Connect Group PLC
('Connect Group' or 'the Group')

Preliminary Results Announcement for the year ended 31 August 2014

Connect Group, a leading specialist distributor operating in three divisions; News & Media, Books and Education & Care, is pleased to announce preliminary results for the year ended 31 August 2014.

Underlying results	**FY 2014**	FY 2013 (7) Restated	Change
Revenue	**£1,808.5m**	£1,806.9m	+0.1%
Underlying (1) profit before tax	**£50.0m**	£49.9m	+0.2%
Underlying (2) earnings per share	**21.7p**	21.1p	+2.8%
Statutory results			
Revenue	**£1,808.5m**	£1,810.8m	-0.1%
Statutory profit before tax	**£43.1m**	£38.9m	+10.8%
Statutory earnings per share	**18.6p**	15.7p	+18.5%
Dividend per share	**9.7p**	9.3p	+4.3%
Free cash flow (3)	**£37.2m**	£32.6m	+14.1%
Net Debt (4)	**£93.0m**	£98.5m	-5.6%

2014 HIGHLIGHTS:

- Solid financial performance
  - Group Underlying Revenue and Underlying PBT marginally ahead of last year
  - Free cash flow of £37.2m, up 14.1%
  - Net Debt reduced to £93.0m, 1.4x net debt / adjusted EBITDA
- Increased shareholder returns
  - Underlying EPS 21.7p, up 2.8%
  - Final dividend of 6.6p, making a full year dividend of 9.7p, up 4.3%
- Stronger than forecast Newspaper and Magazine sales
  - Impressive World Cup sales
  - Positive impact of Supermarket promotions
- Books division performance now stabilised with management actions continuing to take effect
- Education & Care division growing core categories and delivered good peak trading
- Launch of two new organic opportunities supporting ongoing diversification
  - Pass My Parcel, a click and collect delivery service with Amazon, live in over 500 independent retailers
  - Jack's Beans, a premium vended coffee service, live in 120 independent retailers

Mark Cashmore, Group Chief Executive, commented:

"The Group has delivered another solid trading performance. Our News & Media division had an excellent year supported by additional sales momentum from the World Cup and our Education & Care division delivered a good peak trading performance. Whilst the Books division has had a disappointing year, management actions have now stabilised performance. We are particularly excited about today's announcement of the launch of Pass My Parcel with Amazon, which leverages the core skills of the business and supports our diversification strategy."

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 preliminary results announcement:

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

(2) Underlying earnings per share are calculated using underlying profit before tax and the Group underlying effective tax rate of 18.7% for FY2014 and 23.0% for FY2013.

(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) FY2014 refers to the year ended 31 August 2014, FY2013 refers to the year ended 31 August 2013.

(7) The Group adopted IAS 19 (revised) in the period which changed the accounting for defined benefit pension schemes, as well as the disposal of MMC. The prior period has been restated resulting in a £3.1m reduction in underlying profit before tax and a £3.0m reduction in statutory profit before tax. The consequent changes to the prior periods underlying and statutory earning per share are shown in Note 34 to the condensed financial statements.

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 15 October 2014 commencing at 9.30am. Connect Group PLC's Preliminary Results 2014 are available at www.connectgroupplc.com

An audio webcast will be available on:
http://media.buchanan.uk.com/2014/connectgroup151014/registration.asp

About Connect Group PLC:

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

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

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

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

Notes to Editors

This document contains certain forward-looking statements with respect to Connect Group PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. For a more detailed description of these risks, uncertainties and other factors, please see the section titled "Risks and Uncertainties". 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 preliminary announcement for the full-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.

OPERATING REVIEW

INTRODUCTION

In 2014 the Group delivered a steady financial performance whilst continuing to enhance shareholder returns. Total underlying revenue of £1.8bn, was marginally ahead of the prior year, underlying profit before tax of £50.0m was up 0.2% versus the prior year, and statutory profit before tax of £43.1m was up 10.8% versus the prior year reflecting a good performance in both News & Media and Education & Care, offset by under-performance in our Books division.

Underlying EPS at 21.7p is up 2.8% with a lower effective tax rate, predominantly due to prior year releases, enhancing earnings growth.

Free cash flow was a strong result at £37.2m, up 14.1% on last year and Net Debt of £93.0m is now down to 1.4x net debt / adjusted EBITDA.

News & Media, our largest division, delivered an 8.1% increase in underlying profit, with better than forecast sales coupled with a continued delivery of its efficiency plans. News distribution underlying profit was up 7.3% to £42.9m supported by strong supermarket promotions and World Cup sales. We have also made a number of investments that leverage the core skills and infrastructure of the business, the highlight being the launch of 'Pass My Parcel', an innovative parcel delivery service with potential for significant growth. DMD, the Media distribution business, delivered underlying profit of £2.3m, up 22.8%; the business now has over 50% of revenues secured on long-term contracts.

Books had a disappointing year, suffering from market weakness as well as changes to sales mix impacting margin and cost pressures. Our recovery actions are now taking effect and have stabilised the business. A new Managing Director has recently been appointed and will be supported by a strengthened management team.

Education & Care delivered a 5.0% increase in underlying profit, with good growth in our core education categories which was maintained across the vital peak trading period.

The Board is confident in the Group's future prospects and continued cash generation and therefore has recommended a final dividend of 6.6p an increase of 4.8%, resulting in a full year dividend of 9.7p, an increase of 4.3%.

DIVERSIFICATION STRATEGY

As previously stated the Group is committed to further diversification in specialist markets that complement our existing portfolio and we maintain our ambition to achieve 50% of underlying profit from outside of newspapers and magazine wholesaling activities. The Group has two elements to this strategy; acquisitions, where it has a strong pipeline of opportunities and organic revenue streams that leverage and enhance its infrastructure, skills and competencies.

In 2014 we have made substantial headway in developing new organic revenue streams which we believe have opportunities for scalable growth. These initiatives capitalise on both our UK distribution network and retail relationships.

Jack's Beans is a wholly owned premium vended coffee offer specifically developed for smaller independent retailers and addresses a market need in a sector with considerable potential. The vended coffee market is worth an estimated £1.4bn p.a. Using the Smiths News network, we provide coffee vending machines, branding and maintenance support to selected independent retailers. Supplies for daily replenishment are delivered and invoiced through Smiths News' existing infrastructure. By integrating the sales and replenishment with the core Newspaper and Magazine distribution Smiths News can provide high quality service at a low incremental cost.

The Jack's Beans brand is internally developed and wholly owned by Smiths News and has a distinctive identity. We currently have 120 stores signed up to the proposition and we plan to expand potentially up to 500 in the next phase.

Pass my Parcel, which was announced today, is an important organic opportunity with significant potential and we are delighted that Amazon have signed up for the service.

Pass my Parcel is a new wholly owned 'click and collect' delivery service. This is a solution developed by the News and Media division and over time has the potential to be a key part of the long term diversification strategy for the division. Pass my Parcel utilises the current Smiths News' specialist time sensitive distribution capability, physical network, and its daily relationship with thousands of local retailers across the UK, enabling the development and rollout to be achieved in a more cost effective way than other companies. Pass my Parcel will offer a unique twice daily distribution to participating independent retail outlets, 7 days a week, 364 days a year.

When selecting Pass my Parcel as a delivery option, customers ordering from Amazon on-line by 7.45pm will be able to collect their parcel from 6.30am the next morning, or, if ordered by 11.45am will be able to collect from 4pm the same day. This service of two time sensitive deliveries per day, (once on a Sunday), offers customers a convenient and secure way to pick up their parcels, with a level of service and flexibility unlike any other offer in the market today.

Pass my Parcel will also utilise Smiths News' information systems, invoicing and communication facilities. The launch has initially started over 500 independent retail outlets being serviced by 12 Smiths News' depots. The Group has further plans to launch into thousands more stores within the existing network over the coming year.

CONNECT NEWS & MEDIA

News Distribution:

Smiths News, the largest business in the Group and contributing 77% of our underlying profits had an excellent year.

Underlying operating profit was up 7.3% and the business made further progress in securing contracts, delivering efficiencies and developing longer term revenue opportunities.

Underlying revenue was down 0.3% and on a like for like basis was down 2.1%, ahead of our medium term strategic forecast of -3% to -5%.

Newspaper sales benefited from a combination of price rises, strong retailer promotions and gains from regional press. Magazine performance continued to be weaker; however, the overall trend has improved slightly. We also benefited from £15m of sticker sales associated with the World Cup.

Contract renewals in the year, including Frontline, Trinity Mirror and the Guardian, means that Smiths News has now secured 84% of its revenues through to at least 2019.

In line with our three year target to deliver £20m of annual cost savings by 2015 we achieved £6m of sustainable cost savings this year. We are now £15m into our three year target of £20m and are confident we will achieve the remaining £5m balance next year. Looking further ahead we are continuing to explore further efficiency opportunities and expect these to be in the region of £5m p.a.

In August we launched an online app for independent retailers. SNapp enables our retailers to manage their account and supplies online. We already have 9% of our customers on the system and as usage grows SNapp will not only reduce our service costs, but will also deliver benefits across the supply chain; from retailers looking to reduce administration time, through to publishers seeking new and speedier ways to communicate.

SNapp is another example of innovation within Smiths News alongside Jack's Beans and Pass my Parcel, it is an excellent example of how we can leverage our skills, network and technology.

Media:

DMD, our international media supply business, had another positive year. Underlying revenue of £25.1m was 3.3% lower than the prior year but underlying operating profit was up 22.8% to £2.3m.

Our largest contract, with British Airways, was successfully renewed until 2019, taking the total percentage of revenue secured on long-term contracts to over 50%. Renewals were also achieved with Eurostar for UK, France & Belgium through to 2017 as well as Delta airline's global contract and a new agreement with Trinity Mirror.

In July, DMD opened a new distribution operation in Bangkok, one of the world's fastest growing airports with 55m passengers and 40% growth over the past 5 years. There are no similar service providers in this region creating a strong opportunity for DMD.

The outsourcing of UK operations to Smiths News has delivered further efficiencies and improved service, helping to build competitive advantage.

The digital side of the business continues to grow in an emerging market, with more airlines looking to replace seatback screens with lighter and less expensive tablets. DMD now has over 14,000 tablets deployed on 20 airlines Worldwide. New content contracts have also been secured with Hawaiian Airlines, and with Sky Greece.

CONNECT BOOKS

As we have previously highlighted, our Books division had a disappointing year in 2014.

Underlying revenue of £193.7m was up 3.1%, helped by the growth in Wordery and acquisitions made during the previous year. Like for like revenue was down 2.5%.

Underlying operating profit was down by 65.7% to £2.5m, a consequence of reduced sales in our highest margin categories and increased operational costs as the mix of product changed. Lower investment returns and unplanned incremental costs added further pressure to profitability.

Wider market dynamics have been difficult and were worse than forecast. After 5 years of growth, demand for ebooks in the UK stalled in the year and UK Library and academic markets were weaker than expected.

We have taken decisive action in response to these conditions, reducing costs, reducing headcount, re-evaluating margins and investment returns, renegotiating certain contracts and strengthening the management team. Having stabilised the performance of the business we will be building on this with further actions over the next year.

Wordery sales continue to grow strongly, and are up over 50% year on year and is quickly establishing its own web presence in addition to its role as a leading marketplace supplier. 15% of sales are now through the higher margin Wordery.com and the brand is well positioned as we move into the peak Christmas trading period.

Following Graeme Underhill's decision to retire, announced earlier this year, Justin Adams will join as Managing Director in November. Justin has a track record of success in both public and private equity companies. Justin will be looking to drive the business forward with the support of a strengthened management team.

CONNECT EDUCATION & CARE

Education & Care continues to perform well, with a strong performance in its core categories and across the peak trading period this summer.

Underlying revenue of £64.9m is up 1.7%, and 3.1% on a like for like basis, with the core categories of Education and Early Years up a combined 4.7%. Total underlying operating profit of £7.8m is up 5.0%.

Since acquisition two and a half years ago, the division has increased underlying profit by a total of 22%. The Group remains confident in the growth prospects of the division and its markets.

As previously highlighted, sales were impacted by the loss of some non-core sales of stationery supplies to local authorities, a legacy of West Mercia Supplies' previous ownership. While this was expected, it masks a stronger performance in core education. The Early Years category (nurseries and pre-school) also continues to grow strongly, up 13.8%, reflecting demographics that will, over time, feed into the primary sector.

In the period, the Consortium has combined and rationalised ranges, produced larger catalogues, and remained focused on customer service. This is attracting new business, particularly from Academy groups. Gains from framework agreements in Scotland and Northern Ireland have also had a positive impact.

The market remains attractive with population dynamics and Government policy supporting expectations of continued growth. Despite increased competitive activity from both independent operators and the Public

Sector Buying Organisations our ongoing strategy remains to win new customers and grow share of wallet by offering superior ranges and promotions backed by high levels of customer service.

Strategic investments over the coming year include; investing in supply chain innovation growing our digital business; introducing a loyalty programme; further developing our range and 'own brand' offerings, and agreeing partnerships with key suppliers that give us unique offers and build its classroom authority.

BOARD SUCCESSION

On demerging from WH Smith PLC in August 2006, Dennis Millard, Anthony Cann and John Worby were appointed as non-executive directors. As they will each have served as directors for nine years at the end of August 2015, in accordance with good corporate governance principles we have appointed a leading external search agency to assist in progressing a refresh of the Board, with the aim of appointing a successor to the Chairman as a first step and appointing other new non-executive directors by no later than the AGM in early 2016.

SUMMARY AND OUTLOOK

The Group delivered a solid revenue and profit performance in 2014.

