wordery continues to grow impressively, growing by over 80% and continues to establish its own web presence to complement its position as a leading market place supplier.

Gross margin was up 60bps to 18.7% due to favourable movement in the sales mix towards higher margin product categories and enhanced margin via Wordery.com.

The cost ratio of 16.9% declined 90bps on the prior year, as a result of increases in direct, carriage and packaging costs which were needed to drive improvement in service levels.

The underlying operating profit of £1.9m decreased 18.2% on the prior year but reflects a stabilisation of profits since the disappointing second half of last year as recovery initiatives take effect.

CONNECT EDUCATION AND CARE INCOME STATEMENT

£m	6 months to Feb 2015	6 months to Feb 2014	Change	LFL[5]
Total revenue	**31.5**	**31.2**	0.9%	**0.5%**
Gross profit	13.1	12.6	3.9%	
Operating costs	(10.3)	(9.6)	(7.2%)	
Underlying operating profit	**2.8**	**3.0**	**(6.7%)**	
Gross margin	41.7%	40.5%	120bps	
Cost ratio	(32.9%)	(31.0%)	(190bps)	
Operating margin	8.8%	9.5%	(70bps)	

Education & Care underlying revenues of £31.5m were up 0.9% on the prior year, and 0.5% on a like-for-like basis. Core sales in Education, Care and Early Years increased 3.0%, on a like-for-like basis, as a result of spend with existing customers and winning new contracts through our continued investment in classroom partnership and e-commerce strategies.

Gross margin was up 120bps to 41.7%, as a result of a focus on profitable sales in our core markets. The cost ratio of 32.9% increased by 190bps reflecting the additional investment on a number of fronts, including further improvements to range and catalogues, backed by a programme of classroom partnership.

Education & Care underlying operating profit of £2.8m was down 6.7% on the prior year, as a result of first half investment and resulted in an operating margin of 8.8% down 70bps.

CONNECT PARCEL FREIGHT INCOME STATEMENT

£m	10 weeks to Feb 2015
Total revenue	**28.4**
Gross profit	9.4
Operating costs	(7.9)
Underlying operating profit	**1.5**

Parcel Freight underlying revenues for the 10 week period since acquisition on 19 December 2014 were £28.4m, up 16.9% on the pre-acquisition comparable period in the prior year, due to continued volume growth, as well as a strong Christmas and January trading period.

Parcel Freight operating profit was £1.5m, up 11.5% on the pre-acquisition comparable period in the prior year, due to sales volumes and high levels of service and efficiency.

NON-RECURRING AND OTHER ITEMS

£m	6 months to Feb 2015	6 months to Feb 2014
Integration costs	(0.2)	-
Network reorganisation costs	(0.8)	(0.3)
Release of property provisions	-	0.6
Acquisition costs	(6.3)	(0.4)
Amortisation of acquired intangibles	(2.7)	(1.3)
Impairment of acquired intangibles	-	(0.5)
Total loss before tax	**(10.0)**	**(1.9)**
Taxation	1.2	0.1
Total loss after tax	**(8.8)**	**(1.8)**

Non-recurring and other items for the period were £10.0m before tax and totalled £8.8m after tax for the period, compared to £1.8m in the prior year.

During the period we have incurred £1.0m of integration and network reorganisation costs. The largest amount incurred in the period relates to redundancy costs supporting the delivery of cost savings.

There were no property provision releases in the period to 28 February 2015. During the 6 month period to 28 February 2014 the Group released £0.6m relating to historic reversionary lease provisions following the settlement of two historic claims.

Acquisition costs incurred in the period to 28 February 2015 related to acquisition and deferred consideration costs for Tuffnells in December 2014 and further details of the acquisition are included in note 12. Acquisition costs in the period to 28 February 2014 are predominantly the final apportionment of deferred consideration from the acquisition of The Consortium in April 2012.

There was no impairment of acquired intangibles recognised in the period to 28 February 2015. During the period to 28 February 2014 the carrying value of acquired intangibles from the acquisition of Blackwells customer relationships in May 2013 was reviewed and as a result of lower than anticipated sales conversion an amount of £0.5m was written off.

Amortisation of acquired intangibles was £2.7m increased due to the acquisition of Tuffnells, leaving a balance of £70.6m to be amortised over future years.

FREE CASH FLOW

£m	6 months to Feb 2015	6 months to Feb 2014
Underlying profit before interest and tax	27.7	26.8
Depreciation & amortisation	4.8	3.7
Underlying EBITDA	32.5	30.5
Working capital	(3.9)	(2.8)
Capital expenditure	(4.0)	(4.5)
Net interest paid	(3.3)	(4.2)
Taxation	(3.4)	(5.2)
Ongoing pension funding	(2.3)	(2.1)
Other movements	0.4	0.2
Free cash flow[(3)]	**16.0**	**11.9**

The Group continued to generate strong free cash flow in the period, delivering £16.0m up £4.1m or 34% on the prior year.

Working capital showed a small outflow supporting ongoing sales growth initiatives.

Capital expenditure includes £1.5m for News with £1m being in relation to investments in new business initiatives: £0.5m for Books which relates to further investment in its digital platform and Wordery; £0.9m in Education & Care of which £0.6m relates to investment in warehouse management systems; and £0.5m in Parcel Freight relating to vehicles, depots and IT systems.

Net interest of £3.3m includes £0.6m of arrangement fees and costs relating to the negotiated extension to our credit facilities, being amortised in the profit and loss over the life of the agreement.

Tax payments were £3.4m, a decrease of £1.8m compared to the prior year, predominantly due to a £1.5m refund from HMRC in relation to a prior period and reflecting the impact of the reduction in the mainstream rate of taxation.

Pension funding of £2.3m is in line with expectation, following the March 2012 valuation.

