26 October 2017

Connect Group PLC

('Connect Group' or 'the Group')

Unaudited Preliminary Results Announcement for the year ended 31 August 2017

A challenging year with significant strategic progress

Connect Group, a UK leading specialist distributor, is pleased to announce its unaudited preliminary results for the year ended 31 August 2017.

Adjusted continuing results [1]	**FY17**	**FY16 restated** [7]	Change [8]
Revenue	£1,594.3m	£1,645.8m	-3.1%
Profit before tax	£48.0m	£50.4m	-4.6%
Earnings per share	15.5p	16.2p	-4.3%
Statutory continuing results			
Revenue	£1,594.3m	£1,645.8m	-3.1%
Profit before tax	£34.2m	£35.2m	-2.8%
Earnings per share	11.0p	11.3p	-2.7%
Dividend per share	9.8p	9.5p	3.2%
Free cash flow (including Adjusted items) [2]	£28.7m	£36.2m	-20.7%
Net debt [4]	£82.1m	£141.7m	42.1%

STRATEGIC HIGHLIGHTS:

- Focused strategy continues, concentrating on opportunities in Early Distribution and Mixed Freight
- Adjusted continuing PBT £48.0m down £2.4m, due to weaker performance in Mixed Freight
- Resilient trading in News offset by higher costs in Pass My Parcel
- Step change in the integration of Smiths News and Tuffnells
- Plans to deliver an initial £15m of savings over two years
- Sale of Education & Care for an enterprise value of £64.4m and net cash proceeds of £58.2m
- Books planned disposal expected in FY18
- Leverage [4] reduces to 1.2x and bank facilities renewed in October 2017 until January 2021
- Final dividend of 6.7p up 3.1%, making a full year dividend of 9.8p, up 3.2%

Mark Cashmore, Chief Executive Officer, commented:

"In what has been a challenging year, we have concurrently managed a period of tough trading while refocusing our strategy, restructuring our leadership, and disposing of the Education & Care division.

A two-year transformation programme is underway, centred on a comprehensive integration of our core businesses, extending from leadership and central services through to the network and frontline delivery.

We are now wholly focused on opportunities in Early Distribution and Mixed Freight – and we are moving at pace with a transformation programme, to deliver a combination of efficiencies, service and organic sales that will underpin growth."

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 26 October 2017 commencing at 9.30am. Connect Group PLC's Preliminary Results 2017 are available at www.connectgroupplc.com

An audio webcast will be available on:
http://vm.buchanan.uk.com/2017/connect261017/registration.htm

About Connect Group

Connect Group PLC is a UK based specialist distributor and a leading provider of distribution solutions in complex and fragmented markets. The Group's networks are focused on serving high drop density early morning deliveries, and the demands of mixed and irregular sized freight.

The Group's core businesses are each leading players in their markets:

Early Distribution

Smiths News is the UK's largest newspaper and magazine wholesaling business with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the major national and regional publishers, delivering to approximately 27,000 customers across England and Wales on a daily basis. The speed of turnaround and density of Smiths News' coverage is critical to one of the world's fastest physical supply chains.

Dawson Media Direct supplies newspapers, magazines and inflight entertainment technology and content to over 80 airlines in 50 countries. Delivering to strict time windows with security accreditation, DMD serves the specialist needs of airlines and travel points in the UK and worldwide with printed and digital media.

Pass My Parcel is a wholly owned Click & Collect service which leverages our combined networks to provide efficient solutions for online and high street retailers. Its network of parcelshops provides national consumer reach for deliveries and returns. Bespoke services for larger clients, serving their early morning and in-store requirements are a recent development in this rapidly evolving sector.

Mixed Freight

Tuffnells is a leading distributor of mixed and irregular freight, serving approximately 5,000 small and medium sized enterprises across the UK. Its network of 37 depots collects and delivers mixed parcel freight consignments, specialising in items of irregular dimension and weight ("IDW"), examples of which include bulky furnishings, building materials and automotive parts. With a mix of local and national clients, Tuffnells completes up to 70,000 daily deliveries, offering a range of timed services that are responsive to customer demand.

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 taxation; 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 2017 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.

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow to equity', 'adjusted operating profit', 'adjusted profit before tax', 'adjusted earnings per share' 'adjusted EBITDA' and 'Adjusted' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies.

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

Adjusted operating profit: is defined as operating profit including the operating profit of businesses from the date of acquisition and excludes Adjusted items and operating profit of businesses disposed of.

Adjusted profit before tax: is defined as adjusted operating profit less finance costs attributable to adjusted operating profit and before Adjusted items; including amortisation of intangibles and network and reorganisation costs.

Adjusted earnings per share: is defined as adjusted profit before tax, less taxation attributable to Adjusted profit before tax and including any adjustment for minority interest to result in adjusted profit after tax attributable to shareholders divided by the basic weighted average number of shares in issue.

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

(2) Free cash flow to equity: is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchase and cash flows relating to pension deficit repair. Free cash flow (excluding Adjusted items) is Free cash flow to equity before adjusted cash cost items.

(3) Adjusted EBITDA: is calculated as adjusted operating profit before depreciation and amortisation. In line with loan agreements Adjusted Bank EBITDA used for covenant calculations is calculated as adjusted operating profit before depreciation, amortisation, Adjusted 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.

(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. Leverage is calculated as net debt divided by EBITDA.

(5) Continuing operations excludes the sale of Education and Care sold on 30 June 2017 and Books division which was classified as held for sale as at 31 August 2017. Discontinued profit for the year is the combined results for Education and Care and Books for the period after tax.

(6) FY17 refers to the full year ended 31 August 2017, FY16 refers to the full year ended 31 August 2016.

(7) FY16 has been restated to remove discontinued operations to aid comparability with FY17.

(8) All movements are calculated to round thousands.

OPERATING REVIEW

INTRODUCTION

In what was a challenging year, the Group concurrently managed a period of tough trading while also disposing of the Education & Care division and restructuring for the future. A comprehensive transformation of our core businesses is now well underway, and we are making rapid progress in unlocking both efficiencies and opportunities for growth.

Group Adjusted profit before tax for continuing operations of £48.0m is down by 4.6% (FY16 (restated): £50.4m) and Adjusted Earnings per Share is down 4.3% to 15.5p. This reflects a resilient performance in Smiths News, offset by weaker performance at Tuffnells and increased losses in Pass My Parcel. Statutory continuing profit before tax of £34.2m is down by 2.8% (FY16 restated: £35.2m) and Statutory continuing earnings per share is down 2.7% to 11.0p (FY16 restated: 11.3p). Statutory continuing & discontinued profit after tax of £36.6m is up by 9.6% (FY16: £33.4m), and Statutory continuing & discontinued earnings per share is up 8.8% to 14.9p (FY16: 13.7p). The Statutory continuing & discontinued results are impacted by the sale of the Education & Care division in June 2017 for an enterprise value of £64.4m, and the Board's decision to sell the Books division, consequent to effecting the integration and reshaping of the Group's core businesses. FY16 has been restated to remove discontinued operations to aid comparability with FY17.

We remain committed to delivering attractive shareholder returns through a combination of a progressive dividend and capital growth. Strong free cash flow to equity of £28.7m from continuing operations (FY16 restated: £36.2m), together with the Board's confidence in the future prospects of the integrated business, supports a proposed full year dividend of 9.8p, up 3.2%. The renewal of our banking facilities in October 2017 has extended the term to January 2021 and provides further certainty for the Group's underlying financial position as we accelerate the process of business transformation.

INTEGRATION OF THE GROUP

In July 2017 we announced and launched the integration of the Group's core businesses, bringing their operational networks, sales and marketing, and central support services under a single leadership team. This followed a detailed strategic review of the Group's opportunities for growth, which we determined was best implemented after the sale of the Education & Care division.

The Group's growth strategy is now wholly focused on distribution opportunities in the Early Distribution and Mixed Freight markets. This approach will leverage our strengths as a specialist distributor, and clarifies our role and purpose for customers. In uniting the skills, infrastructure and capabilities of our network, we will operate more efficiently and strengthen our propositions to deliver organic growth.

The integration is moving at pace. A single Executive Leadership Team is now in place across the combined business, and we are committed to delivering a two-year programme of scale efficiencies amounting to £15m over two years, in parallel with an upgraded and more agile capability. The previous divisional structures have been replaced with a single functional structure with centralised support functions such as Finance, Technology, Sales and Operations and we have introduced an integrated regional management structure, with responsibilities for these senior roles encompassing Tuffnells and Smiths News depots.

As a consequence of the integration, we have announced plans for a reduction of 340 roles (equivalent to 6% of the workforce) across the combined business in FY18; employee consultation is underway and a provision of £4.0m has been made for costs associated with the change programme.

The opportunities for network and process efficiencies give confidence that the cost reductions we have delivered over the last decade can be sustained. In parallel, we plan to use the skills and capabilities of the unified national network to deliver organic growth in the Mixed Freight and Early Distribution markets.

EARLY DISTRIBUTION

News Distribution

Revenue in Smiths News was £1,383.4m (FY16: £1,443.8m) and adjusted operating profit was £40.4m (FY16: £40.0m). This performance includes the sales and costs of Pass My Parcel, amounting to a loss of £6.3m (FY16: £4.0m). Sales and profit were also impacted by the absence of a major international football championship in 2017, materially reducing the sales of sticker collections this year.

Newspaper and magazine sales have continued to perform in line with long term trends - the performance from newspapers was slightly stronger than expected, helping to offset weaker magazine sales this year. Newspaper sales of £875.6m were down 4%, with price increases mitigating volume declines. Combined sales of all magazine categories, including one-shots and partworks, were down by 10.4%.

The business again achieved £5m of efficiency savings from network restructuring and process changes, broadly offsetting the anticipated decline in sales. The capabilities of our news business, including its track record in managing costs while driving service improvement, are key strengths of the Group that will be central to our integrated operating model.

The opening of the new warehouse at Hemel Hempstead was a step change in the scale of our hub depots, with capacity to deliver supplies to 7,650 customers, equivalent to 28% of our total customer base. The Smiths News network now has 7 magazine hub locations, supported by 32 smaller 'last mile and newspaper packing' depots which operate for limited hours each day. The integration of the Smiths News and Tuffnells networks will, over time, create a host of new opportunities for efficiencies across our operation.

For the 10th year running, in independently conducted surveys, Smiths News has been ranked the best in industry for service to customers and publishers. We remain committed to improving service by constantly reviewing our processes, communication and technology; this in turn drives efficiency improvements and ensures any changes are beneficial to all stakeholders.

In what was anticipated to be a quiet year for contract renewals we secured a three year agreement with Johnson Press for the distribution of 'i' newspaper and gained a number of smaller regional titles. Over 94% of publisher revenues in the current year were generated from contracts that are secured through to at least 2019.

Media

DMD, our specialist distributor of printed and digital media to airlines and travel points responded flexibly to tougher conditions. Revenue of £28.8m (FY16: £27.6m) and Adjusted operating profit of £2.3m (FY16: £2.4m) reflected a mix of new and renewed contracts, partially offsetting reductions in order values and margins from some established customers; such minor variations in demand are normal in this marketplace.

Major contract renewals and extensions in FY17 include Eurostar for London, Paris and Brussels, Delta Airlines global contract and Qatar Airways global contract. Geographically we have successfully introduced our services in Australia and are now supplying customers at six airports. An internal restructure in the second half of the year delivered efficiency savings and repositioned management resources on those markets which offer the best prospects for growth.

On the digital side of our business we extended agreements with Virgin Trains and Eurostar and won contracts for a wide range of magazine content to new airline customers.

Click & Collect

Pass My Parcel continues to grow volume and develop new services in response to emerging opportunities and growing demand for rapid overnight and early morning delivery. Total volume for the year was 1 million outbound and returns parcels (FY16: 500k), building in the second half, such that the annual run rate, prior to the seasonal peak, in October 2017 was circa 2 million units. The loss made in supporting the business was £6.3m (FY16: £4.0m) including investment in IT to support future service propositions. We aim for volumes to increase significantly in the current financial year and losses to reduce as a result.