News and Media, in particular, had a strong 2014, delivering profits ahead of expectations. Our Books division had a disappointing year but the business performance has now stabilised after management actions have taken effect. The Board remains confident there are opportunities for growth in this market, highlighted by the trading of Wordery. Education & Care made significant developments to its service proposition and saw strong levels of growth in core categories, performing well in the key peak trading period.

We maintain our diversification ambition of achieving 50% of profits from activities outside of newspaper and magazine wholesaling through a combination of both organic and acquisitive growth. Pass My Parcel highlights the opportunity of future organic revenue streams with scalable growth, and the Group continues to evaluate potential future acquisitions from a pipeline of opportunities across a range of markets.

The Group's strong cash flow generation has reduced net debt and strengthened our financial position; making more of our committed bank facility available for potential future acquisitions.

Connect Group is committed to generating strong shareholder returns and in 2014 delivered both EPS and DPS growth.

Recent trading is in line with current management expectations and we remain in a good position to build on the progress made this year.

FINANCIAL REVIEW

GROUP

£m	**2014**	**2013 Restated** [7]	Change
Underlying Revenue	**1,808.5**	**1,806.9**	0.1%
Gross profit	**199.0**	**200.6**	(0.7%)
Operating costs	**(143.5)**	**(144.2)**	(0.3%)
Underlying operating profit	**55.5**	**56.4**	(1.6%)
Net finance costs	**(5.5)**	**(6.5)**	13.3%
Underlying profit before tax	**50.0**	**49.9**	0.2%
Taxation	**(9.3)**	**(11.5)**	19.1%
Tax rate	***18.7%***	***23.0%***	4.3%
Underlying profit after tax	**40.7**	**38.4**	6.0%

Underlying Group revenues were £1,808.5m, up 0.1% and underlying Group operating profit of £55.5m was down 1.6%, reflecting a good performance in both News & Media and Education & Care, offset by under-performance in our Books division.

Net finance costs at £5.5m (FY2013: £6.5m) were down £1.0m in the year. Net bank interest and related charges in FY2014 was £5.9m (FY2013: £7.0m) as a result of lower average borrowings throughout the year. Finance costs include the favourable impact of fair value movements in interest rate hedges of £0.4m (FY2013: £0.3m), which is unlikely to be repeated in future years.

Underlying Group profit before tax of £50.0m was up 0.2%.

The underlying tax charge for the year of £9.3m represented an effective tax rate of 18.7% (FY2013: 23.0%) lower as a result of prior year tax credits. Future effective tax rates are expected to be broadly in line with standard UK corporation tax rates.

Underlying profit after tax of £40.7m was up 6.0%.

EPS AND DIVIDEND

	Underlying		Statutory	
	2014	2013 Restated (7)	**2014**	2013 Restated (7)
Earnings attributable to ordinary shareholders (£m)	**40.5**	38.4	**34.6**	28.7
Basic number of shares (millions)	**186.3**	182.2	**186.3**	182.2
Basic EPS	**21.7p**	21.1p	**18.6p**	15.7p
Diluted number of shares (millions)	**192.6**	193.9	**192.6**	193.9
Diluted EPS	**21.0p**	19.8p	**18.0 p**	14.8p
Dividend per share (proposed and paid)	**9.7p**	9.3p	**9.7p**	9.3p
Dividend per share (recognised)	**9.4p**	8.8p	**9.4p**	8.8p

On an underlying basis, profit after tax of £40.5m resulted in an EPS of 21.7p, an increase of 0.6p or 2.8% on prior year. The increase related predominantly to a lower effective tax rate for the year.

Including non-recurring and other items, statutory profit after tax of £34.6m resulted in an EPS of 18.6p, an increase of 2.9p or 18.5% on prior year.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 4.8m shares (FY2013: 7.2m) and the weighted impact of the share capital issued during the year relating to deferred consideration for the acquisition of The Consortium being 1.5m shares (FY2013: 4.5m) which were issued in January 2014.

Together issues of such shares increased the number of shares in FY2014 by 6.3m to 192.6m and resulted in a diluted underlying EPS of 21.0p, up 1.2p or 6.1% on prior year. Diluted statutory EPS of 18.0p, was up 3.2p or 21.6% on prior year.

Including the proposed final dividend of 6.6p, the full year dividend of 9.7p is an increase of 0.4p or 4.3% on prior year.

The proposed final dividend for the year ended 31 August 2014 of 6.6p is subject to approval by shareholders at the Annual General Meeting on 4 February 2015 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 6 February 2015 to shareholders on the register at close of business on 9 January 2015.

NEWS DISTRIBUTION

£m	**2014**	2013	Change	LFL(5)
Underlying revenue	**1,524.8**	1,529.3	(0.3%)	(2.1%)
Gross profit	**125.1**	125.5		
Operating costs	**(82.2)**	(85.5)		
Underlying operating profit	**42.9**	40.0	7.3%	
Gross margin	**8.2%**	8.2%	-	
Cost ratio	**(5.4%)**	(5.6%)	20 bps	
Operating margin	**2.8%**	2.6%	20 bps	

News Distribution underlying revenues of £1,524.8m were down 0.3%, like for like revenues were down 2.1% which remains ahead of our medium term forecast range of between -3.0% and -5.0%, in part due to strong Supermarket and newspaper promotions.

Gross margin was in line with the prior year with the higher margin World Cup sales offsetting the margin impact of higher margin weekly and monthly magazines declining more than newspapers.

The cost ratio improved 20bps, as a result of total cost savings of £6m. Network savings and continued operational efficiencies combined to deliver our targeted cost savings for the year. We have now delivered £15m of our 3 year cost efficiency programme of £20m by FY2015.

News Distribution underlying operating profit of £42.9m increased 7.3% on the prior year and resulted in an operating margin of 2.8%, up 20bps.

MEDIA

£m	**2014**	2013 Restated (7)	Change	LFL(5)
Underlying revenue	**25.1**	25.9	(3.3%)	(0.6%)
Gross profit	**12.3**	11.9		
Operating costs	**(10.0)**	(10.0)		
Underlying operating profit	**2.3**	1.8	22.8%	
Gross margin	**49.0%**	45.9%	320 bps	
Cost ratio	**(39.8%)**	(38.6%)	(30 bps)	
Operating margin	**9.2%**	6.9%	290 bps	

Media underlying revenues of £25.1m were down 3.3% on the prior year. On a like for like basis revenues were down 0.6%.

Gross margin was up 320bps to 49.0%. The fall in sales and increase in gross margin was predominantly due to a reduction in high sales value, low margin rate agreements in Germany and new UK distribution deals generating improved overall margin.

Media underlying operating profit of £2.3m increased 22.8% on the prior year and resulted in an operating margin of 9.2%, up 290bps.

BOOKS

£m	**2014**	2013	Change	LFL[5]
Underlying revenue	**193.7**	187.9	3.1%	(2.5%)
Gross profit	**34.6**	36.9		
Operating costs	**(32.1)**	(29.7)		
Underlying operating profit	**2.5**	7.2	(65.7%)	
Gross margin	**17.9%**	19.6%	(170 bps)	
Cost ratio	**(16.6%)**	(15.8%)	(80 bps)	
Operating margin	**1.3%**	3.8%	(250 bps)	

Books underlying revenues of £193.7m were up 3.1% on the prior year driven by growth in Wordery and the full year impact of prior year acquisitions. Like for like revenues were down 2.5% as a result of difficult wider market dynamics in FY2014. Sales were worse than we had expected, particularly in the academic and UK library markets whilst the demand for academic ebooks stalled. On the positive side Wordery continued to make progress, growing by over 50% and establishing its own web presence to complement its position as a leading marketplace supplier.

Gross margin was down 170bps to 17.9% due to competitive market pricing and an adverse decline in sales mix of higher margin product categories. The cost ratio of 16.6% declined 80bps on the prior year, after reducing costs and reducing headcount, as we continued to invest to grow the business and protect service levels.

Books underlying operating profit of £2.5m decreased 65.7% on the prior year and resulted in an operating margin of 1.3%, down 250bps. This was a consequence of reduced sales in our highest margin categories and increased operational costs as a result of the mix of product changes and, lower investment returns and unplanned incremental costs.

EDUCATION & CARE

£m	**2014**	2013	Change	LFL[5]
Underlying revenue	**64.9**	63.8	1.7%	3.1%
Gross profit	**26.9**	26.3		
Operating costs	**(19.1)**	(18.9)		
Underlying operating profit	**7.8**	7.4	5.0%	
Gross margin	**41.5%**	41.2%	30 bps	
Cost ratio	**(29.5%)**	(29.6%)	10 bps	
Operating margin	**12.0%**	11.6%	40 bps	

The Education & Care underlying revenues of £64.9m were up 1.7% on the prior year and up 3.1% on a like for like basis. Core sales in Education, Care and Early Years increased 4.7%, on a like for like basis, as a result of spend with existing customers and winning new contracts.

Gross margin was up 30bps as a result of a focus on profitable sales in core markets and buying synergies. The cost ratio of 29.5% improved 10bps reflecting greater efficiency whilst still investing in front line sales and back office support to grow the business.

Education & Care underlying operating profit of £7.8m increased 5.0% on the prior year and resulted in an operating margin of 12.0%, up 40bps.

NON-RECURRING AND OTHER ITEMS

£m	2014	2013 Restated (7)
Integration costs	**-**	(1.1)
Network re-organisation costs	**(3.0)**	(3.3)
Acquisition and disposal costs	**(0.9)**	(3.7)
Release of property provisions	**0.5**	-
Impairment	**(0.5)**	-
Amortisation of acquired intangibles	**(3.0)**	(2.8)
Disposal of MMC	**-**	0.1
Total before finance costs and taxation	**(6.9)**	(10.8)
Finance costs	**-**	(0.2)
Total before taxation	**(6.9)**	(11.0)
Taxation	**1.0**	1.3
Total after taxation	**(5.9)**	(9.7)

Non-recurring and other items were £6.9m before tax and £5.9m after tax for the financial year and down on the prior year, as forecast.

Network reorganisation costs of £3.0m have been incurred across the Group. The largest elements of this relate to the current network restructuring programme within Connect News and Media, which has delivered £15m to date of the £20m of costs savings over 3 years to FY2015, and cost reduction actions taken within Connect Books. The largest cost category was redundancy totalling £1.6m.

Acquisition and disposal costs of £0.9m includes the final apportionment of deferred consideration from the acquisition of the Consortium in April 2012, costs associated with the acquisition of Martin Lavell in September 2013, and costs of reviewing and targeting future acquisitions.

During the year the Group has released £0.5m of property provisions relating to reversionary lease provisions following the settlement of two historical claims.

We have also reviewed the carrying value of acquired intangibles from the acquisition of Blackwell customer relationships in the Books division, and as a result of lower than anticipated sales conversion we have written off £0.5m.

Amortisation of acquired intangibles of £3.0m has been incurred relating to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. This leaves a further £15.3m net book value to be amortised over future years.

The cash impact of non-recurring and other items for the period was £4.4m (FY2013: £5.9m). Similar levels of network re-organisation and amortisation costs as FY2014 are expected for FY2015.

FREE CASH FLOW

£m	2014	2013
Underlying profit before interest and tax	**55.5**	56.4
Depreciation & Amortisation	**8.0**	7.6
Underlying EBITDA	**63.5**	64.1
Working capital	**1.2**	(5.0)
Capital expenditure	**(10.3)**	(7.9)
Net interest paid	**(6.1)**	(4.2)
Taxation	**(9.8)**	(10.5)
Pension funding	**(4.6)**	(6.5)
Other	**3.3**	2.7
Free cash flow (3)	**37.2**	32.6

The Group continued to generate strong free cash flow, delivering £37.2m in FY2014, an increase of £4.6m or 14.1% on prior year.

A working capital inflow of £1.2m reflected our ongoing focus on cash generation.

Capital expenditure was £10.3m in the year, an increase of £2.4m on FY2013. The main items of expenditure were a £1.1m investment in organic initiatives in News & Media, £1.0m in Wordery website development and digital investments in Books and £1.6m in IT infrastructure across the Group.

Net interest paid was £6.1m, an increase of £1.9m compared to FY2013 driven primarily by £1.9m of arrangement fees and costs relating to new bank facilities agreed in January 2014.

Tax payments were £9.8m, a decrease of £0.7m compared to FY2013 reflecting the reduction in the mainstream rate of taxation.

Pension funding of £4.6m for the year was £1.9m lower than FY2013. This predominantly related to the WH Smith Pension Trust defined benefit scheme and a reduction in the agreed annual pension deficit contribution plan to £4.1m from £5.8m, effective during 2013.

The Group expects to continue to generate strong free cash flows in FY2015.

NET DEBT

£m	2014	2013
Opening net debt (6)	**(98.5)**	(100.5)
Free cash flow	**37.2**	32.6
Dividend paid	**(17.7)**	(16.0)
Non-recurring items	**(4.4)**	(5.9)
Acquisitions	**(0.3)**	(5.1)
Share purchase	**(5.6)**	(1.6)
Other	**(3.7)**	(2.0)
Closing net debt (6)	**(93.0)**	(98.5)

Closing net debt was £93.0m (FY2013: £98.5m), in line with our forecast reduction in debt of circa £5m before new acquisitions. The Group expects to continue to pay down borrowings from net cash by approximately £5m in FY2015, before any new acquisitions.

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

We continue to remain comfortably within our banking covenants with net debt : adjusted EBITDA at 1.4x versus a covenant test of 2.75x. We also remain comfortably within our other covenants of fixed charge cover, interest cover, and guarantor cover.