NET DEBT AND BANK FACILITIES

£m	As at Feb 2015	As at Aug 2014	As at Feb 2014
Opening net debt(4)	**(93.0)**	**(98.5)**	**(98.5)**
Free cash flow	16.0	37.2	11.9
Dividend paid	(14.4)	(17.7)	(11.7)
Non-recurring items	(4.8)	(4.4)	(1.9)
Net acquisition financing	(53.0)	(0.3)	(0.3)
Other	(8.7)	(9.3)	(4.5)
Closing net debt(4)	**(157.9)**	**(93.0)**	**(105.0)**

Closing net debt at the end of the period was £157.9m versus £93.0m at August 2014 and £105.0m at February 2014. 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.

The main driver of the increase in net debt in the period was the acquisition of Tuffnells in December 2014. The acquisition was funded through a debt and equity mix, with net acquisition financing of £53.0m being provided through an extension of our existing facilities.

Net debt: EBITDA at the end of February 2015 was 1.94x versus 1.4x at August 2014 and 1.6x at February 2014. This remains comfortably within our main covenant ratio of 2.75x and we remain committed to continue to paydown this debt towards our historic leverage ratio.

The Group completed a refinancing through a syndicate of five banks in January 2014. The facility was extended in December 2014 to £250m of committed facilities to support the acquisition of Tuffnells. The facility provides funding for over three and a half years to November 2018 and comprises a term loan, with limited amortisation, and a revolving credit facility with margin and covenants favourable to the previous facility.

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 2015 had an IAS 19 surplus of £84.4m (Aug 2014: £75.7m). 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 £15.6m (31 August 2014: £17.3m).

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 decline in newspaper and magazines are worse than expected (3%-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 continue to identify efficiencies to compensate for market declines. The Group's 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. Recent acquisition of Tuffnells Parcel Express and effective integration into the Connect Group supports delivery of growth targets.
Uncertainty of Government policy could adversely impact current business performance.	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 News, 5 year contracts with publishers support the market structure. Books, Education and Care and Parcel Freight all 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. Books, Education and Care and Parcel Freight 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. Increased risk of penalty through breach of regulation such as the Data Protection Act.	External specialist advice supported by 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 further strengthening of the Security Architecture and process landscape now extended to include the Parcel Freight acquisition. Continuous monitoring of regulatory requirements to ensure central compliance and guidance communicated out to Divisions on changes when required.
Loss of key executives and subsequent loss of knowledge and skills in established and recently acquired businesses impacts current and future business performance.	Loss of key skills and leadership impacts the capability of the business to deliver its strategic goals.	Performance and capability management processes in place, reviewed by the Remuneration Committee and Group Executive. 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 Parcel Freight.

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. 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 by recent acquisitions.
Legislative changes or interpretation impacting the engagement of delivery contractors resulting in an increase in the number of employees.	Increased number of employees 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. Regular checks are carried out by internal audit across the News network to ensure understanding and compliance.
Financial risk and exposure through fraud, poor management controls and/or fluctuating key financial assumptions.	Risk of poor controls over debtors and stock could result in fraud, direct loss or 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.
Failure by DMD to prevent breach of airside security causes 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 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 and complex operations are not supported by robust enough Business Continuity Planning & Disaster Recovery solutions to prevent disruption outside of expected tolerances.	Trading capability, customer experience and sales/margin performance impacted through inability to operate due to systems outages.	Significant investment undertaken by the organisation to provide Disaster Recovery capability across the group for all essential systems. External expertise used to provide guidance and a Disaster Recovery facility. In addition a programme led centrally by the Group ensures Business Continuity Planning procedures and standards are embedded across the Divisions.

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Income Statement (Unaudited)

For the 6 months to 28 February 2015

£m	Note	**6 months to Feb 2015**			6 months to Feb 2014			Audited 12 months to Aug 2014		
		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	**909.9**	**-**	**909.9**	898.7	-	898.7	1,808.5	-	1,808.5
Operating profit	3	**27.7**	**(10.0)**	**17.7**	26.8	(1.9)	24.9	55.5	(6.9)	48.6
Investment revenues		-	-		0.1	-	0.1	0.4	-	0.4
Finance costs		(3.6)	-	**(3.6)**	(2.9)	-	(2.9)	(5.9)	-	(5.9)
Profit before tax	3	**24.1**	**(10.0)**	**14.1**	24.0	(1.9)	22.1	50.0	(6.9)	43.1
Taxation	6	(4.9)	1.2	**(3.7)**	(5.2)	0.1	(5.1)	(9.3)	1.0	(8.3)
Profit for the period		**19.2**	**(8.8)**	**10.4**	18.8	(1.8)	17.0	40.7	(5.9)	34.8
Profit attributable to equity shareholders		19.0	(8.8)	**10.2**	18.7	(1.8)	16.9	40.5	(5.9)	34.6
Profit attributable to non-controlling interests		0.2	-	**0.2**	0.1	-	0.1	0.2	-	0.2
Profit for the period		**19.2**	**(8.8)**	**10.4**	18.8	(1.8)	17.0	40.7	(5.9)	34.8
Earnings per share [1]										
Basic	*8*	*8.6p*		*4.6p*	*9.1p*		*8.2p*	*19.6p*		*16.8p*
Diluted	*8*	*8.4p*		*4.5p*	*8.7p*		*7.8p*	*19.0p*		*16.2p*
Equity dividends per share [1]	*7*			*2.9p*			*2.8p*			*8.7p*

[1] Rebased EPS and rebased DPS 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

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 6 months to 28 February 2015