Overall volume growth through parcelshops was lower than expected, a consequence of weaker than predicted volumes in outbound and returns, and delays to implementing contracts that require clients to adopt and integrate supporting technology. The introduction of returns services for Amazon in February 2017 contributed to a significant increase in volume in the second half, supporting momentum for further growth as we approach the Christmas and New Year peak.

As the Click & Collect market grows, a range of models and opportunities are emerging which dovetail with the Group's capabilities. In response to growing demand for pre-10am business to business delivery we can leverage the drop density and speedy distribution of the Group's network to serve the needs of high street and online retailers. Progress this year included a direct to store delivery service for clothing retailer H&M, supporting their Click & Collect offering to customers; a successful store trial has since been expanded with a view to rolling out the service across the UK in 2018. A further small scale trial with Hovis, delivering fresh bread supplies to local retailers, has now been extended to additional areas. Our contract with UK Mail to route their returns and failed household deliveries via our parcelshop network is now scheduled to commence in 2018, following the implementation of supporting IT.

The growth of our Click & Collect propositions has taken longer than anticipated, but we are pleased with the direction of travel and see many related opportunities for the integrated Group. Customer satisfaction and feedback from clients and consumers remains excellent, and the acceleration of volume increases will substantially increase the scale and efficiency of operations. These developments reinforce our belief that there is significant opportunity to serve a wider range of customers, with a range of propositions in the Early Distribution market. The potential for organic growth will be further enhanced by the combining of the Group's network and operations, providing a seamless UK wide customer offer. Although there remains uncertainty regarding volume projections, we expect a significant reduction in losses as the business builds, and are maintaining a break even target in FY19.

MIXED FREIGHT

Tuffnells had a challenging year, with the combination of tough markets, inconsistencies of process and changes to management impacting operational performance across the business. Total revenue of £183.2m was up by 5.0% (FY16: £174.4m). However, Adjusted operating profit of £12.0m was down by 19.9% (FY16: £15.0m). Performance was also impacted by increased costs from planned investments that have delivered a slower return than anticipated.

The spring peak saw Tuffnells handling record daily volumes, but with significant spikes in demand that made the maintaining of efficiencies more difficult to achieve than usual. Inevitably, the volume increases were not uniform which led to increased variable costs and pinch points in the network, particularly in the South East, resulting in further erosion of returns.

Despite these challenges we have maintained our commitment to putting in place the people and structures that we believe are necessary to deliver longer term improvement. At acquisition in 2014, the business was decentralised with highly variable infrastructure and standards which compromised our overall capability and were not compatible with our vision for the Group. Increased costs this year included the introduction of new and standard operating procedures to improve KPIs, reviewing pay frameworks, health & safety improvements and additional resources in training, sales, marketing and leadership. In retrospect, introducing this level of change during a period of toughening markets has impacted performance in the year.

The integration will directly address these issues, spearheaded by an operational management team, primarily drawn from Smiths News, with proven skills and capability demonstrated by a track record of delivering consistent efficiency savings and service leadership. Bringing this expertise to bear across the combined operations will unlock a wealth of sustainable opportunities encompassing both cost efficiency, process compliance and service improvement.

Capital expenditure amounting to £8.4m (FY16: £5.4m) has included the upgrading of depot facilities, and a major relocation of the Sheffield operation, which opened in September 2017.

Our focus on improving health & safety and transport compliance has been relentless. Many of the lessons we have learned at Smiths News, in steadily reducing accidents over a 10 year period, are now being applied to Tuffnells. The introduction of new procedures, together with encouraging a culture of greater attention to safety concerns has led to an increased awareness of incidents. A spike in reporting is therefore to be expected and welcomed; meanwhile we are pleased with progress and remain resolute in our plans.

DISCONTINUED OPERATIONS

In June 2017, the Group completed the sale of the Education & Care division, delivering an Internal Rate of Return of 10.0% over our period of ownership. Proceeds of the sale have reduced the Group's net debt, and its completion this year was critical to creating the management bandwidth for the introduction of a fully integrated business, which we had been planning for some time.

In August 2017, the Board resolved to divest the Books division, resulting in the classification of the division as held for sale at year end. This followed a strategic review, which determined the business was no longer core to the Group's future direction. Connect Books remains a leading player in its markets with strengths and prospects that are not dependent on ownership by the Group. We are currently taking steps to find a purchaser who can provide the necessary focus and investment to take the business forward, and expect to conclude a disposal in the next twelve months. Meanwhile, we are grateful for the continued efforts and professionalism of colleagues in the business.

The combined Adjusted discontinued profit before tax contributed £2.0m over the full year compared to £10.3m adjusted profit from both divisions in FY16. A profit of £19.0m arose on the disposal of the Education & Care division on 30 June 2017. The Books division's carrying value was written down to a fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017.

GROUP STRATEGY

This year we conducted a thorough review of our strategy in the light of market developments and the opportunities for growth presented by the evolution of the Group since the acquisition of Tuffnells in December 2014.

Externally, the distribution market is experiencing opportunity and challenge as a result of changes on many fronts. These include changing consumer expectations, the growth of click & collect and home delivery alternatives, the need for more flexible and speedy solutions, a trend of SMEs supplying direct to consumers, and wider developments such as restricted access to city centres and environmental charging. In this environment we concluded there is clear opportunity for specialist distributors with the most agile and flexible customer propositions.

Within the Group, the acquisition of Tuffnells in 2014 has transformed the scale and reach of our distribution capability, creating opportunities for synergies and organic growth by collaborating more closely with Smiths News. Our other divisions, though leaders in their markets did not offer the same opportunity for synergy and growth. We have therefore taken decisive action to concentrate our activities on opportunities that will best leverage our core strength of specialist third-party distribution, linking suppliers to their customers in efficient and service oriented ways.

The focused strategy will address two market opportunities. Firstly, our expertise in high drop density, early morning distribution – every night the Smiths News network delivers to approximately 27,000 customers, a phenomenal operation that was built on the news industry, but is capable of serving other customers. Secondly, our leadership in business to business Mixed Freight – we specialise in the difficult, outsize parcels that don't fit standard hubs, but we also have strengths in the growing demand for business to consumer delivery, and for the multitude of specialist requirements from small to medium sized enterprises which form the majority of our customer base.

In line with this strategy, we are establishing an integrated business model that will transform the scope and reach of our customer propositions, bringing in new skills as required, as well as improving the efficiency of our physical operations. A two-year transformation programme encompasses cost efficiencies, network optimisation and new customer propositions for organic growth.

Central Efficiencies

The move to a single business structure will unlock efficiencies in leadership, central support services and operational structures. Systems and process will be aligned with a relentless focus on cost and service. Our experience and expertise in driving continual improvement, garnered from more than ten years of success in Smiths News, will be deployed across the network and corporate centre.

Network Optimisation

The 76 depots of Smiths News and Tuffnells serve overlapping territories, operating with similar processes and hours of business. Service and efficiency will drive progress, with changes taking full account of our capability and its match to customer needs. Ongoing review will identify where investment in new and improved facilities can unlock further efficiencies and increase our capacity for growth.

Customer Propositions and Service

The integration will create opportunities by leveraging the reach, density and time sensitivity of our combined operations. Working as one business will strengthen our capabilities in both Early Distribution and Mixed Freight. We plan to bring new and exciting propositions to market, specialising in the business to business and business to consumer markets.

BOARD CHANGES

As announced on 22 March 2017 Colin Child left the Board and Gary Kennedy (Chairman of Connect Group) assumed the role of interim Chair of the Audit Committee until a replacement was found. On 1 September 2017, Mark Whiteling joined the Board taking on the role of Chair of the Audit Committee as well as becoming a member of the Remuneration and Nominations Committees.

Mark Whiteling is currently the senior independent director of Hogg Robinson Group PLC where he also chairs its Audit Committee and is also a member of its Nominations and Remuneration Committees. He was a Non-Executive Director of Future plc until December 2014 and was also Chair of its Audit Committee and a member of its Nominations and Remuneration Committees. With effect from 1 October 2017 Mark was appointed as executive director and Chief Financial Officer of Interserve PLC.

SUMMARY AND OUTLOOK

Despite a challenging year in FY17, significant underlying progress was made in refocusing our strategy and operating structure to support future growth. We are now moving at pace, and as we integrate the Group’s core businesses we are confident of delivering the key targets that will underpin our future success. We expect a return to growth in FY18.

The Group expects to deliver solid financial returns throughout the period of transformation, maintaining strong cash flows that will allow for both investment and continued strong returns to shareholders.

FINANCIAL REVIEW

In a challenging year for trading, we have significantly reduced net debt and delivered strong free cash flow.

CONTINUING ADJUSTED RESULTS [1] [5]

GROUP

Continuing Adjusted results £m	2017	2016 Restated [7]	Change
Revenue	**1,594.3**	**1,645.8**	(3.1%)
Operating profit	**54.7**	**57.4**	(4.7%)
Net finance costs	**(6.7)**	**(7.0)**	4.3%
Profit before tax	**48.0**	**50.4**	(4.6%)
Taxation	**(9.9)**	**(10.8)**	8.0%
Tax rate	***20.8%***	***21.5%***	
Profit after tax	**38.1**	**39.6**	(3.7%)

(Note: FY16 has been restated to remove discontinued operations to aid comparability with FY17)

Continuing adjusted operating profit for the year was £54.7m, down 4.7% on the prior year (FY16 restated: £57.4m), benefitting from a solid performance from News & Media, but adversely impacted by tougher trading market conditions at Mixed Freight.

Net finance charges of £6.7m (FY16: £7.0m) were down on prior year. Included within net finance charges are: interest costs on borrowing incurred in the period of £4.4m (FY16: £4.9m), lower year-on-year as the drawn borrowing facility requirement was favourable from cash flow generation and cash proceeds from the Education & Care disposal; finance lease interest of £1.0m (FY16: £0.7m); amortisation of bank arrangement fees £0.9m (FY16: £0.7m); and pension interest costs £0.3m (FY16: £0.6m).

Adjusted profit before tax was £48.0m, down 4.6% on last year.

Taxation of £9.9m resulted in an effective tax rate of 20.8%, which was slightly lower than last year in line with the reduction in UK corporation tax rate.

STATUTORY CONTINUING & DISCONTINUED RESULTS

Statutory continuing profit before tax of £34.2m is down by 2.8% (FY16 restated: £35.2m) and Statutory continuing earnings per share is down 2.7% to 11.0p (FY16 restated:11.3p), primarily driven by network and reorganisation costs of £8.1m (FY16: £3.1m), £4m of the increase relates to a year end provision for the reduction in 340 roles as a consequence of the announced integration programme.

Statutory continuing & discontinued profit after tax of £36.6m is up by 9.6% (FY16: £33.4m), and Statutory continuing & discontinued earnings per share is up 8.8% to 14.9p (FY16:13.7p). The Statutory continuing & discontinued results are impacted by: the sale of the Education & Care division in June 2017 for an enterprise value of £64.4m and a profit of £19.0m; the Board's decision to sell the Books division with amortisation and impairment of acquired intangibles charges of £11.2m (FY16: £2.9m); and the consequence of integrating and reshaping the Group's core businesses.

EARNINGS PER SHARE

	Continuing Adjusted [1]		Continuing Statutory [7]	
	2017	2016	**2017**	2016
Earnings attributable to ordinary shareholders (£m)	**38.1**	**39.6**	**27.0**	**27.4**
Basic weighted average number of shares (millions)	**245.4**	**243.4**	**245.4**	**243.4**
Basic EPS	**15.5p**	**16.2p**	**11.0p**	**11.3p**
Diluted weighted number of shares (millions)	**247.0**	**247.2**	**247.0**	**247.2**
Diluted EPS	**15.4p**	**16.0p**	**10.9p**	**11.1p**
Dividend per share (paid & proposed)	**9.8p**	**9.5p**	**9.8p**	**9.5p**
Dividend per share (recognised)	**9.6p**	**9.3p**	**9.6p**	**9.3p**

Earnings attributable to shareholders on a continuing adjusted basis of £38.1m resulted in an adjusted EPS of 15.5p, a decrease of 4.3% on last year, driven by the more challenging trading conditions in Mixed Freight.