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 section of the WH Smith Pension Trust which as at 31 August 2014 had an IAS 19 surplus of £75.7m (Aug 2013: £53.2m). However as the pension scheme is closed to further accrual, this IAS 19 surplus is not available as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this surplus on the balance sheet.

The Smiths News section of the WH Smith Pension Trust, had an actuarial deficit as at the last triennial actuarial valuation effective 31 March 2012 of £33.0m. The deficit in the scheme when last estimated at 19 June 2013 was £23.0m. The Group has agreed a programme of annual deficit repair contributions of £4.1m per annum to 2019 and recognised the present value of the agreed deficit repair contributions as a pension liability of £17.3m (FY2013 £20.3m).

The Group adopted IAS 19 (Revised) in the year ended 31 August 2014. This involved a change in accounting policy such that pension interest reflected in the income statement, is calculated on the net balance sheet position at the beginning of the period. The non-cash pension charge recognised in the year was £0.9m. The comparatives have been restated following this required change in accounting policy with non-cash interest charges for the year ended 31 August 2013 of £1.5m (compared to a £1.5m non-cash credit shown under the previous policy).

GOING CONCERN

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

RISKS AND UNCERTAINTIES

The Group has a comprehensive risk management framework which has been further strengthened during the year with a consistent approach in identifying, assessing and reporting on risk and controls embedded across the Group. The Board is responsible for the Group's strategy and system of controls and risk management and undertakes an annual review of the Board's risk appetite. The Audit Committee annually reviews the effectiveness of the Group's internal controls and risk management system and reports its findings to the Board.

Principal Risks	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.
Uncertainty of Government policy initiatives 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 Smiths News, 5 year contracts with publishers support the market structure. Bertrams and The Consortium both operate in very fragmented markets with fewer significant suppliers or customers. Strong relationships across the supply chain help the Group to understand and demonstrate its strengths for the benefit of its suppliers and customers.
Competitive environment becomes more challenging.	Sales growth opportunities are reduced and/or margin is eroded from price discounting required to hold market share.	Market scale and expertise provides the ability to offer value and service to customers. Bertrams and The Consortium monitor and track propositions to ensure competitive positioning.
Failure to prevent cyber attacks that cause disruption or loss of systems and/or commercially/ employee sensitive data.	Customer service and/or satisfaction could be adversely impacted leading to compensation, increased costs for rectification and/or increased future investment requirements. Increased risk of penalty through breach of regulation such as the Data Protection Act.	External specialist advice supports a new internal position with the responsibility 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. Continuous monitoring of regulatory requirements to ensure central compliance and guidance communicated out to Divisions on changes when required.

Failure to deliver business plans and financial returns on recent acquisitions.	Sales and profits expected from acquisitions may not be met and/or reputation of the business and support for future acquisitions are questioned.	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made. Performance to plans are reviewed monthly with post investment analysis producing a more thorough review of each acquisition within 12 months after completion.
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 Smiths News. Regular checks are carried out by the internal audit team across the Smiths News network to ensure understanding and compliance.
Financial risk and exposure through fraud, poor management controls and/or fluctuating key financial assumptions.	Direct loss through fraud, or poor controls and debtors and stock could result in reduced profits. Key financial assumptions budgeted for pension, interest and tax could move adversely reducing expected profits.	Strong operational processes are supported by a Group accounting policies manual to ensure appropriate financial controls are consistently applied. In addition, insurance is taken out to cover the Group from major risks. Annual budgets and quarterly forecasts set realistic expectations internally and externally allowing for or changing objectives to meet short and medium-term financial targets.
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.
Loss of key executives and subsequent loss of knowledge and skills 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.

Connect Group PLC (formerly Smiths News PLC)
Group Income Statement for the year ended 31 August 2014

£m			2014				2013 Restated[1]
	Note	Underlying*	Non-recurring and other items	Total	Underlying*	Non-recurring and other items	Total
Continuing operations							
Revenue	2	1,808.5	-	**1,808.5**	1,806.9	3.9	**1,810.8**
Operating profit	2,3	**55.5**	**(6.9)**	**48.6**	**56.4**	**(10.8)**	**45.6**
Investment revenue	7	0.4	-	**0.4**	0.3	-	**0.3**
Finance costs	7	(5.9)	-	**(5.9)**	(6.8)	(0.2)	**(7.0)**
Profit before tax		**50.0**	**(6.9)**	**43.1**	**49.9**	**(11.0)**	**38.9**
Income tax expense	8	(9.3)	1.0	**(8.3)**	(11.5)	1.3	**(10.2)**
Profit for the year		**40.7**	**(5.9)**	**34.8**	**38.4**	**(9.7)**	**28.7**
Profit attributable to equity shareholders		**40.5**	**(5.9)**	**34.6**	**38.4**	**(9.7)**	**28.7**
Profit attributable to non-controlling interest		**0.2**	**-**	**0.2**	**-**	**-**	**-**
		40.7	**(5.9)**	**34.8**	**38.4**	**(9.7)**	**28.7**

Earnings per share							
Basic	10	21.7p		18.6p	21.1p		15.7p
Diluted	10	21.0p		18.0p	19.8p		14.8p
Equity dividends per share (paid and proposed)	9			9.7p			9.3p

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

1 – Restatement in respect of retirement benefit obligations and disposal of MMC business, see Note 34.

Connect Group PLC (formerly Smiths News PLC)
Group Statement of Comprehensive Income for the year ended 31 August 2014

£m	Note	2014	2013 Restated[1]
Items that will not be reclassified to the Group Income Statement			
Actuarial gain on defined benefit pension scheme	6	14.8	4.3
Impact of IFRIC 14 on defined benefit pension scheme	6	(16.2)	3.4
Tax relating to components of other comprehensive income that will not be reclassified	8	0.1	(2.7)
		(1.3)	**5.0**
Items that may be reclassified to the Group Income Statement			
Gain on cash flow hedges	29	0.6	1.7
Currency translation differences		(0.2)	-
Tax relating to components of other comprehensive income that may be reclassified	8	(0.1)	0.2
		0.3	1.9
Other comprehensive income for the year		**(1.0)**	**6.9**
Profit for the year		34.8	28.7
Total comprehensive income for the year		**33.8**	**35.6**
Total comprehensive income attributable to equity shareholders		33.6	35.6
Total comprehensive income attributable to non controlling interest		0.2	-

[1] – Restatement in respect of retirement benefit obligations and disposal of MMC business, see Note 34.

Connect Group PLC (formerly Smiths News PLC)
Group Balance Sheet at 31 August 2014

£m	Note	2014	2013
Non-current assets			
Intangible assets	11a	65.7	68.2
Property, plant and equipment	14	29.0	26.6
Interest in jointly controlled entities and associates	15	4.3	4.1
Derivative financial instruments	20	0.6	0.4
Retirement benefit assets	6	0.3	0.2
Deferred tax assets	23	7.2	8.1
		107.1	**107.6**
Current assets			
Inventories	16	45.3	44.2
Trade and other receivables	17	128.1	127.1
Cash and cash equivalents	19	20.4	10.1
		193.8	**181.4**
Total assets		**300.9**	**289.0**
Current liabilities			
Trade and other payables	18	(192.3)	(188.7)
Current tax liabilities		(6.1)	(8.1)
Bank loans and other borrowings	19	(60.9)	(72.8)
Obligations under finance leases	21	(0.9)	(1.0)
Derivative financial instruments	20	-	(0.8)
Retirement benefit obligations	6	(4.1)	(4.1)
Provisions	24	(3.4)	(7.5)
		(267.7)	**(283.0)**
Non-current liabilities			
Retirement benefit obligations	6	(17.2)	(19.2)
Bank loans and other borrowings	19	(48.4)	(34.0)
Obligations under finance leases	21	(3.2)	(0.8)
Other non-current liabilities	22	(1.4)	(1.6)
Deferred tax liabilities	23	(3.2)	(4.5)
Non-current provisions	24	(1.9)	(2.8)
		(75.3)	**(62.9)**
Total liabilities		**(343.0)**	**(345.9)**
Total net liabilities		**(42.1)**	**(56.9)**

Connect Group PLC (formerly Smiths News PLC)
Group Balance Sheet at 31 August 2014 (continued)

£m	Note	2014	2013
Equity			
Called up share capital	28(a)	9.5	9.2
Share premium account	28(c)	5.3	1.2
Demerger reserve	29(a)	(280.1)	(280.1)
ESOP reserve	29(b)	(5.2)	(1.5)
Hedging & translation reserve	29(c)	(0.3)	(0.6)
Retained earnings	30	228.5	214.9
Total shareholders equity		**(42.3)**	**(56.9)**
Non- controlling interests in equity		0.2	-
Total equity		**(42.1)**	**(56.9)**

The accounts were approved by the Board of Directors and authorised for issue on 15 October 2014 and were signed on its behalf by:

Registered number - 05195191

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer

Connect Group PLC (formerly Smiths News PLC)
Group Statement of Changes in Equity for the year ended 31 August 2014

£m	Share capital	Share Premium account	Demerger reserve	ESOP reserve	Hedging & translation reserve	Retained earnings	Non-controlling interests in equity	Total
Balance at 31 August 2012- reported	**9.2**	**0.6**	**(280.1)**	**(1.7)**	**(2.3)**	**196.7**	-	**(77.6)**
Profit for the year	-	-	-	-	-	28.7	-	**28.7**
Gain on cash flow hedges	-	-	-	-	1.7	-	-	**1.7**
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	4.3	-	**4.3**
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	-	-	3.4	-	**3.4**
Tax relating to components of other comprehensive income	-	-	-	-	-	(2.5)	-	**(2.5)**
Total comprehensive income for the year – Restated[1]	-	**-**	-	-	1.7	33.9	-	**35.6**
Issue of share capital	-	0.6	-	-	-	-	-	**0.6**
Dividends paid	-	-	-	-	-	(16.0)	-	**(16.0)**
Employee share schemes	-	-	-	0.2	-	(0.2)	-	**-**
Recognition of share based payments	**-**	-	**-**	**-**	**-**	0.5	-	**0.5**
Balance at 31 August 2013 – Restated[1]	**9.2**	**1.2**	**(280.1)**	**(1.5)**	**(0.6)**	**214.9**	**-**	**(56.9)**
Profit for the year	-	-	-	-	-	34.6	0.2	**34.8**
Gain on cash flow hedges	-	-	-	-	0.6	-	-	**0.6**
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	14.8	-	**14.8**
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	-	-	(16.2)	-	**(16.2)**
Currency translation differences	**-**	-	**-**	**-**	(0.2)	-	-	**(0.2)**
Tax relating to components of other comprehensive income	-	-	-	-	(0.1)	0.1	-	**-**
Total comprehensive income for the year	-	**-**	-	-	0.3	33.3	0.2	**33.8**
Issue of share capital	0.3	4.1	-	-	-	-	-	**4.4**
Purchase of own shares	-	-	-	(6.3)	-	-		**(6.3)**
Dividends paid	-	-	-	-	-	(17.7)	-	**(17.7)**
Employee share schemes	-	-	-	2.6	-	(2.6)	-	**-**
Recognition of share based payments net of tax	**-**	-	**-**	**-**	**-**	0.6	-	**0.6**
Balance at 31 August 2014	**9.5**	**5.3**	**(280.1)**	**(5.2)**	**(0.3)**	**228.5**	**0.2**	**(42.1)**

1 – Restatement in respect of retirement benefit obligations, see Note 34.

Connect Group PLC (formerly Smiths News PLC)
Group Cash Flow Statement for the year ended 31 August 2014

£m	Note	2014	2013
Net cash inflow from operating activities	27	**47.4**	**37.9**
Investing activities			
Dividends received from associates		0.2	-
Acquisitions	12	(0.3)	(5.1)
Purchase of property, plant and equipment		(6.8)	(5.0)
Purchase of intangible assets		(3.5)	(2.8)
Net cash used in investing activities		**(10.4)**	**(12.9)**
Financing activities			
Interest paid		(6.1)	(4.0)
Dividend paid		(17.7)	(16.0)
Repayments of obligations under finance leases		(1.3)	(2.0)
Proceeds on issue of shares		0.7	0.7
Purchase of shares for Employee Benefit Trust		(6.3)	(2.3)
Repayments of borrowings		(34.0)	-
New bank loans raised		50.0	-
Increase / (decrease) in borrowings		(11.9)	3.7
Net cash (used in)/ from financing activities		**(26.6)**	**(19.9)**
Net increase in cash and cash equivalents		**10.4**	**5.1**
Effect of foreign exchange rate changes		(0.1)	(0.1)
		10.3	**5.0**
Opening net cash and cash equivalents		10.1	5.1
Closing net cash and cash equivalents	**19**	**20.4**	**10.1**

Analysis of net debt

£m	Note	2014	2013
Cash and cash equivalents	19	20.4	10.1
Current borrowings	19	(60.9)	(72.8)
Non-current borrowings	19	(48.4)	(34.0)
Net borrowings		**(88.9)**	**(96.7)**
Finance lease liabilities	21	(4.1)	(1.8)
Net debt		**(93.0)**	**(98.5)**

Connect Group PLC (formerly Smiths News PLC)
Notes to the accounts

1. Accounting policies

(a) Basis of consolidation

Connect Group PLC ('the Company') is a company incorporated in the UK under Companies Act 2006. The Group accounts for the year ended 31 August 2014 comprise the Company and, its subsidiaries (together referred to as the 'Group') and the Group's interests in jointly controlled entities and associates. Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition. All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts. Further to the EU IAS Regulation (Article 4) the Group accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company Accounts continue to be prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') and details of the Company Accounts, notes to the accounts and principal accounting policies are set out below.

Unless otherwise noted references to 2014 and 2013 relate to fiscal year ended 31 August 2013 and 31 August 2014 as opposed to calendar year.