£m	Note	6 months to Feb 2015	6 months to Feb 2014	Audited 12 months to Aug 2014
Items that will not be reclassified to the Group Income Statement				
Actuarial gains on defined benefit pension scheme	5	4.9	1.7	14.8
Effect of asset limit on defined benefit pension scheme	5	(5.2)	(1.8)	(16.2)
Tax relating to components of other comprehensive income that will not be reclassified		0.1	-	0.1
		(0.2)	(0.1)	(1.3)
Items that may be reclassified to the Group Income Statement				
(Loss)/ gain on cash flow hedges		(0.3)	0.5	0.6
Currency translation differences		(0.2)	-	(0.2)
Tax relating to components of other comprehensive income		-	(0.3)	(0.1)
Other comprehensive income		(0.5)	0.1	0.3
Total other comprehensive income for the period		**(0.7)**	**0.1**	(1.0)
Profit for the period		10.4	17.0	34.8
Total comprehensive income for the period		**9.7**	**17.1**	**33.8**
Total comprehensive income attributable to equity shareholders		**9.5**	**17.0**	**33.6**
Total comprehensive income attributable to non controlling interest		**0.2**	**0.1**	**0.2**

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 2015

£m	Note	As at Feb 2015	As at Feb 2014	Audited as at Aug 2014
Non-current assets				
Intangible assets	11	172.9	67.0	65.7
Property, plant and equipment		47.5	25.6	29.0
Interest in joint venture and associate		4.3	4.2	4.3
Derivative financial instruments		-	1.0	0.6
Retirement benefit assets		0.3	0.2	0.3
Deferred tax assets		8.2	7.4	7.2
		233.2	**105.4**	**107.1**
Current assets				
Inventories		43.7	45.9	45.3
Trade and other receivables		124.2	122.3	128.1
Cash and cash equivalents	13	12.7	12.5	20.4
		180.6	**180.7**	**193.8**
Total assets		**413.8**	**286.1**	**300.9**
Current liabilities				
Trade and other payables		(183.5)	(180.1)	(192.3)
Current tax liabilities		(7.6)	(7.3)	(6.1)
Obligations under finance leases		(2.4)	(0.7)	(0.9)
Bank overdrafts and other borrowings	13	(64.5)	(67.9)	(60.9)
Provisions	15	(6.6)	(3.9)	(3.4)
Derivative financial instruments		-	(0.8)	-
Retirement benefits obligation	5	(4.1)	(4.1)	(4.1)
		(268.7)	**(264.8)**	**(283.0)**
Non-current liabilities				
Bank loans and other borrowings	13	(98.0)	(48.3)	(48.4)
Retirement benefit obligation	5	(17.5)	(17.8)	(17.2)
Deferred tax liabilities		(13.3)	(4.8)	(3.2)
Long-term provisions	15	(5.9)	(1.7)	(1.9)
Obligations under finance leases		(5.7)	(0.6)	(3.2)
Derivative financial instruments		-	-	-
Other non-current liabilities		(1.9)	(1.4)	(1.4)
		(142.3)	**(74.6)**	**(75.3)**
Total liabilities		**(411.0)**	**(339.4)**	**(343.0)**
Total net assets/ (liabilities)		**2.8**	**(53.3)**	**(42.1)**
Equity				
Called up share capital		12.2	9.5	9.5
Share Premium Account		55.1	5.1	5.3
Other reserves		(286.4)	(284.0)	(285.6)
Retained earnings		221.5	216.0	228.5
Total shareholders' equity		**2.4**	**(53.4)**	**(42.3)**
Non-controlling interests in equity		0.4	0.1	0.2
Total equity		**2.8**	**(53.3)**	**(42.1)**

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the 6 months to 28 February 2015

£m	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total shareholders equity	Non-controlling interests in equity	Total equity
Balance at 31 August 2013	**9.2**	**1.2**	**(282.2)**	**214.9**	**(56.9)**	**-**	**(56.9)**
Profit for the period	-	-	-	16.9	16.9	0.1	17.0
(Loss) / 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)**
Profit for the period	-	-	-	17.7	17.7	0.1	17.8
(Loss) / gain on cash flow hedges	-	-	0.1		0.1	-	0.1
Actuarial gain on defined benefit pension scheme	-	-	-	13.1	13.1	-	13.1
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	(14.4)	(14.4)	-	(14.4)
Currency translation differences	-	-	(0.2)	-	(0.2)	-	(0.2)
Tax relating to components of other comprehensive income	-	-	(0.1)	0.4	0.3	-	0.3
Total comprehensive income for the period	-	-	(0.2)	16.8	16.6	0.1	16.7
Issue of share capital	-	0.2		4.0	4.2	-	4.2
Purchase of own shares			(6.3)	-	(6.3)	-	(6.3)
Dividends paid	-	-		(5.8)	(5.8)	-	(5.8)
Employee share schemes	-	-	4.9	(2.6)	2.3	-	2.3
Recognition of share based payments	-	-		0.1	0.1	-	0.1
Balance at 31 August 2014	**9.5**	**5.3**	**(285.6)**	**228.5**	**(42.3)**	**0.2**	**(42.1)**
Profit for the period	-	-	-	10.2	10.2	0.2	10.4
(Loss) / gain on cash flow hedges	-	-	(0.3)	-	(0.3)	-	(0.3)
Currency translation differences	-	-	(0.2)	-	(0.2)	-	(0.2)
Actuarial gain on defined benefit pension scheme	-	-	-	4.9	4.9	-	4.9
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	(5.2)	(5.2)	-	(5.2)
Tax relating to components of other comprehensive income	-	-	-	0.1	0.1	-	0.1
Total comprehensive income for the period	-	-	(0.5)	10.0	9.5	0.2	9.7
Issue of share capital	2.7	49.8	-	-	52.5	-	52.5
Dividends paid	-	-	-	(14.4)	(14.4)	-	(14.4)
Purchase of own shares	-	-	(4.4)	-	(4.4)	-	(4.4)
Employee share schemes	-	-	4.1	(4.1)	-	-	-
Recognition of share based payments	-	-	-	1.5	1.5		1.5
Balance at 28 February 2015	**12.2**	**55.1**	**(286.4)**	**221.5**	**2.4**	**0.4**	**2.8**

