Unaudited Interim Results 6 mths ended 28 Feb 18

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Connect Group PLC

("Connect Group" or "the Group")

Unaudited Interim Results for the six months ended 28 February 2018

A challenging first half, with significant reduction in net debt

Connect Group, a leading specialist distributor, is today announcing its Interim Results for the six months ended 28 February 2018.

Continuing Adjusted results(1)	**Six months to 28 Feb 2018**	Restated(7) Six months to 28 Feb 2017	Change
Revenue	**£766.5m**	£793.3m	-3.4%
Operating profit	**£18.0m**	£25.0m	-28.0%
Profit before tax	**£15.1m**	£21.7m	-30.3%
Basic earnings per share	**5.0p**	7.0p	-28.6%
Statutory continuing results			
Revenue	**£766.5m**	£793.3m	-3.4%
Operating profit	**£12.4m**	£19.8m	-37.4%
Profit before tax	**£9.5m**	£16.5m	-42.4%
Basic earnings per share	**3.1p**	5.4p	-42.6%
Interim dividend per share	**3.1p**	3.1p	0%
Free cash flow (including Adjusted items)(2)	**£10.0m**	£1.7m	495.1%
Net debt(5)	**£83.6m**	£149.9m	44.2%

Headlines:

- Resilience of Smiths News underpinning Group performance
- Challenging period for Tuffnells on revenue and costs with profit further impacted by operational inefficiencies
- Click & Collect proposition being re-engineered
- Net debt of £83.6m, down £66.3m year on year
- Interim dividend held at 3.1p

Mark Cashmore, Chief Executive Officer, commented:

"In a period of challenging trading, our profit was impacted by a combination of cost and margin pressures compounded by the extent of change across the Group. The priorities for the second half are clear with action underway to improve the performance of Tuffnells and re-engineer our Click & Collect proposition."

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow', 'Adjusted revenue', 'Adjusted operating profit', 'Adjusted profit before tax', 'Adjusted earnings per share' 'Adjusted EBITDA' and 'Adjusted items' 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:

Continuing 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 in the prior year or treated as held for sale.

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

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

Adjusted items; are items of income or expense that are considered significant, in nature or value, and are excluded in arriving at Adjusted operating profit. The purpose of excluding these items from adjusted measures is to provide additional performance metrics to users of the financial statements that exclude the impact of the items the directors consider to have a significant impact on reported results and do not relate to the underlying trading activity of the Group. The specific items vary between financial years, and may include certain Acquisition related costs, legal provisions, amortisation of intangibles, integration costs, business restructuring costs and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in note 4 of the financial statements to provide further understanding of the financial performance of the Group. A reconciliation of adjusted profit to statutory profit is presented on the income statement

(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 purchases and cash flows relating to pension deficit repair. Free cash flow (excluding Adjusted items) is Free cash flow to equity adding back Adjusted cash costs.

(3) Operating cash flow is defined as operating profit adding back non-cash items amortisation, depreciation, share based payments, share of profits of jointly controlled entities, and non cash pension costs, adjusting the increase/ decrease in working capital then deducting pension contributions and tax payments in accordance with presentation in Note 11.

(4) 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.

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

(6) HY2018 - refers to the half year ended 28 February 2018 and FY2018 refers to the full year ended 31 August 2018. HY2017 refers to the half year ended 28 February 2017 and FY2017 refers to the full year ended 31 August 2017.

(7) The Interim Results have been prepared and presented on a continuing operations basis after adjusting for the discontinued operations of the Education & Care and Books divisions. The prior year period has been restated accordingly.

(8) External revenue excludes intercompany sales, see Note 3: Segmental Analysis of Results for reconciliation.

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 1 May 2018 commencing at 9.30am. Connect Group PLC's Interim Results 2018 are available at www.connectgroupplc.com

An audio webcast will be available on:
http://vm.buchanan.uk.com/2018/connect010518/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

The Group's Early Distribution portfolio comprises Smiths News, Pass My Parcel and Dawson Media Direct.

Smiths News is the UK's largest newspaper and magazine wholesaling business with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the 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.

Tuffnells

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 items, 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 taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document. Unless otherwise required by applicable law, regulation or accounting standard, Connect Group PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Connect Group PLC. For more detailed information, please see the Interim Results announcement for the half-year ended 28 February 2018 and the Report and Accounts for the 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.

INTERIM MANAGEMENT REPORT

OPERATING REVIEW

INTRODUCTION

In a challenging first half of the year the Group's profit has been impacted by a weaker performance from Tuffnells, and the volume growth in Pass My

Parcel not delivering the expected improvement to operating losses. As a consequence, profit expectations for the full year were revised in the trading update, issued on 22 January 2018.

The underlying financial position of the Group remains strong with Continuing Adjusted free cash flow to equity in the period of £10.0m, and net debt reducing to £83.6m from £149.9m last year.

The sale of the Books division, completed in February 2018, is a strategic milestone, removing considerable distraction and further improving the ongoing cash position of the Group.

Performance headlines from the ongoing operations include:

- Smiths News - a resilient performance with sales in line with established trends;
- DMD - good profit growth driven by cost efficiencies;
- Pass My Parcel - growing volume but performance impacted by margin and customer mix. In light of continuing losses, the Click & Collect proposition is being re-engineered; and
- Tuffnells - a challenging period for revenue and costs, with performance further impacted by service shortfalls.

The Group continues to make progress with its transformation programme. We remain confident of achieving our cost saving target of £15m over two years. However, as a consequence of operational challenges in HY2018, the benefit is now expected to be weighted towards FY2019.

The Group's operating priorities for the second half are firmly focused on delivering an improvement to the performance of Tuffnells and the re-engineering of our Click & Collect proposition to minimise losses and deliver sustainable improvements to profitability.

Early Distribution

Total revenue for Early Distribution (comprising Smiths News, Pass My Parcel and DMD) was £679.2m, a decrease of 3.9% on the prior period (HY2017: £706.7m). Adjusted operating profit was £18.2m compared to £20.7m in the prior period.

Smiths News

Sales of newspaper and magazines were down by 4.2% reflecting the established trends in printed media and in line with management expectations. Adjusted operating profit was £20.4m excluding losses incurred by Pass My Parcel compared to £22.0m in HY2017. Revenue and margin in FY2018 is expected to benefit from a boost in sales of sticker collections and publications related to the FIFA World Cup.

Operational challenges at the new Hemel Hempstead Hub resulted in one off operational costs of circa £0.6m this period - these issues have now been resolved. Service levels elsewhere have remained strong, underpinning the ongoing cost reduction across the network and giving confidence in the achievement of our targeted £5m annualised savings, which this year will now be second half weighted. Expected integration savings, particularly from headcount reduction, have been delayed as a result of the wider business challenges.

Looking ahead, the ongoing resilience of the Smiths News business, together with the relative predictability of its markets is a key strength of the Group. The business remains the clear market leader and is well positioned for the forthcoming contract renewals with publishers.

DMD

Sales to airlines and travel points were £13.4m, down 4.9% year on year, impacted by the usual mix of contract wins and losses. Adjusted operating profit of £1.3m was up 23.0% compared to £1.1m in HY2017 and benefiting from lower operating costs. The international travel media market is less predictable than core UK newspapers and magazines, but costs remain well controlled and we expect the business to maintain its solid contribution to the Group.

Pass My Parcel

Revenue of £3.4m was up by 250% on HY2017. This reflects a significant growth in volumes that were up 389% year on year, driven by the take up of the Amazon returns service through local parcel shops.

Despite the increase in volume, Adjusted net losses in the period were £3.5m and it is clear that the growth of returns parcels alone cannot provide a sustainable platform in the absence of significant new customers and a material improvement in the margin mix. We therefore confirmed in the trading update in January 2018 that full year losses are now expected to be similar to last year.

While service KPIs have remained strong and the capability of our network has been demonstrated in coping with the rapidly increasing returns volumes, this has come at a significant cost. In the light of the expected future losses, we have concluded that the proposition cannot continue in its current form, and consequentially we have written down the £2.0m of associated assets on the balance sheet to £nil.

The re-engineering of our role in the Click & Collect market is focusing on how we can best leverage our proven last mile capability without incurring unsustainable fixed and variable costs. We will provide further clarity on our progress in the July 2018 trading update.

Tuffnells

External revenue for Tuffnells of £87.3m compares to £86.6m prior period, and Adjusted operating loss of £0.2m compares to £4.3m Adjusted operating profit in the prior period. In line with established trends, we expect an improvement in profitability in the second half from a combination of the seasonal peak, the impact of the annual rate increase and actions we are taking to improve efficiency.

In a challenging period the business grew overall revenue despite increasing competition for customers and price sensitivity in the market. Less positively, the revenue per consignment has reduced as a consequence of the price competition and an increasing mix of smaller B2C deliveries from our customers.

The level of change across the business has impacted service and given rise to a number of cost challenges in the period. Driver vacancies continue to be a significant drain on both cost and service - and this was compounded by a high turnover of depot managers and key operational roles in the period. This loss of experience and process know-how reduced our ability to manage the changing conditions with sufficient speed and agility. The business was further impacted by the delivery and collection of Pass My Parcel volumes that are not well suited to the core operation.

Operational process improvements are focused on improving service and bringing costs under control by addressing inefficiencies and driving greater consistency of performance. We are developing partnerships that will facilitate a more rapid introduction of industry best practice. In April 2018 we entered an agreement with specialist recruitment agency ADR Network, to improve driver recruitment and retention, and a new contract with asset managers TIP is delivering cost efficiency and greater flexibility to our fleet.

In the period, we have appointed a number of experienced depot and distribution managers to strengthen our capability and vacancies have now returned to a normal level. In addition, restructuring of the Commercial team has been spearheaded by Stuart Godman's appointment as Commercial Director, also supported by a number of new senior sales roles.

Looking ahead, the actions we are taking, focusing on the basics of improving service and efficiency, are the right first steps to deliver a sustainable turnaround of Tuffnells performance. Meanwhile, the underlying Irregular Dimension & Weight (IDW) market is strong and its characteristics are a good fit to the Group's capabilities.

Transformation

The Group's vision remains unchanged. Our strategy is to leverage the capabilities of our core business in a way which provides compelling propositions for both the Early Distribution and IDW markets. The disposal of Connect Books confirms our commitment to this goal and removes a significant legacy drain on management and resources.

The transformation programme is clearly defined and making progress. Planned headcount reduction has not proceeded as quickly as we had anticipated and operational challenges in the period mean our £15m savings target over two years will now be weighted to next year.

Dividend

The interim dividend has been held at 3.1p. Looking ahead, in the light of the disposal of Books and Education & Care divisions, the Board will carefully consider the optimum allocation of the Group's excess free cash, balancing the capital requirements of the business and shareholder returns with an ambition to reduce net debt over time.

Board Changes

As noted in the Company's Preliminary Results on 26 October 2017, Andrew Brent has stepped down and retired from the Board with effect from the end of the Company's AGM on 23 January 2018. Mark Whiteling has subsequently accepted the role of senior independent director. The search for a successor to Andrew Brent, with relevant expertise and experience, continues.

On Monday 30 April 2018, David Bauernfeind informed the Board of his decision to step down from his current role of Chief Financial Officer, to pursue a new opportunity. A search for his successor will begin immediately.

Outlook

Expectations for the full year are unchanged from the trading statement issued on 22 January 2018, with Full Year Adjusted Profit Before Tax in the range of £42m-£45m.

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS - CONTINUING ADJUSTED

£m		**(Restated)**	
	6 months to Feb 2018	**6 months to Feb 2017**	**Change**
Revenue	**766.5**	**793.3**	-3.4%
Adjusted operating profit	**18.0**	**25.0**	-28.0%
Net finance costs	(2.9)	(3.3)	12.7%
Adjusted profit before tax	**15.1**	**21.7**	-30.3%
Taxation	(3.0)	(4.5)	33.3%
Tax rate	*19.7%*	*20.6%*	
Adjusted profit after tax	**12.1**	**17.2**	-29.7%

Continuing revenue of £766.5m was down by 3.4%. Early Distribution revenue declined by £27.5m, (3.9%) in line with expectations, partially offset by revenue growth of £0.7m (0.9%) in Tuffnells.

Adjusted operating profit of £18.0m was down by £7.0m (28.0%) on the prior period. Of this, Early Distribution's Adjusted operating profit was down £2.5m (12.1%) and Tuffnells' Adjusted operating profit was down £4.5m.

Net finance costs of £2.9m were down by £0.4m (12.7%) on the prior period. The Interest cost on borrowings incurred was £1.9m compared to £2.3m in the prior period. Other finance costs include finance lease interest, interest cost on pension obligations and unwinding of discounts on provisions, of £0.7m (Feb 2017: £0.9m); and the amortisation of banking arrangement fees of £0.2m (Feb 2017: £0.3m).

Adjusted profit before tax of £15.1m was down by 30.3%.

The tax charge for the period of £3.0m was £1.5m down on the prior period, reflecting an effective tax rate of 19.7% (Feb 2017: 20.6%). This was in line with the reduction in the UK Corporation Tax rate.

Consequently, Adjusted profit after tax of £12.1m was down £5.1m (29.7%) on the prior period.

EPS AND DIVIDEND

	Continuing Adjusted		Continuing Statutory	
	6 months to Feb 2018	**(Restated) 6 months to Feb 2017**	**6 months to Feb 2018**	**6 months to Feb 2017**
Profit after tax (£m)	**12.1**	**17.2**	**7.6**	**13.1**
Basic weighted average number of shares (millions)	**245.7**	**245.0**	**245.7**	**245.0**
Basic EPS (p)	**5.0**	**7.0**	**3.1**	**5.4**
Diluted weighted average number of shares (millions)	**248.0**	**248.6**	**248.0**	**248.6**
Diluted EPS (p)	**4.9**	**6.9**	**3.1**	**5.3**
Dividend per share	**3.1p**	**3.1p**	**3.1p**	**3.1p**

On a Continuing Adjusted basis, profit after tax of £12.1m resulted in a basic EPS of 5.0p, a decrease of 28.6% on the prior year. Including Adjusted items, a statutory continuing profit after tax of £7.6m was attributable to equity shareholders. This resulted in a basic statutory EPS of 3.1p, a decrease of 2.3p on the prior year.

The weighted average number of shares increased by 0.7m to 245.7m.

Dilutive shares increased the basic number of shares at 28 February 2018 by 2.3m to 248.0m. This resulted in a diluted adjusted EPS of 4.9p, a decrease of 28.9% on the prior period.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 2.3m shares (HY2017: 2.1m) but no weighted impact to shares (HY2017: 1.5m) for the final tranche of deferred consideration for the acquisition of Tuffnells which did not vest in FY2017.

The statutory continuing and discontinued EPS was (0.7p loss) (HY2017: 5.9p), down 120%.

The Board has approved an interim dividend of 3.1p, representing no change on last year.

The interim dividend will be paid on 6 July 2018 to shareholders on the register at the close of business on 8 June 2018.

SMITHS NEWS INCOME STATEMENT (including Pass My Parcel)

£m	**6 months to Feb 2018**	**6 months to Feb 2017**	**Change**
Revenue[8]	**665.7**	**692.5**	**-3.9%**
Adjusted operating profit	**16.9**	**19.6**	**-13.8%**
Operating margin	2.5%	3.0%	(50bps)

Smiths News' revenue of £665.7m declined 3.9% on the prior period. Specifically, newspaper revenue was down by 3.8% with cover price inflation mitigating volume declines. Magazine revenue was down by 5.6% with weekly titles again performing more strongly than monthlies.

Pass My Parcel incurred an Adjusted operating loss of £3.5m in the period (HY2017: £2.4m loss) with volumes increasing to 1.89m from 0.38m in the prior period. This volume growth was in line with expectations; however the mix of volumes was largely driven by lower margin parcel returns resulting in trading losses continuing at a higher level than planned.

Smiths News' Adjusted operating profit of £16.9m was £2.7m lower than the prior period, impacted by reduced sales, increased Pass My Parcel losses of £1.1m and the consequence of efficiency savings being weighted to the second half of this year.

DMD INCOME STATEMENT

£m	**6 months to Feb 2018**	**6 months to Feb 2017**	**Change**
Revenue	**13.4**	**14.2**	**-4.9%**
Adjusted operating profit	**1.3**	**1.1**	**23.0%**
Operating margin	9.7%	7.5%	220bps

Revenue of £13.4m was down by £0.8m (4.9%) on the prior period. The reduction reflects a range of contract wins and losses, together with variations in demand from publishers and airline operators. Such fluctuations are not unusual in what is a more dynamic market environment than retail newspaper and magazine distribution.

Adjusted operating profit of £1.3m is up by £0.2m on prior period and operating margin of 9.7% is up 220bps versus prior year, benefiting from the annualised savings benefits of the restructuring actions from the previous financial year.

TUFFNELLS INCOME STATEMENT

£m	6 months to Feb 2018	6 months to Feb 2017	Change
Revenue(8)	**87.3**	**86.6**	**0.9%**
Adjusted operating (loss) / profit	**(0.2)**	**4.3**	**-105.8%**
Operating margin	(0.2%)	4.9%	(510bps)

Revenue was £87.3m, up £0.7m (0.9%) on the prior period.

In a price sensitive market external revenue has come under increasing pressure throughout the period. Although total revenue is up, revenue per consignment is down as a consequence of stronger price competition and an increase in the percentage of business to consumer deliveries from our customer base.

The Adjusted operating loss was £0.2m.

Costs in the period were impacted by three significant factors:

- Driver vacancies resulted in additional costs from agency replacements and added to inefficiency in routing and process;
- Depot management turnover increased in the period, with the consequential loss of operational know-how resulting in further process inefficiency; and
- Rectification costs to address immediate service shortfalls and address capability issues.

ADJUSTED ITEMS(1)

£m	6 months to Feb 2018	Restated 6 months to Feb 2017
Network and re-organisation costs	(0.5)	(1.4)
Vacant property cost release	0.5	-
Acquisition and disposal costs	-	(0.9)
Pension past service credit	-	0.7
Impairment of intangible assets	(1.0)	-
Impairment of tangible assets	(1.0)	-
Amortisation of acquired intangibles	(3.6)	(3.6)
Total loss before tax - continuing	**(5.6)**	**(5.2)**
Total loss before tax - discontinued	(10.7)	(1.7)
Total loss before tax	**(16.3)**	**(6.9)**
Taxation - continued	1.1	1.1
Taxation - discontinued	-	0.3
Taxation	**1.1**	1.4
Total loss after tax - continued	**(4.5)**	(4.1)
Total loss after tax - discontinued	**(10.7)**	(1.4)
Total loss after tax	**(15.2)**	**(5.5)**

Total continuing adjusted items were £4.5m after tax, compared to £4.1m (restated) in the prior period.

Total adjusted items including discontinued were £15.2m after tax, compared to £5.5m in the prior period.

Continuing network and reorganisation costs of £0.5m includes transition costs of £0.4m with regard to delivering the transformation programme announced at the end of FY2017 and Smiths News redundancy costs of £0.1m relating to the depot Network programme. Following the redundancy of 71 colleagues in the period as part of the restructuring programme, £2.3m was utilised of the year-end restructuring provision of £4.5m.

The vacant property provision release of £0.5m relates to the vacant Smiths News Slough depot which is now being used by the Tuffnells division.

Continuing acquisition and disposal costs were £nil (HY2017: £0.9m).The prior year included deferred consideration of £0.7m, in relation to Tuffnells.

There were no defined benefit pension credits in the period. In the prior period, there was an exceptional past service pension credit of £0.7m arising from a commutation of 330 Smiths News scheme members in the WH Smiths Pension Trust.

Impairment of intangible and tangible assets includes a charge of £2.0m to impair Pass My Parcel assets on the balance sheet following the decision to re-engineer the proposition.

Amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, was £3.6m compared to £3.6m (restated) in the prior period.

The total continuing cash impact of adjusted items for the period, was £2.7m compared to the prior period figure of £3.5m (restated).

FREE CASH FLOW

£m **Continuing operations**	**6 months to Feb 2018**	**6 months to Feb 2017**
Adjusted Operating profit - continuing	18.0	25.0
Depreciation & amortisation	6.2	5.5
Adjusted EBITDA	24.2	30.5
Working capital	1.8	(9.4)
Capital expenditure	(4.4)	(8.2)
Finance lease payments	(1.9)	(2.2)
Net interest paid	(3.5)	(2.3)
Taxation	(3.4)	(4.5)
Other movements	(0.1)	1.3
Free cash flow (excluding adjusted items)	**12.7**	**5.2**
Adjusted items	**(2.7)**	**(3.5)**
Free cash flow to equity	**10.0**	**1.7**

The Group generated continuing free cash flow to equity of £10.0m in the period, an increase of £8.3m or 495% on the prior year. Working capital in the period was £11.2m favourable to the prior period, benefitting from an extra week of direct debit receipts compared to the same period last year.

Adjusted EBITDA of £24.2m was down £6.3m caused by trading performance at Tuffnells and Pass My Parcel.

Capital expenditure of £4.4m is down £3.8m year on year, as the focus has been on maintenance rather than growth capex spend. The prior year capex peak included incremental investments in Tuffnells' depots of £2.0m; Smiths News depots and the Hemel Hempstead hub of £2.3m; and Pass My Parcel investment of £0.9m.

Net interest of £3.5m is up £1.2m on prior year, as bank arrangement fees of £1.6m were paid on the agreement of a new £175m bank facility in October 2017. Bank interest paid was £1.9m, down £0.3m on prior year, as the average net debt requirement is lower compared to last year following the disposal of the Education & Care division in June 2017 and the Books division in February 2018.

Tax paid of £3.4m compared to £4.5m in the prior period, a consequence of the lower profit before tax and annualised impact of Tuffnells cash tax payments in the prior period.

NET DEBT AND BANK FACILITIES

£m	**As at Feb 2018**	**Restated As at Feb 2017**	**As at Aug 2017**
Opening net debt	**(82.1)**	**(141.7)**	**(141.7)**
Free cash flow to equity	10.0	1.7	28.7
Finance lease creditor movement	1.5	1.2	2.2
Pension deficit recovery	(2.5)	(2.4)	(4.8)
Dividend paid	(16.5)	(15.9)	(23.6)
Other	1.3	0.4	-
Disposal proceeds	13.7	-	58.2
Discontinued operations cash flow	(9.0)	6.8	(1.1)

Closing net debt	**(83.6)**	**(149.9)**	**(82.1)**

Net debt at the end of the period was £83.6m compared to £82.1m at August 2017 and £149.9m at February 2017. Debt at the end of the first half year is usually higher than the year end position given the weighting of free cash generation in the second half and a higher dividend payment in the first half of the year.

Pension paid of £2.5m, in respect of Smiths News and Tuffnells, was consistent with the prior period. Pension deficit repair payments are considered as a non-free cash flow item.

Disposal proceeds include cash consideration of £13.4m for the Books division sold in the period and cash proceeds of £0.3m from the disposal of Education & Care in June 2017.

Net debt: EBITDA at the end of February 2018 was 1.47x versus 1.22x at August 2017 and 1.86x at February 2017. This remains comfortably within our main covenant ratio of 2.75x. The disposal of the Books division generated gross cash proceeds of £18.7m, £6.0m of cash consideration for equity and £12.7m intercompany overdraft repayment, all of which was applied to reduce net debt.

In October 2017, a new bank facility commitment of £175m was agreed with six relationship banks, running 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. This replaced our previous bank facility of £230m which ran to November 2018.

PENSION

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

The largest scheme across the Group is the Smiths News defined benefit pension scheme (the WH Smith Pension Trust) which as at 28 February 2018 had an IAS 19 surplus of £154.2m (Aug 2017: £149.3m). However, as the pension scheme is closed to future accrual, this IAS 19 surplus is not available as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this surplus on the balance sheet.

The Smiths News section of the WH Smith Pension Trust completed the actuarial triennial valuation as at 31 March 2015 and had an actuarial deficit of £17.5m. Smiths News has agreed with the Trust a schedule of contributions of £3.8m to August 2018, then a reduction thereafter to £3.3m to March 2020.

The Group continues to recognise the present value of the agreed deficit repair contributions as a pension liability at 28 February 2018 of £6.7m (31 August 2017: £8.7m).

The Tuffnells defined benefit scheme IAS19 deficit at 28 February 2018 was £2.1m (31 August 2017: £2.8m). The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was a scheme deficit of £4.3m. Deficit recovery contributions have been agreed at £0.3m per annum.

DISCONTINUED OPERATIONS

In February 2018, the Group completed the sale of the Books division for an enterprise value of £18.7m of which cash consideration for equity was £6.0m and cash settlement of intercompany overdraft balances was £12.7m. A loss of £10.5m arose on the disposal of the Books division, which had been written down to the estimated fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017.

Discontinued operations contributed Adjusted operating profit of £1.6m for the period they remained part of the Group (HY2017: £3.3m - of which Books contributed £1.6m and Education & Care £1.7m).

RISKS AND UNCERTAINTIES

The Group has a clear framework in place to continuously identify and review its principal risks. This includes, amongst others, an annual risk appetite review performed by the Board, self-assessments performed by executive directors and regular reporting to and robust challenge from the Audit Committee.

The directors' assessment of the Group's principal risks is aligned to the strategic business planning process. Across the Group, the Internal Risk Committee is responsible for identifying, assessing and monitoring risks. Key risks are plotted on risk maps with descriptions, owners and mitigating actions, with regular reporting against a level of materiality consistent with its size.

As part of the Board's ongoing assessment of the principal risks affecting the Group, the Board has considered the performance of the Group, its markets, the changing regulatory landscape and the Group's future strategic plans. Principal risks previously reported have been reviewed for the half year. The principal risk relating to Changing Consumer Behaviour has been split into two separate risks to better reflect the different market conditions faced in Smiths News and Tuffnells. Network and IT robustness is no longer considered to be a principal risk. A new principal risk relating to the ability to attract, engage and retain talent has been added.

The table below profiles those risks that the Board believes to be most significant, together with the activity which we undertake to mitigate them.

Principal risks	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.	In addition to the danger to staff or the public, 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 Leadership Team. A dedicated Health and Safety team executes improvement programs and promoting a safety culture. The Group continues to invest in improvements, including recruitment of a new H&S Director and better management reporting. The aim continues to be towards consistency in standards and culture across the Group.
Non-Adherence to 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 Operator Licence conditions.	The impact of poor adherence to Operator licence conditions results, in addition to the associated health and safety risks, in sanctions that may curtail our ability to operate and/or increase operating costs.	The Group maintains a comprehensive governance framework. A dedicated Transport Compliance team exist specifically focused on transport-related compliance. Improvement programs are under way to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Management information has been developed to monitor compliance on an ongoing basis. Applicable legislation is diligently tracked and monitored and any changes reflected in policies and controls within required timeframes.
Tuffnells - Adapting to competitive environment and customer behaviour and service expectations - 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.	Impact on growth and profitability within Tuffnells if service needs are not understood and addressed, and / or if organisational efficiency goals are not met.	The team is being strengthened with industry skills; and there are various change programmes to improve business efficiency. Management reporting is much improved for business performance. More work is planned to understand the changes in customer expectations and to improve customer service.
Smiths News - Margins within the News business - The risk of failing to retain major contracts in Smiths News at acceptable rates and manage costs in a declining market and /or win new contracts in competitive markets affected by aggressive pricing strategies impacts current and projected business performance.	Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In the news distribution industry publishers typically award five year contracts- as the market leader Smiths News is well placed to maximise its margins and market share. Strong relationships across the supply chain help the business to understand and demonstrate its strengths for the benefit of its suppliers and customers, and, in particular, to build on the service proposition as central to achieving excellence.
Increased Labour Market Constraints and Costs - The risk of non-compliance with laws and/or legislative changes or interpretation, for example with EU Exit, lead to increased liabilities and costs to the business and/or impact the engagement of employees and delivery contractors resulting in the higher attrition risk (and cost) in warehousing and distribution personnel.	In the event of any legal claim for non-compliance with relevant employment laws (e.g. changing worker status of consultants, sub-contractors or agency workers, national living wage/national minimum wage legislation) could make the business liable for increased costs (national insurance contributions) and liabilities (such as employee rights). The inability to pass on these costs or any statutory increases to our customers could impact profitability, and affect the cost of future efficiency programmes. The implications of EU Exit include a decreasing pool of available, suitably qualified, employees / sub-contractors.	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 EU Exit on employment risks are unknown at the date of this report but are being tracked. Legal developments are monitored to ensure that the business maintains compliance with legislation and best practice. Workforce planning initiatives including apprenticeship and training programmes, such as Warehouse to Wheels, are supporting the longer term mitigation of driver shortage.
Failure to clarify and 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 of the Group and confidence in its delivery.	Sales and/or profit expected may not be met and/or the Group's reputation and support for future acquisitions are challenged. The cultural change required for diversification / restructuring results in reduced performance and financial returns.	Performance to the business plan is reviewed regularly using balanced scorecard framework. This ensures effective and timely monitoring of performance with action taken in the event of shortfalls to expectations. Financial and operational metrics are considered along with risk assessments and impact on management before remedial action is taken.

Constraints on capacity and/or failure to execute restructuring or 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 staff results in loss of key people, lack of engagement and loss of in-depth knowledge and specialist skills impacting both current and future business prospects.	The impact of the inability of warehousing / operational / IT and support systems to meet growth expectations of the Group, creates poor customer experience, increased investment costs and reduced profitability. Management's focus on current business operations and performance is distracted by organisational change and new initiatives. Management leave the Group taking valuable skills and knowledge with them.	The annual business and strategic planning process seeks to ensure appropriate investment is budgeted to ensure targets are achieved. Organisational and cultural change (including the need for expert skills in change management and project management.) is factored into the requirements of success, together with the requisite investment in resources to deliver the successful achievement of business critical initiatives. By monitoring progress regularly, action can be taken to address any issues that arise.
Deterioration of the Macro Economic Environment - The risk of volatility and/or prolonged economic downturn causing 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.	Reductions in discretionary spending may impact sales of newspapers and magazines and/or see a reduction in parcel volumes. Uncertainty from Brexit may affect the Group 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.
Ability to attract, engage and retain talent - The risk that we do not attract the people and skills needed to achieve our targets and that employees are not motivated towards, or are disengaged from, the goals of the Group. The associated risk that the HR processes and systems do not support the changes in culture and expertise that is required for success.	Employee demotivation or disengagement, insufficient investment in people and unplanned attrition may result in an inability to address the control and efficiency improvements and change programmes that are necessary to address the strategic priorities and deliver the forecast performance for the Group.	There are a number of People initiatives underway to improve the culture and support changes within the Group. These include; introducing a Group wide HR system, workforce planning, performance management / talent / succession programmes, learning and development, values and culture. Management information (e.g. compliance with labour-related regulation, staff turnover etc.) has been introduced to oversee this area of risk. Regular surveys are undertaken to monitor the engagement of employees.

Connect Group PLC

Condensed Consolidated Income Statement (Unaudited)
For the 6 months to 28 February 2018

£m	Note	**6 months to Feb 2018**			Restated 6 months to Feb 2017			12 months to Aug 2017		
		Adjusted	**Adjusted items (note 4)**	**Total**	Adjusted	Adjusted items (note 4)	Total	Adjusted	Adjusted items (note 4)	Total
Continuing operations										
Revenue	3	**766.5**	**-**	**766.5**	**793.3**	**-**	**793.3**	**1,594.3**		**1,594.3**
Operating profit	3	**18.0**	**(5.6)**	**12.4**	**25.0**	**(5.2)**	**19.8**	**54.7**	**(13.0)**	**41.7**
Net finance costs		(2.9)	-	**(2.9)**	(3.3)	-	**(3.3)**	(6.7)	(0.8)	(7.5)
Profit before tax	3	**15.1**	**(5.6)**	**9.5**	**21.7**	**(5.2)**	**16.5**	**48.0**	**(13.8)**	**34.2**
Income tax (expense)/credit	6	(3.0)	1.1	**(1.9)**	(4.5)	1.1	**(3.4)**	(9.9)	2.7	**(7.2)**
Profit/ (loss) for the period from continuing operations		**12.1**	**(4.5)**	**7.6**	**17.2**	**(4.1)**	**13.1**	**38.1**	**(11.1)**	**27.0**
Discontinued operations										
Profit for the period from discontinued operations	9	1.3	(10.7)	**(9.4)**	2.6	(1.4)	**1.2**	1.0	8.6	**9.6**

Profit/ (loss) attributable to equity shareholders continuing and discontinued operations		13.4	(15.2)	**(1.8)**	19.8	**(5.5)**	**14.3**	39.1	(2.5)	**36.6**
Earnings per share from continuing operations										
Basic	8	5.0p		3.1p	7.0p		5.4p	15.5p		11.0p
Diluted	8	4.9p		3.1p	6.9p		5.3p	15.4p		10.9p
Equity dividends per share	7			3.1p			3.1p			9.8p

Condensed Consolidated Statement of Comprehensive Income (Unaudited)
For the 6 months to 28 February 2018

£m	**Note**	**6 months to Feb 2018**	6 months to Feb 2017 (restated)	12 months to Aug 2017
Continuing				
Items that will not be reclassified to the Group Income Statement:				
Actuarial gains / (losses) on defined benefit pension scheme	5	1.4	(15.3)	(9.9)
Effect of asset limit on defined benefit pension scheme	5	(1.0)	13.0	6.8
Tax relating to components of other comprehensive income that will not be reclassified		-	0.2	0.3
		0.4	(2.1)	(2.8)
Items that may be reclassified to the Group Income Statement:				
Gain on cash flow hedges		-	0.4	0.6
Termination of interest rate swap		-	-	0.8
Currency translation differences		(0.2)	-	-
Tax relating to components of other comprehensive income		-	(0.2)	(0.2)
Other comprehensive income		(0.2)	0.2	1.2
Other comprehensive income for the period - continuing		**0.2**	**(1.9)**	(1.6)
Profit for the period - continuing		7.6	13.2	27.0
Total comprehensive income for the period - continuing		**7.8**	**11.3**	**25.4**
Other comprehensive income for the period discontinued		-	0.3	1.7
Profit for the year - discontinued		(9.4)	1.1	9.6
Total comprehensive income for the period - discontinued		**(9.4)**	**1.4**	**11.3**
Total comprehensive income for the period attributable to shareholders:		**(1.6)**	**12.7**	**36.7**

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

Condensed Consolidated Balance Sheet (Unaudited)
As at 28 February 2018

£m	**Note**	**As at Feb 2018**	**As at Feb 2017**	**As at Aug 2017**
Non-current assets				
Intangible assets	12	101.0	133.0	106.5
Property, plant and equipment		38.9	44.7	41.3

Interest in joint venture and associate		4.8	4.4	4.6
Deferred tax assets		5.4	5.9	5.4
		150.1	**188.0**	**157.8**
Current assets				
Inventories		16.1	42.8	13.8
Trade and other receivables		92.0	153.7	98.3
Cash and cash equivalents	13	5.0	10.3	5.5
Assets classified as held for sale	9	-	55.4	64.5
		113.1	**262.2**	**182.1**
Total assets		**263.2**	**450.2**	**339.9**
Current liabilities				
Trade and other payables		(135.6)	(212.5)	(136.2)
Current tax liabilities		(3.6)	(5.9)	(5.3)
Obligations under finance leases		(2.8)	(1.8)	(3.1)
Bank overdrafts and other borrowings	13	(33.0)	(87.0)	(20.0)
Derivative financial instruments	14	-	(0.3)	-
Provisions	15	(5.7)	(6.3)	(9.0)
Retirement benefits obligation	5	(3.4)	(4.1)	(4.1)
Liabilities classified as held for sale	9	-	(17.1)	(49.5)
		(184.1)	**(335.0)**	**(227.2)**
Non-current liabilities				
Bank loans and other borrowings	13	(48.6)	(69.4)	(60.0)
Retirement benefit obligation	5	(5.5)	(8.8)	(7.4)
Deferred tax liabilities		(7.4)	(9.3)	(7.2)
Non current provisions	15	(5.8)	(6.6)	(6.6)
Obligations under finance leases		(4.2)	(7.7)	(5.4)
Derivative financial instruments	14	-	(0.8)	-
Other non-current liabilities		(0.7)	(1.0)	(1.0)
		(72.2)	**(103.6)**	**(87.6)**
Total liabilities		**(256.3)**	**(438.6)**	**(314.8)**
Total net assets		**6.9**	**11.6**	**25.1**
Equity				
Called up share capital	17	12.4	12.4	12.4
Share premium account	17	60.5	60.4	60.5
Other reserves		(282.3)	(283.7)	(282.7)
Retained earnings		216.3	222.5	234.9
Total shareholders' equity		**6.9**	**11.6**	**25.1**

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 6 months to 28 February 2018

£m	Note	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total equity
Balance at 31 August 2016		**12.3**	**59.2**	**(284.7)**	**226.2**	**13.0**
Profit for the period		-	-	-	14.3	14.3
Gain on cash flow hedges		-	-	0.4	-	0.4
Actuarial loss on defined benefit pension scheme	5	-	-	-	(14.9)	(14.9)
Impact of IFRIC 14 on defined benefit pension scheme	5	-	-	-	13.0	13.0
Tax relating to components of other comprehensive income		-	-	-	(0.1)	(0.1)
Total comprehensive income for the period		**-**	**-**	**0.4**	**12.3**	**12.7**
Issue of share capital	17	0.1	1.2	-	-	1.3

Dividends paid	7	-	-	-	(15.9)	(15.9)
Employee share schemes		-	-	0.6	(0.6)	-
Recognition of share based payments		-	-	-	0.5	0.5
Balance at 28 February 2017		**12.4**	**60.4**	**(283.7)**	**222.5**	**11.6**
Profit for the period		-	-	-	22.3	22.3
Termination of cash flow hedge		-	-	0.8	-	0.8
Gain on cash flow hedges		-	-	0.2	-	0.2
Actuarial gain on defined benefit pension scheme	5	-	-	-	6.8	6.8
Impact of IFRIC 14 on defined benefit pension scheme	5	-	-	-	(6.2)	(6.2)
Currency translation differences		-	-	0.2	-	0.2
Tax relating to components of other comprehensive income		-	-	-	(0.1)	(0.1)
Total comprehensive income for the period		-	-	1.2	22.8	24
Issue of share capital	17	-	0.1	-	-	0.1
Purchase of own shares		-	-	(0.5)	-	(0.5)
Dividends paid	7	-	-	-	(7.7)	(7.7)
Employee share schemes		-	-	0.3	(0.3)	-
Recognition of share based payments		-	-	-	(2.4)	(2.4)
Balance at 31 August 2017		**12.4**	**60.5**	**(282.7)**	**234.9**	**25.1**
Loss for the period		-	-	-	(1.8)	(1.8)
Currency translation differences		-	-	(0.2)	-	(0.2)
Actuarial gain on defined benefit pension scheme	5	-	-	-	1.4	1.4
Impact of IFRIC 14 on defined benefit pension scheme	5	-	-	-	(1.0)	(1.0)
Total comprehensive income for the period		**-**	**-**	**(0.2)**	**(1.4)**	**(1.6)**
Dividends paid	7	-	-	-	(16.5)	(16.5)
Employee share schemes				0.6	(0.6)	-
Recognition of share based payments		-	-	-	(0.1)	(0.1)
Balance at 28 February 2018		**12.4**	**60.5**	**(282.3)**	**216.3**	**6.9**

Condensed Consolidated Group Cash Flow Statement (Unaudited)

For the 6 months to 28 February 2018

£m	Note	6 months to Feb 2018	6 months to Feb 2017	12 months to Aug 2017
Net cash from operating activities	11	**8.9**	**19.8**	**51.2**
Investing activities				
Dividends from associates		0.1	0.1	0.2
Purchase of property, plant and equipment		(3.6)	(7.0)	(13.7)
Purchase of intangible assets		(1.4)	(2.4)	(5.1)
Proceeds on sale of property, plant and equipment		-	-	1.3
Proceeds on sale of subsidiary (net of disposal costs & cash held)		13.7	-	56.8
Net cash used in investing activities		**8.8**	**(9.3)**	**39.5**
Financing activities				
Interest paid		(3.5)	(2.3)	(5.2)
Dividends paid	7	(16.5)	(15.9)	(23.6)
Repayments of obligations under finance leases		(1.9)	(2.2)	(4.2)
Proceeds on issue of shares		-	0.6	0.7
Purchase of shares for Employee Benefit Trust		-	-	(0.5)
Increase/ (decrease) borrowings		3.0	16.0	(61.0)
Net cash from financing activities		**(18.9)**	**(3.8)**	**(93.8)**
Net (decrease) / increase in cash and cash equivalents		**(1.2)**	**6.7**	**(3.1)**
Effect of foreign exchange rate changes		(0.2)	0.2	0.4

	(1.4)	6.9	(2.7)
Opening net cash and cash equivalents	6.4	9.1	9.1
Closing net cash and cash equivalents	**5.0**	**16.0**	**6.4**

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £8.4m (£8.1m inflow to 28 February 2017) and £0.6m was paid in respect of investing activities (£1.3m to 28 February 2017). There were no cash flows associated with financing activities attributable to Discontinued Operations.

Analysis of net debt

£m	Note	As at Feb 2018	As at Feb 2017	As at Aug 2017
Cash and cash equivalents	13	5.0	16.0	6.4
Current borrowings	13	(33.0)	(87.0)	(20.0)
Non-current borrowings	13	(48.6)	(69.4)	(60.0)
Net borrowings		**(76.6)**	**(140.4)**	**(73.6)**
Finance lease liabilities		(7.0)	(9.5)	(8.5)
Net debt		**(83.6)**	**(149.9)**	**(82.1)**

The movement in net debt in the period includes £1.6m of loan fees incurred on refinancing and £0.2m loan fee amortisation.

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2018

1 General Information

As in past years, these Interim Financial Statements are unaudited and not reviewed. The half year to February 2017 has been restated to exclude the discontinued operations of the Education & Care and Books divisions.

The information for the year ended 31 August 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Going Concern

The Group meets its day to day working capital requirements through its committed bank facility of £175m which runs until January 2021.

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

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

The Group's principal areas of estimation and judgement remain unchanged since the year end and are set out in note 1 (c) on page 81 of the Annual Report for the year ended 31 August 2017.

2 Significant Accounting Policies

The unaudited condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in these unaudited condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 August 2017.

Accounting standard changes for *IFRS 15 Revenue from Contracts with Customers* and *IFRS9 Financial Instruments* are not mandatory for the year ended 31 August 2018. The impact of the Accounting Standard changes will be assessed during FY2018.

3 Segmental Analysis of Results

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

These operating segments are:

Smiths News	The UK market leading distributor of newspapers and magazines to 27,000 retailers across England and Wales and Pass My Parcel
DMD	A supplier of newspaper and magazines to airlines and an emerging player in inflight entertainment.
Tuffnells	A leading provider of next day B2B delivery of mixed and irregular freight

	consignments.

As explained in Note 9 both Connect Books and Connect Education & Care have been sold. The divisions are presented as a discontinued operation and have been included below where necessary for the purpose of reconciliation.

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

	Revenue			Operating profit		
£m	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017	**6 months to Feb 2018**	6 months to Feb 2017 (restated)	12 months to Aug 2017
Smiths News	666.0	692.5	1,383.4	**16.9**	19.6	40.4
DMD	13.4	14.2	28.8	**1.3**	1.1	2.3
Tuffnells	88.1	86.6	183.2	**(0.2)**	4.3	12.0
Elimination of Intra group revenue	(1.0)	-	(1.1)	-	-	-
Continuing operations - adjusted	**766.5**	**793.3**	**1,594.3**	**18.0**	**25.0**	**54.7**
Revenue Discontinued operations -adjusted	114.3	147.2	270.3			
Revenue - Continuing and discontinued operations - adjusted	**880.8**	**940.5**	**1,864.6**			
Continuing operations -Total Adjusted items				(5.6)	(5.2)	(13.8)
Total Continuing operations after Adjusted items				**12.4**	**19.8**	**40.9**
Net finance expense				(2.9)	(3.3)	(6.7)
Profit before taxation - Continuing operations				9.5	16.5	34.2
Profit before taxation - Discontinued operations				**(9.1)**	1.6	9.5
Profit before taxation - Continuing operations and Discontinued operations				**0.4**	**18.1**	**43.7**

Segmental revenue includes intercompany sales.

Segment assets and liabilities

	Assets			Liabilities			Net assets		
£m	**HY 2018**	HY 2017	FY 2017	**HY 2018**	HY 2017	FY 2017	**HY 2018**	HY 2017	FY 2017
Smiths News	81.2	122.0	85.4	(216.0)	(317.7)	(220.8)	(134.8)	(195.7)	(135.4)
DMD	22.8	20.6	23.0	(8.6)	(7.2)	(8.2)	14.2	13.4	14.8
Tuffnells	159.2	173.6	167.0	(31.7)	(46.0)	(36.3)	127.5	127.6	130.7
Discontinued operations	-	134.0	64.5	-	(67.7)	(49.5)	-	66.3	15.0
Consolidated assets/ (liabilities)	**263.2**	450.2	339.9	**(256.3)**	(438.6)	(314.8)	**6.9**	11.6	25.1

Segment depreciation, amortisation and non-current asset additions

	Depreciation			Amortisation			Additions to non-current assets		
£m	**HY 2018**	HY 2017	FY 2017	**HY 2018**	HY 2017	FY 2017	**HY 2018**	HY 2017	FY 2017
Smiths News	**(3.0)**	(2.1)	(4.2)	**(2.7)**	(1.3)	(3.0)	**1.5**	3.6	6.8
DMD	**(0.1)**	(0.1)	(0.2)	**(0.2)**	(0.2)	(0.3)	**-**	3.3	0.2
Tuffnells	**(2.3)**	(1.9)	(4.1)	**(3.5)**	(3.5)	(7.1)	**2.4**	2.1	6.7
Continuing operations	**(5.4)**	(4.1)	(8.5)	**(6.4)**	(5.0)	(10.4)	**3.9**	9.0	13.7
Discontinued operations	**-**	(0.5)	(0.8)	**-**	(2.1)	(12.7)	**-**	0.6	3.4
Consolidated total	**(5.4)**	(4.6)	(9.3)	**(6.4)**	(7.1)	(23.1)	**3.9**	9.6	17.1

In HY2018 Smiths News includes a charge for impairment of Pass My Parcel assets within depreciation of £1.0m and amortisation of £1.0m.

Geographical analysis

	Revenue by destination			Non-current assets by location of operation		
£m	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017
United Kingdom	**760.0**	786.2	1,579.6	**144.7**	182.1	152.4
Europe	**4.2**	4.7	9.6	**-**	-	-
Rest of World	**2.3**	2.4	5.1	**-**		-
Continuing operations	**766.5**	793.3	1,594.3	**144.7**	182.1	152.4
Discontinued operations	**114.3**	147.2	270.3	**-**		-
Total continuing and discontinued operations	**880.8**	940.5	1,864.6	**144.7**	182.1	152.4

4 Adjusted Items

£m	**6 months to Feb 2018**	6 months to Feb 2017 (restated)	12 months to Aug 2017
Continuing operations			
Network and re-organisation costs	**(0.5)**	(1.4)	(8.0)
Vacant property costs release	**0.5**	-	(0.6)
Acquisition and disposal costs	**-**	(0.9)	2.2
Amortisation of acquired intangibles	**(3.6)**	(3.6)	(7.3)
Impairment of intangible assets	**(1.0)**	-	-
Impairment of tangible assets	**(1.0)**	-	-
Pension past service credit	**-**	0.7	0.7
Settlement of interest rate swap	**-**	-	(0.8)
Total before tax	**(5.6)**	(5.2)	(13.8)
Taxation	**1.1**	1.1	2.7
Total after taxation	**(4.5)**	(4.1)	(11.1)
Discontinued operations			
(Loss)/ profit on disposal of subsidiary	(10.5)	-	19.0
Acquisition and disposal related costs	(0.2)	(0.6)	-
Network and re-organisation costs	-	-	(0.3)
Pension	-	-	-
Amortisation of acquired intangibles	-	(1.1)	(11.2)
Total before tax	**(10.7)**	(1.7)	7.5
Taxation	**-**	0.3	1.1
Total after taxation	**(10.7)**	(1.4)	8.6
Continuing and discontinued operations			
Total before tax	**(16.3)**	(6.9)	(6.3)
Taxation	**1.1**	1.4	3.8
Total after taxation	**(15.2)**	(5.5)	(2.5)

Adjusted items on a continuing basis for the period totalled £4.5m after tax for the period, compared to £4.1m (restated) in the prior year.

Network and re-organisation costs

Continuing network and reorganisation costs of £0.5m includes transition costs of £0.4m with regard to delivering the transformation programme announced at the end of FY2017 and Smiths News redundancy costs of £0.1m relate to the depot Network programme. Following the redundancy of 71 colleagues in the period as part of the restructuring programme, £2.3m was utilised of the year-end restructuring provision of £4.5m.

Prior year continuing network and reorganisation costs of £1.4m includes £0.4m for the Smiths News network rationalisation programme, predominantly directed at the commissioning of a new depot in Hemel Hempstead which serves 8,000 customers and became the regional 'hub' for London and the Thames Valley; corporate restructuring of £0.5m relating of FMD Limited (one of the Group's joint ventures), and back-office re-organisation costs of £0.3m.

Vacant property cost release

The vacant property provision release of £0.5m relates to the vacant Smiths News Slough depot which is now being used by the Tuffnells division.

Acquisition and disposal costs

Continuing acquisition and disposal costs were £nil.

Prior year continuing acquisition and disposal costs of £0.9m included deferred consideration of £0.7m in relation to Tuffnells and Wordery. Professional fees relating to corporate development activities were £0.2m in the prior year.

Amortisation of acquired intangibles

Amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, was £3.6m (Feb 2017 restated:£3.6m).

Impairment of non-current assets

Impairment of tangible & non-tangible current assets includes a charge of £2.0m for Pass My Parcel assets on the balance sheet following a decision to review the proposition.

Pension

No defined benefit pension credits received in the period. In the prior year, a past service pension credit of £0.7m was incurred in the period from a commutation of 330 Smiths News scheme members in the WH Smiths Pension Trust.

Loss on disposal

In February 2018, the Group completed the sale of the Books division for an enterprise value of £18.7m of which cash consideration was £6m and cash settlement of overdraft balances was £12.7m. A loss of £10.5m arose on the disposal of the Books division, which had been written down to its estimated fair value less cost to sell of £15.0m when it became classified as held for sale on 31 August 2017.

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 amounts recognised in the balance sheet are as follows:

£m	As at Feb 2018	As at Feb 2017	As at Aug 2017
Present value of defined benefit obligation	(444.9)	(484.9)	(473.6)
Fair value of assets	596.9	622.2	620.1
Net surplus	**152.0**	**137.3**	**146.5**
Amounts not recognised due to asset limit	(154.2)	(139.6)	(149.3)
Additional liability recognised due to minimum funding requirements	(6.7)	(10.6)	(8.7)
Pension liability	**(8.9)**	**(12.9)**	**(11.5)**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £154.2m at 28 February 2018 (FY2017: £149.3m surplus) which the Group does not recognise in the accounts as the investment policy adopted means that the amount available on a reduction of future contributions is expected to be £nil (FY2017: £nil). The valuation of the defined benefit schemes for the IAS 19 (revised) disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

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 address the deficit will be £3.8m per annum to August 2018 and thereafter at £3.3m per annum until March 2020.

Other defined benefit schemes

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

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

% p.a.	6 months to Feb 2018	6 months to Feb 2017	12 months to Aug 2017
Discount rate	2.60%	2.60%	2.35%
Inflation assumptions - CPI	2.25%	2.50%	2.30%
Inflation assumptions - RPI	3.25%	3.50%	3.30%

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 2016	**671.9**	**(531.5)**	**(161.6)**	**(21.2)**
Current service cost	-	(0.1)	-	(0.1)
Interest cost	6.5	(5.1)	(1.6)	(0.2)
Administrative costs	-	(0.1)	-	(0.1)
Past service cost/(credit)	(3.4)	4.2	-	0.8
Total amount recognised in income statement	**3.1**	**(1.1)**	**(1.6)**	**0.4**
Return on plan assets excluding amounts included in net interest	(24.1)	-	-	(24.1)
Actuarial gains on scheme liabilities	-	9.2	-	9.2
Change in surplus not recognised	-	-	13.0	13.0
Amount recognised in other comprehensive income	**(24.1)**	**9.2**	**13.0**	**(1.9)**
Employer contributions	2.5	0.1	-	2.6
Employee contributions	-	-	-	-
Benefit payments	(13.6)	13.6	-	-
Amounts included in cash flow statement	**(11.1)**	**13.7**	**-**	**2.6**
At 28 February 2017	**639.8**	**(509.7)**	**(150.2)**	**(20.1)**
Classified within held for sale	*17.6*	*(24.8)*	*-*	*(7.2)*
Classified within continuing operations	*622.2*	*(484.9)*	*(150.2)*	*(12.9)*
Current service cost	-	(0.2)	-	(0.2)
Interest cost	6.7	(5.2)	(1.6)	(0.1)
Administration expenses	(0.2)	0.1	-	(0.1)
Past service credits	-	(0.1)	-	(0.1)
Total amount recognised in income statement	**6.5**	**(5.4)**	**(1.6)**	**(0.5)**
Return on plan assets excluding amounts included in net interest	2.3	-	-	2.3
Actuarial gains on scheme liabilities	-	4.5	-	4.5
Change in surplus not recognised	-	-	(6.2)	(6.2)
Amount recognised in other comprehensive income	**2.3**	**4.5**	**(6.2)**	**0.6**
Employer contributions	2.7	(0.1)	-	2.6
Employee contributions	-	-	-	-
Benefit payments	(13.6)	13.6	-	-
Amounts included in cash flow statement	**(10.9)**	**13.5**	**-**	**2.6**
Disposal	**(17.6)**	**23.5**	**-**	**5.9**
At 31 August 2017	**620.1**	**(473.6)**	**(158.0)**	**(11.5)**

£m	Fair value of scheme assets	Defined benefit obligation	Surplus not recognised	Total
At 31 August 2017	**620.1**	**(473.6)**	**(158.0)**	**(11.5)**
Current service cost	-	(0.1)	-	(0.1)
Interest cost	7.0	(5.2)	(1.9)	(0.1)
Administrative expenses	(0.1)	-	-	(0.1)
Past service cost/(credit)	-	-	-	-
Total amount recognised in income statement	**6.9**	**(5.3)**	**(1.9)**	**(0.3)**
Return on plan assets excluding amounts included in net interest	(21.5)	-	-	(21.5)
Actuarial gains on scheme liabilities	-	22.9	-	22.9
Change in surplus not recognised	-	-	(1.0)	(1.0)
Amount recognised in other comprehensive income	**(21.5)**	**22.9**	**(1.0)**	**0.4**
Employer contributions	2.5	-	-	2.5

Benefit payments	(11.1)	11.1	-	-
Amounts included in cash flow statement	**(8.6)**	**11.1**	**-**	**2.5**
At 28 February 2018	**596.9**	**(444.9)**	**(160.9)**	**(8.9)**
Included within Current liabilities				**(3.4)**
Included within Non-current liabilities				**(5.5)**

The pension asset / liability at 28 February 2017 in respect of the Education & Care division was presented within assets / liabilities held for sale in the balance sheet in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations" and was disposed in the period to 31 August 2017.

6 Income Tax Expense

£m	**6 months to Feb 2018**			6 months to Feb 2017 (restated)			12 months to Aug 2017		
Continuing operations	Adjusted	Adjusted items	**Total**	Adjusted	Adjusted items	**Total**	Adjusted	Adjusted items	**Total**
Current tax	2.7	(1.0)	1.7	4.5	(0.4)	4.1	10.0	(0.6)	9.4
Adjustment in respect of prior years	-	-	-	-	-	-	(0.8)	0.1	(0.7)
Total current tax charge	**2.7**	**(1.0)**	**1.7**	**4.5**	**(0.4)**	**4.1**	**9.2**	**(0.5)**	**8.7**
Deferred tax - current period	0.3	(0.2)	0.1	-	(0.6)	(0.6)	0.1	(2.0)	(1.9)
Deferred tax - prior year	-	-	-	-	-	-	0.5	-	0.5
Deferred tax - impact of rate change	-	0.1	0.1	-	(0.1)	(0.1)	0.1	(0.2)	(0.1)
Total deferred tax charge	**0.3**	**(0.1)**	**0.2**	**-**	**(0.7)**	**(0.7)**	**0.7**	**(2.2)**	**(1.5)**
Total tax charge relating to continuing operations	**3.0**	**(1.1)**	**1.9**	**4.5**	**(1.1)**	**3.4**	**9.9**	**(2.7)**	**7.2**
Effective tax rate	*19.7%*	*-*	*20.3%*	*20.6%*	*-*	*20.6%*	*20.8%*	*-*	*21.1%*
Tax charge discontinued operations	0.3	-	0.3	0.7	(0.3)	0.4	1.0	(1.1)	(0.1)
Total tax charge	*3.3*	*(1.1)*	*2.2*	*5.2*	*(1.4)*	*3.8*	*10.9*	*(3.8)*	*7.1*

The effective income tax rate on adjusted profit before tax relating to continuing operations for the period was 19.7% (Feb 2017: 20.6%).

The effective income tax rate on statutory profit before tax relating to continuing operations for the period was 20.3% (Feb 2017: 20.6%).

Reconciliation of the tax charge

£m	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017
Profit before tax - continuing operations	**9.5**	**16.5**	**34.2**
Tax on profit at the standard rate of UK corporation tax 19.0% (Aug 2017: 19.6%, Feb 2017: 19.6%)	1.8	3.2	6.7
Effect of non-tax deductible expenses	0.1	0.3	0.8
Non-taxable income	-	-	(0.6)
Share based payments	(0.1)	-	0.5
Effect of change in UK tax rate	0.1	(0.1)	(0.1)
Effect of higher/(lower) overseas tax rates	-	-	0.1
Adjustment in respect of prior years	-	-	(0.2)
Total tax charge recognised in the income statement relating to continuing operations	**1.9**	**3.4**	**7.2**

Tax charge/ (credit) to other comprehensive income

£m **Continuing operations**	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017
Current tax relating to the defined benefit pension scheme	(0.1)	(0.2)	(0.8)
Deferred tax relating to impact of change in tax rate	0.1	0.2	-
Deferred tax relating to derivative financial instruments	-	-	0.2
Deferred tax relating to share based payments	-	-	0.2
Deferred tax related to retirement benefit obligations	-	-	0.3
Tax charge/(credit) recognised in other comprehensive income and directly in equity relating to continuing operations	**-**	**-**	**(0.1)**

7 Dividends

Proposed dividends for the period	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017	**6 months to Feb 2018**	6 months to Feb 2017	12 months to Aug 2017
	Per share	Per share	Per share	**£m**	£m	£m
Final dividend	**-**	**-**	6.7p	**-**	-	16.4
Interim dividend	**3.1p**	**3.1p**	3.1p	**7.7**	**7.6**	7.6
	3.1p	**3.1p**	9.8p	**7.7**	**7.6**	24.0

Recognised dividends for the period						
		Per share			£m	
Final dividend - prior year	**6.7p**	**6.5p**	6.5p	**16.5**	**15.9**	16.0
Interim dividend - current year	**-**	**-**	3.1p	**-**	**-**	7.6
	6.7p	**6.5p**	9.6p	**16.5**	**15.9**	23.6

During the six month period to 28 February 2018, the final dividend for the year ended 31 August 2017 of 6.7p (Feb 2017: 6.5p) per ordinary share was paid to shareholders. The directors have approved an interim dividend in respect of the period ended 28 February 2018 of 3.1p per ordinary share (Feb 2017: 3.1p). This has not been included as a liability in these condensed financial statements. This will be paid on 6 July 2018 to shareholders on the Register at the close of business on 8 June 2018.

8 Earnings per share

	6 months to Feb 2018			6 months to Feb 2017 (restated)			12 months to Aug 2017		
	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		247.6			247.2			247.5	
Shares held by the ESOP (weighted)		(1.9)			(2.2)			(2.1)	
		245.7			245.0			245.4	
Basic earnings per share (EPS)									
Continuing									
Adjusted earnings attributable to ordinary shareholders	12.1	245.7	**5.0**	17.2	245.0	7.0	38.1	245.4	15.5
Adjusted items	(4.5)			(4.1)			(11.1)		
Earnings attributable to ordinary shareholders	7.6	245.7	**3.1**	13.1	245.0	5.4	27.0	245.4	11.0
Total - continuing and discontinued operations									
Adjusted earnings attributable to ordinary shareholders	13.4	245.7	**5.5**	19.8	245.0	8.1	39.1	245.4	15.9
Adjusted items	(15.2)			(5.5)			(2.5)		
Earnings attributable to ordinary shareholders	(1.8)	245.7	**(0.7)**	14.3	245.0	5.9	36.6	245.4	14.9
Diluted earnings per share (EPS)									
Effect of dilutive securities		2.3			3.6			1.6	
Continuing									
Diluted adjusted EPS	**12.1**	248.0	**4.9**	17.2	248.6	6.9	38.1	247.0	15.4
Diluted EPS	**7.6**	248.0	**3.1**	13.1	248.6	5.3	27.0	247.0	10.9
Total - continuing and discontinued operations									
Diluted adjusted EPS	**13.4**	248.0	**5.4**	19.8	248.6	8.0	39.1	247.0	15.8

Diluted EPS	**(1.8)**	248.0	**(0.7)**	14.3	248.6	5.8	36.6	247.0	14.8

Dilutive shares increased the basic number of shares at February 2018 by 2.3m to 248.0m (Feb 2017: 248.6m) and resulted in a diluted adjusted EPS of 5.4p, a decrease of 2.6p or 32.5% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 2.3m dilutive shares (Feb 2017: 2.1m). There is no further dilutive effect from deferred consideration in the period.

9 Discontinued Operations

The Books division was classified as held for sale on 31 August 2017 as the Group was actively marketing the division for sale. The sale of the Books business was completed on 14 February 2018.

In February 2017, the Group entered into an agreement in principle to sell the Connect Education & Care division which was therefore classified as held for sale as at 28 February 2017. The sale transaction was completed on 30 June 2017.

The results of the Books division have been classified as discontinued for the period to 28 February 2017, the year to 31 August 2017 and for the period to 28 February 2018. The results of the Connect Education & Care division have been classified as discontinued for the period to 28 February 2017, and for the year to 31 August 2017. This is in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations".

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

£m	**6 months to Feb 2018**			6 months to Feb 2017			12 months to Aug 2017		
	Adjusted	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Revenue	**114.3**	**-**	**114.3**	147.2	-	147.2	270.3	-	270.3
Expenses	**(112.7)**	**(10.7)**	**(123.4)**	(143.9)	(1.7)	(145.6)	(268.3)	7.5	(260.8)
Operating profit	**1.6**	**(10.7)**	**(9.1)**	3.3	(1.7)	1.6	2.0	7.5	9.5
Finance costs	**-**	**-**	**-**	-	-	-	-	-	-
Profit before tax	**1.6**	**(10.7)**	**(9.1)**	3.3	(1.7)	1.6	2.0	7.5	9.5
Income tax expense	**(0.3)**	-	**(0.3)**	(0.7)	0.3	(0.4)	(1.0)	1.1	0.1
Profit/ (loss) from discontinued operations	**1.3**	**(10.7)**	**(9.4)**	2.6	(1.4)	1.2	1.0	8.6	9.6

During the period, discontinued operations contributed £8.4m cash outflow (Feb 2017: £8.1m cash inflow), (Aug 2017: £3.8m cash inflow) to the Group's net operating cash flows.

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

	Period ending 28 February 2018	**Period ending 28 February 2017**	**Year ending 31 August 2017**
Goodwill	-	20.9	9.7
Intangible assets	-	6.3	3.0
Property, plant and equipment	-	5.6	4.0
Pension asset	-	0.3	-
Inventories	-	7.2	20.3
Trade and other receivables	-	7.9	26.1
Cash and bank balances	-	5.7	0.9
Current tax asset	-	-	0.5
Deferred tax asset	-	1.5	-
Total assets classified as held for sale	**-**	**55.4**	**64.5**
Trade and other payables	-	(8.7)	(48.5)
Current tax liabilities	-	(0.2)	-
Deferred tax liabilities	-	(0.7)	(0.4)
Provisions	-	-	(0.6)
Pension liability	-	(7.5)	-
Total liabilities classified as held for sale	-	**(17.1)**	**(49.5)**
Net assets of disposal group	-	**38.3**	**15.0**

10 Disposal of subsidiary

The Group disposed of the Books division on 14 February 2018.

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

	£m
Goodwill	9.7
Intangible assets	3.6
Property, plant and equipment	4.1
Inventories	20.7
Trade and other receivables	32.7
Cash and bank balances	4.6
Trade and other payables	(45.9)
Corporation tax liability	(0.1)
Deferred tax liabilities	(0.3)
Provisions	(0.5)
Net assets disposed	28.6
Gross proceeds received	18.7
Disposal costs	(1.5)
Release of deferred consideration liability	0.9
Net assets disposed	(28.6)
Loss on disposal	**(10.5)**
Total consideration	
Satisfied by:	
Cash	18.7
Net cash inflow arising on disposal	
Equity consideration	6.0
Intercompany overdraft repayment	12.7
Consideration received in cash and cash equivalents	**18.7**
Less: cash and cash equivalents disposed	(4.6)
Less: cash disposal costs	(0.7)
	13.4
Net cash inflow arising from Disposal of Books division	13.4
Cash consideration received in the period to 28 February 2018 arising from disposal of Education & Care	0.3
Net cash inflow arising from disposals	**13.7**

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

11 Net Cash Inflow from Operating Activities

£m	6 months to Feb 2018	6 months to Feb 2017 (restated)	12 months to Aug 2017
Continuing statutory operating profit	12.4	19.8	41.7
Discontinued operating profit	(9.1)	1.6	9.5
Operating profit	**3.3**	**21.4**	**51.2**
Losses on disposal of property, plant and equipment	-	-	0.4
Share of profits of jointly controlled entities	(0.3)	(0.2)	(0.4)
Loss/ (gain) on disposal of subsidiary	10.5	-	(19.0)
Pension funding	(2.5)	(2.6)	(5.2)
Depreciation and impairment of property, plant and equipment	5.4	4.6	9.3
Amortisation and impairment of intangible assets	6.4	7.1	23.1
Impairment of loan to joint venture	-	-	0.6
Share based payments	(0.1)	1.2	(1.2)
(Increase) in inventories	(2.9)	(7.8)	(2.0)

(Decrease)/ increase in receivables	-	(23.1)	3.9
(Decrease)/ increase in payables	(4.9)	25.6	(3.0)
Non cash pension and admin costs	0.2	(0.6)	(0.3)
Income tax paid	(3.1)	(5.3)	(10.9)
(Decrease)/ increase in provisions	(3.1)	(0.5)	4.7
Net cash inflow from operating activities	**8.9**	**19.8**	**51.2**

During the period, discontinued operations contributed £8.4m cash outflow (Feb 2017: £8.1m cash inflow) to the Group's net operating cash flows.

12 Intangible Assets

Goodwill is not amortised, but tested annually for impairment or more frequently if there are indications that goodwill might be impaired with the recoverable amount being determined from value in use calculations. The recoverable amounts of the combined cash generating units are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following 3 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The rate used to discount the forecast cash flows range from 12% 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.

Tuffnells

The Group has conducted sensitivity analysis on the impairment test of each of the CGUs classified within continuing operations. There is significant headroom on the carrying value of each CGU except for the Tuffnells CGU. The Tuffnells CGU has headroom on its carrying value of £8.2m prior to any sensitivities.

During the period, our desire to protect service levels in what remains a highly competitive market has required some of our forecasted cost reduction plans to be re-phased, and the national shortage of LGV drivers has also added cost and impacted efficiency of operations. Overall, the combination of cost headwinds and the increasing market uncertainty towards the end of 2017 has had an adverse impact on profitability to date. As such, the Group has performed a re-assessment of the carrying value of the goodwill and intangible assets associated with the Tuffnells business as at 28 February 2018.

The recoverable amounts are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts for the following three years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity. The pre-tax rate used to discount the forecast cash flows for Mixed Freight was 12%. Pre-tax discount rates are derived from the Group's post-tax WACC of 8%, and a tax and business risk adjustment totalling 4%.

The calculation of value in use is sensitive to changes in the discount rate and achievement of budgeted cash flows.

A 0.4% increase in discount rate would reduce the headroom to nil. A 1% increase in discount rate would lead to an impairment charge of £7.0m.

It is possible that further underperformance may occur in 2018 if demand remains uncertain and / or the benefit from the profit recovery actions taken to date are not realised in line with expected timeframes. A 6.9% underperformance against budgeted cash flows for Tuffnells would reduce the headroom to nil. Each further 1% underperformance against budgeted cash flows would lead to an impairment charge of £1.9m.

The individual material acquired intangible assets relate to the customer relationships and brand acquired on the acquisition of Tuffnells. The carrying value of these assets at 28 February 2018 is £15.5m and £20.9m respectively with a remaining amortisation period of 4.5 and 7 years respectively.

	Goodwill				Acquired Intangibles				Total			
£m	**On acquisition**	**HY 2018**	HY 2017	FY 2017	On acquisition	**HY 2018**	HY 2017	FY 2017	On acquisition	**HY 2018**	HY 2017	FY 2017
Media	5.7	**5.7**	5.7	5.7	2.6	**0.3**	0.6	0.5	8.3	**6.0**	6.3	6.2
Smiths News	-	**-**	-	-	0.3	**0.1**	0.1	0.1	0.3	**0.1**	0.1	0.1
Tuffnells	52.1	**52.1**	52.1	52.1	58.1	**36.4**	43.2	39.9	110.2	**88.5**	95.3	92.0
Total	57.8	**57.8**	57.8	57.8	61.0	**36.8**	43.9	40.5	118.8	**94.6**	101.7	98.3
Other intangibles										**6.4**	31.3	8.2
Total Intangible assets										**101.0**	133.0	106.5

Pass My Parcel

Included within intangible assets and tangible fixed assets are internally generated development costs and IT equipment costs of £2.0m (FY2017: £1.8m) associated with the development of the Pass My Parcel service. Given the decision to re-engineer the proposition and the inability to support the carrying value based on forecast cash generation, we have written down the £2.0m asset associated with Pass My Parcel to £nil at 28 February 2018.

13 Cash and Borrowings

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

£m	Sterling	Euro	USD	Other	Total 28 Feb 2018	At 28 Feb 2017	At 31 Aug 2017
Cash and cash equivalents - continuing	2.1	2.3	0.4	0.2	5.0	10.3	5.5
Cash and cash equivalents - held for sale	-	-	-	-	-	5.7	0.9
Cash and cash equivalents - total	2.1	2.3	0.4	0.2	5.0	16.0	6.4
Term loan - disclosed within current liabilities	-	-	-	-	-	(20.0)	(20.0)
Term loan - disclosed within non-current liabilities	(48.6)	-	-	-	(48.6)	(69.4)	(60.0)
Revolving credit facility	(33.0)	-	-	-	(33.0)	(67.0)	-
Total borrowings	(81.6)	-	-	-	(81.6)	(156.4)	(80.0)
Net borrowings	**(79.5)**	**2.3**	**0.4**	**0.2**	**(76.6)**	**(140.4)**	**(73.6)**
Total borrowings							
Amount due for settlement within 12 months	(33.0)	-	-	-	(33.0)	(87.0)	(20.0)
Amount due for settlement after 12 months	(48.6)	-	-	-	(48.6)	(69.4)	(60.0)
	(81.6)	**-**	**-**	**-**	**(81.6)**	**(156.4)**	**(80.0)**

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.

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 a revolving credit facility (RCF) for £125m on a higher interest margin than the previous facility but with similar covenant terms to the previous facility. The £33m due for settlement within 12 months relates to the RCF.

At 28 February 2018, the Group had £93.4m (28 February 2017: £83.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

14 Financial Instruments

The fair value of interest rate swaps and forward currency contracts at the reporting date are based on market values of equivalent instruments at the balance sheet date and are disclosed below. All derivative financial instruments are classified as level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Current			Non-current		
	Feb 2018	Feb 2017	Aug 2017	**Feb 2018**	Feb 2017	Aug 2017
Derivatives that are being designated and effective as hedging instruments carried at fair value						
Interest rate swaps - Liabilities	**-**	(0.3)	-	**-**	(0.8)	-

15 Provisions

£m	Reorganisation provisions	Insurance and legal provisions	Deferred contingent consideration	Property provisions	Total
At 1 September 2017	**(4.5)**	**(3.6)**	**(0.8)**	**(6.7)**	**(15.6)**
Additions	-	(0.6)	(0.1)	-	**(0.7)**
Utilised in period	2.3	0.8	-	0.4	**3.5**
Released	-	0.1	0.9	0.5	**1.5**
Unwinding of discount utilisation	-	-	-	(0.2)	**(0.2)**
At 28 February 2018	**(2.2)**	**(3.3)**	**-**	**(6.0)**	**(11.5)**

£m	Feb 2018	Feb 2017	Aug 2017
Included within current liabilities	(5.7)	(6.3)	(9.0)
Included within non-current liabilities	(5.8)	(6.6)	(6.6)
Total	**(11.5)**	**(12.9)**	**(15.6)**

Reorganisation provisions include amounts for programmes which consist primarily of redundancy costs, which were announced prior to the 31 August year end.

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims. A provision of £1.5m (£1.5m August 2017) is held in respect of a potential fine and legal costs associated with a fatality at Tuffnells' Brierley Hill depot.

Deferred contingent consideration related to amounts provided in relation to the acquisition of the remaining 49% share of Wordery on 27 August 2015, which has been released on disposal of the Books division.

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.

16 Contingent Liabilities

The Group has a potential liability that could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC in 2006, any such contingent liability, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (the actual liability of Connect Group PLC in any 12 month period is limited to £5m). The Group's share of such liability has an estimated future cumulative gross rental commitment at 28 February 2018 of £1.5m (31 August 2017: £2.0m).

17 Share Capital

(a) Share capital

£m	Feb 2018	Feb 2017	Aug 2017
Issued and fully paid ordinary shares of 5p each			
Opening balance at 1 September	12.4	12.3	12.3
Shares issued in the period/ year	-	0.1	0.1
Closing balance	12.4	12.4	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2017	247.7
Issued in the period	-
At 28 February 2018	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 meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

(c) Share premium

£m	Feb 2018	Feb 2017	Aug 2017
Opening balance at 1 September	60.5	59.2	59.2
Share issues during the period/ year	-	1.2	1.3
Closing balance	**60.5**	**60.4**	**60.5**

18 Related Party Transactions

No related party transactions had a material impact on the financial performance in the period or financial position of the Group at 28 February 2018. There have been no material changes to or material transactions with related parties as disclosed in Note 33 of the Annual Report and Accounts for the year ended 31 August 2017.

19 Reconciliation of Adjusted free cash flow to equity to net movement in cash and cash equivalents

A reconciliation of Adjusted free cash flow to equity to net movement in cash and cash equivalents is shown below:

	Feb 2018	Feb 2017	Aug 2017
Net decrease in cash and cash equivalents	**(1.2)**	6.7	(3.1)

Dividend paid	**16.5**	15.9	23.6
Proceeds on sale of subsidiary (net of disposal costs)	**(13.7)**	-	(56.8)
(Increase)/ decrease in borrowings	**(3.0)**	(16.0)	61.0
Adjustment for pension funding	**2.5**	2.6	5.2
Net outflow on purchase of shares for EBT	**-**	-	0.5
Proceeds on issue of shares	**-**	(0.6)	(0.7)
Dividends received from associates	**(0.1)**	(0.1)	(0.2)
Total free cash flow to equity	**1.0**	8.5	29.5
Discontinued free cash flow to equity	**9.0**	(6.8)	(0.8)
Continuing free cash flow to equity	**10.0**	1.7	28.7

20 Responsibility Statement

We confirm that to the best of our knowledge:

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

By order of the Board.

Mark Cashmore
Chief Executive Officer
1 May 2018

David Bauernfeind
Chief Financial Officer
1 May 2018