The accounts were authorised for issue by the Directors on 15 October 2014.

(b) Basis of preparation

Accounting basis of preparation

The accounts are prepared on the historical cost basis except certain financial instruments detailed below and are presented in Pound Sterling and rounded to £0.1m, except where otherwise indicated. This document may contain some immaterial rounding differences in the tables.

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

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

Preliminary announcement

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 August 2013 or 2014, but is derived from those accounts. The statutory accounts for Connect Group PLC for the 12 months ended 31 August 2013 have been delivered to the Registrar of Companies and those for the 12 months ended 31 August 2014 will be delivered following the company's annual general meeting.

The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Company intends to publish the Annual Report and Accounts that comply with IFRSs. The Annual Report and Accounts will be available for shareholders in December 2014 at www.connectgroupplc.com.

Going concern and net liabilities

As detailed in Note 20, at the year end the Group had committed bank facilities in place of £200m, with associated covenants. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance and the Group's negative working capital position, show that the Group should be able to operate within the level of its current financing covenants for the foreseeable future.

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

Business combinations and goodwill

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Any deferred or contingent purchase consideration is recognised at fair value over the period of entitlement. If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Any deferred or contingent payment deemed to be remuneration as opposed to purchase consideration in nature is recognised in profit or loss as incurred, and excluded from the acquisition method of accounting for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The non-controlling interest is measured, initially, at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.
Goodwill arising on all acquisitions is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

In the current year the estimated useful lives for customer relationships and trade names have been reduced from a maximum of 10 years to a maximum of 7.5 years based upon an assessment of future contractual renewal rates.

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

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

Restatement of IAS 19 Revised - retirement benefit obligation

IAS 19 (as revised in June 2011) 'Employee Benefits' has been adopted by the Group for the financial year commencing 1 September 2013. The interest cost and expected return on defined-benefit pension scheme assets used in the previous version of IAS 19 are replaced with a 'net interest' amount, which is calculated by applying a discount rate to the net defined benefit liability or asset. Furthermore, IAS 19 (revised) also introduces more extensive disclosures in the presentation of the defined benefit cost, including the separate disclosure of the scheme's administrative expenses.

IAS 19 (revised) has been applied retrospectively in accordance with IAS 8. The comparative income statement has been restated, the impact being to reduce profits by £2.4m for the year ended 31 August 2013, as shown in Note 34. The impact to underlying earnings per share of the above changes for the year ended 31 August 2013 is a reduction of 1.3p. The impact on underlying diluted earnings per share for the year ended 31 August 2013 is a reduction of 1.3p. As the Company has always recognised actuarial gains and losses immediately, there is no effect on the prior year defined benefit obligation and balance sheet disclosure. Additionally, there is no impact on the pension liability or net assets, cash flows (including tax payments) or covenants as a result of this change.

(c) Estimates and judgements

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

The significant judgements made in the accounts for the year ended 31 August 2014 are:

Retirement benefit obligation

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

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

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. No impairment loss was recognised for any cash generating unit as the present value of the goodwill was greater than the carrying amount that was held on the balance sheet. However, an impairment of £0.5m was recognised for a customer relationship intangible assets with regard to the Blackwell contract. Details of the value in use calculation are provided in Note 11b.

Revenue recognition

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

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

Valuation of acquired intangibles

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

Onerous property contracts

Property provisions require an estimate to be made of the net present value of the future costs of vacant and sublet properties. The calculation includes estimates of future cost involved, including management's estimate of the long-term letting potential of the properties. Potential liabilities could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement any such contingent liability in respect of assignment prior to the demerger which becomes an actual liability will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The exposure to leases is reviewed on a regular basis and provisions are made when management estimate that it is probable that economic outflow will result.

Taxation judgements

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

(d) Adjusted measures

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

The following are the key non-IFRS measures identified by the Group:

Underlying profit

Profit before non-recurring and other items.

Non-recurring and other items

Non-recurring and other items are material items of income or expense and include certain Mergers & Acquisitions related costs, business restructuring costs and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in the accounts where it is necessary to do so to provide further understanding of the financial performance of the Group.

Free cash flow

Free cash flow is calculated as group underlying operating profit adjusted for depreciation, amortisation, movements in working capital, capital expenditure, net interest, tax and cash pension funding and excludes non-recurring items, dividends, new finance lease, share purchases and any acquisition related costs.

Adjusted EBITDA

Adjusted EBITDA is calculated as operating profit before depreciation, amortisation and non-recurring items.

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

Net debt

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

(e) Revenue

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

(f) Operating profit

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

(g) Taxation

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

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

(h) Dividends

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

(i) Capitalisation of internally generated development costs

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

(j) Jointly controlled entities and associates

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

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

(k) Property, plant and equipment

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

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

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

(l) Leasing

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

Rentals paid under operating leases are charged to income on a straight line basis over the lease term. The benefits of rent free periods and similar incentives are credited to the income statement on a straight-line basis over the full lease term.

(m) Inventories

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

(n) Trade receivables

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

(o) Trade payables

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

(p) Treasury

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Foreign currencies

Financial statements of foreign operations

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

Net investment in foreign operations

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

Foreign currency transactions

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

(q) Provisions

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

(r) Retirement benefit costs

The Group operates a number of defined contribution schemes for the benefit of its employees. Payments to the Group's schemes are recognised as an expense in the income statement as incurred. The Group operates 3 defined benefit pension schemes. The two largest schemes The WH Smith Pension Trust and The Consortium Care Scheme are closed to further accrual. The charge to the Group of providing benefits for these two schemes is determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the group statement of comprehensive income. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, reduced by the fair value of scheme assets.

The WH Smith Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 (revised) surplus in the pension scheme of £75.7m (2013: £53.2m) available on a reduction of future contributions is £nil (2013:£nil). The Group recognises an onerous liability for the future agreed deficit contributions, a liability of £17.3m (2013: £20.3m).

(s) Employee Benefit Trust

Smiths News Employee Benefit Trust

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

(t) Share schemes

Share based payments

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

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

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

(u) Changes in accounting policies

New Standards and Interpretations not yet applied

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

− IFRS 9 'Financial Instruments: Classification and measurement' - effective for accounting periods beginning on or after 1 January 2018.
− IFRS 10 'Consolidated Financial Statements'
− IFRS 10, IFRS 12 and IAS 27 (amended) 'Investment Entities'
− IFRS 11 'Joint Arrangements'
− IFRS 12 "Disclosure of Interest in Other Entities"
− IAS 19 (amended) 'Defined Benefit Plans: Employee Contributions'
− IAS 27 (revised) 'Separate Financial Statements'
− IAS 28 (revised) 'Investments in Associates and Joint Ventures'
− IAS 32 (amended) 'Offsetting Financial Assets and Financial Liabilities'
− IAS 32 (amended) 'Offsetting Financial Assets and Financial Liabilities'
− IAS 39 (amended) 'Novation of Derivatives and Continuation of Hedge Accounting'

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for IFRS 9 'Financial Instruments', which will introduce a number of changes in the presentation of financial instruments.

New Standards and Interpretations applied for the first time.

IAS 1 (revised) requires that items of Other comprehensive income that may in future be recycled to the Consolidated Income Statement are presented separately from those which will not. This presentational change has been made to the Consolidated Statement of Comprehensive Income in the current year.

The following Standards with an effective date of 1 January 2013 have been adopted without any significant impact on the amounts reported in these financial statements:

− IFRS 7 (amended) 'Disclosures – Offsetting Financial Assets and Financial Liabilities'
− IFRS 13 'Fair Value Measurement'
− IAS 12 (amended) 'Deferred Tax: Recovery of Underlying Assets'

Connect Group PLC (formerly Smiths News PLC)
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2. Segmental analysis

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

These operating segments are:

Connect News & Media: News Distribution (referred to as Smiths News)		The UK market leading distributor of newspapers and magazines to 30,000 retailers across England and Wales from 43 distribution centres.
Connect News & Media: Media (referred to as DMD)		A supplier of newspaper and magazines to airlines and a provider of inflight services.
Connect Books (referred to as Bertram, Dawson Books and Wordery)		A leading UK distributor of physical and digital books to high street and on-line retailers, public libraries, academic institutions and direct to consumers with a strong international presence, supplying 100 countries.
Connect Education and Care (referred to as The Consortium)		A leading distributor of education and care consumable products servicing 30,000 customers across the UK.

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

	Revenue		Operating profit	
£m	**2014**	2013[1] Restated	**2014**	2013[1] Restated
Connect News & Media: News Distribution	**1,524.8**	1,529.3	**42.9**	40.0
Connect News & Media: Media	**25.1**	25.9	**2.3**	1.8
Connect Books	**193.7**	187.9	**2.5**	7.2
Connect Education and Care	**64.9**	63.8	**7.8**	7.4
Total group - underlying	**1,808.5**	1,806.9	**55.5**	56.4
Non-recurring and other items (Note 4)	**-**	3.9	**(6.9)**	(10.8)
Total Group revenue and operating profit	**1,808.5**	1,810.8	**48.6**	45.6
Net finance expense			**(5.5)**	(6.7)
Profit before taxation			**43.1**	38.9

1 – Restatement in respect of retirement benefit obligations, see Note 34.

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

2. Segmental analysis (continued)

Information about major customers

Included in revenues arising from newspaper and magazine wholesaling are revenues of approximately £162.1m (2013: £164.5m) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more of the Group's revenue in either 2014 or 2013.

Segment assets and liabilities

	Assets		Liabilities		Net assets/(liabilities)	
£m	**2014**	2013	**2014**	2013	**2014**	2013
Connect News & Media: News	**143.5**	142.3	**(260.1)**	(266.5)	**(116.6)**	(124.2)
Connect News & Media: Media	**18.8**	16.0	**(7.2)**	(7.3)	**11.6**	8.7
Connect Books	**80.8**	75.7	**(57.9)**	(54.6)	**22.9**	21.1
Connect Education and Care	**57.8**	55.0	**(17.8)**	(17.5)	**40.0**	37.5
Consolidated assets/ (liabilities)	**300.9**	289.0	**(343.0)**	(345.9)	**(42.1)**	(56.9)

Segment depreciation, amortisation and non-current asset additions

	Depreciation		Amortisation		Additions to non-current assets	
£m	**2014**	2013	**2014**	2013	**2014**	2013
Connect News & Media: News	**(4.0)**	(4.3)	**(1.4)**	(1.3)	**7.7**	6.7
Connect News & Media: Media	**(0.1)**	(0.1)	**(0.3)**	(0.3)	**-**	-
Connect Books	**(0.6)**	(0.4)	**(2.4)**	(2.2)	**2.5**	5.6
Connect Education and Care	**(0.5)**	(0.5)	**(1.7)**	(1.2)	**1.2**	1.6
Consolidated total	**(5.2)**	(5.3)	**(5.8)**	(5.0)	**11.4**	13.9

Geographical analysis

£m	Revenue by destination		Non-current assets by location of operation	
	2014	2013	**2014**	2013
United Kingdom	**1,729.9**	1,734.4	**98.6**	98.7
Europe	**51.2**	47.9	**0.2**	0.2
Rest of World	**27.4**	28.5	**-**	-
Consolidated total	**1,808.5**	1,810.8	**98.8**	98.9

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3. Operating profit

The Group's results are analysed as follows:

£m	Note	2014 Underlying	2014 Non-Recurring	2014 Total	Restated 2013[1] Underlying	Restated 2013[1] Non-Recurring	Restated 2013[1] Total
Revenue		**1,808.5**	**-**	**1,808.5**	1,806.9	3.9	1,810.8
Cost of inventories recognised as an expense		**(1,607.7)**	**-**	**(1,607.7)**	(1,606.2)	-	(1,606.2)
Write down of inventories recognised as an expense		**(0.6)**	**-**	**(0.6)**	-	-	-
Other cost of sales		**(1.2)**	**-**	**(1.2)**	(0.1)	(2.2)	(2.3)
Cost of sales		**(1,609.5)**	**-**	**(1,609.5)**	(1,606.3)	(2.2)	(1,608.5)
Gross profit		**199.0**	**-**	**199.0**	200.6	1.7	202.3
Distribution costs		**(73.9)**	**-**	**(73.9)**	(81.0)	(2.9)	(83.9)
Administrative expenses		**(65.6)**	**(3.4)**	**(69.0)**	(59.3)	(6.8)	(66.1)
Share-based payment expense	31	**(1.5)**	**-**	**(1.5)**	(1.9)	-	(1.9)
Amortisation of intangibles	11	**(2.8)**	**(3.0)**	**(5.8)**	(2.2)	(2.8)	(5.0)
Impairment	11	**-**	**(0.5)**	**(0.5)**	-	-	-
Administrative expenses		**(69.9)**	**(6.9)**	**(76.8)**	(63.4)	(9.6)	(73.0)
Share of profits from jointly controlled entities	15	**0.3**	**-**	**0.3**	0.2	-	0.2
Operating profit		**55.5**	**(6.9)**	**48.6**	56.4	(10.8)	45.6

1 – Restatement in respect of retirement benefit obligations, see Note 34.

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

£m	Note	2014	2013
Depreciation on property, plant & equipment	14	**5.2**	5.3
Amortisation of intangible assets	11	**5.8**	5.0
Operating lease charges			
• occupied land and buildings		**8.5**	8.9
• vacant land and buildings		**0.5**	0.9
• equipment and vehicles		**0.8**	2.2
Operating lease rental income – land and buildings		**(0.1)**	(0.4)
Loss on disposal of fixed assets		**-**	0.2
Staff costs	5	**93.4**	92.7

3. Operating profit (continued)

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

£m	2014	2013
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.3**	0.3
Digital strategy review	**-**	0.3
Other services	**0.1**	0.1
Total non-audit fees	**0.1**	0.4
Total fees	**0.4**	0.7

In the current year the Group incurred £0.1m of non-audit fees with Deloitte relating to remuneration advice and other advisory services.