Connect Group PLC (formerly Smiths News PLC)

Condensed Consolidated Group Cash Flow Statement (Unaudited)
For the 6 months to 28 February 2015

£m	Note	6 months to Feb 2015	6 months to Feb 2014	Audited 12 months to Aug 2014
Net cash from operating activities	9	**18.6**	**17.0**	**47.4**
Investing activities				
Dividends from associates		-		0.2
Acquisitions	12	(105.3)	(0.3)	(0.3)
Proceeds on disposal of property, plant and equipment		0.2	-	-
Purchase of property, plant and equipment		(2.0)	(2.7)	(6.8)
Purchase of intangible assets		(2.0)	(1.8)	(3.5)
Net cash used in investing activities		**(109.1)**	**(4.8)**	**(10.4)**
Financing activities				
Interest paid		(3.3)	(4.2)	(6.1)
Dividends paid		(14.4)	(11.9)	(17.7)
Repayments of obligations under finance leases		(1.0)	(0.5)	(1.3)
Proceeds on issue of shares		52.5	0.3	0.7
Purchase of shares for Employee Benefit Trust		(4.4)	(4.5)	(6.3)
Repayment of borrowings		-	16.0	(34.0)
New bank loans raised		50.0	-	50.0
(Decrease)/ Increase in short term borrowings		3.6	(4.9)	(11.9)
Net cash from financing activities		**83.0**	**(9.7)**	**(26.6)**
Net (decrease)/ increase in cash and cash equivalents		**(7.5)**	**2.5**	**10.4**
Effect of foreign exchange rate changes		(0.2)	(0.1)	(0.1)
		(7.7)	2.4	10.3
Opening net cash and cash equivalents		20.4	10.1	10.1
Closing net cash and cash equivalents		**12.7**	**12.5**	**20.4**

Analysis of net debt

£m	Note	As at Feb 2015	As at Feb 2014	Audited as at Aug 2014
Cash and cash equivalents	13	12.7	12.5	20.4
Current borrowings	13	(64.5)	(67.9)	(60.9)
Non-current borrowings	13	(98.0)	(48.3)	(48.4)
Finance lease liabilities		(8.1)	(1.3)	(4.1)
Net debt		**(157.9)**	**(105.0)**	**(93.0)**

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2015

1 General Information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2014 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 £250m 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 70 of the Annual Report for the year ended 31 August 2014.

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 2014.

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2015

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 distribution (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, 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 95 countries.
Connect Education and Care (referred to as The Consortium)	A leading distributor of education and care consumable products servicing 30,000 customers.
Connect Parcel Freight (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			**Operating profit**		
£m	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014
Connect News & Media: News distribution	**733.9**	748.6	1,524.8	**20.5**	20.5	42.9
Connect News & Media: Media	**12.7**	12.3	25.1	**1.0**	1.0	2.3
Connect Books	**103.4**	106.6	193.7	**1.9**	2.3	2.5
Connect Education & Care	**31.5**	31.2	64.9	**2.8**	3.0	7.8
Connect Parcel Freight	**28.4**	-	-	**1.5**	-	-
Total group - underlying	**909.9**	898.7	1,808.5	**27.7**	26.8	55.5
Non-recurring and other items	-	-	-	**(10.0)**	(1.9)	(6.9)
Total group – statutory	**909.9**	898.7	1,808.5	**17.7**	24.9	48.6
Net finance expense				**(3.6)**	(2.8)	(5.5)
Profit before taxation				**14.1**	22.1	43.1

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2015

3 Segmental Analysis of Results (continued)

Segment assets and liabilities

	Assets			Liabilities			Net (liabilities) /assets		
£m	**HY 2015**	HY 2014	FY 2014	**HY 2015**	HY 2014	FY 2014	**HY 2015**	HY 2014	FY 2014
Connect News & Media: News distribution	**102.3**	119.4	144.5	**(291.9)**	(247.0)	(261.1)	**(189.6)**	(127.6)	(116.6)
Connect News & Media: Media	**20.0**	18.2	18.8	**(8.2)**	(7.6)	(7.2)	**11.8**	10.6	11.6
Connect Books	**85.8**	85.8	79.8	**(62.5)**	(61.4)	(56.9)	**23.3**	24.4	22.9
Connect Education & Care	**56.3**	62.7	57.8	**(14.2)**	(23.4)	(17.8)	**42.1**	39.3	40.0
Connect Parcel Freight	**149.4**	-	-	**(34.2)**	-	-	**115.2**	-	-
Consolidated assets/ (liabilities)	**413.8**	286.1	300.9	**(411.0)**	(339.4)	(343.0)	**2.8**	(53.3)	(42.1)

Segment depreciation, amortisation and non-current asset additions

	Depreciation			Amortisation			Additions to non-current assets		
£m	**HY 2015**	HY 2014	FY 2014	**HY 2015**	HY 2014	FY 2014	**HY 2015**	HY 2014	FY 2014
Connect News & Media: News distribution	**(2.1)**	(1.9)	(4.0)	**(0.8)**	(0.6)	(1.4)	**117.3**	1.7	7.7
Connect News & Media: Media	**(0.1)**	(0.1)	(0.1)	**(0.2)**	(0.1)	(0.3)	**-**	-	-
Connect Books	**(0.3)**	(0.3)	(0.6)	**(1.2)**	(1.0)	(2.4)	**0.5**	1.3	2.5
Connect Education & Care	**(0.3)**	(0.2)	(0.5)	**(1.0)**	(0.7)	(1.7)	**1.0**	0.2	1.2
Connect Parcel Freight	**(0.5)**	-	-	**(1.1)**	-	-	**0.6**	-	-
Consolidated total	**(3.3)**	(2.5)	(5.2)	**(4.3)**	(2.4)	(5.8)	**119.4**	3.2	11.4