The fully diluted weighted number of shares was 247.0m (FY16: 247.2m). Fully diluted shares includes 1.6m shares for employee incentive schemes (FY16: 2.3m) and nil shares (FY16: 1.5m) relating to the remaining deferred consideration arising from the Tuffnells acquisition in December 2014.

Including Adjusted items; statutory continuing earnings per share is down 2.7% to 11.0p (FY16 restated: 11.3p). Statutory continuing and discontinued earnings attributable to shareholders of £36.6m (FY16: £33.4m) resulted in an EPS of 14.9p, up 8.8% on FY16, benefiting from profit on disposal of the Education and Care division.

DIVIDEND

The Board is proposing a final dividend of 6.7p, taking the full year dividend to 9.8p, an increase of 0.3p or 3.2% (FY16: 9.5p). The proposed final dividend for the year ended 31 August 2017 of 6.7p is subject to approval by shareholders at the Annual General Meeting on 23 January 2018 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 9 February 2018 to shareholders on the register at close of business on 12 January 2018.

NEWS DISTRIBUTION

Adjusted figures [1] - £m	**2017**	2016	Change
Revenue	**1,383.4**	**1,443.8**	(4.2%)
Operating profit	**40.4**	**40.0**	0.9%
Operating margin	**2.9%**	**2.8%**	

Revenue in News Distribution was £1,383.4m (FY16: £1,443.8m) down 4.2%. Newspaper and magazine sales have continued to perform in line with long term trends, with the relatively stronger performance than expected from newspapers helping to offset weaker magazine sales. Newspaper sales of £875.6m were down 4.0%, with price increases helping to offset volume declines. Combined sales of all magazine categories were down by 10.4%.

Adjusted operating profit was £40.4m (FY16: £40.0m) up 0.9%. In line with recent years the News Distribution operation achieved £5m of efficiency savings from network restructuring and process changes, broadly offsetting the anticipated decline in sales. This performance includes the sales and costs of Pass My Parcel, the net loss of which was £6.3m (FY16: £4.0m). Sales and profit were also impacted by the absence of a major international football championship in 2017, materially reducing the sales of sticker collections this year.

MIXED FREIGHT

Adjusted figures [1] - £m	**2017**	2016	Change
Revenue	**183.2**	**174.4**	5.0%
Operating profit	**12.0**	**15.0**	(19.9%)
Operating margin	**6.6%**	**8.6%**	

Tuffnells had a challenging year, achieving total revenue of £183.2m (FY16: £174.4m), up 5.0%.

Adjusted operating profit of £12.0m (FY16: £15.0m) is down 19.9%. In what was an increasingly tough market, as the year progressed, disruptive price competition for larger customers particularly in the second half of the year, impacted margins. Operationally, the move from a highly decentralised model to more standardised procedures and controls has taken longer than we anticipated, impacting on consistency of profitability across the business as has regional cost control to handle spikes in volumes. Performance was also adversely impacted by increased costs from planned investments that have delivered a slower return than anticipated.

MEDIA

Adjusted figures [1] - £m	**2017**	2016	Change
Revenue	**28.8**	**27.6**	4.4%
Operating profit	**2.3**	**2.4**	(2.9%)
Operating margin	**8.0%**	**8.6%**	

DMD is our specialist distributor of printed and digital media to airlines and travel points. Revenue of £28.8m (FY16: £27.6m) is up 4.4% reflecting a mix of new and renewed contracts partially offsetting reductions in order values from some established customers. Adjusted operating profit of £2.3m (FY16: £2.4m) is down 2.9% as a result of internal restructuring of management operations in the second half of the year.

ADJUSTED ITEMS [1]

Continuing Operations [5]

£m	**2017**	2016 restated
Network and re-organisation costs	(8.0)	(3.2)
Property	(0.6)	-
Acquisition and disposal related profits & costs	2.2	(3.2)
Amortisation of acquired intangibles	(7.3)	(7.3)
Pension credit	0.7	-
Legal provision	-	(1.5)
Settlement of interest rate swap	(0.8)	-
Total before taxation	**(13.8)**	**(15.2)**
Taxation	2.7	3.0
Total after taxation	**(11.1)**	**(12.2)**

The continuing operations profit impact of adjusted items charged in the year was £13.8m before tax (FY16: restated £15.2m).

Network and reorganisation costs of £8.0m (FY16: £3.1m) includes a balance sheet provision of £4m relating to future costs for the integration of News & Media and Mixed Freight divisions as announced in July 2017. Separately, staff rationalisation costs to drive efficiency savings in News & Media of £3.5m (FY16: £3.1m) were incurred in the period.

Property provisions of £0.9m (FY16: £nil) were charged in respect of three onerous depot leases in FY17 offsetting a release of £0.3m which related to reversionary leases.

Acquisition & disposal related credit of £2.2m (FY16: £3.2m charge) includes £0.5m incurred on external fees relating to disposal activity in the period. This was offset by a net deferred consideration release of £2.7m as Tuffnells FY17 performance fell below the earn-out performance targets.

The non-cash amortisation of intangibles from past acquisitions was £7.3m (FY16: £7.3m.) The net book value of acquired intangibles of £40.5m (excluding those held for sale) will continue to be amortised over future years.

Pension past service credit of £0.7m (FY16: £nil) relates to the Smiths News section of the W H Smiths Pension Trust and is a commutation of trivial benefits accrued to members.

Legal provision charge £nil (FY16: £1.5m) represents a provision for a HSE investigation and legal costs.

Interest costs of £0.8m (FY16: £nil) relates to the settlement of interest rate swaps, terminated as a result of a change in Treasury policy.

Discontinued operations

The statutory continuing and discontinued profit impact of Adjusted items charged in the year was £6.3m before tax (FY16: £18.8m). Adjusted discontinued operations charges are shown in note 4.

Profit on disposal of the Education & Care division was £19.0m on completion of the sale on the 30 June 2017.

Reorganisation/other costs of £0.3m (FY16: £1.2m) relates to legal and restructuring costs incurred in the Books division.

Pension past service credit of £nil (FY16: £1.1m). The pension credit from last year relates to the Trustees decision to cease payment of discretionary increases on pre-1997 pension rights within the Consortium Care scheme which resulted in past service credit.

Amortisation and impairment of acquired intangibles £11.2m (FY16: £2.9m) includes impairments of £9.9m which result in a fair value less costs to sell of £15.0m for the Books division.

The total cash impact of Adjusted items was £49.7m. Cash receipts on the disposal of Education & Care were £58.2m. The key components of Adjusted cash costs were the deferred consideration in relation to Tuffnells of £1.1m paid in December 2016, network reorganisation and other restructuring costs.

CONTINUING FREE CASH FLOW [(2)]

Free cash flow generation remains one of the Group's key strengths. We have changed the alternative performance measure on free cash flow to better reflect the cash generation available to pay dividends. Free cash flow [(2)] now includes finance leases, Adjusted items, interest and tax; it excludes pension deficit recovery payments.

£m	**2017**	2016 Restated[(7)]
Adjusted operating profit	**54.7**	**57.4**
Depreciation & amortisation	11.7	10.3
Adjusted EBITDA	**66.4**	**67.7**
Working capital movements	0.4	3.8
Capital expenditure	(13.8)	(10.7)
Finance lease payments	(4.2)	(3.5)
Net interest and fees	(4.4)	(4.9)
Taxation	(9.1)	(7.6)
Other	0.3	0.3
Free cash flow (excluding adjusted items)	**35.6**	**45.1**
Adjusted items	(6.9)	(8.9)
Free cash flow to equity	**28.7**	**36.2**

We have focused on a strong cash performance in the period, with the Group generating £28.7m in free cash flow, a decrease of £7.5m (20.7%) on the prior year.

Adjusted EBITDA of £66.4m compared to (FY16: £67.7m), is down by 1.9%, although the increase in capital expenditure since acquiring Tuffnells in December 2014 is now resulting in higher depreciation and amortisation charges of £11.7m (FY16: £10.3m).

The increase in working capital in the period was £0.4m (FY16: increase £3.8m) driven largely by timing of weekly receipt and payment cycles at year end.

Capital expenditure in the year was £13.8m (FY16: £10.7m) an increase of £3.1m, of which new and existing depot and network investments represented £5.9m, technology and equipment investment of £5.2m.

Cash tax costs have increased in the year reflecting the full impact of moving Tuffnells to a quarterly payment profile and the prior year including a one-off £0.9m refund of overpaid tax.

Net interest and fees of £4.4m (FY16: £4.9m) is down on the prior year as the drawn down bank facility requirement was lower following the cash receipt from the disposal of Education & Care in June 2017.

The total net cash impact of Adjusted items was £6.9m (FY16: £8.9m). This comprised £1.1m (FY16: £5.1m) deferred consideration payments relating to Tuffnells, with the remainder being network reorganisation, other restructuring costs and professional fees relating to the disposal of Books.

Therefore, prior to pension deficit recovery payments and disposal proceeds, cash flow available for dividends, acquisitions or repayment of debt was £28.7m.

NET DEBT

£m	2017	2016 Restated[7]
Opening net debt	**(141.7)**	**(153.4)**
Free cash flow to equity	**28.7**	**36.2**
Finance lease creditor movement	**2.2**	**(1.3)**
Pension deficit recovery	**(4.8)**	**(4.8)**
Dividend paid	**(23.6)**	**(22.7)**
Disposal proceeds	**58.2**	**-**
Discontinued operations cash flow	**(1.1)**	**4.3**
Closing net debt	**(82.1)**	**(141.7)**

Net debt closed the period at £82.1m, of which £8.5m (FY16: £10.7m) relates to finance leases.

Net debt improved on the prior year and our Net debt/EBITDA ratio of 1.2x, (down from FY16 1.7x) improved year on year as a result of disposal proceeds from the sale of Education & Care, and free cash flow generation from trading, even after Adjusted items. This has enabled a £59.6m reduction in net debt while delivering £23.6m (FY16: £22.7m) in dividend payments.

Pension funding remained consistent at £4.8m (FY16: £4.8m). Pension deficit repair payments are considered as a non-free cash flow item.

We were comfortably within our bank facilities of £230m and our covenant ratios at year end. We made two loan amortisation payments of £10m each in the year reducing our existing facility from £250m. Our previous bank facility ran to November 2018. Following the disposal of Education & Care we agreed in October 2017 a new bank facility commitment of £175m with six relationship banks which runs from October 2017 to January 2021. The new facility comprises of a term loan of £50m with no amortisation and an RCF for £125m on a higher interest margin, but similar covenant terms to the previous facility.

PENSION

The Group operates two defined benefit schemes, both closed to new entrants and WH Smith Pension Trust closed to future accrual.

The Smiths News section of the WH Smith pension trust has assets of £609.9m and had an actuarial deficit of £17.5m as at 31 March 2015. As at 31 August 2017 the IAS19 surplus of £149.3m (FY16: £151.3m) was not recognised in the accounts as the amount available on a reduction of future contributions is £nil.

The Group recognises the present value of the agreed schedule of future contributions as a pension liability of £8.7m on the balance sheet (FY16: £10.3m).

The Tuffnells defined benefit scheme has assets of £10.2m and an actuarial deficit of £4.3m as at 1 April 2016. As at 31 August 2016 the IAS19 deficit was £2.8m.

The total cash contribution of defined benefit schemes and expenses in the cash flow statement for FY17 was £5.2m (FY16: £5.3m).

The assets and liabilities of the 'Consortium CARE' and 'Platinum' defined benefit schemes were disposed of as part of the sale of the Education & Care division.