During the prior year the Group commissioned an extension of the digital strategy review of the books market to consider technology and market entry strategies. After careful consideration of proposals from a number of providers the Board appointed a Deloitte digital strategy team based on market understanding, service and price.

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4. Non-recurring and other items

£m		2014	2013[1] Restated
Integration costs		**-**	(1.1)
Network re-organisation costs	**(a)**	**(3.0)**	(3.3)
Acquisition and disposal costs	**(b)**	**(0.9)**	(3.7)
Release of property provisions	**(c)**	**0.5**	-
Impairment	**(d)**	**(0.5)**	-
Amortisation of acquired intangibles	**(e)**	**(3.0)**	(2.8)
Disposal of MMC	**(f)**	**-**	0.1
Total before, finance costs and taxation		**(6.9)**	(10.8)
Finance costs		**-**	(0.2)
Total before taxation		**(6.9)**	(11.0)
Income tax expense		**1.0**	1.3
Total after taxation		**(5.9)**	(9.7)

1 – Restatement in respect of retirement benefit obligations, see Note 34.

The Group incurred a total of £5.9m (2013: £9.7m) in non-recurring and other costs, after tax. This comprises:

(a) Network reorganisation costs

Network reorganisation costs of £3.0m have been incurred across the Group. The largest elements of which relate to the network restructuring programme within Connect News and Media. In addition cost reduction actions taken within Connect Books resulted in a cost of £0.5m. The largest cost category was redundancy costs of £1.6m.

(b) Acquisition and disposal costs

Acquisition and disposal costs of £0.9m relate primarily to reviewing and targeting future acquisitions, together with the final apportionment of deferred consideration from the acquisition of The Consortium in April 2012 and costs associated with the acquisition of Martin Lavell in September 2013.

In the prior year acquisition costs of £3.7m have been incurred including the Consortium acquisition deferred consideration of £3.2m which has been recognised in the Income Statement, the costs having been spread over the earn out periods at the expected payout levels given the business' strong profit performance. Acquisition and new venture set up costs in respect of Erasmus, selected contracts from Blackwell Books Limited and Bertrams direct to consumer proposition were £0.5m.

(c) Release of property provisions

During the year the Group has released £0.5m relating to the historical property reversionary lease provisions following the settlement of two historical claims.

(d) Impairment

During the year we have reviewed the carrying value of acquired intangibles from the acquisition of Blackwell customer relationships in the Books division and as a result of lower than anticipated sales conversion we have written off £0.5m.

(e) Amortisation of acquired intangibles

Amortisation of acquired intangibles of £3.0m has been incurred relating to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. This leaves a further £15.2m net book value to be amortised over future years. During the year the estimated useful economic lives of Customer Relationships and Trade Names have been reviewed and have been reduced from a maximum of 10 years to a maximum of 7.5 years. As a result an incremental amortisation charge of £0.6m has been incurred in the year.

(f) Disposal of MMC

On 1 May 2013, the Group disposed of 100% of the share capital in Dawson Marketing Services Limited and its trading subsidiary Marketlink Marketing Communications Limited ('MMC') for £0.3m. Due to the nature and size of the business disposed investment, it has not been separately disclosed as a discontinued operation as defined by IFRS5 - Non Current Assets Held for Sale and Discontinued Operations.

MMC contributed £3.9m to revenue and £0.1m to the Group's operating profit in 2013.

5. Staff costs and employees

(a) Staff costs

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

£m	Note	2014	2013 Restated
Wages and salaries		82.5	81.2
Social security		6.6	6.5
Pension costs	6	2.8	3.1
Share based payments	31	1.5	1.9
Total		**93.4**	**92.7**

Pension costs shown above exclude charges and credits for pension scheme financing and actuarial gains and losses arising on the pension scheme.

For comparability, prior year has been restated to exclude costs of £10.9m for individuals not directly under contracts of service.

(b) Employee numbers

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

Number	2014	2013
Operations	3,446	4,036
Support functions	932	758
Total	**4,378**	**4,794**

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6. Retirement benefit obligation

Defined benefit pension schemes

The Group operates three defined benefit schemes, of which the WH Smith Pension Trust (the 'Pension Trust') represents over 96% of the total obligation at 31 August 2013. As part of the acquisition of the Consortium, the Group acquired the assets and liabilities in respect of two other defined benefit schemes (the 'Consortium CARE' and 'Platinum' schemes).

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

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

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Consortium CARE	Platinum	**2014**	WH Smith Pension Trust	Consortium CARE	Platinum	2013
Present value of defined benefit obligation	(431.6)	(18.4)	(0.6)	(450.6)	(402.1)	(16.8)	(0.3)	(419.2)
Fair value of assets	507.3	14.4	0.9	522.6	455.3	13.8	0.5	469.6
Net surplus	**75.7**	**(4.0)**	**0.3**	**72.0**	**53.2**	**(3.0)**	**0.2**	**50.4**
Amounts not recognised due to asset limit	(75.7)	-	-	(75.7)	(53.2)	-	-	(53.2)
	-	**(4.0)**	**0.3**	**(3.7)**	**-**	**(3.0)**	**0.2**	**(2.8)**
Additional liability recognised due to minimum funding requirements	(17.3)	-	-	(17.3)	(20.3)	-	-	(20.3)
Pension liability	**(17.3)**	**(4.0)**	**-**	**(21.3)**	**(20.3)**	**(3.0)**	**-**	**(23.3)**
Pension asset	**-**	**-**	**0.3**	**0.3**	**-**	**-**	**0.2**	**0.2**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £75.7m at 31 August 2014 (2013 £53.2m surplus) which the Group does not recognise in the accounts as the investment policy being used means that the amount available on a reduction of future contributions is expected to be £nil (2013: £nil). The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

In the prior year the triennial actuarial valuation of the Smiths News section of the WH Smith Pension Trust, effective 31 March 2012 was agreed at a liability of £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 this reduced 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 £17.3m (FY2013 £20.3m).

6. Retirement benefit obligation (continued)

IAS 19 (Revised) has been adopted in the year ended 31 August 2014. This required a change in accounting policy to reflect pension interest in the income statement calculated on the net balance sheet position at the beginning of the period. The resulting non-cash pension charge for the period ended 31 August 2014 was £0.9m. The prior period for the year ended 31 August 2013 was restated as described in Note 34.

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0.4m in 2014. The next funding valuation of the Consortium CARE scheme was due on 31 December 2013 and has not yet been finalised. The results of the Platinum scheme's 31 December 2012 funding valuation are not yet finalised.

Across all three of the Groups' schemes the expected level of contributions for FY2015 is £4.9m.

The weighted average duration of the schemes is 18 years for the Pension Trust, 21 years for the Consortium Care scheme and 31 years for the Platinum scheme.

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

% p.a.	**2014**	2013
Discount rate	3.85	4.45
Inflation assumptions – CPI	2.25	2.45
Inflation assumptions – RPI	3.25	3.45

Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.7	23.9	21.9	24.1
Member currently aged 45	23.1	25.4	23.2	25.6

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6. Retirement benefit obligation (continued)

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Net asset / (liability) on balance sheet
At 31 August 2012	**433.1**	**(395.3)**	**(73.8)**	**(36.0)**
Current service cost	-	(0.4)	-	(0.4)
Net interest cost- Restated[1]	17.6	(16.1)	(3.1)	(1.6)
Total amount recognised in income statement – Restated[1]	**17.6**	**(16.5)**	**(3.1)**	**(2.0)**
Actual less expected return on scheme assets	27.9	-	-	27.9
Actuarial losses arising from experience	-	(1.4)	-	(1.4)
Actuarial loss arising from changes in financial assumptions	-	(21.6)	-	(21.6)
Actuarial loss arising from changes in demographic assumptions	-	(0.4)	-	(0.4)
Change in surplus not recognised – Restated[1]	-	-	3.4	3.4
Amount recognised in other comprehensive income	**27.9**	**(23.4)**	**3.4**	**7.9**
Employer contributions	7.0	-	-	7.0
Benefit payments	(16.0)	16.0	-	-
Amounts included in cash flow statement	**(9.0)**	**16.0**	**-**	**7.0**
At 31 August 2013	**469.6**	**(419.2)**	**(73.5)**	**(23.1)**
Current service cost	(1.3)	1.2	-	(0.1)
Net interest cost	20.6	(18.2)	(3.3)	(0.9)
Total amount recognised in income statement	**19.3**	**(17.0)**	**(3.3)**	**(1.0)**
Actual less expected return on scheme assets	44.6	-	-	44.6
Actuarial losses arising from experience	-	0.8	-	0.8
Actuarial loss arising from changes in financial assumptions	-	(33.3)	-	(33.3)
Actuarial loss arising from changes in demographic assumptions	-	2.6	-	2.6
Change in surplus not recognised	-	-	(16.2)	(16.2)
Amount recognised in other comprehensive income	**44.6**	**(29.9)**	**(16.2)**	**(1.5)**
Employer contributions	4.6	-	-	4.6
Benefit payments	(15.4)	15.4	-	-
Amounts included in cash flow statement	**(10.8)**	**15.4**	**-**	**4.6**
At 31 August 2014	**522.7**	**(450.7)**	**(93.0)**	**(21.0)**
Included within Non-current assets				**0.3**
Included within Current liabilities				**(4.1)**
Included within Non-current liabilities				**(17.2)**

1 – Restatement in respect of retirement benefit obligations, see Note 34.

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

6. Retirement benefit obligation (continued)

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

£m		**2014**	2013
Swap financing portfolio [(1)]	Unquoted	477.0	439.1
Interest rate and inflation swaps	Unquoted	6.2	(11.8)
Loan fund [(2)]	Unquoted	24.2	-
Equity call options [(3)]	Unquoted	-	27.9
Equities (CARE)	Unquoted	10.4	10.2
Bonds (CARE, Platinum)	Unquoted	4.7	4.2
Cash (CARE)		0.2	-
		522.7	469.6

1. Investments with the aim of generating a return above LIBOR to finance the interest and inflation swaps in the Pension Trust. At 31 August 2014 this comprised £270m in asset and total return swap contracts and £180m in a fund comprising a range of assets from government bonds to hedge funds that targets a return above LIBOR.
2. The loan fund looks to generate a return over a portfolio of loans.
3. The equity option portfolio as at 31 August 2013 represented a notional upside exposure to equities of around £140m.

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

The actual return on scheme assets during 2014 was a gain of £65.2m (2013: a gain of £45.5m).

The value of the assets held by the trust in Connect Group PLC issued financial instruments is nil (2013: nil).

Sensitivity of results to changes in the main assumptions:

Assumption	**Change in assumption**	**Impact on IAS 19 liabilities**
Discount rate	Decrease by 0.5% p.a.	Increase by £41m
Rate of inflation	Increase by 0.5% p.a.	Increase by £36m
Life expectancy	Increase by 1 year	Increase by £16m

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

The history of experience adjustments is as follows:

£m	2014	2013	2012	2011	2010
Present value of defined benefit obligation	(450.7)	(419.2)	(395.3)	(348.3)	(367.4)
Fair value of assets	522.7	469.6	433.1	375.1	408.6
Impact of IFRIC 14 on defined benefit pension schemes	(93.0)	(73.5)	(73.8)	(63.1)	(41.2)
Net deficit in the schemes	**(21.0)**	**(23.1)**	**(36.0)**	**(36.3)**	**-**
Experience adjustments on scheme liabilities	0.8	(1.4)	(1.0)	(4.1)	(1.4)
Experience adjustments on scheme assets	44.6	27.9	34.0	(45.8)	39.1

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £21.4m (2013: a loss of £36.2m restated).

6. Retirement benefit obligation (continued)

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

Risk	Description
Changes in bond yields	Falling bond yields tend to increase the funding and accounting liabilities. The assets held in the swap financing portfolio of the Trust provide a swap-based hedge against the change in value of a proportion of the Trust's liabilities for changes in long-term interest rates and inflation expectations, reducing the exposure to changes in bond yields. The Care and Platinum schemes both hold investments in corporate and government bonds which offer a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The assets held in the swap financing portfolio of the Trust provide a swap-based hedge against the change in value of a proportion of the Trust's liabilities for changes in long-term interest rates and inflation expectations, reducing the exposure to inflation. For the Care and Platinum schemes the majority of the assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the plans' obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2014, company contributions totalled £2.8m (2013: £3.1m) which is included in the Income Statement.

A defined contribution plan is a pension plan under which the group pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Company and the member, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

7. Investment revenue and finance costs

£m	Note	2014	2013 Restated[1]
Net change in fair value of derivative assets		0.4	0.3
Investment revenue		**0.4**	**0.3**
Interest on bank overdrafts and loans		(4.7)	(4.7)
Net interest expense on defined benefit obligation	6	(0.9)	(1.6)
Interest payable on finance leases		(0.2)	(0.2)
Unwinding of discount on provisions – trading		(0.1)	(0.3)
Underlying finance costs		**(5.9)**	**(6.8)**
Underlying net finance costs		**(5.5)**	**(6.5)**
Unwinding of discount on provisions – non-recurring		-	(0.2)
Net finance costs		**(5.5)**	**(6.7)**

1 – Restatement in respect of retirement benefit obligations, see Note 34.