Geographical analysis

	Revenue by destination			Non-current assets by location of operation		
£m	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014
United Kingdom	869.1	879.1	1,729.9	224.5	105.1	98.6
Europe	26.3	15.7	51.2	0.2	0.3	0.2
Rest of World	14.5	3.9	27.4	-	-	-
Consolidated total	**909.9**	898.7	1,808.5	**224.7**	105.4	98.8

4 Non-Recurring and Other Items

£m	6 months to Feb 2015	6 months to Feb 2014	12 months to Aug 2014
Integration costs	**(0.2)**	-	-
Network and re-organisation costs	**(0.8)**	(0.3)	(3.0)
Acquisition costs	**(6.3)**	(0.4)	(0.9)
Release of property provisions	**-**	0.6	0.5
Amortisation of acquired intangibles	**(2.7)**	(1.3)	(3.0)
Interest	**-**	-	-
Impairment of acquired intangibles	**-**	(0.5)	(0.5)
Total before tax	**(10.0)**	(1.9)	(6.9)
Taxation	**1.2**	0.1	1.0
Total after taxation	**(8.8)**	(1.8)	(5.9)

Non-recurring and other items for the period totalled £8.8m after tax for the period, compared to £1.8m in the prior year.

Network and reorganisation costs

During the period we have incurred £1.0m of integration and network reorganisation costs. The largest amount incurred in the period relates to redundancy costs supporting the delivery of cost savings.

Release of property provision

There were no property provision releases in the period to 28 February 2015. During the 6 month period to 28 February 2014 the Group released £0.6m relating to historic reversionary lease provisions following the settlement of two historic claims.

Acquisition costs

Acquisition costs incurred in the period to 28 February 2015 related to the acquisition of Tuffnells which include £2.8m of deferred consideration. Details of the acquisition are included in note 12. Acquisition costs in the period to 28 February 2014 are predominantly the final apportionment of deferred consideration from the acquisition of The Consortium in April 2012.

Impairment of acquired intangibles

There was no impairment recognised in the period to 28 February 2015. During the period to 28 February 2014 the carrying value of acquired intangibles from the acquisition of Blackwells customer relationships in May 2013 was reviewed and as a result of lower than anticipated sales conversion an amount of £0.5m was written off.

Amortisation of acquired intangibles

Amortisation of £2.7m increased due to the acquisition of Tuffnells and leaves a balance of £70.6m to be amortised over future years.

5 Retirement Benefit Obligation

Defined benefit pension schemes

The Group operates four defined benefit schemes, of which the WH Smith Pension Trust (the 'Pension Trust') represents over 93% of the total obligation at 28 February 2015 (28 February 2014: 96%). On 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 amounts recognised in the balance sheet are as follows:

£m	As at Feb 2015	As at Feb 2014	As at Aug 2014
Present value of defined benefit obligation	(487.9)	(428.0)	(450.6)
Fair value of assets	566.6	483.2	522.6
Net surplus	**78.7**	**55.2**	**72.0**
Amounts not recognised due to asset limit	(84.4)	(58.1)	(75.7)
Additional liability recognised due to minimum funding requirements	(15.6)	(18.8)	(17.3)
Pension liability	**(21.6)**	**(21.9)**	**(21.3)**
Pension asset	**0.3**	**0.2**	**0.3**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £84.4m at 28 February 2015 (FY2014: £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 (FY2014: £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.

In the year to 31 August 2013, 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.

Future cash contributions by the Group to address the deficit will be £4.1m per annum, through to March 2019. The Group recognises the present value of these agreed contributions as a pension liability of £15.6m (FY2014 £17.3m).

Other defined benefit schemes

The actuarial valuation for funding purposes of the Consortium CARE scheme due on 31 December 2013 was completed on 24 March 2015, showing an actuarial scheme deficit of £1.5m (December 2010: £1.3m). 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 2015	6 months to Feb 2014	12 months to Aug 2014
Discount rate	3.40%	4.30%	3.85%
Inflation assumptions – CPI	2.05%	2.35%	2.25%
Inflation assumptions – RPI	3.05%	3.35%	3.25%

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 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)**
Current service cost	(1.3)	1.3	-	-
Interest cost	10.3	(9.1)	(1.7)	(0.5)
Interest income on scheme assets				
Total amount recognised in income statement	**9.0**	**(7.8)**	**(1.7)**	**(0.5)**
Return on plan assets excluding amounts included in net interest	35.5	-	-	35.5
Actuarial loss arising from experience	-	(22.4)	-	(22.4)
Actuarial loss arising from changes in financial assumptions	-	-	-	-
Actuarial loss arising from changes in demographic assumptions	-	-	-	-
Change in surplus not recognised excluding amounts recognised in net interest	-	-	(14.4)	(14.4)
Amount recognised in other comprehensive income	**35.5**	**(22.4)**	**(14.4)**	**(1.3)**
Employer contributions	2.5	-	-	2.5
Benefit payments	(7.5)	7.5	-	-
Amounts included in cash flow statement	**(5.0)**	**7.5**	**-**	**2.5**
At 31 August 2014	**522.7**	**(450.7)**	**(93.0)**	**(21.0)**