DISCONTINUED OPERATIONS

In June 2017 the Group completed the sale of the Education & Care division and in August 2017 the Board agreed to divest the Books division resulting in the classification of the division as held for sale based on an expectation that the business will be sold in the next twelve months.

The Books division's carrying value was written down to a fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017. The carrying value less costs to sell of the Books division represents an estimate based on a range of factors and scenarios.

The Education & Care division was sold in June 2017 for an enterprise value of £64.4m and net cash proceeds of £58.2m. A profit of £19.0m arose on the disposal of the Education and Care division delivering an Internal Rate of Return of 10.0% over our period of ownership.

The combined discontinued operations contributed £2.0m operating profit before tax during the year for the period they remained part of the Group (FY16: £10.3m).

GOING CONCERN

The Group meets its day-to-day working capital requirements through its new bank facilities of £175m, agreed in October 2017, with a term to January 2021. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities.

Considering the principal risks discussed in this report, the directors have a reasonable expectation that the Group has adequate resources to continue in operation and meet its liabilities as they fall due for both the foreseeable future and for the period of the three year viability assessment. Thus, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

PRINCIPAL RISKS

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

Principal risks previously reported have been reviewed in detail and they have been refined and made more specific. Compared to the principal risks reported in the Annual Report 2016 the risk relating to Non-Adherence to Transport Operator Licence Conditions is new, and the risk relating to a breach of airside security within the Media business has been removed as it is no longer considered material enough to be considered a principal risk. This risk is still subject to ongoing monitoring and appropriate mitigation.

The table below details each principal business risk, those aspects that would be impacted were the risk to materialise, our assessment of the current status of the risk and how it is mitigated.

Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
Health & Safety - The risk of failing to provide employees with appropriate training and a safe environment results in serious injury to employees and/or the public. Combined with the risk that the Group fails to comply with relevant Health and Safety legislation.	**No Change**	The impact of a Health and Safety failure negatively impacts operations, profitability and/or corporate reputation, together with the risk of possible enforcement action.	Safety is a key priority of the Group. Health and Safety performance is reviewed at Board Meetings, Audit Committee, and Executive Meetings and at business unit level. Dedicated Health and Safety teams exist throughout the business, executing improvement programs and promoting a safety culture. Significant continued investment in Health and Safety improvements were made during FY17 and further planned targeted investment in FY18.
Non-Adherence to Transport Operator Licence Conditions - The risk of failing to adhere to external laws and regulations by employees, sub-contractors and third parties resulting in a breach of our Transport Operator Licence conditions.	**New**	The impact of poor adherence to Operator licence conditions results in sanctions which may curtail our ability to operate and/or increase operating costs.	The Group maintains a comprehensive governance framework. Dedicated Transport Compliance teams exist specifically focused on transport related compliance. Improvement programs exist to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Applicable legislation is diligently tracked and monitored and any changes reflected in policies and controls within required timeframes.
Changing Consumer Behaviour – The risk of new technologies and demographics drive change in customer behaviour and/or supply chain dynamics that result in structural market changes being deeper and quicker than predicted, including migration from print to digital, reducing demand for our services.	**No Change**	Sales decline in newspapers and magazines are worse than expected (forecasted expectation of a -3% to -5% range) and there may be a ‘tipping point’ where some titles cease to publish rather than slowly decline. The Books market is impacted resulting in lower profit and negative market sentiment related to printed media.	Historic price increases in newspapers and magazines have consistently offset a large part of the impact of falling volumes. Major publishers continue to commit to print distribution, given the superior advertising revenue from print over digital (lack of intermediaries) and the slow take up of digital paid subscriptions. Management continues to identify efficiencies to compensate for market declines. Tuffnells is a significant financial contributor toward the overall results, mitigating market declines for newspapers, magazines and books. The strategy, including “Early” delivery propositions (including Pass My Parcel), seeks to further protect the organisation from over exposure to individual market risks.
Optimising Contract Renewals and Tendering - The risk of failing to retain major contracts at acceptable rates and /or win new contracts in competitive markets affected by aggressive pricing strategies impacts current and projected business performance.	**No Change**	Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In Smith News, publishers typically award five year contracts supporting the market structure. Tuffnells and Books operate in fragmented markets with fewer key suppliers or customers. Strong relationships across the supply chain help the business to understand and demonstrate its strengths for the benefit of its suppliers and customers.

Increased Labour Costs - The risk of legislative changes or interpretation impact the engagement of employees and delivery contractors resulting in an increase in the number of employees and/or liabilities and cost.	**No Change**	In the event of any legal claim as to worker status by consultants, sub-contractors or agency workers the business could be liable for increased costs (national insurance contributions) and liabilities (such as employee rights). The inability to pass on such statutory increases to our customers could impact profitability, and affect the cost of future efficiency programmes.	The Group regularly reviews its legal terms of engagement with contractors and has appropriate contractual and operational arrangements in place. Self-employed delivery contractors have clearly articulated agreements defining tasks they are contracted to provide whether personally or by a substitute. Increasing employment cost associated with National Living Wage/Apprentices Levy/ Auto Enrolment has been factored into latest budgets. Future impact of Brexit on employment risks are unknown at the date of this report and therefore no change. Legal developments are monitored to ensure that the business maintains compliance with legislation and best practice.
Network and IT Robustness - The risk of Network and IT disruptions in key infrastructure facilities leads to an inability to deliver according to customer expectations and contractual obligations.	**No change**	Any material failure resulting from systems outages, process failures, location access or employee/contractor disputes may lead to an adverse impact on operations, financial performance and reputational impact.	Disaster recovery and business continuity plans exist and are reviewed periodically. Investment is made to provide disaster recovery capability for all essential systems. Protections are in place to defend IT systems against cyber attacks.
Failure to execute strategy - The risk of failing to deliver business plans and/or financial returns in line with the planned strategic evolution of the Group, impacts external confidence and shareholder perception, bringing into question the future strategic direction and confidence in its delivery.	**No change**	Sales and/or profit expected from acquisitions / organic growth may not be met and/or the Company's reputation and support for future acquisitions are challenged. Cultural change required for diversification / restructuring may result in reduced performance and financial returns.	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made. Performance to plans is reviewed monthly with post investment analysis undertaken. Detailed integration process, governance and support framework ensures effective and timely adoption of standards and process into acquisitions and restructuring activity.
Constraints on capacity and/or failure to execute restructuring and other change management programmes – The risk of failing to re-engineer the business to create a platform for future growth combined with excessive demands on new and existing resources and capability results in loss of customers or key people impacting both current and future business prospects.	**No change**	The impact of the inability of warehousing / operational / IT and support systems to meet growth expectations creates poor customer experience, increased investment costs and reduced profitability. Management's focus on current business operations and performance is distracted by organisational change and new initiatives. Management leave the business taking valuable skills and knowledge with them.	The annual business and strategic planning process ensures appropriate investment is budgeted to ensure growth targets are achieved. Organisational and cultural change is a key imperative, leading to investment in resources and skills that are required to deliver the successful integration and development of new businesses and business critical initiatives, including investment in expert skills in change management and project management.
Deterioration of the Macro Economic Environment - The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with Brexit, impacts current and/or projected business performance above that included in the business planning and review process.	**No change**	Reductions in discretionary spending may impact sales of newspapers, magazines or books and/or see a reduction in parcel volumes. Uncertainty from Brexit may affect the business in both the short and medium term on trade arrangements, future capital investment strategies and resourcing costs.	Annual budgets and quarterly forecasts take into account potential macro market and competitive impacts when setting expectations internally and externally, allowing for or changing objectives to meet short and medium term financial targets.

DIRECTORS' RESPONSIBILITIES STATEMENT

The responsibility statement has been prepared in connection to the Company's full Annual Report for the year ended 31 August 2017. Certain parts of the Annual Report are not included in this announcement, as described in note 1.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Operating Review and Financial Review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the board of directors on 26 October 2017 and is signed on its behalf by:

Mark Cashmore Chief Executive Officer	David Bauernfeind Chief Financial Officer

Group Income Statement for the year ended 31 August 2017 – unaudited

£m		2017			2016 restated		
	Note	Adjusted*	Adjusted items	**Total**	Adjusted*	Adjusted items	**Total**
Revenue	2	1,594.3	-	**1,594.3**	1,645.8	-	**1,645.8**
Operating profit	2,3	**54.7**	**(13.0)**	**41.7**	**57.4**	**(15.2)**	**42.2**
Finance costs	6	(6.7)	(0.8)	(7.5)	(7.0)	-	**(7.0)**
Profit before tax		**48.0**	**(13.8)**	**34.2**	**50.4**	**(15.2)**	**35.2**
Income tax expense	7	(9.9)	2.7	**(7.2)**	(10.8)	3.0	**(7.8)**
Profit for the year from continuing operations		**38.1**	**(11.1)**	**27.0**	**39.6**	**(12.2)**	**27.4**
Discontinued operations							
Profit for the year from discontinued operations		**1.0**	**8.6**	**9.6**	**8.7**	**(2.7)**	**6.0**
Profit attributable to equity shareholders continuing and discontinued operations		**39.1**	**(2.5)**	**36.6**	**48.3**	**(14.9)**	**33.4**

Earnings per share from continuing operations							
Basic	9	15.5		11.0	16.2		11.3
Diluted	9	15.4		10.9	16.0		11.1
Equity dividends per share (paid and proposed)	8			9.8p			9.5p

Adjusted items are set out in note 4.

Connect Group PLC
Group Statement of Comprehensive Income for the year ended 31 August 2017 – unaudited

£m Continuing	Note	2017	2016 restated
Items that will not be reclassified to the Group Income Statement			
Actuarial (loss)/gain on defined benefit pension scheme	5	(8.1)	3.6
Impact of IFRIC 14 on defined benefit pension scheme	5	6.8	(6.5)
Tax relating to components of other comprehensive income that will not be reclassified	7	0.3	0.1
		(1.0)	**(2.8)**
Items that may be subsequently reclassified to the Group Income Statement			
Gain/ (loss) on cash flow hedges		0.6	(1.2)
Termination of interest rate swap		0.8	-
Currency translation differences		-	0.3
Tax relating to components of other comprehensive income that may be reclassified	7	(0.2)	0.2
		1.2	**(0.7)**
Other comprehensive loss for the year - continuing		**0.2**	**(3.5)**
Profit for the year - continuing		**27.0**	**27.4**
Total comprehensive income for the year - continuing		**27.2**	**23.9**
Other comprehensive loss for the year - discontinued		**(0.1)**	**(4.2)**
Profit for the year - discontinued		**9.6**	**6.0**
Total comprehensive income for the year - discontinued		**9.5**	**1.8**
Total comprehensive income for the year		**36.7**	**25.7**

Connect Group PLC
Group Balance Sheet at 31 August 2017 – unaudited

£m	Note	2017	2016
Non-current assets			
Intangible assets	12	106.5	164.8
Property, plant and equipment		41.3	50.3
Interest in jointly controlled entities		4.6	4.1
Retirement benefit assets	5	-	0.3
Deferred tax assets		5.4	7.7
		157.8	**227.2**
Current assets			
Inventories		13.8	42.3
Trade and other receivables		98.3	139.2
Derivative financial instruments		-	0.1
Cash and cash equivalents	13	5.5	9.1
Assets classified as held for sale	10	64.5	**-**
		182.1	**190.7**
Total assets		**339.9**	**417.9**
Current liabilities			
Trade and other payables		(136.2)	(198.8)
Current tax liabilities		(5.3)	(6.9)
Bank loans and other borrowings	13	(20.0)	(61.0)
Obligations under finance leases	14	(3.1)	(3.0)
Retirement benefit obligations	5	(4.1)	(4.1)
Provisions	15	(9.0)	(8.5)
Liabilities classified as held for sale	10	(49.5)	-
		(227.2)	**(282.3)**
Non-current liabilities			
Retirement benefit obligations	5	(7.4)	(17.4)
Bank loans and other borrowings	13	(60.0)	(79.1)
Obligations under finance leases	14	(5.4)	(7.7)
Derivative financial instruments		-	(1.5)
Other non-current liabilities		(1.0)	(1.1)
Deferred tax liabilities		(7.2)	(10.9)
Non-current provisions	15	(6.6)	(4.9)
		(87.6)	**(122.6)**
Total liabilities		**(314.8)**	**(404.9)**
Total net assets		**25.1**	**13.0**

Connect Group PLC
Group Balance Sheet at 31 August 2017 (continued) – unaudited

£m	**Note**	**2017**	**2016**
Equity			
Called up share capital	18(a)	12.4	12.3
Share premium account	18(c)	60.5	59.2
Demerger reserve	19(a)	(280.1)	(280.1)
Own shares reserve	19(b)	(3.1)	(3.5)
Hedging & translation reserve	19(c)	0.5	(1.1)
Retained earnings	20	234.9	226.2
Total shareholders' equity		**25.1**	**13.0**

The accounts were approved by the Board of Directors and authorised for issue on 26 October 2017 and were signed on its behalf by:

Registered number - 05195191

Mark Cashmore
Chief Executive Officer

David Bauernfeind
Chief Financial Officer

Connect Group PLC
Group Statement of Changes in Equity for the year ended 31 August 2017 – unaudited

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging & translation reserve	Retained earnings	Total
Balance at 31 August 2015		**12.2**	**55.2**	**(280.1)**	**(4.1)**	**(0.5)**	**226.5**	**9.2**
Profit for the year		-	-	-	-	-	33.4	**33.4**
Loss on cash flow hedges		-	-	-	-	(1.2)	-	**(1.2)**
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	(2.0)	**(2.0)**
Impact of IFRIC 14 on defined benefit pension scheme		-	-	-	-	-	(6.5)	**(6.5)**
Currency translation differences		-	-	-	-	0.6	-	**0.6**
Tax relating to components of other comprehensive income		-	-	-	-	-	1.4	**1.4**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(0.6)**	**26.3**	**25.7**
Issue of share capital	18	0.1	4.0	-	-	-	-	**4.1**
Purchase of own shares		-	-	-	(1.1)	-	-	**(1.1)**
Dividends paid	8	-	-	-	-	-	(22.7)	**(22.7)**
Employee share schemes		-	-	-	1.7	-	(1.7)	**-**
Recognition of share based payments net of tax		-	-	-	-	-	(2.2)	**(2.2)**
Balance at 31 August 2016		**12.3**	**59.2**	**(280.1)**	**(3.5)**	**(1.1)**	**226.2**	**13.0**
Profit for the year		-	-	-	-	-	36.6	**36.6**
Termination of cash flow hedge		-	-	-	-	0.8	-	**0.8**
Gain on cash flow hedges		-	-	-	-	0.6	-	**0.6**
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	(8.1)	**(8.1)**
Impact of IFRIC 14 on defined benefit pension scheme		-	-	-	-	-	6.8	**6.8**
Currency translation differences		-	-	-	-	0.2	-	**0.2**
Tax relating to components of other comprehensive income		-	-	-	-	-	(0.2)	**(0.2)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**1.6**	**35.1**	**36.7**
Issue of share capital	18	0.1	1.3	-	-	-	-	**1.4**
Purchase of own shares		-	-	-	(0.5)	-	-	**(0.5)**
Dividends paid	8	-	-	-	-	-	(23.6)	**(23.6)**
Employee share schemes		-	-	-	0.9	-	(0.9)	**-**
Recognition of share based payments net of tax		-	-	-	-	-	(1.9)	**(1.9)**
Balance at 31 August 2017		**12.4**	**60.5**	**(280.1)**	**(3.1)**	**0.5**	**234.9**	**25.1**

Connect Group PLC
Group Cash Flow Statement for the year ended 31 August 2017 – unaudited

£m	Note	2017	2016
Net cash inflow from operating activities	17	**51.2**	**58.2**
Investing activities			
Dividends received from associates		0.2	0.7
Purchase of property, plant and equipment		(13.7)	(9.1)
Purchase of intangible assets		(5.1)	(4.8)
Proceeds on sale of property, plant and equipment		1.3	-
Proceeds on sale of subsidiary (net of disposal costs)		56.8	-
Net cash used in investing activities		**39.5**	**(13.2)**
Financing activities			
Interest paid		(5.2)	(4.9)
Dividend paid	20	(23.6)	(22.7)
Repayments of obligations under finance leases		(4.2)	(3.5)
Proceeds on issue of shares		0.7	0.4
Net outflow on purchase of shares for Employee Benefit Trust		(0.5)	(1.1)
Decrease in borrowings		(61.0)	(15.5)
Net cash used in financing activities		**(93.8)**	**(47.3)**
Net decrease in cash and cash equivalents		**(3.1)**	**(2.3)**
Effect of foreign exchange rate changes		0.4	0.5
		(2.7)	**(1.8)**
Opening net cash and cash equivalents		9.1	10.9
Closing net cash and cash equivalents	**13**	**6.4**	**9.1**

During the year cash inflow from operating activities attributed to discontinued operations amounted to £3.8m (2016: £13.1m) and paid £3.7m (2016: £3.2m) in respect of investing activities. There were no cashflows associated with financing activities attributable to discontinued operations.

Analysis of net debt

£m	Note	2017	2016
Cash and cash equivalents	13	6.4	9.1
Current borrowings	13	(20.0)	(61.0)
Non-current borrowings	13	(60.0)	(79.1)
Net borrowings		**(73.6)**	**(131.0)**
Finance lease liabilities		(8.5)	(10.7)
Net debt		**(82.1)**	**(141.7)**

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1. Basis of preparation

The Results are based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS.

There have been no significant changes in accounting policies from those set out in the accounting policies section of the Connect Group PLC Annual Report and Accounts 2017. The accounting policies have been applied consistently throughout the years ended 31 August 2017 and 31 August 2016.

The Education & Care and Books divisions have been reclassified as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and the consolidated financial statements and affected notes for the year ended 31 August 2016 have been restated to reflect this.

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

- Investment Entities: - Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28 – effective for accounting periods beginning on or after 1 January 2016.
- IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' – effective for accounting.
- periods beginning on or after 1 January 2016.
- Annual Improvements 2012-2014 Cycle – effective 1 January 2016.
- Amendments to IAS 1 – effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 27 'Equity Method in Separate Financial Statements' – applicable for accounting periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' – applicable for accounting periods beginning on or after 1 January 2016.

The financial information for the year ended 31 August 2017 does not constitute statutory accounts for the purposes of section 435 of the Companies Act 2006. A copy of the accounts for the year ended 31 August 2016 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under section 498(2) or 498(3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 August 2017 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

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 2017 at www.connectgroupplc.com.

These results were approved by the Board of Directors on 26 October 2017.

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.

The continuing operating segments are:

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

As explained in note 10, Connect Books, a leading UK distributor of physical and digital books is held for sale. The division has been presented as a discontinued operation and has been included below where necessary for the purpose of reconciliation. As detailed in note 11, the Connect Education & Care division was sold on 30 June 2017 and the results for the period to this date is also presented within Discontinued operations.

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

	Revenue	
£m	**2017**	2016
News & Media: News Distribution	**1,383.4**	1,443.8
News & Media: Media	**28.8**	27.6
Mixed Freight	**183.2**	174.4
Intra group revenue	**(1.1)**	-
Continuing operations	**1,594.3**	1,645.8
Discontinued operations	**270.3**	260.7
Total continuing and discontinued operations	**1,864.6**	1,906.5

Intra group revenue relates to services provided by the Mixed Freight division to News Distribution in respect of "Pass My Parcel".

2. Segmental analysis (continued)

	2017			2016		
£m	**Adjusted operating profit**	**Adjusted items**	**Statutory operating profit**	**Adjusted operating profit**	**Adjusted items**	**Statutory operating profit**
News & Media: News Distribution	**40.4**	**(4.3)**	**36.1**	40.0	(5.9)	34.1
News & Media: Media	**2.3**	**(1.0)**	**1.3**	2.4	(0.4)	2.0
Mixed Freight	**12.0**	**(7.7)**	**4.3**	15.0	(8.9)	6.1
Continuing operations	**54.7**	**(13.0)**	**41.7**	57.4	(15.2)	42.2
Discontinued operations*	2.0	7.5	9.5	10.3	(3.6)	6.7
Total continuing and discontinued operations	**56.7**	**(5.5)**	**51.2**	67.7	(18.8)	48.9
Net finance expense	**(6.7)**	(0.8)	**(7.5)**	(7.0)	-	(7.0)
Profit before taxation	**50.0**	(6.3)	**43.7**	60.7	(18.8)	41.9

*Discontinued operations in the table above are pre-tax measures. Presentation in the Group income statement for discontinued operations are post tax measures.

Information about major customers

Included in revenues arising from News & Media are revenues of approximately £147.5m (2016: £156.8m) which arose from sales to the Group's largest customer. No other single customer contributed 5% or more of the Group's revenue in either 2017 (2016: 8%)

Segment assets and liabilities

	Assets		Liabilities		Net assets/(liabilities)	
£m	**2017**	2016	**2017**	2016	**2017**	2016
News & Media: News	**85.4**	89.4	**(220.8)**	(280.4)	**(135.4)**	(191.0)
News & Media: Media	**23.0**	20.5	**(8.2)**	(7.6)	**14.8**	12.9
Mixed Freight	**167.0**	175.9	**(36.3)**	(49.0)	**130.7**	126.9
Discontinued operations	**64.5**	132.1	**(49.5)**	(67.9)	**15.0**	64.2
Consolidated assets/(liabilities)	**339.9**	417.9	**(314.8)**	(404.9)	**25.1**	13.0

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2. Segmental analysis (continued)

Segment depreciation, amortisation and non-current asset additions

	Depreciation		Amortisation and impairment		Additions to non-current assets	
£m	**2017**	2016	**2017**	2016	**2017**	2016
News & Media: News	**(4.2)**	(4.5)	**(3.0)**	(2.3)	**6.8**	5.2
News & Media: Media	**(0.2)**	(0.1)	**(0.3)**	(0.4)	**0.2**	0.3
Mixed Freight	**(4.1)**	(3.3)	**(7.1)**	(7.1)	**6.7**	11.1
Continuing operations	**(8.5)**	(7.9)	**(10.4)**	(9.8)	**13.7**	16.6
Discontinued operations	**(0.8)**	(1.0)	**(12.7)**	(4.9)	**3.4**	2.7
Consolidated total	**(9.3)**	(8.9)	**(23.1)**	(14.7)	**17.1**	19.3

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

Geographical analysis

£m	Revenue by destination		Non-current assets by location of operation	
	2017	2016	**2017**	2016
United Kingdom	**1,579.6**	1,630.9	**152.4**	218.9
Europe	**9.6**	10.1	**-**	-
Rest of World	**5.1**	4.8	**-**	-
Continuing operations	**1,594.3**	1,645.8	**152.4**	218.9
Discontinued operations	**270.3**	260.7	**-**	0.3
Total Continuing and discontinued operations	**1,864.6**	1,906.5	**152.4**	219.2

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

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3. Operating profit

The Group's results are analysed as follows:

£m		2017			2016 restated		
Continuing operations	Note	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue		**1,594.3**	**-**	**1,594.3**	1,645.8	-	1,645.8
Cost of inventories recognised as an expense		**(1,283.8)**	**-**	**(1,283.8)**	(1,335.7)	-	(1,335.7)
Other cost of sales		**(124.8)**	**-**	**(124.8)**	(118.2)	-	(118.2)
Cost of sales		**(1,408.6)**	**-**	**(1,408.6)**	(1,453.9)	-	(1,453.9)
Gross profit		**185.7**	**-**	**185.7**	191.9	-	191.9
Distribution costs		**(76.9)**	**-**	**(76.9)**	(82.8)	-	(82.8)
Administrative expenses		**(50.5)**	**(8.2)**	**(58.7)**	(47.9)	(7.9)	(55.8)
Share-based payment expense		**(0.9)**	**2.5**	**1.6**	(1.7)	-	(1.7)
Amortisation of intangibles	12	**(3.1)**	**(7.3)**	**(10.4)**	(2.4)	(7.3)	(9.7)
Administrative expenses		**(54.5)**	**(13.0)**	**(67.5)**	(52.0)	(15.2)	(67.2)
Share of profits from jointly controlled entities		**0.4**	**-**	**0.4**	0.3	-	0.3
Operating profit		**54.7**	**(13.0)**	**41.7**	57.4	(15.2)	42.2

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

£m	Note	2017			2016 restated		
		Continuing	**Discontinued**	**Total**	Continuing	Discontinued	Total
Depreciation on property, plant & equipment		**8.5**	**0.8**	**9.3**	7.9	1.0	8.9
Amortisation of intangible assets	12	**10.4**	**12.7**	**23.1**	9.7	5.0	14.7
Operating lease charges							
• occupied land and buildings		**9.6**	**1.4**	**11.0**	9.7	1.3	11.0
• equipment and vehicles		**16.9**	**0.6**	**17.5**	18.6	0.8	19.4
Operating lease rental income – land and buildings		**(0.1)**	**(0.2)**	**(0.3)**	(0.2)	(0.2)	(0.4)
Write down of inventories recognised as an expense		**-**	**(1.6)**	**(1.6)**	-	-	-
Gain/ (loss) on disposal of non current assets		**0.4**	**(0.8)**	(0.4)	-	-	-
Staff costs		**128.4**	**23.7**	152.1	129.4	24.3	153.7

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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	**2017**	**2016**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.2
Total audit fees	**0.4**	0.4
Other services	**-**	-
Total non-audit fees	**-**	-
Total fees (continuing and discontinued)	**0.4**	0.4

Connect Group PLC
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4. Adjusted items

£m		2017	2016 restated
Continuing operations			
Network and re-organisation costs	**(a)**	**(8.0)**	(3.2)
Property	**(b)**	**(0.6)**	-
Acquisition and disposal costs	**(c)**	**2.2**	(3.2)
Amortisation of acquired intangibles	**(d)**	**(7.3)**	(7.3)
Pension	**(e)**	**0.7**	-
Legal provision	**(f)**	**-**	(1.5)
Settlement of interest rate swap	**(g)**	**(0.8)**	-
Total before tax		**(13.8)**	(15.2)
Taxation		**2.7**	3.0
Total after taxation		**(11.1)**	(12.2)
Discontinued operations			
Profit on disposal of subsidiary	**(h)**	**19.0**	-
Acquisition and disposal costs (deferred consideration)	**(i)**	**-**	(0.7)
Re-organisation/ other costs	**(j)**	**(0.3)**	(1.1)
Pension	**(k)**	**-**	1.1
Amortisation and impairment of acquired intangibles	**(d)**	**(11.2)**	(2.9)
Total before tax		**7.5**	(3.6)
Taxation		**1.1**	0.9
Total after taxation		**8.6**	(2.7)
Continuing and discontinued operations			
Total before tax		**(6.3)**	(18.8)
Taxation		**3.8**	3.9
Total after taxation		**(2.5)**	(14.9)

The Group incurred a total of £11.1m of adjusted items on a continuing basis after tax (2016: £12.2m).

This comprises:

(a) Network and re-organisation costs
£2.0m related to network rationalisation costs incurred in the Smiths News network to drive cost savings. £0.6m related to the restructuring of the News joint venture FMD Limited (whose principal trading subsidiary is Worldwide Magazine Distribution Limited) with part of the magazine operation being absorbed into the main News business. There are a further £4m costs relating to redundancies announced in August arising from the decision to integrate the News & Media and Mixed Freight divisions. £0.5m was incurred in rationalising overseas operations in Media and the remaining amount related to redundancy costs within Smiths News and Tuffnells.

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4. Adjusted items (continued)

(b) Property
Provisions of £0.9m (FY2016: £nil) were charged on three onerous depot leases in FY2017 offsetting a release of £0.3m in respect of reversionary leases. The onerous lease charges are considered to be part of the Group's strategic restructuring initiative and are therefore treated as an adjusted item.

(c) Acquisition and disposal costs
Acquisition costs include the release of deferred consideration for Tuffnells of £2.7m comprising equity based amounts and amounts provided for cash rewards which were offset by £0.5m fees relating to disposal activity in the year.

(d) Amortisation and impairment of acquired intangibles
Amortisation of acquired intangibles relates to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. Discontinued operations includes impairments of £9.9m which result in a fair value less costs to sell of £15.0m.

(e) Pension credit
The £0.7m pension credit relates to a trivial commutation of benefits to members in the WH Smith Pension Trust.

(f) Legal provision – potential health and safety offences
Potential fine and legal costs arising from the outcome of the HSE investigation into the fatality at Tuffnells' Brierley Hill depot in January 2016. See note 15 for further details.

(g) Settlement of interest rate swap
The Group took a strategic decision to no longer hedge interest rates. The cost relates to the settlement of the swap instruments. The settlement followed a change in Treasury policy. The cost is classified as an adjusted item because it is of significant value and is not expected to be recurrent in nature.

(h) Profit on disposal of subsidiary
Profit on the sale of the Education & Care division on 30 June 2017 (see note 11 for details).

(i) Acquisition and disposal costs (deferred consideration)
Deferred consideration charged in relation to the Group's acquisition of the remaining 49% of Wordery in 2015.

(j) Re-organisation / other costs
Re-organisation/ other costs of £0.3m relates to legal and restructuring costs incurred in the Books division during the year. In the prior year £1.2m related to the re-organisation of the Books international divisions and operations in the Education & Care division.

(k) Pension
Impact of the Trustees decision to cease payment of discretionary increases on pre 97 pension rights within the Consortium Care scheme which resulted in a past service credit.

Whilst costs associated with network reorganisation recur across financial years, they are considered adjusted items given they are part of a strategic programme and are significant in value to the results of the Group. Other reorganisation costs are considered to be adjusted items as they are also related to strategic initiatives, are of significant value and not considered to be a normal operating cost of the business. The Pension credits described above are not considered to be part of normal operations and are therefore considered to be an adjusted item. Deferred consideration charges and credits in respect of previous acquisitions and costs relating to disposal activity are considered to be adjusted items as they do not form part of normal operating costs/ credits of the business.

5. Retirement benefit obligation

Defined benefit pension schemes

The Group operates two defined benefit schemes, the WH Smith Pension Trust (the 'Pension Trust) and the Tuffnells Parcels Express Pension Scheme. The assets and liabilities of the 'Consortium CARE' and 'Platinum' defined benefit schemes were disposed as part of the sale of the Education & Care division (see note 11).

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

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

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Tuffnells Parcels Express	**2017**	WH Smith Pension Trust	Consortium CARE	Platinum	Tuffnells Parcels Express	**2016**
Present value of defined benefit obligation	(460.6)	(13.0)	(473.6)	(490.2)	(24.0)	(1.6)	(15.7)	(531.5)
Fair value of assets	609.9	10.2	620.1	641.5	15.8	1.9	12.7	671.9
Net surplus/ (loss)	**149.3**	**(2.8)**	**146.5**	**151.3**	**(8.2)**	**0.3**	**(3.0)**	**140.4**
Amounts not recognised due to asset limit	(149.3)	-	(149.3)	(151.3)	-	-	-	(151.3)
	-	**(2.8)**	**(2.8)**	**-**	**(8.2)**	**0.3**	**(3.0)**	**(10.9)**
Additional liability recognised due to minimum funding requirements	(8.7)	-	(8.7)	(10.3)	-	-	-	(10.3)
Pension liability	**(8.7)**	**(2.8)**	**(11.5)**	**(10.3)**	**(8.2)**	**-**	**(3.0)**	**(21.5)**
Pension asset	**-**	**-**	**-**	**-**	**-**	**0.3**	**-**	**0.3**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £149.3m at 31 August 2017 (2016: £151.3m 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 (2016: £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.

5. Retirement benefit obligation (continued)

WH Smith Pension Trust

The actuarial valuation of the Smiths News section of the WH Smith Pension Trust, at 31 March 2015 was a deficit of £17.5m.

Future cash contributions by the Group to the pension trustees total £3.8m per annum through to March 2018. Thereafter contributions of £3.8m per annum have been agreed until the period ended March 2020. The Group recognises the present value of these agreed contributions as a pension liability of £8.7m (2016: £10.3m).

Other defined benefit schemes

The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was an agreed liability of £4.3m. Guaranteed Minimum Pension ("GMP") equalisation is expected to lead to an increase in scheme liabilities at some future date on the Tuffnells Parcels Express scheme. Deficit recovery contributions to the scheme have been agreed at £0.3m per annum.

The weighted average duration of the schemes is 17 years for the Pension Trust and 25 years for the Tuffnells Parcels Express scheme.

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

% p.a.	**2017**	2016
Discount rate	2.3	2.0
Inflation assumptions – CPI	2.3	2.0
Inflation assumptions – RPI	3.3	3.0

Demographic assumptions for WH Smith pension trust:	**2017**		2016	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.5	23.3	21.5	23.5
Member currently aged 45	22.5	24.5	22.8	25.0

Demographic assumptions for Tuffnells Parcels Express scheme:	**2017**		2016	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	22.3	24.1	21.9	24.2
Member currently aged 45	23.3	25.3	23.2	25.7

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5. Retirement benefit obligation (continued)

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2015	**563.3**	**(432.0)**	**(149.4)**	**(18.1)**
Current service cost	-	(0.3)	-	(0.3)
Net interest cost	20.9	(15.8)	(5.7)	(0.6)
Administration expenses	(0.1)	-	-	(0.1)
Past service credits	-	1.1		1.1
Total amount recognised in income statement	**20.8**	**(15.0)**	**(5.7)**	**0.1**
Actual less expected return on scheme assets	115.4	-	-	115.4
Actuarial gains arising from experience	-	7.5	-	7.5
Actuarial loss arising from changes in financial assumptions	-	(128.3)	-	(128.3)
Actuarial gains arising from changes in demographic assumptions	-	3.4	-	3.4
Change in surplus not recognised	-	-	(6.5)	(6.5)
Amount recognised in other comprehensive income	**115.4**	**(117.4)**	**(6.5)**	**(8.5)**
Employer contributions	5.3	-	-	5.3
Employee contributions	0.1	(0.1)	-	-
Benefit payments	(33.0)	33.0	-	-
Amounts included in cash flow statement	**(27.6)**	**32.9**	**-**	**5.3**
At 31 August 2016	**671.9**	**(531.5)**	**(161.6)**	**(21.2)**
Current service cost	-	(0.3)	-	(0.3)
Net interest cost	13.2	(10.3)	(3.2)	(0.3)
Administration expenses	(0.2)	-	-	(0.2)
Past service credits	(3.4)	4.1	-	0.7
Total amount recognised in income statement	**9.6**	**(6.5)**	**(3.2)**	**(0.1)**
Actual less expected return on scheme assets	(21.8)	-	-	(21.8)
Actuarial gains arising from experience	-	4.5	-	4.5
Actuarial gains arising from changes in financial assumptions	-	4.7	-	4.7
Actuarial gains arising from changes in demographic assumptions	-	4.5	-	4.5
Change in surplus not recognised	-	-	6.8	6.8
Amount recognised in other comprehensive income	**(21.8)**	**13.7**	**6.8**	**(1.3)**
Employer contributions	5.2	-	-	5.2
Employee contributions	-	-	-	-
Benefit payments	(27.2)	27.2	-	-
Amounts included in cash flow statement	**(22.0)**	**27.2**	**-**	**5.2**
Disposal	**(17.6)**	**23.5**	**-**	**5.9**
At 31 August 2017	**620.1**	**(473.6)**	**(158.0)**	**(11.5)**
Included within Current liabilities				**(4.1)**
Included within Non-current liabilities				**(7.4)**

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5. Retirement benefit obligation (continued)

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

The actual return on scheme assets during 2017 was a loss of £12.2m (2016: a gain of £136.2m) due to a decrease in the value of bonds held to match pension scheme liabilities.

The value of the assets held by the trust in Connect Group PLC issued financial instruments is £nil (2016: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	+/- 0.5%	-£37.5m/ +£40.5m
Rate of inflation	+/- 0.5%	+£38m/-£35m
Life expectancy	+/- 1 year	+£16.5m/-£16.5m

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

The history of experience adjustments is as follows:

£m	2017	2016	2015	2014	2013
Present value of defined benefit obligation	(473.6)	(531.5)	(432.0)	(450.7)	(419.2)
Fair value of assets	620.1	671.9	563.3	522.7	469.6
Impact of IFRIC 14 on defined benefit pension schemes	(158.0)	(161.6)	(149.4)	(93.0)	(73.5)
Net deficit in the schemes	**(11.5)**	**(21.2)**	**(18.1)**	**(21.0)**	**(23.1)**
Experience adjustments on scheme liabilities	13.7	(117.4)	25.1	0.8	(1.4)
Experience adjustments on scheme assets	(21.8)	115.4	28.7	44.6	27.9

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £30.5m (2016: a loss of £29.2m).

5. Retirement benefit obligation (continued)

The group's defined benefit pension plans have a number of areas of risk, the most significant of which are set out below:

- Life expectancy

The majority of the plans' obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

- Inflation risk

The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities.

- Changes in bond yields

Falling bond yields tend to increase the funding and accounting liabilities. The schemes both hold investments in corporate and government bonds which offer a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2017, contributions from the respective employing company for continuing operations totalled £1.2m (2016: £2.0m) 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.

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6. Finance costs

£m	Note	2017	2016
Continuing operations			
Interest on bank overdrafts and loans		(5.4)	(5.5)
Net interest expense on defined benefit obligation	5	(0.3)	(0.6)
Interest payable on finance leases		(1.0)	(0.7)
Foreign exchange gains		0.2	-
Unwinding of discount on provisions – trading	15	(0.2)	(0.2)
Adjusted items:			
Settlement of interest rate swap	4	(0.8)	-
Finance costs – continuing operations		**(7.5)**	**(7.0)**
Finance costs – continuing and discontinued operations		**(7.5)**	**(7.0)**

7. Income tax expense

£m			2017			2016
Continuing operations	Adjusted	Adjusted items	**Total**	Adjusted	Adjusted items	Total
Current tax	10.0	(0.6)	9.4	11.2	(0.8)	10.4
Adjustment in respect of prior year	(0.8)	0.1	(0.7)	(0.3)	(0.1)	(0.4)
Total current tax charge	**9.2**	**(0.5)**	**8.7**	**10.9**	**(0.9)**	**10.0**
Deferred tax – current year	0.1	(2.0)	(1.9)	(0.4)	(1.5)	(1.9)
Deferred tax – prior year	0.5	-	0.5	-	-	-
Deferred tax – impact of rate change	0.1	(0.2)	(0.1)	0.3	(0.6)	(0.3)
Total tax charge – continuing operations	**9.9**	**(2.7)**	**7.2**	**10.8**	**(3.0)**	**7.8**
Effective tax rate	*20.8%*		*21.1%*	*21.5%*		*22.2%*
Tax charge – discontinued operations	1.0	(1.1)	(0.1)	1.6	(0.9)	0.7
Tax charge – continuing and discontinued operations	**10.9**	**(3.8)**	**7.1**	**12.4**	**(3.9)**	**8.5**

The effective adjusted income tax rate for continuing operations the year was 20.8% (2016: 21.5%). After the impact of Adjusted items of £2.7m (2016: £3.0m), the effective statutory income tax rate for continuing operations was 21.1% (2016: 22.2%).

Corporation tax is calculated at the main rates of UK corporation tax, those being 19.6% (2016: 20.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Of the charge to current tax, approximately £1.0m (2016: £1.1m) related to tax on profits arising in the Education & Care division, which was disposed of during the year. No tax charge or credit arose on the disposal of the relevant subsidiary.

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

£m	2017	2016
Profit before tax – continuing operations	**34.2**	**35.2**
Tax on profit at the standard rate of UK corporation tax 19.6% (2016: 20.0%)	6.7	7.1
Expenses not deductible for tax purposes	0.8	1.3
Non taxable income	(0.6)	-
Share based payments	0.5	-
Adjustment in respect of prior years	(0.2)	(0.4)
Impact of change in UK tax rate	(0.1)	(0.3)
Impact of higher overseas tax rates	0.1	0.1
Tax charge – continuing operations	**7.2**	**7.8**

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7. Income tax expense (continued)

Tax charges to other comprehensive income and directly in equity

£m **Continuing operations**	**2017**	2016
Current tax relating to the defined benefit pension scheme	(0.8)	(0.8)
Current tax relating to share based payments	-	(0.1)
Deferred tax relating to derivative financial instruments	0.2	(0.2)
Deferred tax relating to share based payments	0.2	0.4
Deferred tax relating to retirement benefit obligations	0.3	0.4
Tax (credit) to other comprehensive income and directly in equity – continuing operations	**(0.1)**	**(0.3)**
Tax charge/ (credit) to other comprehensive income and directly in equity – discontinued operations	**0.3**	**(1.1)**
Tax charge/ (credit) to other comprehensive income and directly in equity – continuing and discontinued operations	**0.2**	**(1.4)**

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8. Dividends

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

Paid & proposed dividends for the year	**2017**	2016	**2017**	2016
	Per share	Per share	**£m**	£m
Interim dividend – paid	**3.1p**	3.0p	**7.6**	7.3
Final dividend – proposed	**6.7p**	6.5p	**16.4**	15.9
	9.8p	9.5p	**24.0**	23.2
Recognised dividends for the year				
Final dividend – prior year	**6.5p**	6.3p	**16.0**	15.4
Interim dividend – current year	**3.1p**	3.0p	**7.6**	7.3
	9.6p	9.3p	**23.6**	22.7

The proposed final dividend for the year ended 31 August 2017 of 6.7p is subject to approval by shareholders at the Annual General Meeting on 23 January 2018 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 9 February 2018 to shareholders on the register at close of business on 12 January 2018.

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9. Earnings per share

	2017			2016		
	£m		Pence	£m		Pence
	Earnings	Weighted average number of shares million	per share	Earnings	Weighted average number of shares million	per share
Weighted average number of shares in issue		**247.5**			245.9	
Shares held by the ESOP (weighted)		(2.1)			(2.5)	
Basic earnings per share (EPS)						
Continuing operations						
Adjusted earnings attributable to ordinary shareholders	**38.1**	**245.4**	**15.5p**	39.6	243.4	16.2p
Adjusted items	**(11.1)**			(12.2)		
Earnings attributable to ordinary shareholders	**27.0**	**245.4**	**11.0p**	27.4	243.4	11.3p
Total – Continuing and discontinued operations						
Adjusted earnings attributable to ordinary shareholders	**39.1**	**245.4**	**15.9p**	48.3	243.4	19.8p
Adjusted items	**(2.5)**			(14.9)		
Earnings attributable to ordinary shareholders	**36.6**	**245.4**	**14.9p**	33.4	243.4	13.7p
Diluted earnings per share (EPS)						
Effect of dilutive share options		1.6			3.8	
Continuing operations						
Diluted adjusted EPS	**38.1**	**247.0**	**15.4p**	39.6	247.2	16.0p
Diluted EPS	**27.0**	**247.0**	**10.9p**	27.4	247.2	11.1p
Total – Continuing and discontinued operations						
Diluted adjusted EPS	**39.1**	**247.0**	**15.8p**	48.3	247.2	19.5p
Diluted EPS	**36.6**	**247.0**	**14.8p**	33.4	247.2	13.5p

Dilutive shares increase the basic number of shares at 31 August 2017 by 1.6m to 247.0m (31 August 2016: 247.2m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 1.6m dilutive shares (31 August 2016: 2.3m). In 2016 there was a dilutive impact of a weighted 1.5m shares being the time apportioned share capital relating to the deferred consideration for the acquisition of The Big Green Parcel Holding Company Limited (whose principal trading subsidiary is Tuffnells Parcels Express Limited).

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10 Discontinued Operations

On 30 June 2017 the Education & Care division was sold (refer to note 11 for detail). The results of this division are therefore disclosed as discontinued. The Books division was classified as held for sale on 31 August 2017 as the Group is actively marketing the division for sale and disposal is expected to be completed within a year. As such the results of the Books division are also classified as discontinued.

The results of discontinued operations, which have been included within the consolidated income statement are as follows:

£m	12 months to Aug 2017			12 months to Aug 2016		
	Adjusted	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue	**270.3**	**-**	**270.3**	260.7	-	260.7
Expenses	**(268.3)**	**7.5**	**(260.8)**	(250.4)	(3.6)	(254.0)
Operating profit	**2.0**	**7.5**	**9.5**	10.3	(3.6)	6.7
Finance costs	**-**	**-**	**-**	-	-	-
Profit before tax	**2.0**	**7.5**	**9.5**	10.3	(3.6)	6.7
Income tax expense	(1.0)	1.1	**0.1**	(1.6)	0.9	(0.7)
Profit from discontinued operations	**1.0**	**8.6**	**9.6**	8.7	(2.7)	6.0

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

£m	**2017**
Goodwill	9.7
Intangible assets	3.0
Property, plant and equipment	4.0
Inventories	20.3
Trade and other receivables	26.1
Current tax asset	0.5
Cash and bank balances	0.9
Total assets classified as held for sale	**64.5**
Trade and other payables	(48.5)
Deferred tax liabilities	(0.4)
Provisions	(0.6)
Total liabilities classified as held for sale	**(49.5)**
Net assets of disposal group	**15.0**

Impairment of £7.9m was charged in respect of goodwill bringing the carrying value of the division to fair value less cost to sell.

During the year cash inflow from operating activities attributed to discontinued operations amounted to £3.8m (2016: £13.1m), paid £3.7m (2016: £3.2m) in respect of investing activities. There were no cashflows associated with financing activities attributable to discontinued operations.

11 Disposal of subsidiary

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

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

	£m
Goodwill	20.9
Intangible assets	6.3
Property, plant and equipment	6.0
Pension asset	0.2
Inventories	8.6
Trade and other receivables	11.0
Cash and bank balances	0.5
Deferred tax asset	1.1
Trade and other payables	(9.6)
Deferred tax liabilities	(0.7)
Pension liability	(6.1)
	38.2
Disposal costs	1.8
Gain on disposal	19.0
Total consideration	59.0
Satisfied by:	
Cash	58.7
Cash received after 31 August 2017	0.3
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	58.7
Less: cash and cash equivalents disposed	(0.5)
	58.2

The gain on disposal is included in the profit for the year from discontinued operations.

There were no disposals during the year ended 31 August 2016.

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12. 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 2016	96.3	48.8	33.5	1.5	11.2	16.2	207.5
Additions	-	-	-	-	2.1	3.0	5.1
Disposals	-	-	-	-	(2.8)	(0.6)	(3.4)
Disposal of business	(20.9)	(9.3)	(0.9)	(0.2)	(0.9)	(4.3)	(36.5)
Classified as held for sale	(17.6)	(10.2)	(1.9)	(0.5)	(3.2)	(2.8)	(36.2)
At 31 August 2017	**57.8**	**29.3**	**30.7**	**0.8**	**6.4**	**11.5**	**136.5**
Accumulated amortisation:							
At 1 September 2016	-	(20.0)	(7.5)	(1.1)	(7.2)	(6.9)	(42.7)
Amortisation charge	-	(5.1)	(3.2)	(0.3)	(1.4)	(3.2)	(13.2)
Disposal		-	-	-	2.6	0.4	3.0
Disposal of business		5.6	0.5	0.2	0.4	2.6	9.3
Impairment	(7.9)	(2.0)	-	-	-	-	(9.9)
Classified as held for sale	7.9	10.2	1.9	0.5	1.7	1.3	23.5
At 31 August 2017	**-**	**(11.3)**	**(8.3)**	**(0.7)**	**(3.9)**	**(5.8)**	**(30.0)**
Net book value at 31 August 2017	**57.8**	**18.0**	**22.4**	**0.1**	**2.5**	**5.7**	**106.5**
Cost:							
At 1 September 2015	**96.3**	**48.8**	**33.5**	**1.5**	**9.1**	**13.8**	**203.0**
Additions	-	-	-	-	2.1	2.6	4.7
Disposals	-	-	-	-	-	(0.2)	(0.2)
At 31 August 2016	**96.3**	**48.8**	**33.5**	**1.5**	**11.2**	**16.2**	**207.5**
Accumulated amortisation:							
At 1 September 2015	-	(13.6)	(4.0)	(0.8)	(5.4)	(4.4)	(28.2)
Amortisation charge	-	(6.4)	(3.5)	(0.3)	(1.8)	(2.7)	(14.7)
Disposal	-	-	-	-	-	0.2	0.2
At 31 August 2016	**-**	**(20.0)**	**(7.5)**	**(1.1)**	**(7.2)**	**(6.9)**	**(42.7)**
Net book value at 31 August 2016	**96.3**	**28.8**	**26.0**	**0.4**	**4.0**	**9.3**	**164.8**

The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £0.6m (2016: £0.4m).

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12. Intangible assets (continued)

Goodwill and Intangibles by CGU

As detailed in note 11, goodwill and intangibles attributable to the Education & Care CGU were disposed during the year.

An impairment against goodwill and intangibles attributable to the Books division was charged during the year bringing the carrying value to the fair value less costs to sell. The resulting goodwill and intangibles values were transferred to assets held for sale.

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 5 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The rate used to discount the forecast cash flows range from 12% to 15%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit. Pre-tax discount rates are derived from the Group's post-tax WACC of 8% risk adjusted by 2%. The calculation of value in use is sensitive to the discount rate and growth rates used.

The Group has conducted sensitivity analysis on the impairment test of each of the CGU's classified within continuing operations. There is significant headroom on the carrying value of each CGU except for the Parcels CGU. The Parcels CGU has headroom on its carrying value of £12.6m prior to any sensitivities. A reasonably possible increase in the risk adjusted post tax WACC by 0.7% or a reduction in operating profits by 5.5% would cause the carrying value to equal the recoverable amount.

	Goodwill			**Acquired Intangibles**			**Total**		
£m	**2017**	**2016**	**On acquisition**	**2017**	**2016**	**On acquisition**	**2017**	**2016**	**On acquisition**
Media	5.7	5.7	5.7	0.5	0.8	2.6	6.2	6.5	8.3
News	-	-	-	0.1	0.1	0.3	0.1	0.1	0.3
Mixed Freight	52.1	52.1	52.1	39.9	46.7	58.1	92.0	98.8	110.2
	57.8	57.8	57.8	40.5	47.6	61.0	98.3	105.4	118.8

The individual material intangible assets relate to the customer relationships and brand acquired on the acquisition of Tuffnells. The carrying value of these assets at 31 August 2017 is £17.3m and £22.4m respectively with a remaining amortisation period of 5 and 7.5 years respectively.

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13. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2017	2016
Cash and cash equivalents - continuing	2.7	2.2	0.4	0.2	5.5	
Cash and cash equivalents – classified as held for sale	(2.0)	2.4	0.4	0.1	0.9	
Cash and cash equivalents - total	0.7	4.6	0.8	0.3	6.4	9.1
Term loan – disclosed within current liabilities	(20.0)				(20.0)	(20.0)
Term loan – disclosed within non-current liabilities	(60.0)				(60.0)	(79.1)
Revolving credit facility					-	(41.0)
Total borrowings	(80.0)				(80.0)	(140.1)
Net borrowings	**(79.3)**	**4.6**	**0.8**	**0.3**	**(73.6)**	**(131.0)**
Total borrowings						
Amount due for settlement within 12 months	(20.0)				(20.0)	(61.0)
Amount due for settlement after 12 months	(60.0)				(60.0)	(79.1)
	(80.0)				**(80.0)**	**(140.1)**

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

At 31 August 2017, the Group had £150.0m (2016: £109.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Interest payable under the facility in place at 31 August 2017 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. In October 2017, the Group agreed a new bank facility of £175m.

14. Obligations under finance leases

£m	2017		2016	
	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	3.8	3.1	3.8	3.0
In the second to fifth years inclusive	6.0	5.4	8.8	7.7
Total	**9.8**	**8.5**	**12.6**	**10.7**
Less: future finance charges	(1.3)		(1.9)	-
Present value of lease obligations	**8.5**	**8.5**	**10.7**	**10.7**
Less: amount due for settlement within 12 months (shown under current liabilities)		(3.1)		(3.0)
Amount due for settlement after 12 months		**5.4**		**7.7**

Group policy is to acquire certain items of its fixtures, equipment and software under finance leases. The average lease term is 4 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.

15. Provisions

£m	Reorganisation provisions	Insurance and legal provision	Deferred contingent consideration	Property provisions	Total
At 1 September 2016	(0.6)	(4.3)	(2.0)	(6.5)	(13.4)
Additions	(4.7)	(2.3)	-	(1.9)	(8.9)
Release	-	1.7	0.1	0.4	2.2
Utilised in period	0.7	1.3	1.1	1.0	4.1
Unwinding of discount utilisation	-	-	-	(0.2)	(0.2)
Transferred as held for sale	0.1	-	-	0.5	0.6
At 31 August 2017	(4.5)	(3.6)	(0.8)	(6.7)	(15.6)

£m	2017	2016
Included within current liabilities	(9.0)	(8.5)
Included within non-current liabilities	(6.6)	(4.9)
Total	(15.6)	(13.4)

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

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims. In January 2016, an employee in the Tuffnells business was fatally injured in an accident at our Brierley Hill depot. Since the accident we have been assisting the Health & Safety Executive ("HSE") in its investigation and gave evidence at a Coroner's inquest held in September 2016. The HSE recently notified the Group's legal advisers that it intends to charge Tuffnells Parcels Express Limited with an offence under section 2(1) of the Health and Safety at Work etc Act 1974 and the business now awaits the letter of summons. A provision of £1.5m (£1.5m August 2016) is held in respect of a potential fine and associated legal costs.

The property provision represents the estimated future cost of the Group's onerous leases on non-trading properties and for potential dilapidation costs across the Group. These provisions have been discounted at a risk adjusted rate and this discount will be unwound over the life of the leases. The provisions cover the period to 2031 however a significant portion of the potential liability falls within five years.

Deferred contingent consideration relates to amounts provided in relation to the acquisition of the remaining 49% share of Wordery on 27 August 2015, the cost being contingent upon achievement of profit targets and the future employment of the former owners of the business.

16. Operating lease commitments

The group as lessee:

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

Continuing	**2017**			**2016**		
£m	Land & buildings	Equipment & vehicles	**Total**	Land & buildings	Equipment & vehicles	**Total**
Within one year	9.4	12.5	21.9	9.6	13.7	23.3
In the second to fifth years inclusive	25.2	23.3	48.5	25.4	23.1	48.5
In more than five years	18.8	0.5	19.3	16.9	-	16.9
	53.4	**36.3**	**89.7**	**51.9**	**36.8**	**88.7**

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

The group as lessor:

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

£m	**2017**	**2016**
Within one year	0.2	0.3
In the second to fifth years inclusive	0.3	0.2
	0.5	**0.5**

Property rental income earned during the year was £0.3m (2016: £0.3m).

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17. Net cash inflow from operating activities

£m	Note	2017	2016
Operating profit - continuing		41.7	42.2
Operating profit - discontinued		9.5	6.7
Operating profit - total		51.2	48.9
Losses on disposal of assets		0.4	-
Share of profits of jointly controlled entities		(0.4)	(0.3)
Gain on disposal of subsidiary	11	(19.0)	-
Adjustment for pension funding		(5.2)	(5.3)
Depreciation of property, plant and equipment		9.3	8.9
Amortisation and impairment of intangible assets		23.1	14.7
Impairment of loan to joint venture		0.6	-
Share based payments		(1.2)	1.6
(Increase) in inventories		(2.0)	(0.3)
Decrease in receivables		2.7	9.7
(Decrease) in payables		(1.8)	(7.2)
Increase/ (Decrease) in provisions		4.7	(3.4)
Non cash pension costs		(0.3)	(0.6)
Income tax paid		(10.9)	(8.5)
Net cash inflow from operating activities		**51.2**	**58.2**

Net cashflow from operating activities is stated after the following adjusted items:			
Payment of deferred consideration		(1.1)	(5.1)
Re-organisation & restructuring costs		(4.7)	(5.7)
Fees relating to disposal activity		(0.5)	
		(6.3)	(10.8)

18. Share Capital

(a) Share capital

£m	2017	2016
Issued and fully paid:		
At 1 September	12.3	12.2
Shares issued during the year	0.1	0.1
247.7m ordinary shares of 5p each (2016: 246.7m)	12.4	12.3

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2016	246.7
Shares issued during the year	1.0
At 31 August 2017	247.7

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

During the year to 31 August 2017, 946,334 ordinary 5p shares were issued. 394,007 were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells). The remainder were issued to satisfy share scheme exercises.

During the year to 31 August 2016, 2,606,751 ordinary 5p shares were issued. 2,164,181 ordinary shares were issued in relation to the satisfaction of deferred consideration to the former owners of The Big Green Parcel Holding Company Limited (Tuffnells). The remainder were issued to satisfy share scheme exercises.

(c) Share premium

£m	2017	2016
Balance at 1 September	59.2	55.2
Premium arising on issue of equity shares	1.3	4.0
Balance at 31 August	**60.5**	**59.2**

19. Reserves

(a) Demerger reserve

£m	2017	2016
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) Own shares reserve

£m	2017	2016
Balance at 1 September	(3.5)	(4.1)
Acquired in the period	(0.5)	(1.1)
Disposed of on exercise of options	0.9	1.7
Balance at 31 August	**(3.1)**	**(3.5)**

The reserve represents the cost of shares in Connect Group PLC purchased in the market and held by the Smiths News Employee Benefit Trust to satisfy awards and options granted under the Group's Executive Share Schemes. The number of ordinary shares held by the Trust as at 31 August 2017 was 2,241,459 (2016: 2,313,644).

(c) Hedging & translation reserve

£m	2017	2016
Balance at 1 September	(1.1)	(0.5)
Settlement on termination	0.8	-
Net movement in cash flow hedges	0.6	(1.2)
Exchange differences on translating net assets of foreign operations	0.2	0.6
Balance at 31 August	**0.5**	**(1.1)**

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

Connect Group PLC
Notes to the accounts

20. Retained Earnings

	£m
Balance at 31 August 2015	**226.5**
Amounts recognised in Total comprehensive income	26.3
Dividends paid	(22.7)
Employee share schemes	(1.7)
Equity-settled share based payments, net of tax	(2.2)
Balance at 31 August 2016	**226.2**
Amounts recognised in Total comprehensive income	35.1
Dividends paid	(23.6)
Employee share schemes	(0.9)
Equity-settled share based payments, net of tax	(1.9)
Balance at 31 August 2017	**234.9**

21. Post balance sheet events

In October 2017 the Group agreed new bank facilities of £175m with six relationship banks with a term which runs until January 2021. The new facility comprises of a term loan of £50m with no amortisation and an RCF for £125m on a higher interest margin than the previous facility but with similar covenant terms to the previous facility.