8. Income tax expense

£m			2014			2013
	Underlying	Non-recurring and other items	**Total**	Restated[1] Underlying	Non-recurring and other items	Total
Current tax	12.3	(1.0)	11.3	15.1	(1.3)	13.8
Adjustment in respect of prior year UK corporation tax	(2.4)	-	(2.4)	(2.6)	-	(2.6)
Total current tax charge	**9.9**	**(1.0)**	**8.9**	**12.5**	**(1.3)**	**11.2**
Deferred tax – current year	(0.4)	-	(0.4)	(0.7)	-	(0.7)
Deferred tax – prior year	(0.2)	-	(0.2)	(0.3)	-	(0.3)
Total tax on profit	**9.3**	**(1.0)**	**8.3**	**11.5**	**(1.3)**	**10.2**
Effective tax rate	*18.7%*		*19.4%*	*23.0%*		*26.2%*

The effective underlying income tax rate for the year was 18.7% (2013: 23.0%). After adjusting for the impact of non-recurring and other items of £1.0m (2013: £1.3m), the effective statutory income tax rate was 19.4% (2013: 26.2%).

The tax rates used in the 2014 and 2013 reconciliations of the tax charge are the main rates of UK corporation tax, those being 22.2% (2013: 23.6%).

Reconciliation of the tax charge

£m	2014	2013 Restated[1]
Profit before tax	**43.1**	**38.9**
Tax on profit at the standard rate of UK corporation tax 22.2% (2013: 23.6%)	9.5	9.2
Permanent differences	1.3	2.9
Share schemes	(0.2)	(0.4)
Adjustment in respect of prior year UK corporation tax	(2.6)	(2.9)
Impact of overseas tax rates	0.3	1.4
Total tax charge	**8.3**	**10.2**

Tax charges to other comprehensive income and directly in equity

£m	2014	2013
Current tax relating to the defined benefit pension scheme	0.7	0.6
Current tax relating to share based payments	0.5	-
Deferred tax relating to derivative financial instruments	(0.1)	(0.3)
Deferred tax relating to share based payments	0.5	0.5
Deferred tax relating to retirement benefit obligations	(0.6)	(3.3)
Tax charges to other comprehensive income	**1.0**	**(2.5)**

1 – Restatement in respect of retirement benefit obligations, see Note 34.

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9. Dividends

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

Paid & proposed dividends for the year	**2014**	2013	**2014**	2013
	Per share	Per share	**£m**	£m
Interim dividend - paid	**3.1p**	3.0p	**5.8**	5.5
Final dividend - proposed	**6.6p**	6.3p	**12.3**	11.6
	9.7p	9.3p	**18.1**	17.1
Recognised dividends for the year				
Final dividend – prior year	**6.3p**	5.8p	**11.9**	10.5
Interim dividend – current year	**3.1p**	3.0p	**5.8**	5.5
	9.4p	8.8p	**17.7**	16.0

The proposed final dividend for the year ended 31 August 2014 of 6.6p is subject to approval by shareholders at the Annual General Meeting on 4 February 2015 and in line with IAS10 – 'Events after the reporting period', this dividend has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 6 February 2015 to shareholders on the register at close of business on 9 January 2015.

10. Earnings per share

	2014			2013 Restated[1]		
	£m Earnings	Weighted average number of shares million	Pence per share	£m Earnings	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		187.7			183.9	
Shares held by the ESOP (weighted)		(1.4)			(1.7)	
Basic earnings per share (EPS)						
Underlying earnings attributable to ordinary shareholders	**40.5**	**186.3**	**21.7p**	38.4	182.2	21.1p
Non-recurring & other items	(5.9)			(9.7)		
Earnings attributable to ordinary shareholders	**34.6**	**186.3**	**18.6p**	28.7	182.2	15.7p
Diluted earnings per share (EPS)						
Effect of dilutive share options		6.3			11.7	
Diluted underlying EPS	**40.5**	**192.6**	**21.0p**	38.4	193.9	19.8p
Diluted EPS	**34.6**	**192.6**	**18.0p**	28.7	193.9	14.8p

1 – Restatement in respect of retirement benefit obligations, see Note 34.

The acquisition of Hedgelane Limited in April 2012 included £4.0 million of deferred share capital payable contingent on profit targets and the continued employment of the former owners of Hedgelane Limited. In January 2014, 4.5 million shares were allotted in satisfaction of the deferred share capital. The weighted effect of this has been included in diluted EPS.

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11. Intangible assets

11a Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 1 September 2013	44.2	21.7	3.0	0.7	5.6	25.3	100.5
Additions	-	0.3	-	-	1.6	1.9	3.8
Disposals	-	-	-	-	(1.2)	(20.4)	(21.6)
At 31 August 2014	**44.2**	**22.0**	**3.0**	**0.7**	**6.0**	**6.8**	**82.7**
Accumulated amortisation:							
At 1 September 2013	-	5.6	0.9	0.5	3.5	21.8	32.3
Amortisation charge	-	2.4	0.5	0.1	1.6	1.2	5.8
Impairment	-	0.5	-	-	-	-	0.5
Disposal	-	-	-	-	(1.2)	(20.4)	(21.6)
At 31 August 2014	**-**	**8.5**	**1.4**	**0.6**	**3.9**	**2.6**	**17.0**
Net book value at 31 August 2014	**44.2**	**13.5**	**1.6**	**0.1**	**2.1**	**4.2**	**65.7**
Cost:							
At 1 September 2012	43.1	19.7	2.9	0.7	3.9	24.9	95.2
Additions	0.3	-	-	-	1.7	1.2	3.2
Acquisition of subsidiaries	0.8	2.3	0.1	-	-	-	3.2
Disposals	-	(0.3)	-	-	-	(0.8)	(1.1)
At 31 August 2013	**44.2**	**21.7**	**3.0**	**0.7**	**5.6**	**25.3**	**100.5**
Accumulated amortisation:							
At 1 September 2012	-	3.4	0.6	0.3	2.3	21.5	28.1
Amortisation charge	-	2.3	0.3	0.2	1.2	1.0	5.0
Disposal	-	(0.1)	-	-	-	(0.7)	(0.8)
At 31 August 2013	**-**	**5.6**	**0.9**	**0.5**	**3.5**	**21.8**	**32.3**
Net book value at 31 August 2013	**44.2**	**16.1**	**2.1**	**0.2**	**2.1**	**3.5**	**68.2**

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

In the prior year the £2.3m of additions to customer relationships is primarily £2.0m in relation to the acquisition of certain European and African academic library services customer relationships from Blackwell UK Limited on 20 May 2013 by Dawson Books Limited, a 100% owned subsidiary of the Group. The remaining £0.3m related to the Erasmus acquisition.

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11b. Goodwill and intangibles by segment and CGU

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

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

On the acquisition of Hedgelane Limited on 24 April 2012, the Group recognised goodwill of £20.9m and acquired intangibles of £10.4m which have been allocated to the Education and Care CGU.

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

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

The acquisition of certain Blackwell contracts on 16 April 2013 generated £2.0m of acquired intangibles.

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

During the year the original useful economic lives of customer relationship and trade names were reviewed and reduced from 10 years to a maximum of 7.5 years based upon managements revised assessment of future contractual renewal rates. The impact in the current year was an additional amortisation charge of £0.6m.

Goodwill is not amortised, but tested annually for impairment or more frequently if there are indications that goodwill might be impaired with the recoverable amount being determined from value in use calculations. The recoverable amounts of the combined cash generating units are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following 3 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The rate used to discount the forecast cash flows range from 13.5% to 13.9%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit. Pre-tax discount rates are derived from the Group's post-tax WACC of 9% risk adjusted by 2%. The calculation of value in use is most sensitive to the discount rate and growth rates used. In analysing the sensitivity of key assumptions, management consider that potential changes in certain assumptions could cause the carrying value to fall below recoverable amount for Connect Books. Using the key assumptions stated above the value in use exceeded the carrying amount by £16.1m. An impairment would be recognised if the discount rate was 1.9% higher or if forecast cash flows were more than 34% lower.

Management believes that no other 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	**2014**	2013	**On acquisition**	**2014**	2013	**On acquisition**	**2014**	2013	**On acquisition**
Connect Books	17.6	17.6	17.6	5.6	7.6	12.7	23.2	25.2	30.3
Connect Media	5.7	5.7	5.7	1.6	1.8	2.6	7.3	7.5	8.3
Connect News	**-**	-	-	0.2	-	0.3	0.2	-	0.3
Connect Education and Care	20.9	20.9	20.9	7.8	9.0	10.4	28.7	29.9	31.3
	44.2	44.2	44.2	15.2	18.4	26.0	59.4	62.6	70.2

The individual material intangible assets relate to the customer relationships acquired with Dawson Holdings PLC and Hedgelane Ltd. The carrying value of these assets at 31 August 2014 is £4.6m and £7.0m respectively with a remaining amortisation period of 4 and 5 years respectively.

12. Acquisitions

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

13. Disposals

2014

There were no disposals in the period.

2013

On 30 April 2013, the Group disposed of 100% of the share capital in Dawson Marketing Services Limited and its trading subsidiary Marketlink Marketing Communications Limited ('MMC') for £0.3m. Due to the nature and size of the business disposed investment, it has not been separately disclosed as a discontinued operation as defined by IFRS5 - Non Current Assets Held for Sale and Discontinued Operations.

MMC contributed £3.9m to revenue and £0.1m to the Group's operating profit in 2013.

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14. Property, plant and equipment

£m	Land & Buildings					
	Freehold properties	Long term leasehold	Short term leasehold	Fixtures & fittings	Equipment & vehicles	Total
Cost:						
At 1 September 2013	4.9	0.4	11.9	7.3	38.7	63.2
Additions	-	-	0.5	1.3	5.8	7.6
Disposals	-	-	(0.4)	(0.3)	(5.5)	(6.2)
At 31 August 2014	**4.9**	**0.4**	**12.0**	**8.3**	**39.0**	**64.6**
Accumulated depreciation:						
At 1 September 2013	0.4	0.3	7.8	5.5	22.6	36.6
Depreciation charge	0.1	-	0.8	0.7	3.6	5.2
Disposals	-	-	(0.4)	(0.3)	(5.5)	(6.2)
At 31 August 2014	**0.5**	**0.3**	**8.2**	**5.9**	**20.7**	**35.6**
Net book value at 31 August 2014	**4.4**	**0.1**	**3.8**	**2.4**	**18.3**	**29.0**
Cost:						
At 1 September 2012	4.9	0.4	12.4	11.1	29.5	58.3
Additions	-	-	0.7	0.6	6.2	7.5
Inter segment transfer	-	-	-	(4.1)	4.1	-
Disposals	-	-	(1.2)	(0.3)	(1.1)	(2.6)
At 31 August 2013	**4.9**	**0.4**	**11.9**	**7.3**	**38.7**	**63.2**
Accumulated depreciation:						
At 1 September 2012	0.4	0.3	8.2	5.8	19.1	33.8
Depreciation charge	-	-	0.7	0.5	4.1	5.3
Inter segment transfer	-	-	-	(0.5)	0.5	-
Disposals	-	-	(1.1)	(0.3)	(1.1)	(2.5)
At 31 August 2013	**0.4**	**0.3**	**7.8**	**5.5**	**22.6**	**36.6**
Net book value at 31 August 2013	**4.5**	**0.1**	**4.1**	**1.8**	**16.1**	**26.6**

The Group leases plant and equipment under a number of finance lease arrangements and has the option to purchase the equipment at the end of each lease. The net book value of finance leases contained within these balances is £4.1m at 31 August 2014 (2013: £1.8m).

15. Interests in jointly controlled entities

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

£m	2014	2013
Revenue	9.6	9.4
Profit after tax	0.3	0.2

Non-current assets	1.2	1.2
Current assets	2.6	2.2
Total assets	3.8	3.4
Current liabilities	(2.3)	(1.9)
Non-current liabilities	(0.1)	(0.3)
Total liabilities	(2.4)	(2.2)
Goodwill	2.9	2.9
Share of net assets	**4.3**	**4.1**

The jointly controlled entities of the Group are as follows:

FMD Limited		The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2013: 50%). The latest statutory accounts of FMD Limited were drawn up to 30 April 2014.
Rascal Solutions Limited		The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2013: 50%). The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2013.
BlueBox Avionics Limited		The Group has a 50% interest in the ordinary shares of Bluebox Avionics Limited, a company incorporated in England (2013: 50%). The latest statutory accounts of Bluebox Avionics Limited were drawn up to 31 August 2013.

16. Inventories

£m	2014	2013
Goods held for resale	45.3	44.2

17. Trade and other receivables

£m	2014	2013
Trade receivables	107.9	107.6
Allowance for doubtful debts	(0.7)	(0.7)
	107.2	106.9
Other debtors	12.4	10.3
Prepayments and accrued income	8.5	9.9
Trade and other receivables	**128.1**	**127.1**

Trade receivables

Total trade receivables net of allowances for doubtful debts held by the Group at 31 August 2014 amounted to £107.2m (2013: £106.9m), comprising the amounts presented above.

The average credit period taken on sale of goods is 21 days (2013: 19 days). Trade receivables are generally non-interest bearing. The Group provides for receivables on an individual customer basis based on circumstances known at that time and the likelihood of recovery.

Included in the outstanding trade receivables balance are debtors with overdue amounts of £8.5m (2013: £9.5m) that the Group has not provided for as these amounts are still considered recoverable and fall outside our pre-determined provisioning policy.

17. Trade and other receivables (continued)

Ageing of past due but not impaired receivables:

£m	2014	2013
30-60 days	5.3	6.0
61-90 days	1.4	1.1
91-120 days	0.6	0.9
Over 120 days	1.2	1.5
	8.5	9.5

Included within the 2014 number is an expected seasonal peak of £4.6m (2013: £4.6m) largely within the 30-60 day ageing relating to the Consortium business.