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 2014	**522.7**	**(450.7)**	**(93.0)**	**(21.0)**
Current service cost	-	(0.1)	-	(0.1)
Administration expenses	-	-	-	-
Interest cost	9.7	(8.2)	(1.8)	(0.3)
Interest income on scheme assets	-	-	-	-
Total amount recognised in income statement	**9.7**	**(8.3)**	**(1.8)**	**(0.4)**
Return on plan assets excluding amounts included in net interest	29.2	-	-	29.2
Actuarial gains/ (losses) on scheme liabilities	0.2	(24.5)	-	(24.3)
Change in surplus not recognised	-	-	(5.2)	(5.2)
Amount recognised in other comprehensive income	**29.4**	**(24.5)**	**(5.2)**	**(0.3)**
Employer contributions	2.3	-	-	2.3
Employee contributions	-	-	-	-
Benefit payments	(8.1)	8.1	-	-
Amounts included in cash flow statement	**(5.8)**	**8.1**	**-**	**2.3**
Acquisition of subsidiaries	**10.6**	**(12.5)**	**-**	**(1.9)**
At 28 February 2015	**566.6**	**(487.9)**	**(100.0)**	**(21.3)**
Included within Non-current assets				**0.3**
Included within Current liabilities				**(4.1)**
Included within Non-current liabilities				**(17.5)**

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6 Income Tax Expense

£m	**6 months to Feb 2015**			6 months to Feb 2014			12 months to Aug 2014		
	Underlying	Non-recurring and other items	**Total**	Underlying	Non-recurring and other items	**Total**	Underlying	Non-recurring and other items	**Total**
Current tax	5.5	(0.5)	5.0	5.1	(0.1)	5.0	12.3	(1.0)	11.3
Adjustment in respect of prior year UK corporation tax	(0.4)	(0.3)	(0.7)	-	-	-	(2.4)	-	(2.4)
Total current tax charge	**5.1**	**(0.8)**	**4.3**	**5.1**	**(0.1)**	**5.0**	**9.9**	**(1.0)**	**8.9**
Deferred tax – current period	(0.2)	(0.4)	(0.6)	(0.1)	-	(0.1)	(0.4)	-	(0.4)
Deferred tax – prior year	-	-	-	0.2	-	0.2	(0.2)	-	(0.2)
Total tax on profit	**4.9**	**(1.2)**	**3.7**	**5.2**	**(0.1)**	**5.1**	**9.3**	**(1.0)**	**8.3**
Effective tax rate	*20.5%*		*27.1%*	*21.5%*		*23.1%*	*18.7%*		*19.4%*

The effective underlying income tax rate for the period was 20.5% (Feb 2014: 21.5%). After adjusting for the impact of non-recurring and other items of £1.2m (Feb 2014: £0.1m), the effective statutory income tax rate was 27.1% (Feb 2014: 23.1%).

Reconciliation of the tax charge

£m	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014
Profit before tax	**14.1**	**22.1**	43.1
Tax on profit at the standard rate of UK corporation tax 20.6% (Aug 2014: 22.2%, Feb 2014: 22.2%)	2.9	4.9	9.5
Permanent differences	1.4	0.5	1.3
Share schemes	-	(0.5)	(0.2)
Adjustment in respect of prior year UK corporation tax	(0.7)	0.2	(2.6)
Impact of overseas tax rates	0.1	-	0.3
Total tax charge	**3.7**	**5.1**	8.3

Tax (credit)/ charge to other comprehensive income

£m	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014
Current tax relating to the defined benefit pension scheme	(0.4)	(0.5)	(0.7)
Current tax relating to share based payments	(0.1)	-	(0.5)
Deferred tax relating to derivative financial instruments	-	0.1	0.1
Deferred tax relating to share based payments	0.1	0.1	(0.5)
Deferred tax related to retirement benefit obligations	0.3	0.6	0.6
Tax (credit) /charge to other comprehensive income	**(0.1)**	**0.3**	**(1.0)**

7 Dividends

Proposed dividends for the period	**6 months to Feb 2015**	6 months to Feb 2014[1]	12 months to Aug 2014[1]	**6 months to Feb 2015**	6 months to Feb 2014	12 months to Aug 2014
	Per share	**Per share**	Per share	**£m**	£m	£m
Final dividend	**-**	-	5.9p	**-**	-	12.3
Interim dividend	**2.9p**	2.8p	2.8p	**7.0**	6.1	5.8
	2.9p	2.8p	8.7p	**7.0**	6.1	18.1

Recognised dividends for the period						
	Per share	**Per share**	Per share	**£m**	£m	£m
Final dividend – prior year	**5.9p**	5.7p	5.7p	**14.4**	11.9	11.9
Interim dividend – current year	**-**	-	2.8p	**-**	-	5.8
	5.9p	5.7p	8.5p	**14.4**	11.9	17.7

[1] Rebased DPS adjusts last years reported figures by the rights issue bonus factor adjustment of 0.9015 following the 2 for 7 rights issue in December 2014

During the six month period to 28 February 2015, the final dividend for the year ended 31 August 2014 of 5.9p (Feb 2014: 5.7p) per ordinary share was paid to shareholders. In addition the directors are recommending an interim dividend in respect of the period ended 28 February 2015 of 2.9p per ordinary share (Feb 2014: 2.8p). This has not been included as a liability in these condensed financial statements. This will be paid on 10 July 2015 to shareholders on the Register at the close of business on 12 June 2015.

8 Earnings Per Share

	6 months to Feb 2015			6 months to Feb 2014			12 months to Aug 2014		
	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Rebased[1] Pence per share	Earnings (£m)	Weighted average number of shares million	Rebased[1] Pence per share
Weighted average number of shares in issue		223.8			206.3			208.0	
Shares held by the ESOP (weighted)		(2.8)			(1.2)			(1.6)	
Basic earnings per share (EPS)									
Underlying earnings attributable to ordinary shareholders	**19.0**	**221.0**	**8.6p**	**18.7**	**205.1**	**9.1p**	**40.5**	**206.4**	**19.6p**
Non-recurring items	(8.8)			(1.8)			(5.9)		
Earnings attributable to ordinary shareholders	**10.2**	**221.0**	**4.6p**	**16.9**	**205.1**	**8.2p**	**34.6**	**206.4**	**16.8p**
Diluted earnings per share (EPS)									
Effect of dilutive securities		5.4			11.1			7.0	
Diluted underlying EPS	**19.0**	**226.4**	**8.4p**	**18.7**	**216.2**	**8.7p**	**40.5**	**213.4**	**19.0p**
Diluted EPS	**10.2**	**226.4**	**4.5p**	**16.9**	**216.2**	**7.8p**	**34.6**	**213.4**	**16.2p**

[1] Rebased EPS and rebased DPS 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 February 2015 by 5.4m to 226.4m (Feb 2014 rebased: 216.2m) and resulted in a diluted underlying EPS of 8.4p, a decrease of 0.3p or 3.4% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 3.6m dilutive shares (Feb 2014: 7.8m) and a weighted 1.8m shares being the time apportioned share capital relating to the deferred consideration for the acquisition of The Big Green Parcel Holding Company Limited.

9 Net Cash Inflow from Operating Activities

£m	6 months to Feb 2015	6 months to Feb 2014	12 months to Aug 2014
Operating profit	17.7	24.9	48.6
Share of profits of jointly controlled entities	-	-	(0.3)
Pension funding	(2.3)	(2.1)	(4.6)
Gains/ losses on disposal of assets	(0.1)	-	-
Depreciation of property, plant and equipment	3.3	2.5	5.2
Amortisation and impairment of intangible assets	4.3	2.9	6.3
Share based payments	1.5	0.8	1.1
(Increase) /decrease in inventories	2.3	(1.7)	(1.7)
Decrease/ (increase) in receivables	15.8	4.3	(2.4)
(Decrease)/ increase in payables	(22.0)	(6.3)	7.3
Income tax paid	(3.4)	(5.2)	(9.8)
Increase/ (decrease) in provisions	1.5	(3.1)	(2.3)
Net cash inflow from operating activities	**18.6**	**17.0**	**47.4**

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 from WH Smith PLC in 2006, 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 Group’s share of such liability has an estimated future cumulative gross rental commitment at 28 February 2015 of £5.3m (28 February 2014: £7.3m).

11 Intangible Assets

During the six months to 28 February 2015, goodwill and intangibles totalling £109.5m arose on the acquisition of the Group's acquisition of Tuffnells on 19 December 2014. Further details of the acquisition are disclosed in note 12.

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	**On acquisition**	**HY 2015**	HY 2014	FY 2014	**On acquisition**	**HY 2015**	HY 2014	FY 2014	**On acquisition**	**HY 2015**	HY 2014	FY 2014
Connect Books	**17.6**	**17.6**	17.6	17.6	**12.7**	**5.0**	6.3	5.6	**30.3**	**22.6**	23.9	23.2
Connect Media	**5.7**	**5.7**	5.7	5.7	**2.6**	**1.4**	1.7	1.6	**8.3**	**7.1**	7.4	7.3
Connect News	**-**	**-**	-	-	**0.2**	**0.2**	-	0.2	**0.2**	**0.2**	-	0.2
Connect Parcel Freight	**51.4**	**51.4**	-	-	**58.1**	**57.1**	-	-	**109.5**	**108.5**	-	-
Connect Education and care	**20.9**	**20.9**	20.9	20.9	**10.4**	**6.9**	8.6	7.8	**31.3**	**27.8**	29.5	28.7
	95.6	**95.6**	44.2	44.2	**84.0**	**70.6**	16.6	15.2	**179.6**	**166.2**	60.8	59.4
Other intangibles										6.7	6.2	6.3
Total Intangible assets										172.9	67.0	65.7

12. Acquisitions

The acquisition of Tuffnells made during the period contributed £28.4m to the Group's revenue and £1.5m 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	75.4
Operating profit before intangible amortisation and acquisition related costs	6.4

The net cash outflow in respect of acquisitions in the year comprised:

	£m
Cash consideration	(113.6)
Cash acquired	8.3
Net cash outflow relating to acquisition	**(105.3)**
Acquisition related costs (recorded in non-recurring items)	(4.0)
Total cash outflow in respect of acquisitions	**(109.3)**

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 twelve months from the acquisition date. At 28 February 2015, the allocation period for all acquisitions completed since 1 September 2014 remained open and accordingly the fair values presented are provisional.

On 19 December 2014, Smiths News Holdings Limited acquired 100% of the issued share capital of The Big Green Parcel Holding Company Limited (Tuffnells) which 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 underlying profits from activities outside of newspaper and magazine wholesaling.

The initial cash cost of the acquisition was £113.6m, financed by a combination of increased debt facilities and a £55m Rights Issue. The initial cash cost of £113.6m 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.

12. Acquisitions (continued)

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:

- Up to £4.8m of deferred share capital and £3.8m in cash being the fair value of deferred 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:

Indicative allocation of purchase price

£m	Acquired balance sheet	Fair value adjustments	Provisional fair value
Fixed Assets	21.7	(2.8)	18.9
Stock	0.6	-	0.6
Trade and other receivables	13.1	(0.2)	12.9
Acquired intangible assets	-	58.1	58.1
Deferred tax	0.9	(10.0)	(9.1)
Other liabilities	(3.6)	(4.3)	(7.9)
Trade and other payables	(15.4)	(1.8)	(17.2)
Net debt	8.3	-	8.3
Fair value adjustments	-	-	-
Pensions	(1.9)	-	(1.9)
Net assets			62.7
Cash consideration			113.6
Contingent purchase consideration			0.5
Total Consideration			114.1
Goodwill arising on acquisition			51.4

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 £26.9m, the value of the 'Big Green Parcel Machine' trade name of £30.4m and other intangibles of £0.8m with residual goodwill arising of £51.4m. 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.

13 Cash and Borrowings

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

£m	Sterling	Euro	USD	Other	Total Feb 2015	At 28 Feb 2014	At 31 Aug 2014
Cash and cash equivalents	8.7	2.3	0.9	0.8	12.7	12.5	20.4
Term loan – disclosed within non-current liabilities	(98.0)	-	-	-	(98.0)	(48.3)	(48.4)
Revolving credit facility	(63.0)	(1.5)	-	-	(64.5)	(67.9)	(60.9)
Total borrowings	(161.0)	(1.5)	-	-	(162.5)	(116.2)	(109.3)
Net borrowings	(152.3)	0.8	0.9	0.8	(149.8)	(103.7)	(88.9)
Total borrowings							
Amount due for settlement within 12 months	(63.0)	(1.5)	-	-	(64.5)	(67.9)	(60.9)
Amount due for settlement after 12 months	(98.0)	-	-	-	(98.0)	(48.3)	(48.4)
	(161.0)	(1.5)	-	-	(162.5)	(116.2)	(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.

At 28 February 2015, the Group had £87.5m (28 February 2014: £83.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

14 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 2015	Feb 2014	Aug 2014	**Feb 2015**	Feb 2014	Aug 2014
Derivatives that are being designated and effective as hedging instruments carried at fair value						
Interest rate swaps - Liabilities	**-**	(0.8)	-	**-**	-	-
	-	(0.8)	-	**-**	-	-
Interest rate swaps - Assets	**-**	1.0	-	**-**	1.0	0.6
	-	1.0	-	**-**	1.0	0.6

Connect Group PLC (formerly Smiths News PLC)

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2015

15 Provisions

£m	Reorganisation provisions	Insurance provisions	Deferred consideration	Property provisions	Total
Gross provision:					
At 1 September 2013	**1.4**	**1.4**	**1.9**	**6.4**	**11.1**
Additions	**-**	**0.5**	**0.2**	**-**	**0.7**
Utilised in period	**(1.2)**	**(0.6)**	**(2.1)**	**(1.7)**	**(5.6)**
At 28 February 2014	**0.2**	**1.3**	**-**	**4.7**	**6.2**
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**
Gross provision:					
At 1 March 2014:	**0.2**	**1.3**	**-**	**4.7**	**6.2**
Additions	0.7	-	-	1.3	2.0
Disposal	-	-	-	-	-
Released	(0.1)	-	-	(1.5)	(1.6)
Utilised in period	(0.1)	0.1	-	(0.9)	(0.9)
At 31 August 2014	**0.7**	**1.4**	**-**	**3.6**	**5.7**
Discount:					
At 1 March 2014	-	-	-	(0.6)	(0.6)
Additions	-	-	-	(0.1)	(0.1)
Released	-	-	-	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**
Gross provision:					
At 1 September 2014	**0.7**	**1.4**	**-**	**3.6**	**5.7**
Additions	**-**	**0.2**	**2.4**		**2.6**
Acquisition of subsidiary	**-**	**1.2**	**-**	**4.0**	**5.2**
Utilised in period	**(0.4)**	**(0.1)**	**-**	**(0.1)**	**(0.6)**
At 28 February 2015	**0.3**	**2.7**	**2.4**	**7.5**	**12.9**
Discount:					
At 1 September 2014	**-**	**-**	**-**	**(0.4)**	**(0.4)**
Acquisition of subsidiary	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Unwinding of discount utilisation	**-**	**-**	**-**	**0.1**	**0.1**
At 28 February 2015	**-**	**-**	**-**	**(0.4)**	**(0.4)**
Net book value at 28 February 2015	**0.3**	**2.7**	**2.4**	**7.1**	**12.5**

£m	Feb 2015	Feb 2014	Aug 2014
Included within current liabilities	6.6	3.9	3.4
Included within non-current liabilities	5.9	1.7	1.9
Total	**12.5**	**5.6**	**5.3**

15 Provisions (continued)

The property provision represents the estimated future cost of the Group's historic onerous and reversionary leases in non-trading properties and newly acquired 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. Insurance provisions represent the expected future costs of employer's liability, public liability and motor accident claims.

16 Share Capital

(a) Called up share capital

£m	Feb 2015	Feb 2014	Aug 2014
Authorised:			
300.0m ordinary shares of 5p each	15.0	15.0	15.0

£m	Feb 2015	Feb 2014	Aug 2014
Issued and fully paid ordinary shares of 5p each			
At 1 September	9.5	9.2	9.2
Shares issued in the period/ year	2.7	0.3	0.3
At 31 August	12.2	9.5	9.5

During the period to 28 February 2015, 54,483,497 ordinary 5p shares were issued for a consideration of £52,536,482 resulting in a share premium of £49,812,308. During the prior 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	54.4
At 28 February 2015	243.7

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

(c) Share premium

£m	Feb 2015	Feb 2014	Aug 2014
Balance at 1 September	5.3	1.2	1.2
Share issues during the year	49.8	3.9	4.1
Balance at 31 August	**55.1**	**5.1**	**5.3**

The rights issue in December 2014 incurred £3.0m of directly attributable costs which have been accounted for in share premium.

17 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 2015. 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 2014.

18 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
22 April 2015

Nick Gresham
Chief Financial Officer
22 April 2015