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

- One customer (2013: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of these were £15.3m (2013: £29.0m); and

- A further six customers (2013: three) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £42.2m (2013: £24.4m).

Movement in the allowance for doubtful debts:

£m	2014	2013
At 1 September	0.7	0.9
Impairment losses recognised	0.7	0.3
Amounts written off as uncollectible	(0.6)	(0.4)
Amounts recovered during the year	(0.1)	(0.1)
At 31 August	0.7	0.7

Ageing of past due and impaired trade receivables:

£m	2014	2013
30-60 days	-	-
61-90 days	0.1	0.1
91-120 days	0.1	0.1
Over 120 days	0.5	0.5
	0.7	0.7

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

Other debtors and prepayments

The largest items included within this balance are £7.6m (2013: £4.9m) of publisher debtors and £4.0m (2013: £4.5m) of accrued revenue.

18. Trade and other payables

£m	2014	2013
Trade payables	156.1	147.2
Other tax and social security	3.1	3.5
Other creditors	11.9	15.7
Accruals and deferred income	21.2	22.3
	192.3	**188.7**

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 30 days (2013: 26 days). No interest is charged on trade payables. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2014	2013
Cash and cash equivalents	17.7	1.8	0.4	0.5	20.4	10.1
Term loan – disclosed within current liabilities	-	-	-	-	-	(3.0)
Term loan – disclosed within non-current liabilities	(48.4)	-	-	-	(48.4)	(34.0)
Revolving credit facility	(59.0)	(1.9)	-	-	(60.9)	(62.9)
Asset backed facility	-	-	-	-	-	(6.9)
Total borrowings	(107.4)	(1.9)	-	-	(109.3)	(106.8)
Net borrowings	(89.7)	(0.1)	0.4	0.5	(88.9)	(96.7)
Total borrowings						
Amount due for settlement within 12 months	(59.0)	(1.9)	-	-	(60.9)	(72.8)
Amount due for settlement after 12 months	(48.4)	-	-	-	(48.4)	(34.0)
	(107.4)	(1.9)	-	-	(109.3)	(106.8)

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

Available Group bank facilities are outlined in Note 20. At 31 August 2014, the Group had £90.7m (2013: £70.2m) of undrawn committed borrowing facilities in respect of which all conditions precedents had been met. Interest payable under the current facility is calculated as the cost of one month LIBOR plus an interest margin of between 1.35% and 2.35% dependent on the net debt/ adjusted EBITDA covenant ratio.

20. Financial Instruments

Treasury policy

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

Capital risk management

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

Liquidity risk

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

As at 31 August 2014, the Group had £200m committed bank facilities in place (2013: £177m).

Bank facilities now comprise:

- a £50m syndicated term loan with £5m repayable in February 2017, August 2017, February 2018 and August 2018 with the balance repayable in November 2018;
- a £150m syndicated revolving credit facility which is expires in November 2018;

The facility described above is subject to the following covenants:

- Leverage cover - the net debt: adjusted EBITDA ratio which must remain below 2.75x. At 31 August 2014 the ratio was 1.4x
- Interest cover - the consolidated net interest: adjusted EBITDA ratio which must remain above 3.0x. As at 31 August 2014 the ratio was 11.8x
- Fixed charge cover - the ratio of adjusted EBITDA to consolidated fixed charges is not less than 2.00 to 1. As at 31 August 2014 the ratio was 4.7x
- Guarantor cover - The annual turnover, gross assets and pre-tax profits of the guarantors contribute at any time 80 per cent or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidaries of the Connect Group PLC, are Connect Group PLC, Dawson Holdings Limited, Hedgelane Limited, Smiths News Holdings Limited, Smiths News Investments Limited, Smiths News Trading Limited, Bertram Trading Limited, Connect2U Limited, The Consortium for Purchasing and Distribution Limited, Smiths News Instore Limited and Dawson Books Limited.

At 31 August 2014, the Group had available £90.7m (2013: £70.2m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

As the Group is cash generative its liquidity risk is considered low. The Group's cash generation allows it to meet all loan commitments as they fall due as well as sustain a negative working capital position.

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle that results in significant predictable swings within each month of around £50m.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives. The undiscounted cash flows will differ from both the carrying value and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

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20. Financial Instruments (continued)

£m	Due within 1 Year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2014				
Non derivative financial				
Bank and other borrowings	(62.0)	(1.1)	(10.9)	(41.1)
Finance leases	(0.9)	(1.1)	(1.2)	(1.2)
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	0.1	-	-	-
Net settled derivative contracts – payments	(0.3)	-	-	-
Derivative and other financial assets				
Net settled derivative contracts – receipts	0.3	0.3	0.3	0.1
Total	**(62.8)**	**(1.9)**	**(11.8)**	**(42.2)**
At 31 August 2013				
Non derivative financial				
Bank and other borrowings	(72.8)	(34.0)	-	-
Finance leases	(1.0)	(0.8)	-	-
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	0.3	0.1	-	-
Net settled derivative contracts – payments	(1.3)	(0.3)	-	-
Derivative and other financial assets				
Net settled derivative contracts – receipts	0.2	0.2	0.2	0.2
Total	**(74.6)**	**(34.8)**	**0.2**	**0.2**

Counterparty risk

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

Foreign currency risk

- The Group does not hedge the translation effect of exchange rate movements on the Income Statement. The majority of the Group's transactions are however carried out in the functional currencies of its operations, and so transactional exposure is limited.
- The majority of the Group's net assets are held in Sterling, with only £3.9m (2013: £3.1m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

The Group regularly monitors its exposure to interest rate risk. The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The Group avoids the use of derivatives or other financial instruments in circumstances when the outcome would effectively be largely dependent upon speculation on future rate movements. As at 31 August 2014, 100% of the Group's borrowings were at fixed rates achieved through hedging.

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

20. Financial Instruments (continued)

Hedge accounting

There are £60m of interest rate hedges in place until November 2014 and a further £60m in place until November 2017 contracted at an average effective rate of 3.5%.

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

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

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2014	2013	**2014**	2013	**2014**	2013
Outstanding receive floating, pay fixed contracts						
Less than 1 year	1.6%	1.6%	£60.0m	-	(£0.3m)	-
2 to 5 years	1.0%	1.0%	£60.0m	£120.0m	£0.9m	(£0.4m)

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

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

	Current		Non-current	
£m	**2014**	**2013**	**2014**	**2013**
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps - Liabilities	-	(0.8)	-	-
	-	**(0.8)**	**-**	**-**
Interest rate swaps - Assets	-	-	0.6	0.4
	-	**(0.8)**	**0.6**	**0.4**

At 31 August 2014 it was determined that £50m of a £60m hedge put in place in September 2012 could not be designated within a hedge relationship as a result the movement of the fair value of this part of the hedge was recognised in the Income Statement, resulting in a £0.4m credit being recognised in finance costs with the remainder of the mark to market valuations being recognised in reserves.

20. Financial Instruments (continued)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities the analysis assumes the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 August 2014 would decrease/increase by £0.1m (2013: £0.4m) due to the interest rate swaps that are used to mitigate this risk.

Credit risk

The Group considers its exposure to credit risk at 31 August 2014 to be as follows:

£m	2014	2013
Bank deposits	20.4	10.1
Trade receivables	107.9	106.9
	128.3	**117.0**

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

21. Obligations under finance leases

£m	2014		2013	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Amount payable under finance leases:				
Within one year	1.0	1.0	1.0	1.0
In the second to fifth years inclusive	3.4	3.1	0.9	0.8
Total	**4.4**	**4.1**	**1.9**	**1.8**
Less: future finance charges	(0.3)	-	(0.1)	-
Present value of lease obligations	**4.1**	**4.1**	**1.8**	**1.8**
Less: amount due for settlement within 12 months (shown under current liabilities)		(0.9)		(1.0)
Amount due for settlement after 12 months		**3.2**		**0.8**

Group policy is to acquire certain items of its fixtures and equipment under finance leases. The average lease term is 3.5 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

22. Other non-current liabilities

£m	2014	2013
Other creditors	**1.4**	**1.6**

The balance disclosed as other creditors within non-current liabilities relates to operating lease incentives which are being recognised over the lease term.

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23. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Accelerated tax depreciation	Other	Share based payments	Intangible assets	Retirement benefits	**Total**
At 1 September 2013	0.1	0.6	1.5	(3.5)	4.9	3.6
Charge to income	0.5	(0.4)	0.2	0.4	(0.1)	0.6
Charge to other comprehensive income	-	(0.1)	0.5	-	(0.6)	(0.2)
At 31 August 2014	**0.6**	**0.1**	**2.2**	**(3.1)**	**4.2**	**4.0**
Deferred tax assets	0.7	0.1	2.2	-	4.2	7.2
Deferred tax liabilities	(0.1)	-	-	(3.1)	-	(3.2)
At 1 September 2012	(0.2)	1.1	0.9	(4.1)	8.2	5.9
Charge to income	0.4	(0.2)	0.1	0.6	-	0.9
Charge to other comprehensive income	-	(0.3)	0.5	-	(3.3)	(3.1)
Acquisition/ disposal of subsidiary	(0.1)	-	-	-	-	(0.1)
At 31 August 2013	**0.1**	**0.6**	**1.5**	**(3.5)**	**4.9**	**3.6**
Deferred tax assets	0.4	1.3	1.5	-	4.9	8.1
Deferred tax liabilities	(0.3)	(0.7)	-	(3.5)	-	(4.5)

The Company has capital losses carried forward of £23.9m (2013: £23.9m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

The Finance Act 2013, which provides for a reduction in the main rate of corporation tax from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

24. Provisions

£m	Reorganisation provisions	Insurance provision	Deferred consideration	Property provisions	Total
Gross provision:					
At 1 September 2013	**1.4**	**1.4**	**1.9**	**6.4**	**11.1**
Additions	0.7	0.2	0.2	1.3	2.4
Released	(0.1)	-	-	(1.5)	(1.6)
Utilised in year	(1.3)	(0.2)	(2.1)	(2.6)	(6.2)
At 31 August 2014	**0.7**	**1.4**	**-**	**3.6**	**5.7**
Discount:					
At 1 September 2013	**-**	**-**	**-**	**(0.8)**	**(0.8)**
Additions	-	-	-	(0.1)	(0.1)
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 2012	0.3	1.3	2.1	10.8	14.5
Additions	1.4	0.5	1.8	0.6	4.3
Disposal	-	-	-	(0.9)	(0.9)
Utilised in year	(0.3)	(0.4)	(2.0)	(4.1)	(6.8)
At 31 August 2013	**1.4**	**1.4**	**1.9**	**6.4**	**11.1**
Discount:					
At 1 September 2012	-	-	-	(2.0)	(2.0)
Additions	-	-	-	0.2	0.2
Unwinding of discount utilisation	-	-	-	1.0	1.0
At 31 August 2013	**-**	**-**	**-**	**(0.8)**	**(0.8)**
Net book value at 31 August 2013	**1.4**	**1.4**	**1.9**	**5.6**	**10.3**

£m	2014	2013
Included within current liabilities	**3.4**	7.5
Included within non-current liabilities	**1.9**	2.8
Total	**5.3**	**10.3**

24. Provisions (continued)

Reorganisation provisions include amounts for programmes, primarily redundancy costs, that have been announced prior to the year end and are all expected to be utilised during the following financial year.
Insurance provisions represent the expected future costs of employer's liability, public liability and motor accident claims.
The property provision represents the estimated future cost of the Group's onerous and reversionary leases in non-trading properties based on known and estimated rental sub-leases. This provision has been discounted at a risk free rate and this discount will be unwound over the life of the leases. The provision is expected to be utilised over the period to 2019, when all of the leases provisions will have expired.
Deferred consideration relates to amounts provided in relation to the acquisition of Hedgelane Ltd on 23 April 2012, the cost was contingent upon future employment. The provision has been fully utilised in the year with the issue of 4,530,012 shares in January 2014.

25. Contingent liabilities and capital commitments

£m	2014	2013
Bank and other loans guaranteed	2.1	3.6

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2014 of £6.3m (2013: £8.4m). This excludes the reversionary lease provision included within property provisions in Note 24.

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £nil (2013: £nil).

26. Operating lease commitments

The group as lessee:

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

	2014			2013		
£m	Land & buildings	Equipment & vehicles	**Total**	Land & buildings	Equipment & vehicles	**Total**
Within one year	7.7	2.1	9.8	8.1	1.6	9.7
In the second to fifth years inclusive	25.6	1.5	27.1	26.2	1.6	27.8
In more than five years	24.3	-	24.3	26.7	-	26.7
	57.6	**3.6**	**61.2**	**61.0**	**3.2**	**64.2**

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

The group as lessor:

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

£m	2014	2013
Within one year	0.1	-
In the second to fifth years inclusive	0.2	0.3
	0.3	**0.3**

Property rental income earned during the year was £0.1m (2013: £0.4m).

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27. Net cash inflow from operating activities

£m	2014	2013
Operating profit	48.6	45.6
Acquisition costs	-	3.2
Share of profits of jointly controlled entities	(0.3)	-
Adjustment for pension funding	(4.6)	(6.5)
Depreciation of property, plant and equipment	5.2	5.3
Amortisation and impairment of intangible assets	6.3	5.0
Share based payments	1.1	1.9
(Increase)/ decrease in inventories	(1.7)	0.4
Increase in receivables	(2.4)	(5.8)
Decrease in payables	7.3	1.5
Income tax paid	(9.8)	(10.5)
Decrease in provisions	(2.3)	(2.2)
Net cash inflow from operating activities	**47.4**	**37.9**

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28. Share Capital

(a) Share capital

£m	2014	2013
Authorised:		
300.0m ordinary shares of 5p each	15.0	15.0
Issued and fully paid:		
189.3m ordinary shares of 5p each (2013:184.3m)	9.5	9.2

(b) Movement in share capital

£m	Ordinary shares of 5p each
31 August 2013	9.2
Shares issued during the year	0.3
At 31 August 2014	9.5

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

During the year 4,959,905 (2013: 763,101) ordinary 5p shares were issued for a consideration of £4,373,469 (2013: £655,352), resulting in a share premium of £4,125,474 (2013: £617,197). Of these 4,530,012 relate 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.

The concept of authorised share capital was repealed by the Companies Act 2006 with effect from 1 October 2009, and on 15 January 2010, the Company passed a Special Resolution dis-applying the existing provisions of its Memorandum of Association from applying to its Articles of Association.

(c) Share premium

£m	2014	2013
Balance at 1 September	1.2	0.6
Premium arising on issue of equity shares	4.1	0.6
Balance at 31 August	**5.3**	**1.2**

29. Reserves

(a) Demerger reserve

£m	2014	2013
At 1 September	(280.1)	(280.1)
At 31 August	**(280.1)**	**(280.1)**

This relates to reserves created following the capital re-organisation undertaken as part of the demerger of WH Smith PLC in 2006. The balance represented the difference between the share capital and reserves of the Group restated on a pro-forma basis as at 31 August 2004 and the previously reported share capital.

(b) ESOP reserve

£m	2014	2013
Balance at 1 September	(1.5)	(1.7)
Acquired in the period	(6.3)	(3.0)
Disposed of on exercise of options	2.6	3.2
Balance at 31 August	**(5.2)**	**(1.5)**

The ESOP reserve represents the cost of shares in Connect Group PLC purchased in the market and held by the Smiths News Employee Benefit Trust to satisfy awards and options granted under the Group's Executive Share Schemes (see Note 31). The number of ordinary shares held by the Trust at 31 August 2014 was 2,203,191 (2013: 1,070,854).

(c) Hedging & translation reserve

£m	2014	2013
Balance at 1 September	(0.6)	(2.3)
Gain recognised on cash flow hedges (net of tax)	0.5	1.7
Exchange differences on translating net assets of foreign operations	(0.2)	-
Balance at 31 August	**(0.3)**	**(0.6)**

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in the profit or loss only when the hedged transaction impacts the profit or loss.

30. Retained Earnings

	£m
Balance at 1 September 2012	196.7
Total comprehensive income for the year	33.9
Dividends paid	(16.0)
Employee share schemes	(0.2)
Credit for equity-settled share based payments	0.5
Balance at 31 August 2013	**214.9**
Total comprehensive income for the year	33.3
Dividends paid	(17.7)
Employee share schemes	(2.6)
Equity-settled share based payments, net of tax	0.6
Balance at 31 August 2014	**228.5**

31. Share-based payments

The Group recognised total expenses of £1.5m in 2014 (2013: £1.9m) related to equity-settled share-based payment transactions.

Average share price throughout the year was 191.5p (2013: 158.8p).

The Group operates the following share incentive schemes:

Sharesave Scheme		Under the terms of the Smiths News Sharesave Scheme, the Board may grant options to purchase ordinary shares in the Company to eligible employees who enter into an HM Revenue & Customs approved Save-As-You-Earn ('SAYE') savings contract for a term of three or five years. Options are granted at a 20% discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.
Executive Share Option Schemes (ESOS)		Under the terms of the Smiths News Executive Share Option Scheme, the Board may grant options to purchase ordinary shares in the Company to executives up to an annual limit of 200% of base salary. The exercise of options is conditional on the achievement of a three year performance target, which is determined by the Remuneration Committee at the time of grant. Provided that the target is met, options are normally exercisable until the day preceding the 10th anniversary of the date of grant.
LTIP		Under the terms of the Connect Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200% of base salary. The vesting of awards is subject to the satisfaction of a three year performance condition, which is determined by the Remuneration Committee at the time of grant. Subject to the satisfaction of the performance condition, awards are normally exercisable until the 10th anniversary of the date of grant.
Deferred Bonus Plan (DBP)		Under the terms of the Connect Group Deferred Bonus Plan, executive directors and key senior executives may be granted each year share awards (in the form of nil cost options) dependent on the achievement of the Annual Bonus Plan and Economic Profit Plan performance targets. Awards are normally exercisable after two years subject to continued employment.

31. Share-based payments (continued)

Details of the options/awards are as follows:

Number of options/ awards	Sharesave No of shares	Sharesave Weighted average exercise price	ESOS No of shares	ESOS Weighted average exercise price	LTIP No of shares	LTIP Weighted average exercise price	DBP No of shares	DBP Weighted average exercise price
At 31 Aug 2012	2,853,975	83.4p	6,612,582	91.5p	2,310,894	-	1,117,654	-
Granted	665,877	140.0p	1,032,399	152.9p	715,988	-	517,767	-
Exercised	(763,101)	85.9p	(2,821,302)	89.0p	(454,506)	-	(638,319)	-
Expired /Forfeited	(301,193)	82.8p	(235,511)	97.1p	(27,896)	-	-	-
At 31 Aug 2013	2,455,558	98.0p	4,588,168	106.5p	2,544,480	-	997,102	-
Granted	850,693	158.0p	895,607	210.3p	601,195	-	450,021	-
Exercised	(429,893)	86.9p	(503,897)	92.8p	(969,253)	-	(486,519)	-
Expired /Forfeited	(249,000)	101.4p	(255,367)	134.2p	(125,231)	-	(19,219)	-
At 31 Aug 2014	2,627,338	118.9p	4,724,511	126.1p	2,051,191	-	941,385	-
Exercisable at 31 Aug 2014	232,584	80.7p	1,652,486	92.7p	-	-	-	-
Exercisable at 31 Aug 2013	213,815	93.2p	604,592	94.3p	-	-	-	-

The weighted average remaining contractual life in years of options/awards is as follows:

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2014	1.5	7.5	8.1	1.7
Outstanding at 31 August 2013	1.8	7.6	8.4	0.6

Details of the options/awards granted or commencing during the current and comparative year are as follows:

	Sharesave	ESOS	LTIP	DBP
During 2014:				
Effective date of grant or commencement date	June 2014	Nov 2013	Nov 2013	Nov 2013
Average fair value at date of grant or scheme commencement - pence	42.5	28.6	188.2	188.2
During 2013:				
Effective date of grant or commencement date	June 2013	Nov 2012	Nov 2012	Nov 2012
Average fair value at date of grant or scheme commencement - pence	38.6	19.5	156.6	156.6

The options outstanding at 31 August 2014 had exercise prices ranging from nil to 210.3p (2013: nil to 152.9p).

The weighted average share price on the date of exercise was 200p (2013: 161p).

31. Share-based payments (continued)

The sharesave and ESOS options granted during each period have been valued using the Black-Scholes model, the LTIP and DBP schemes are valued by reference to the share price at the date of grant discounted by the estimated dividend yield per cent.

The inputs to the Black-Scholes model are as follows:

	Sharesave	**ESOS**	**LTIP**	**DBP**
2014 options/awards:				
Share price at grant date – pence	197.5	210.3	210.3	210.3
Exercise price – pence	158.0	210.3	-	-
Expected volatility – per cent	32.0	31.0	-	-
Expected life – years	3.0	3.0	-	-
Risk free rate – per cent	1.96	1.61	-	-
Expected dividend yield – per cent	6.2	6.2	-	-
Weighted average fair value – pence	42.5	28.6	185.0	185.0
2013 options/awards:				
Share price at grant date – pence	175.0	152.9	152.9	152.9
Exercise price – pence	140.0	152.9	-	-
Expected volatility – per cent	33.0	29.0	-	-
Expected life – years	3.0	3.0	-	-
Risk free rate – per cent	1.25	1.25	-	-
Expected dividend yield – per cent	5.5	5.5	5.5	5.5
Weighted average fair value – pence	38.6	19.5	136.7	136.7

32. Related party transactions

Transactions between businesses within this Group, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with the Group's pension schemes are disclosed in Note 6.

Trading transactions

	Sales to related parties		Amounts owed by related parties	
£m	**2014**	**2013**	**2014**	**2013**
Jointly controlled entities	3.2	0.1	0.6	0.3

Sales to related parties are for management fees, payment is due on the last day of the month following the date of invoice.

Non-trading transactions

	Loans to related parties	
£m	**2014**	**2013**
Jointly controlled entities	0.4	0.6

The loans to related parties have no set date for repayment and accrue interest at LIBOR + 2%.

Aggregate remuneration of key management personnel

The remuneration of the Directors and the executive management team, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 '*Related Party Disclosures.'*

£m	2014	2013
Short-term employee benefits	3.0	3.0
Post-employment benefits	-	-
Share based payments	0.8	1.1
	3.8	**4.1**

Directors' transactions

There are no other transactions with Directors, other than those set out in Note 6.

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33. Principal subsidiary undertakings and associated undertakings

Name	Country of incorporation / registration	Proportion of ownership interest
Bertram Trading Limited	England	100%
Bluebox Avionics Limited*	England	50%
Dawson Books Limited	England	100%
Dawson Espana Agienciede Ediciones SL	Spain	100%
Dawson France SAS	France	100%
Dawson Holdings Ltd	England	100%
Dawson Media Direct Limited	England	100%
DMD China Limited	Hong Kong	100%
DMD G.m.b.H.	Germany	100%
DMD Inc.	USA	100%
DMD NV	Belgium	99%
DMD SAS	France	100%
Phantom Media Limited	England	100%
Rascal Solutions Limited*	England	50%
Smiths News Holdings Limited	England	100%
Smiths News Trading Limited	England	100%
The Consortium for Purchasing and Distribution Ltd	England	100%
Hedgelane Limited	England	100%
Erasmus Antiquariaat en Boekhandel B.V.	Holland	100%
Houtschild Internationale Boekhandel B.V.	Holland	100%
Martin Lavell Ltd	England	100%
Magpie Investments Limited [1]	England	51%
FMD Limited *	England	50%

Except as marked all of the above are subsidiaries of Connect Group PLC. Those marked with an asterisk are joint controlled entities, for details of which see Note 15 to the Group accounts.

A full list of subsidiary companies is available from the Company's registered office.

[1] Magpie Investments Limited is treated as a subsidiary within the Group financial statements based upon the Group's majority shareholding and the controlling interest on the Board.

34. Restatement following the adoption of IAS 19 revised and disposal of MMC

IAS 19 (as revised in June 2011) 'Employee Benefits' has been adopted by the Group for the financial year commencing 1 September 2013. The interest cost and expected return on defined-benefit pension scheme assets used in the previous version of IAS 19 are replaced with a 'net interest' amount, which is calculated by applying a discount rate to the net defined benefit liability or asset. Furthermore, IAS 19 (revised) also introduces more extensive disclosures in the presentation of the defined benefit cost, including the separate disclosure of the schemes' administrative expenses.

The comparative period has also been restated to show the results of the MMC business, disposed of in April 2013, within non-recurring and other items, reducing underlying revenue by £3.9m and underlying operating profit by £0.1m for the year ended 31 August 2013.

The adoption of IAS 19 (revised) and the MMC restatement has had no impact on the balance sheet position of the Group as at 31 August 2013 and 31 August 2012 and no impact on the cash flows of the Group.

The impact on the comparative Group Income Statement and Statement of Change in Equity is set out below:

Group Income Statement **£m**	12 months to Aug 2013		
	Reported	Adjustment	Restated
Disposal of MMC			
Underlying revenue	1,810.8	(3.9)	1,806.9
Operating profit - underlying	56.5	(0.1)	56.4
IAS 19 (Revised)			
Investment revenues	1.8	(1.5)	0.3
Finance costs	(5.3)	(1.5)	(6.8)
Profit before tax – underlying	53.0	(3.0)	50.0
Taxation	(12.1)	0.6	(11.5)
Profit for the period -underlying	40.9	(2.4)	38.5
Combined restatement			
Revenue	1,810.8	(3.9)	1,806.9
Operating profit – underlying	56.5	(0.1)	56.4
Profit before tax – underlying	53.0	(3.1)	49.9
Non-recurring and other items	(11.1)	0.1	(11.0)
Profit before tax – Statutory	41.9	(3.0)	38.9
Taxation – including non-recurring	(10.8)	0.6	(10.2)
Profit for the period - Statutory	31.1	(2.4)	28.7
Underlying EPS – basic	22.4p	(1.3p)	21.1p
Underlying EPS - diluted	21.1p	(1.3p)	19.8p
Statutory EPS - basic	17.1p	(1.4p)	15.7p
Statutory EPS - diluted	16.0p	(1.2p)	14.8p

34. Restatement following the adoption of IAS 19 revised and disposal of MMC (continued)

Group Statement of Changes in Equity	**12 months to 31 August 2013**		
£m	Previously reported	Impact of adopting IAS 19 (revised)	Restated
Impact of IFRIC14 on defined benefit schemes	0.3	3.1	3.4
Actuarial gain	4.5	(0.2)	4.3
Gain on cash flow hedges	1.7	-	1.7
Tax relating to components of other comprehensive income	(1.9)	(0.6)	(2.5)
Other comprehensive income	**4.6**	**2.3**	**6.9**
Profit after tax	31.1	(2.4)	28.7
Total comprehensive income	**35.7**	**(0.1)**	**35.6**

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35. Responsibility statement

The responsibility statement below has been prepared in connection with the Group's full annual report for the year ending 31 August 2014. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated in the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

The responsibility statement was approved by the board of directors on 15 October 2014 and is signed on its behalf by:

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer