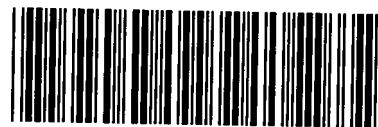




10 years of delivery

Connect Group PLC
Annual Report and Accounts
2016

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Ten years of delivery

Since 2006 Connect Group has been delivering market leading services to our industry partners.

Combining four market focused divisions the Group has national reach and a portfolio of operations that leverage our scale, skills and competencies. Adding value across our supply chains, the Group's specialist distribution businesses are underpinned by scale efficiencies, bespoke technology and industry expertise.

Entering our second decade as an independent PLC the Group is focused on further growth and expansion.

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Solid Group performance in line with expectations

19.8p

Adjusted EPS
+0.5%

£60.7m

Adjusted PBT
+7.4%

£1,907m

Total revenue
+1.7%

9.5p

Dividend
per share +3.3%

£49.6m

Free cash flow
+24.6%

Good progress on strategic and operational priorities

- Continued strong performance of Tuffnells
- Growing scale and capability in Pass My Parcel
- Delivered £7m of business efficiencies across the Group
- Investing in core capability and capacity
- Closer collaboration between Smiths News and Tuffnells

Group at a glance

Connect Group PLC is a UK based specialist distributor operating in a range of large and complex markets.

The Group has four operating divisions; each a leader in its field. Every day we connect thousands of suppliers to their customers, with efficiency, market knowledge and sector expertise.



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A leader in newspaper and magazine distribution, with recent expansion into the growing Click & Collect market.

The division comprises:

- Smiths News, the UK's largest news wholesaler.
- DMD, serving the specialist needs of airlines and travel points worldwide.
- Pass My Parcel, a growing presence in the Click & Collect market.

A leading provider of business-to-business freight specialising in items of irregular dimension and weight.

Focusing on small and medium enterprises, Tuffnells Parcels Express plays a critical role as the supply chain partner for its 4,700 customers. Its network of 37 depots provides national reach and the necessary flexibility to meet the needs of complex and time sensitive deliveries.

£174.4m

Revenue

£15.0m

Operating profit

£1,471m

Revenue

£42.4m

Operating profit



Page 24 for more information



Page 22 for more information

A specialist supplier of consumables to schools, nurseries and care homes.

Offering a range of over 40,000 products we aim to meet the comprehensive needs of our customers. Our catalogues and industry leading websites use careful product selection and targeted promotions to make buying easy for our customers.

A leading distributor of books to retailers and libraries with a fast growing direct to consumer offer through Wordery.

The division operates in four distinct markets: wholesale, direct to consumer, UK libraries and International libraries. Since its launch in 2012 Wordery has been one of the fastest growing UK Booksellers.

£195.9m

Revenue

£2.5m

Operating profit

£64.8m

Revenue

£7.8m

Operating profit

The Group manages its portfolio to achieve long term profit growth and substantial cash generation that supports strong returns for shareholders and investment for further growth.

Solid performance with good progress on operational priorities

I am pleased to confirm the Group has delivered another solid performance across the year, increasing profit and developing new revenue streams for the future.

In what has been a turbulent period for the wider economy and the political environment, the Group's clear focus and relatively stable markets have underpinned our financial results. More broadly, the Group's strategic investments for growth have made good progress as has our strategy to leverage the capabilities of our portfolio.

The financial performance of the Group is in line with market expectations, delivering another year of profit growth. Statutory profit before tax of £41.9m is up by 45% (FY15: £29.0m), and Statutory earnings per share is up 47% to 13.7p. Group Adjusted profit before tax of £60.7m is up by 7.4% and Adjusted earnings per share is up by 0.5% to 19.8p. These results benefit from strong growth and a full year of trading in our Parcel Freight division and a solid performance by the News & Media and Education & Care divisions, which together account for 96% of the Group's Adjusted operating profit.

Looking to the performance of our divisions in more detail, News & Media returned adjusted operating profit of £42.4m, down 3.0% (FY15: £43.7m) including the impact of the losses incurred in Pass My Parcel. Parcel Freight, incorporating Tuffnells, continues to show strong growth, winning market share in the business-to-business freight sector; Adjusted operating profit of £15.0m is up 4.9% on a 52 week basis, after increased investment in the business this year. Our two largest divisions have also begun to explore and develop opportunities to collaborate that are expected to deliver cost efficiencies.

This cooperation between Smiths News and Tuffnells, providing national coverage for parcel distribution, is an important strategic step forward.

Education & Care generated adjusted operating profit of £7.8m, flat to the previous year (FY15: £7.8m) but representing an increase in market share in what has been a tough year for education spending, and positioning the business well for FY17 when we expect market conditions to improve. The Books division contributed adjusted operating profit of £2.5m, down 3.8% on the previous year (FY15: £2.6m) as a consequence of extremely difficult conditions in the library supply markets and new costs, offsetting an improvement in high street sales and the continued strong progress in Wordery.

The Group's long term strategy is clear: we plan to grow and diversify in specialist distribution markets that align to our core capabilities, delivering competitive advantage through scale, efficiencies and expertise. In the ten years since becoming an independent PLC we have made excellent progress, expanding from a single business operating in one sector, to become a broader based distributor with greater capability and range of opportunities. Our divisions are all leading players in their sectors, giving us a firm foundation from which to develop new revenues that will complement our core markets.

The Group's financial position remains strong. Free cash flow increased by 25% to £49.6m (FY15: £39.8m). The Group's net debt of £141.7m is down by £12m and, at 1.7x EBITDA, it remains comfortably within our banking covenants. Our progressive dividend policy aims to ensure a proportion of profit growth is passed to shareholders; a final dividend of 6.5p, up 3.2%, has therefore been proposed, making a full year dividend of 9.5p up 3.3% on last year.

Every year brings its challenges, and never more so in what is a growing and developing business. As ever, our people have risen to meet them; not only with a daily dedication to the needs of our operations, but also to the less tangible requirements of business integration and cultural change. I would like to thank them for the essential role that their commitment and positivity plays in our success at every level.

The Group is and has always been committed to ensuring our staff work at all times across all divisions in a safe environment with clear processes, regular training and a culture of attention to safety in all that we do. It is therefore with great sadness that I must report a fatality at Tuffnells' Brierley Hill depot in January 2016. We are assisting the Health & Safety Executive in its investigation which is ongoing. Due to the uncertainties over the potential outcome and timing of this process and having regard for the circumstances surrounding the incident, the Board considers it appropriate to make a financial provision in relation to this matter (see Note 24 of the financial statements). This tragic event reinforces our determination to continue making improvements in Health & Safety across the Group and further investment will continue to be made in the next year to support this goal.

My colleagues on the Board have also provided vital support, enhanced by the insight and candour of the Group Executive led by Mark Cashmore. Their approach to teamwork, underpinned with an intellectual rigour, has made my first full year as Chairman enjoyable and challenging in equal measure. On 1 October 2016, we welcomed David Bauernfeind to the Board as Chief Financial Officer and I am looking forward to drawing on his experience and fresh perspective. In the meantime, I would like to thank his predecessor, Nick Gresham, for his valuable contribution over six years with the Group.

Embarking on our second decade as a PLC, the Group is as ambitious as ever. Our divisions have clear plans for growth, supplemented by a range of opportunities for cross-Group collaboration and innovation. We will continue to review acquisition opportunities especially those that will create further efficiencies and leverage our infrastructure to create competitive advantage. Above all, we remain committed to delivering long term value to shareholders.

I am confident of our future success and look forward to reporting on progress.

Gary Kennedy
Chairman

Adding value

Connect Group PLC is a specialist distributor, operating in large and complex markets. We add value to suppliers and customers by providing efficient and market focused services, backed with leading industry expertise.

The Group has four operating divisions, each serving a distinct and carefully chosen market. In managing this portfolio, the Group is able to leverage the combined skills and competencies of its core businesses, adding value and creating new opportunities for revenue and profit growth.

Core Values underpin our approach to doing business

Trusted Service

We win by giving outstanding service.

Fresh Thinking

We have the courage to embrace change and try new things.

A Better Way

We are determined to get better at what we do, and how we do it.

Mutual Respect

We show and earn respect, acting with integrity in all that we do.

Partnership

We are in it together – building stronger working relationships for shared success.

Value creation

Chosen markets

The Group's markets are characterised by a large number of suppliers, a complex to manage product range, and a diverse and dispersed customer base. This combination of customer and product fragmentation supports the role of an industry specialist, and encourages long term partnerships with industry stakeholders.

Long term partnerships

Partnership is key to our business model, providing the foundation for investment and further development of our specialist services. Working closely with suppliers and customers means our services and technology become integral to their supply chains. This, in turn, facilitates further value creation through jointly developed services and strategic planning.

Scale efficiency

Our scale and cost efficiency supports a high value and timely distribution service that underpins our competitive advantage. By working across our supply chains we are able to deliver even greater efficiencies and share the benefits with customers and suppliers.

Specialist services

The Group's operating companies provide a range of specialist services which enhance the distribution of physical products. Our expertise and industry knowledge adds value for suppliers and customers, with additional services tailored to the needs of our particular markets.

Smart technology

We operate some of the largest and most sophisticated customer information and marketing systems in our chosen industries. This provides an overarching market insight which individual suppliers or customers cannot replicate. We use technology to support value creation in areas such as the efficient allocation of supplies, targeted product selection, returns processing and demand forecasting.

Market focused distribution

The Group's specialist services are developed and tailored to sector and customer needs. We offer suppliers and customers a range of options which include: stockholding and product consolidation; multiple and complex product picking; returns processing; market data and forecasting, ultra-time-sensitive distribution; track and trace technology. Working together we can plan for peaks and troughs and manage complex requirements, which more generic distributors would be less able to handle.

Industry expertise

The Group's divisions and key operating businesses are acknowledged experts in the supply chains of their respective industries. We have a long term commitment to our suppliers and customers, investing in systems and infrastructure which enhance our service and expertise, while simultaneously supporting their success.

Market insight

The Group's market insight is essential to value creation, underpinning our partnership with suppliers and customers. In what are complex and fragmented markets, our oversight of sales and customers gives a unique breadth and depth of understanding, leading to better supply allocation and promotional targeting. The market information we hold drives efficiency and encourages a higher return than is typical of a more limited wholesale model of consolidation and distribution.

Leveraging the Group

As the Group grows, the combined skills and competencies of our businesses provide the opportunity for entry into new and emerging markets. Building on our existing infrastructure and technology, the Group has a clear opportunity to enhance its scope of operations in response to demand for new services. We are committed to investing in these opportunities and to building long term propositions that leverage our abilities and complement our existing operations.

Measuring our success

CAREFULLY CHOSEN MARKETS

The Group operates in carefully selected markets, in which the supply chain is fragmented and there is a clear role for a specialist distributor of scale.

Within our chosen markets we aim to be a leading player and critical supply chain partner, valued by our customers and suppliers.

To achieve this we exploit our core competencies with a differentiated proposition backed by trusted service and operational efficiency.

DELIVERING GROWTH

We aim to deliver growth through a mix of:

- Market growth (in line with or ahead of increases in £GDP).
- Market share gain and consolidation to drive scale.
- Cost savings from scale and operational competency.
- Commercial, supply chain and operating synergies across the Group.

PEOPLE AND VALUES

Core values underpin our approach to doing business.

We aim to create an environment that is safe and rewarding, and which enables our people to deliver exceptional service.

Our Strategy continued

Progress against our goals

We have made good progress against both our strategic and operational goals, supporting performance of the divisions and positioning the Group for future growth.

PROFITABLE LONG TERM GROWTH

Enhance our market leading proposition, strengthening our supply chain relationships and customer service standards. Developing, attracting and retaining profitable new business.

Our success will be measured by:

- Growing PBT and EPS to create long term shareholder value.
- Growing organic revenue streams which enhance Group diversification and long term returns.

PROGRESS 2016

- Adjusted PBT increased 7.4% in the period to £60.7m, benefiting from a full year of Tuffnells and underpinned by solid performances from both the News & Media and Education & Care divisions, despite a challenging year in the Books division.
- This was reflected in an Adjusted EPS of 19.8p up 0.6% on the prior year, with a Statutory EPS of 13.7p up 47.3% on the prior year.
- Our progress and experience this year in Pass My Parcel reinforces our confidence in the opportunity for the Group in the Click & Collect market. We are accelerating our investment. In FY17, we are targeting an increase in the number of retail clients and we will also launch an online portal that will open up Pass My Parcel's network to the thousands of small businesses selling on marketplace sites such as eBay. These initiatives will support our plan to grow volumes to 3 million parcels in FY17 – a six fold increase from FY16, that will establish Pass My Parcel as a scale operator.

FURTHER EFFICIENCIES ACROSS THE GROUP

Continue to optimise the cost base through network and operational efficiencies across the Group. Further optimising the Group and divisional operating model, achieving synergies and leveraging Group scale and strengths.

Our success will be measured by:

- Identifying and developing clear plans for sustainable cost reduction beyond FY16 of at least £5m per annum.
- Delivering planned synergies from the acquisitions of Tuffnells and the enlarged Group.

PROGRESS 2016

- We have delivered £7m of planned and targeted business efficiencies, £5m of which were in Smiths News.
- The synergy and integration plan is on track and across a range of opportunities we are starting to leverage the combined skills and competencies of Tuffnells and Smiths News, as well as driving benefits from the increased scale of the Group.

STRONG CASH GENERATION AND CAPITAL MANAGEMENT

Continuing to focus on strong cash generation to support our progressive dividend policy.

Our success will be measured by:

- Returning free cash flow higher than in prior years.
- Deleveraging and reducing our net debt/EBITDA ratio.
- Developing a return on capital metric to track total returns.

PROGRESS 2016

- We have delivered strong cash performance in FY16, with the Group generating £49.6m in free cash flow, an increase of 25% over the prior year.
- Net debt closed the period at £141m, which was in line with our expectations.
- Net debt and our net debt/EBITDA ratio have both improved year on year as a result of strong free cash flow generation, even after exceptional items. This has enabled a £12m reduction in net debt while delivering £22.7m in dividend payments.

LEVERAGING THE GROUP'S CAPABILITY

Capitalising on the increased scale and scope of the Group's activities to find additional commercial opportunities. Exploring and implementing opportunities for cross-Group working that enhance the capabilities and competitive advantage of individual divisions and their operating businesses.

Our success will be measured by:

- The extent and growth of shared services and efficiency of the Group's operating model.
- The achievement of UK national coverage across a greater range of distribution services.

PROGRESS 2016

- The Group has continued to implement its use of a shared services model. Centralisation of certain functions has allowed divisions to benefit from maximising the efficiency of a Group operating model.
- In Smiths News and Tuffnells, the businesses have benefited from working closely together as part of the Group.
- After running a successful proof of concept trial, Smiths News is now partnering with Tuffnells at three locations, providing drivers and vehicles to deliver Tuffnells parcels outside of the newspaper and magazine delivery windows. This arrangement allows us to flex capacity at low cost and is expected to increase as we approach Tuffnells' peak trading period which takes place in the Spring.
- In addition, Tuffnells is now making deliveries for Pass My Parcel. Currently operating from 11 depots, the partnership gives Pass My Parcel national reach and delivers a flexible and cost effective solution to reaching those areas beyond the Smiths News territorial footprint.

DEVELOPING ORGANIC REVENUES IN NEWS & MEDIA

Investing in commercial initiatives that grow and further diversify the Group's revenues on an organic basis. While primarily focused on News & Media, staying alert to opportunities in other divisions. Balancing a medium term contribution and return on investment with a long term view of opportunity and market positioning.

Our success will be measured by:

- A more balanced portfolio of revenue in the News & Media division over time.
- Expanding our territorial reach, winning new clients and adding new services in the Click & Collect market.
- A positive contribution from investments within targeted timescales.

PROGRESS 2016

- We remain focused to developing organic revenue opportunities across the Group to address the structural challenges faced in the print media market.
- In the period, our investment and net costs in Pass My Parcel were £4m as we launched a mobile enabled returns service with ASOS, the online clothes retailer, and delivered a fully national network through the developing partnership with the Parcel Freight division.
- By routing deliveries through Tuffnells as well as Smiths News, we have increased our territorial reach and can now offer retailers a complete solution of deliveries and returns across the whole of mainland UK.
- To support business growth this year, we are planning for total costs to increase, however, the anticipated uplift in volume and revenue will reduce the net impact on the P&L to around £2.5m, and result in positive contribution thereafter.
- Jack's Beans, our vended coffee offer has expanded to over 400 stores. With revenue of £1.3m from coffee sales and rental income it is now having a modest but positive impact on operating cash flows.

COMPETITIVE ADVANTAGE THROUGH OUR PEOPLE

Recruiting and retaining market leading engaged people to deliver the Group's vision. Developing and strengthening a culture of excellence that supports the growth and retention of talent, further enhancing our supply chain relationships and reinforcing the Group's Values.

Our success will be measured by:

- Staff retention and turnover figures.
- Staff engagement surveys.

PROGRESS 2016

- We relaunched our approach to employee engagement, by running an annual survey in partnership with a new supplier, with focus on more pragmatic and effective tools.
- This change in approach underpins a plan to create a cultural shift with an ambition for engagement to be more focussed on the activity that happens throughout the year.
- We continue to invest in the skill building and the development of our employees. We regularly refresh our internal training curriculum and have delivered over 95 face to face programmes in the last year with over 87% of participants rating their experience as 'Very Good' or 'Excellent'.
- We remain committed to the development of market leading distribution skills and have made plans to deliver an 'academy' focused on developing internal talent.

Key performance indicators

TOTAL GROUP REVENUE £M

Description We aim to combine organic growth and acquisitions to offset the expected decline in newspapers and magazines.

ADJUSTED PROFIT BEFORE TAX £M

Description We aim to grow profitability by combining top line revenue growth, delivering efficiencies and acquisitions.

ADJUSTED EPS PENCE

Description We aim to return value to shareholders by growing earnings per share in line with underlying profit growth.

DPS PENCE

Description We aim to return value to shareholders by growing dividend per share in line with underlying profit growth.

FREE CASH FLOW £M

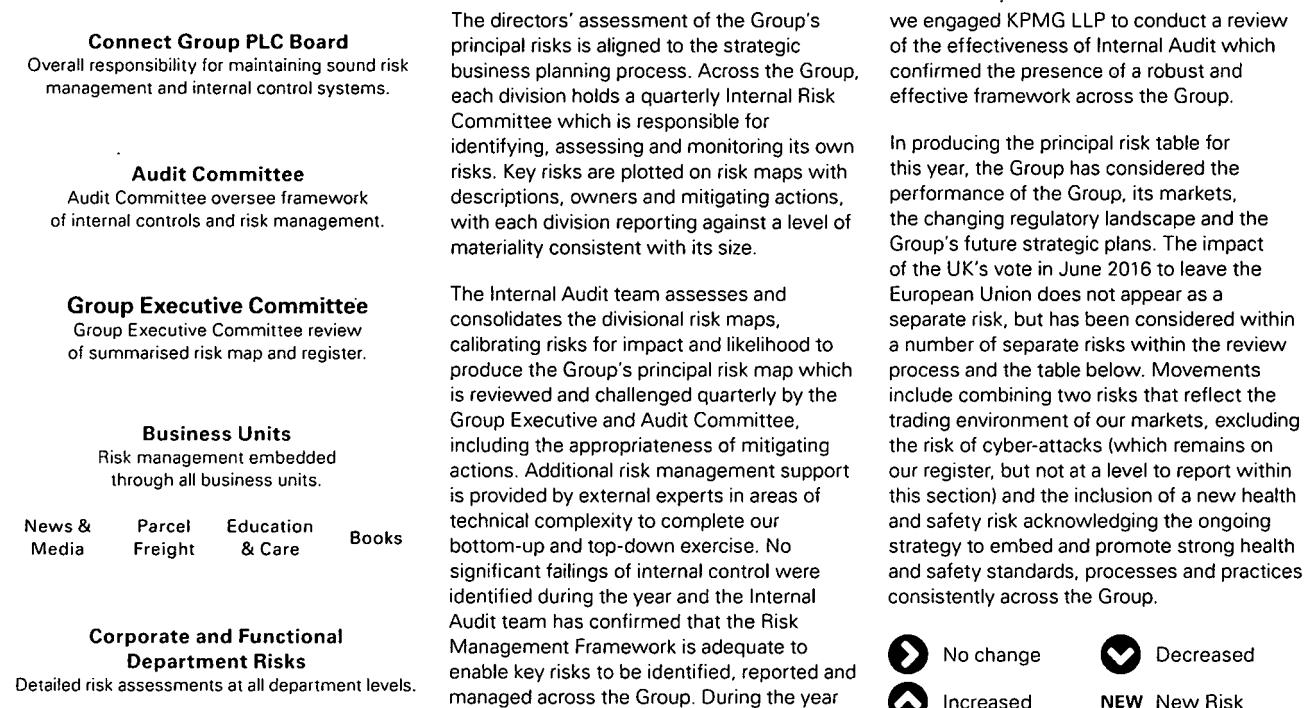
Description We aim to continue investing in our business to achieve long term sustainable profit growth, whilst being able to generate strong levels of free cash flow.

NET DEBT RATIO %

Description We aim to continue investing in our business to achieve long term, sustainable profit growth, whilst returning cash to shareholders and reducing our leverage ratio.

Risk Management

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 functional directors in each division and regular reporting to and robust challenge from the Audit Committee.



Principal Risk	Movement of risk compared with FY15 Risk Map	Potential Impact	Mitigating actions and assurance
Development of new technologies and demographics drives change in customer behaviour and supply chain dynamics resulting in structural market changes being deeper and quicker than predicted, including migration from print to digital.	➡ No structural changes across our markets. Risk remains consistent with FY15.	Sales decline in newspapers and magazines are worse than expected (forecasted expectation of a -3% to -5% range) and/or the Books market is impacted, each resulting in lower profit and negative market sentiment related to printed media.	A consistent pattern and clear view of market volumes ensures more accurate forecasting and combines with an expectation of continued declines for newspapers and magazines. Management continues to identify efficiencies to compensate for market declines. The Parcel Freight division is a significant financial contributor toward the Group's overall results, mitigating market declines for newspapers, magazines and books. The Group's organic strategy, including Pass My Parcel, seeks to further protect the Group from over exposure to individual market risks.
Change in Government policy, including the uncertainty of the impact of Brexit, economic conditions and/or competitive environment could adversely impact current and/or projected business performance above that included in the business planning and review process.	➡ Improved macro-economic climate pre-Brexit has been negated by Brexit. Risk remains consistent with FY15.	Reductions in discretionary spending may impact sales of newspapers, magazines or books and/or see a reduction in parcel volumes. Reductions in Government spending may also be seen, potentially reducing consumables budgets in schools. Uncertainty from Brexit may affect the Group in both the short and medium term on trade arrangements, future capital investment strategies, resourcing costs, availability and government strategy on public services/schools.	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. Management has a track record of delivering revenues and efficiencies to compensate for market impacts.
Major supplier or customer loss/consolidation or dominance changes the trading relationship, impacting current and projected business performance.	⬇ Customer/supplier management in News & Media is strong. Likelihood of risk reduced whilst impact remains the same as FY15.	Impact on supply of product or route to market may erode margin and/or increase cost to serve.	In News & Media, publishers typically award five year contracts supporting the market structure. The Books, Education & Care and Parcel Freight divisions operate in very fragmented markets with fewer key significant suppliers or customers. Strong relationships across the supply chain help the Group to understand and demonstrate its strengths for the benefit of its suppliers and customers.

Principal Risk	Movement of risk compared with FY15 Risk Map	Potential Impact	Mitigating actions and assurance
Failure to deliver business plans and/or financial returns on recent acquisitions or new initiatives or a failure to identify new organic growth opportunities or acquisitions impacts external confidence and shareholder perception, bringing into question the future strategic direction of the Group and confidence in its delivery.	 The volatility and uncertainty of key profit drivers in Pass My Parcel and the Parcel Freight division suggests the likelihood of risk has increased but at a lower impact level compared to FY15.	Sales and/or profit expected from acquisitions/organic growth may not be met and/or the Group's reputation and support for future acquisitions are challenged. Cultural change for diversification results in reduced performance and financial returns. Uncertainty from Brexit may affect the Group in both the short and medium term on trade arrangements, future capital investment strategies, resourcing costs and availability and government strategy on public services/schools.	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made. Performance to plans are reviewed monthly with post investment analysis producing a more thorough review of each acquisition within 12 months after completion. Detailed integration process, governance and support framework ensures effective and timely adoption of standards and process into recent acquisitions.
Legislative changes or interpretation impacting the engagement of employees and delivery contractors result in an increase in the number of employees and/or costs, including the uncertainty of the impact of Brexit.	 Known increasing employment costs are largely taken into account in the latest budgets. Future impact of Brexit on employment risks unknown, therefore likelihood increased while impact remains the same.	Increased number of employees or cost per employee increases the cost base and potentially creates greater redundancy liabilities from future efficiency programmes. Brexit uncertainty over the continued availability of EU workforce and/or treatment of current EU workers in the UK could result in the short and medium term shortage of labour and/or increased labour costs.	Self-employed delivery contractors have clearly articulated agreements defining tasks they are contracted to provide to News & Media with annually set commercial terms. The introduction of the National Living Wage (and future anticipated increases) impacts only a limited proportion of employees, when assessed across the Group as a whole. The associated knock-on impact of the National Living Wage to maintain wage differentials across grades will continue to be monitored. Regular checks are carried out by Internal Audit across the Group network ensuring understanding and compliance.
Breach of airside security at DMD exposes the business to penalties and/or reputational impact, leading to increased costs and potentially loss of contracts.	 Continued strong security controls and monitoring. Risk remains consistent with FY15.	Costs could increase through additional security requirements and/or penalties, with severe reputational damage potentially causing the loss of contracts for our media business.	External security advice supports internal staff to review DMD's exposure, measure effectiveness of controls and recommend new controls if required. In addition, insurance is taken out to cover the Group from major risks.
Major business disruption incurred through operational events (e.g. contractor/employee disputes, increasing reliance on centralised system solutions and complex operations, including single sites) are not supported by robust Business Continuity Planning and Disaster Recovery solutions to prevent disruption outside of expected tolerances.	 Robust processes are embedded in central solution and operates within a business as usual environment. Risk remains consistent with FY15.	Trading capability, customer experience and sales/margin performance impacted through inability to operate due to systems outages, location access or employee/contractor strikes.	Investment is made to provide disaster recovery capability across the Group for all essential systems. Expertise is used to provide guidance and the Group operates an external disaster recovery facility. In addition, a programme led centrally ensures business continuity planning procedures and standards are embedded across the divisions.
Loss of key executives and subsequent loss of knowledge and skills impacts current and future business performance.	 Reassessment of likelihood and impact suggests likelihood is lower than previously considered.	Loss of key skills and leadership impacts the capability of the Group to deliver its strategic goals.	Performance and capability management processes are in place, reviewed by the Remuneration Committee and Group Executive. Succession planning for critical roles and development plans for key individuals is also reviewed by the Nominations Committee.
3 year strategic business plan is jeopardised by constraints on capacity and/or increasing costs of divisional premises and equipment/systems to meet growth plans.	 Latest 3 year plan budgets capital investment/operating expenditure and lease commitments to deliver growth. Therefore, likelihood reduced while impact remains the same.	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.	The annual business and strategic planning process ensures appropriate investment is budgeted to ensure growth targets are achieved.
Effort required for organisational change in new and established organisations is increased due to lack of appropriate skills. Creates excessive demands on new and existing staff. Results in loss of key people, lack of engagement and loss of in-depth knowledge/specialist skills. Impacting both current and future business performance.	 Investment in new roles and skills and embedding new management, results in no change to the risk rating.	Management's focus on current business operations and performance is distracted by organisational change and new initiatives. Management become overstretched and demotivated by demands of the Group and exit, taking valuable skills and knowledge with them.	Organisational and cultural change is a key imperative, leading to investment in resources and skills that are required to deliver the successful integration and development of new businesses and business critical initiatives, including investment in expert skills in change management and project management.
Failure to embed and promote health and safety standards in current and recently acquired businesses, results in serious injury to employees and/or the public. Reputational impact and breach in regulatory standards leads to loss of operating license, significant financial and personal penalties.	NEW Operational and cultural integration of the Parcel Freight division and incidents in the year justify a new principal risk.	Health and safety practices are not embedded within the Group resulting in serious incidents, reputational impact and/or loss of regulatory licences (e.g. operator's licence).	Group oversight is led by the Group Head of Health & Safety to ensure good practice standards are embedded across the divisions as standard operating practices. Current strategies exist for divisions to manage/train health and safety standards, with dedicated roles assigned. The Parcel Freight division continue to focus on execution of key deliverables and areas identified for further improvement, with clear action plans and dedicated resources allocated. Significant continued investment is budgeted for health and safety improvements across the estate in FY17.

Ten years of delivery

Our results this year are a continuation of the progress we have made since 2006.

Group overview

For over ten years we have built on our heritage in news wholesaling to become a leading specialist distributor, delivering growth and strong, sustainable returns to shareholders, and offering satisfying careers to our staff. As we start our second decade we are well placed to accelerate this progress and take full advantage of the skills and capabilities of our people.

Despite challenging conditions in some of our markets, overall Adjusted profit before tax has increased in line with our expectations, underpinned by operational progress in all divisions. Continued strong cash generation supports our plans for further investment in opportunities that help to diversify our future profit streams.

The Group also continues to create value and deliver strong returns to shareholders. Adjusted profit before tax is £60.7m, up 7.4% (FY15: £56.5m). Statutory profit before tax is up 44.5% to £41.9m (FY15: £29.0m). Free Cash Flow of £49.6m is up 24.6% supporting a proposed full year dividend of 9.5p, up 3.3%.

While all parts of the Group have made important contributions to these results, two areas require mention as being particularly important. In our first full year of ownership, the Parcel Freight division has continued to reinforce its growth and leadership in the market for business-to-business freight. Meanwhile, Smiths News, still the largest business in the Group, has again achieved a combination of cost control and resilient revenue performance that underpins the overall Group's profit and cash generation. The progress of these, our largest two businesses, has established a powerful dynamic that we expect to increasingly generate value for the Group.

Operational progress

In what has been a challenging year for several of the markets in which we operate, the Group has continued to perform well, maintaining commercial and operational progress on our strategy for growth.

The News & Media division delivered a solid result, with the performance of Smiths News and DMD, supporting continued investment in Pass My Parcel, which has strengthened its position in what is a growing market with significant potential. The performance of Smiths News has been driven by a combination of continued resilience in printed media and the achievement of planned operational efficiencies that are delivering sustainable long term savings. Further contract renewals for Smiths News mean that 94% of our publisher revenues at current levels are now secured through to at least 2019 and over 70% to 2021. DMD, our specialist supplier to airlines and travel points, grew sales by 9%, resulting from new contracts and increased volumes from existing UK newspaper and magazine publishers.

Our investment in Pass My Parcel, since its launch in October 2014, is testament to our belief in the wider potential of the Group's capabilities. The demand for Click & Collect services is growing rapidly, driven by consumer expectations of online retail services; over time we intend to develop Pass My Parcel into a significant revenue and profit stream. This year, we have expanded the service with a convenient paperless returns offering in partnership with online clothing retailer ASOS, our service capability has been proven and awareness of the brand is increasing. We have also, in readiness for the 2016 Christmas peak trading period, expanded the reach of our national network by using Tuffnells' depots to deliver parcels in areas outside of the Smiths News territorial footprint. Having proven our ability to deliver a quality service as judged by consumers, the challenge now is to develop broader brand awareness and further enhance our pace and flexibility in new client implementation. In doing so, we can expect to expand our range of retail clients and then grow our volumes and market share.

The Parcel Freight division had another strong year, growing revenue and profit as a result of increases in both volumes and prices, supplemented by increasing net new customers by 11%. Improved service, driven by a rigorous measurement of KPIs, has reduced rectification costs and increased customer satisfaction, again leading to

repeat business and the attraction of new customers. More broadly, the demand for business-to-business freight has remained buoyant, despite recent uncertainty in the wider economy. The division has also made good progress in exploring partnerships with other areas of the Group; trials are progressing to confirm a number of cost and revenue opportunities from collaboration between Smiths News and Pass My Parcel operations.

The Education & Care division has maintained its performance in what have been challenging conditions across the education market. Continued growth in Early Years and Primary confirms our strength in these sectors, and contract wins from International sales has helped partially to offset the more difficult Secondary Education sector. Our performance relative to competitors indicates we are winning market share, positioning us favourably once the market returns to growth. Investment in client facing E-Commerce is at the forefront of our strategy to win new business and drive efficiencies. Over 35% of orders are now placed online, reducing our dependency on printed catalogues and giving us greater opportunity to use tactical pricing and promotions.

Finally, the Books division had a difficult year. Having stabilised the business in FY15, the benefits of progress in Wordery and a good recovery in UK Wholesale, have been offset by further contraction of the library markets and new cost pressures that could not be fully mitigated in the period. In the public library sector, we were unable to renew a number of contracts at commercially sustainable rates – this has had an adverse impact on revenue in the year. Despite these conditions, the business has responded well in other areas, with a pleasing improvement in operational performance and customer service. The continued progress of Wordery is a highlight of the year, with sales of £49m and growth of 26%. Profit this year was also adversely affected by a number of cost base issues including increased postage charges and the introduction of the National Living Wage which had a disproportionate impact on the division. Action has been taken to help mitigate these impacts and establish a stronger platform for a return to growth.

Strategy and future growth

In ten years as a PLC, the Group has evolved from a news and magazine wholesaling business, to become a leading specialist distributor with interests in a range of sectors.

Our operating model varies slightly across the divisions, but is united by a common thread of adding value to complex supply chains with a combination of scale efficiencies and market expertise which benefits both suppliers and customers. Our commitment to service and investment underpins long term commercial partnerships, facilitating relatively stable revenue streams that allow for the development of new and market leading initiatives.

The Group's success in growth and diversification has been driven by three clear strategies:

- winning new business in our existing markets by investing in service propositions that deliver tangible value to customers and suppliers;
- broadening the range of our interests and reducing reliance on printed media, through the acquisition of carefully selected targets; and
- investment to create new revenue streams that leverage our skills and respond to emerging opportunities and new markets.

Looking ahead, we foresee greater opportunity to leverage the scale and assets of our divisions in ways that create efficiencies and new commercial opportunities. While each division will continue to focus on its particular market, we will continue to explore opportunities to apply our collective capabilities in ways that enhance our service. During the last year, Smiths News started making 'last mile' deliveries on behalf of Tuffnells, helping to manage capacity by fulfilling smaller deliveries more efficiently than would otherwise be possible; meanwhile Tuffnells began delivering on behalf of Pass My Parcel, expanding our territorial footprint while maintaining the cost efficiencies that create competitive advantage. There is clear opportunity to develop more and similar initiatives across the Group.

The result of the UK Referendum in June 2016 on leaving the EU ('Brexit') has affected business confidence and the long term impact on the UK economy remains uncertain. The vast majority of our revenues are derived from trade that takes place within the UK, meaning we are potentially less affected than businesses with greater dependency on EU trade. However, we are not immune to any wider impact on the economy and the possibility of further cuts to Government spending may directly impact some of our markets. We will monitor developments carefully, but do not currently envisage any change to our strategy arising from the UK's decision to leave the EU.

Developing our people and culture

The Group's achievements are founded on the skills and determination of our people; their passion for success has embraced a level of change and challenge that was unforeseeable at the start of our journey. Our progress this year would not have been possible but for their exceptional commitment.

I am determined that we match their efforts with investment that develops skills at all levels, providing career opportunities for all: from young people at the start of their careers, through to our most experienced senior managers. Maintaining our success will require new skills and fresh thinking, but there is much we can learn from each other, and I am delighted to see an increasing number of our people gaining experience across the divisions.

This year, we completed the first staff engagement survey to embrace the entire Group. The results confirmed the many positive aspects of the way we work together, highlighting the common values and aspirations we share across the divisions. The survey also demonstrated there is scope for positive change and we are working hard to make a difference. Feedback sessions are empowering teams to take local actions, as well as shaping our understanding of improvements we can make to broader organisational design.

Health & Safety

Across the Group, we work round the clock to manage the movement of goods and vehicles, often under extreme time pressure. In these conditions, the safety of our workforce must be paramount. It was therefore deeply distressing that in January 2016 a fatal accident took place at Tuffnells' Brierley Hill depot. Our thoughts of course have been with the family affected and we have worked hard to support our colleagues at the depot too.

Since the incident we have been assisting the Health & Safety Executive in its investigation and are making every effort to learn from the circumstances and root causes of this tragic event. I have been reassured by the response of our colleagues to this tragic event and their collective determination to raise standards still further and to ensure our workplaces are as safe as they can possibly be.

In the period since acquiring Tuffnells we have invested heavily in training, facilities and our vehicles in order to reduce hazards and accidents. This programme of investment will continue as the Board and the Group Executive are steadfast that the health and safety of people across all parts of the Group is a key priority and a matter on which we will not compromise.

Ten years of delivery

In reporting on our progress, I am grateful for the support and constructive challenge of all my colleagues on the Group Executive and the Board and would like to thank them for the invaluable contribution they have made to the business this year. I am also especially conscious that it is the people at the frontline of our businesses who are the driving force behind our ambitions and successes. It is a privilege to lead a company that demonstrates such talent and determination on a daily basis.

As we begin our next ten years of delivery, I believe we are better placed than ever to build on the progress we have made together.

Mark Cashmore
Group Chief Executive

News

Jonathan Bunting
Managing Director

£5m

savings in 2016

£10m

savings planned
in next two years

70%

of revenue
secured to 2021

94%

of revenue
secured to 2019

£9m

sticker sales
UEFA 2016

400

Jack's Beans
outlets

£1.3m

Jack's Beans
revenue

The News & Media division has again delivered a solid performance, maintaining profit in the core Smiths News and DMD businesses, while supporting increased investment in Pass My Parcel and absorbing the impact this year of the introduction of the National Living Wage. Adjusted operating profit of £42.4m is down 3.0% (FY15: £43.7m) after including the impact of these investments. Excluding increased losses in Pass My Parcel and removing the benefit of the UEFA European football championship sticker album sales in 2016, profit for the division would be marginally down year on year.

The strategic progress of Pass My Parcel, together with a growing demand for new delivery solutions, reinforces our confidence in its long term potential. This year, we expanded our territorial coverage, launched a returns solution and achieved high levels of customer satisfaction which confirm our operational capability. The business is well prepared for the forthcoming seasonal peak and we plan to expand the range of services and client channels in the current year.

Smiths News

Markets show resilience

The newspaper and magazine market continues to demonstrate resilience, with a stronger than expected performance from newspapers and monthly magazines. Newspaper sales were down 3.2% on a like for like basis, with price increases helping to offset volume declines. Combined sales of all magazine categories were down by 4.3%. Monthly titles continued to perform relatively strongly compared to recent years, after showing signs of improvement in FY15. The UEFA European football championship boosted sales of stickers and albums by an additional £9m this year.

Looking ahead, our plans for Smiths News remain based on our medium term strategic forecast, which anticipates a decline in revenue of between 3% and 5% per year, in line with historical trends.

Core operations

In Smiths News, targeted operating efficiencies of £5m in the year were achieved in full and without impact on service. The achievement of these sustainable cost savings is essential to our strategy, helping to offset the expected decline in core sales. The benefits of this year's cost savings will flow through to the future, and we are targeting a further £5m annual savings in each of the two financial years FY17 and FY18, mitigating the impact of our medium term sales forecasts.

In independently conducted surveys, our service was rated as best in industry by both publishers and retailers for the 9th year. Delivering a high quality daily service remains a top priority of our publishers and retailers; it improves efficiency by minimising rectification costs and facilitates expansion into new ventures, such as Jack's Beans and Pass My Parcel.

This year, we rationalised the packing and distribution of product at a number of depots including Crawley, Slough, Southampton, Reading, Plymouth and Newport. Our 'hub and spoke' strategy is now well established with eight magazine locations strategically positioned across the UK, supported by a further 33 distribution centres that facilitate the last mile deliveries and packing of newspapers.

Our track record in delivering efficiencies is driven by a culture of continual improvement, with a well-established process of piloting ideas, followed by speedy roll out of those that prove successful. Further consolidation and process opportunities have been identified for the coming year, giving us high levels of confidence in meeting our efficiency targets.

Contract gains secure future revenue and territories

This year we secured a new agreement with Northern & Shell (publisher of, amongst others, the Daily Express and Daily Star newspapers and OK! magazine) across all our existing territories through to 2021. Other contract renewals included Topps Direct, a leading producer of stickers and collectables. This brings the percentage of publisher revenues, at current values, secured to at least 2019 to 94%, with 70% secured to 2021. Further gains with regional publishers were also made. In addition to the relative predictability these long term agreements bring to our future revenues, the clarity over our operating territories allows us to identify additional areas for consolidation, further supporting our efficiency targets.

In the spring of 2016, we experienced disruption to service at both of our Birmingham and Oxford depots, as a result of a withdrawal of services by a number of our self-employed delivery contractors. These isolated incidents were the result of local disputes over contract rates. Our contingency planning minimised the impact on customers and full service was swiftly restored; however the ongoing contractual disputes led to the need for wider and more sustained cover for potential disruption, impacting costs this year. The issues are now fully resolved and operations have returned to normal. Further detail is included in our assessment of risk on page 12.

Cooperation with Parcel Freight

This year we have been working with Tuffnells, piloting the opportunity to fulfil smaller customer deliveries using capacity from Smiths News outside of the news wholesaling time window. Early trials have proved successful at three locations across the Tuffnells network and we will be expanding the arrangement in FY17. It is clear that, with similar networks, there is tangible opportunity for shared services and, potentially, infrastructure too over time. We plan to explore these opportunities, while maintaining the discreet expertise and customer focus of each operation.

Other new revenues

Jack's Beans, our vended coffee solution is now available in over 400 outlets. This year, we have developed our understanding of the most profitable retailers and operating models that has helped to attract new customers. Jack's Beans has now sold over 1.5 million cups of Fairtrade coffee, delivering £1.3m revenue in the year, and brand awareness is growing as we improve the quality and density of our retail locations.

Future plans

Our plans for Smiths News are well established. The newspaper and magazine markets, though declining, continue to provide a solid and relatively predictable base for the business. Our recent contract wins give further certainty over our territories, boosting our ability to achieve annual efficiencies that will help mitigate declining core sales for years to come. The strong cash generation of the business supports continued investment in new revenue initiatives and the potential for a closer integration with Tuffnells is an exciting opportunity to leverage the skills and infrastructure of both divisions.

Media

+8.9%

strong sales

£27.6m

total revenue

Extended contracts
News UK

Media Wall

London
Glasgow
Edinburgh

DMD

Markets

The supply of newspapers and magazines to airlines and travel points has seen strong demand from publishers and travel operators. Revenue for DMD was £27.6m, up 8.9% on last year (2014: £25.4m). Demand for in-flight digital media continues to grow steadily, and we have made further progress in this area during the year.

DMD has also benefited from strong demand from UK publishers targeting distribution to international airline and travel point passengers. Sales increases were predominately driven by increased promotional activity from UK newspaper publishers. Efficiency initiatives, including the automation of magazine packing and better utilisation of network capacity helped to improved operating margin.

Contract wins and renewals

This year we opened a number of airline and airport platforms to support our publishers' goal to reach more airline customers.

The airside 'media wall' concept successfully launched in FY15 at Gatwick was extended to both Glasgow and Edinburgh airports. Media walls display complimentary newspaper and magazine titles to a potential readership of hundreds of thousands of passengers every week. We anticipate strong publisher demand for placement on the media wall concept through FY17, and will be working to secure expansion of the concept to overseas locations.

On the digital side of our business we have made a number of gains, including new and extended agreements with Eurostar, Virgin Trains and Cathay Pacific. Across these and other contracts, the digital content we now manage includes news and magazines, movies, TV, and HTML5 games.

Future plans

The core service proposition of DMD is strong and stable and we see opportunity to expand in the UK and internationally. Investment in building our capabilities, particularly in selected global markets will continue in FY17.

We expect demand for digital services to continue to grow, albeit steadily rather than as a step change move from print. The continual enhancement and development of our digital press and entertainment offer, will underpin our marketing plans for FY17. Working through the in-flight entertainment content service provider side of our business (DMD Phantom), we will seek to build on the important gains this year with airlines and international and high speed train operators.

Pass My Parcel deliveries are now serviced by 38 Smiths News depots, with a further 11 Tuffnells depots extending our coverage to new areas beyond our newspaper and magazine delivery footprint. This arrangement, in combination with our network of parcel shops, means we can now offer retailers a complete solution for delivery and returns across the whole of mainland UK.

In April 2016, we announced a new partnership with ASOS, the online clothing retailer, offering a unique mobile enabled returns process. Entry into the returns market is an especially important development for Pass My Parcel, with industry estimates showing that two thirds of all parcels handled through Click & Collect retailers are returns to online suppliers. We are excited about this development and will be investing to increase consumer awareness of the speed and convenience of sending returns through Pass My Parcel.

This year we have incurred a total loss of £4m in supporting Pass My Parcel, and we expect to continue incurring losses as we grow our share of the market. Our strategy acknowledges that the development of retailer clients and services will take time; and that new clients require sophisticated technology, operational integration and marketing solutions. We are pleased with progress to date and have a pipeline of interest from new clients, together with developments that will increase the scale and scope of Pass My Parcel over time. Our ongoing investment strategy reflects our confidence that the medium term opportunity is significant and that the Group has established capabilities that support our competitiveness in this market.

Pass My Parcel

Pass My Parcel is our consumer parcel delivery and returns service, partnering with a range of online retailer clients. Offering up to twice daily deliveries and a paperless returns process, Pass My Parcel combines the convenience of a local pick up point, with some of the fastest available times from click to collection.

The Click & Collect market continues to grow strongly, with industry analysts predicting the option of local customer collection will soon become essential to any major online retailer offer. The speed and scale of the increased demand for Click & Collect has led to a wide range of solutions across the marketplace, all of which are evolving as providers and retailers learn and respond to the most popular and cost effective models.

Serving our network of parcel shops, we delivered half a million parcels this year, meeting some of the fastest turnaround times for online consumers. The vast majority of customers report that they are extremely satisfied and would recommend Pass My Parcel to others. In a survey we conducted with Amazon, 92% of customers said they intend to use Pass My Parcel again, achieving a Net Promoter Score of over 60%, all of which confirms our capability to deliver a quality service for the Click & Collect market.

In what is a fast paced environment, we have also made progress with our goals of increasing the range of clients and services we offer, and expanding our coverage of UK postcodes. The total number of parcel shops has varied over the year as a consequence of actively managing our shop estate to ensure we are best placed to meet demand, continually reviewing the quality of our offer and territorial coverage. As at 31 August 2016, we have over 3,300 parcel shops contracted with us, with more targeted to come on stream before the season peak.

500k
parcels delivered

£6.5bn
Click & Collect UK
market forecast
by 2018

99%
of deliveries
on time

37

depots

Leicester
Norwich

New depots
FY16

13m

consignments
per annum

97%

of deliveries
completed on time

4,700

customers

**11% customer
growth**

FY16

£15m

Planned investment
in FY17

Tuffnells continues to perform well, with revenue and profit growth reflecting a combination of strong demand and service improvements that are attracting new customers. Revenue of £174.4m is up by 7.3% and Adjusted operating profit of £15.0m is up by 4.9% on a comparable 12 month period. Growth has been broadly consistent across all regions and we have experienced record volumes of daily consignments following investment in the network that has increased our capacity.

Sustained growth

Demand for next day mixed freight has remained buoyant across the year, with only minor impact being felt in the second half of the year following the uncertainty surrounding the future of the UK economy in the light of Brexit. In this respect, it is helpful that the majority of our customers are medium sized enterprises operating and trading wholly in the UK.

Customer churn is a feature of the parcel freight market, as businesses continually seek the best prices and most competitive deals. It is therefore pleasing to report that we have attracted a net 11% increase in customers across the full year. Customer attraction has been driven by improved service, combined with a number of our competitors introducing supplementary charges for outsize consignments as they move away from unconventional and irregularly sized freight.

Expansion of the network following new depots in Norwich (September 2015) and Leicester (November 2015) has increased our capacity, in turn facilitating consignment growth. Total consignments grew by 5.8% year on year. Managing capacity is an ongoing challenge with the goal of greater flexibility across regions leading to improved net profitability of operations. We will be focusing our network and fleet investment on areas that will improve the quality of revenues as well as increasing our overall capacity.

Improved service and strong underlying demand enabled the introduction of a rate change, implemented without loss of business. The new rate card takes greater account of local market movements, allowing us to adjust customer pricing accordingly. This, together with adopting a more consultative sales model, and establishing a robust offer for weight based packages, has been a further factor in increasing the revenue received per consignment.

This year's performance includes the absorption of increases in the cost base of the business. These include the implementation of the National Living Wage, additional costs for driver attraction and retention (which is believed to be an industry-wide issue), and a programme of improvements to infrastructure to address historical underinvestment in the network.

Safety first

Improving the safety of operations in our Parcel Freight division has been a priority for the Group since acquiring Tuffnells in December 2014. In addition to the improvements already made, we will, over the next three years, continue to implement a rolling programme of upgrades to site facilities, supporting this with improvements in reporting processes and training at all levels. In what will always be a fast moving and physical environment we are determined to take every possible step to minimise risks and ensure the safety of our staff, contractors and customers.

Building on service

The current levels of market growth, together with our good position in the niche for items of irregular dimension and weight (IDW), provides us with the confidence to invest in Tuffnells as a key driver of growth in shareholder value in the medium term.

Managing the balance of delivering a quality service, mitigating cost base pressures, integrating into the wider Group, and investing for growth, is an ongoing management challenge. A suite of KPIs through which we manage the business ensures we are on track, and performance over the year has further improved from what was already a strong position. On Time Delivery (a material KPI in the industry) has averaged over 97%, a critical element in delivering the high levels of service which reduce rectification costs as well reinforcing the quality of Tuffnells' customer proposition.

Leveraging Group opportunities

The on-boarding of Tuffnells to the Group is now complete. Without compromising our focus on bedding in the business and securing growth, we have enhanced the management team and begun to leverage skills and resources by working more closely with the other divisions.

This year, working with the News & Media division, we have successfully launched two strategic partnerships, unlocking benefits from Group synergies that enhance service and reduce cost. At three locations, Tuffnells is drawing on flexible capacity of Smiths News to make early morning, last mile freight deliveries. We plan to expand this to ten locations by December 2016. In parallel, at 11 depots Pass My Parcel is using Tuffnells' infrastructure and delivery vehicles to extend the reach of the proposition into new delivery areas. These initiatives demonstrate the potential to share resource and expertise and to deliver cost effective services that would not otherwise be possible in isolation.

Opportunities to leverage cost efficiencies and expertise are also being pursued in the Group support functions. The Group's expertise in fleet and property management is being brought to bear, with day to day responsibility for these activities moving to the central Group Service team. In the technology arena, we are working to upgrade operational and customer communications that will further enhance and differentiate our offer. And, in Human Resources, the inclusion of Tuffnells in the Group's engagement survey has improved our understanding of the impact of cultural change investment; investment in training and staff communication has also been increased.

Future direction

The business model of Tuffnells as a specialist distributor of next day IDW freight is clear and the quality of our offer is increasingly differentiated in the market. This year, we have targeted our investment and operational plans on improving service and winning new customers, reinforcing the strength of our offer with greater capacity and beginning to develop closer partnerships across the Group.

The economic outlook gives us confidence of steady growth in the market for mixed freight. The consequences of Brexit on our markets remains unclear but, given the wide spread of our business and its intra-UK profile, we currently believe the impact is likely to be gradual and indirect. We will continue to pursue opportunities across all sectors and are confident that, in addition to capitalising on economic growth, Tuffnells can continue to succeed in its chosen market in the year ahead.

Glenn Leech
Managing Director

40,000+

products
Catalogue, telephone,
online

35%

of orders online

Early Years
Primary
Secondary

Catalogue

Telephone

Online

The Education & Care division has sustained its profitability and grown share despite currently challenged markets. Adjusted operating profit of £7.8m is in line with last year (FY15: £7.8m) representing a good performance relative to our competitors.

Throughout the year our E-Commerce strategy has built momentum, with over 35% of orders now placed online, up from 25% last year, and on track for our medium term target of 50%.

Markets

The demand for education consumables has been weaker this year, despite the underlying demographics which support our confidence that growth will return in the medium term. We estimate the market to have been down by circa 6%, impacted by one-off increases in teacher pension and National Insurance costs that had to be absorbed by school budgets this year. In this context, the business has performed extremely well, outperforming its competitors, and developing its customer channels to support further gains as the market returns to growth.

Full year like for like sales across all education categories were down by 2.8%. Continued strong performance in Early Years up 6.4% confirms our strength in this sector, now showing an overall compound annual rate of growth of 12% across the division since acquisition. The mainstream education sector has been more challenging, although our sales to Primary schools have performed more strongly and are flat on FY15. Sales from the Care sector, which represents only 6% of our revenues, were down by 7.8%.

This year, we have renewed our framework contracts for Wales and Dorset and seen further growth in orders from Scotland. International sales are also up by 24%.

Building strong relationships

Over recent years, schools have become increasingly sophisticated in their procurement processes. While this has put pressure on the market, it provides opportunity for the division to win share through its strong overall customer proposition which is backed by high quality service.

The improvements we made to warehouse management and capacity in FY14 and FY15 have been instrumental in improving service and building stronger relationships. Availability of key demand lines has improved and 'On Time and In Full' delivery has increased over the year with a strong performance over the seasonal peak. These are critical measures, directly impacting customer satisfaction.

Building stronger relationships with customers based on service and value remains central to our strategy. The new mobile optimised websites are easy to search and navigate, with smart product suggestions highlighting appropriate offers. Our goal of 'easy buying' for customers is enhanced by best in class online functionality and our integration with popular school financial management systems.

To enhance our offer further we have developed content that aids teachers with lesson plans and classroom activities, linking these to products where appropriate. Working with Scholastic, and other content partners, we have received excellent feedback from schools on this innovative approach which helps them to deliver outstanding education that meets the requirements of the national curriculum.

Sales to Care homes are down by 7.8% due to the termination of unprofitable contracts and continued price pressure in the sector driven by the cost of implementing the National Living Wage in care homes. Care represents only 6% of divisional sales.

Future direction

Our strategy is well established and on track. Despite recent uncertainty over budgets in the education sector we maintain our confidence that the investments and progress we have made will bring rewards as the market returns to overall growth. We plan to maintain our investment in E-Commerce, continually enhancing our offer and building strong relationships, based on value and service, which position us as the first choice supplier for our customers.

Books

+9%

UK Wholesale
total sales

£49m

Wordery total sales

+26%

Growth in Wordery
sales in FY16

Justin Adams
Managing Director

+8.9%

UK consumer
books market

Connect Books experienced a challenging year with mixed fortunes across the sectors in which we operate. Wordery continues to perform very strongly and Bertrams wholesale has also shown good growth. These performances were offset by continued weakness in the library markets, exacerbated by cost increases, mix and margin challenges. Adjusted operating profit of £2.5m is therefore down 3.8% on last year (FY15:£2.6m) despite an increase in revenue of 3.1%.

Markets and trading

The division operates in four distinct sectors of the Books market, with the respective business units having accountability for sales, profit and service. These encompass: UK Wholesale (serving booksellers and internet retailers), Wordery (serving consumers directly), Libraries (serving UK academic and public libraries, including digital services), and International (serving European and Worldwide academic and corporate customers).

Independent data shows the UK Consumer Books Market increased by 8.9% over the period. Connect Books' UK sales outperformed the market with Wholesale sales up 8.9%, and Wordery sales up by 26.7%. Our overall share of the UK consumer books market grew from 5.6% to 5.7%.

Wordery sales have grown to £49m p.a. up 26.7% on last year. Its continued strong performance in both platform sales and Wordery.com, which now accounts for 23% of sales, has been driven by continued investment in marketing and innovation. We are exploring opportunities to accelerate the international development of Wordery, which we believe offers further exciting potential for growth.

International

Erasmus
Houtschild

The Bertrams business, serving the UK wholesale market, has grown sales to £91m, up 8.9% on last year, driven by growth in all channels including the independent bookseller channel where we have worked hard to improve our service offer. Whilst the market remains highly competitive, if we deliver agile cost effective and entrepreneurial solutions to customers, we expect opportunities will continue to present themselves.

Offsetting this progress, the UK library markets (encompassing both the public and academic sectors) have remained very challenging. Independent statistics for these markets are not available but it is clear that budget cuts and austerity measures are having a continued impact, compounded by a migration of spend from printed books to digital publishing and journals. In this regard we have continued to invest in our core DawsonFra and Dawson Enter digital solutions and improve our service levels. Last year, we made the strategic decision to withdraw from a number of public library contracts and only bid for new ones at sustainable rates, so this part of our business has therefore contracted. To help mitigate this, we have restructured our library operations to maximise efficiency and effectiveness.

Our overseas library operations have fared more strongly, though, again with mixed results. Erasmus and Houtschild, based in Amsterdam and serving European institutions have continued to perform well; our Dawson operations in France and Spain have suffered from greater weakness in their markets, and again we have restructured accordingly.

Operations and service

The improvement of customer service has been central to our strategy to win and retain customers. Despite the tough trading conditions we have continued to invest in service, making good progress that has contributed to our revenue and share gains.

A change in parcel carriers resulting from a review last year has improved our 'On Time and In Full' deliveries to consistently over 98% and has delivered a step-change in the quality and regularity of customer deliveries, especially over the peak Christmas period. We have also sought to improve the availability of key titles and whilst managing our working capital.

In parallel to these improvements in warehouse operations, we continue to evolve our commercial organisation to become more customer-centric, agile and efficient.

Increased costs

The profile of our warehouse operations has meant the introduction of the National Living Wage has had a disproportionately greater impact compared to other businesses in the Group. Increases in postal costs for Wordery, and parcel rates for trade orders, have also had a significant impact on direct costs. The contractual nature of many of our trade relationships and the competitiveness of the markets we operate in means there is limited ability to recover these costs through buying and pricing. As a consequence, while we have worked hard to mitigate the increases, profit performance has inevitably been impacted.

Outlook and future priorities

Whilst we have seen many of the benefits of our more customer centric strategy, the outlook for growth in the Books division remains challenging. The continued progress of Wordery, along with our core Bertrams wholesale business in a more buoyant consumer market gives us positive momentum in our direct-to-consumer and trade sales. In contrast, we expect to see continued fragility in the UK library markets, challenges to margins and the full year of impact of cost increases which will dampen expectations of growth over the next twelve months. Subject to market conditions, ongoing progress in implementing our strategy and the efficiency benefits of a planned investment in packaging automation, we would expect to see improved performance in the medium term.

Solid financial performance

In FY16, the Group has delivered another solid performance – increasing profit in line with expectations and making progress on all our key financial metrics.

David Bauemfeind
Chief Financial Officer

Financial measure	FY2016 result and narrative	Guidance FY2017
Adjusted Results	<ul style="list-style-type: none"> Adjusted operating profit of £67.7m was up 6.2% (FY15: £63.8m), as FY16 performance benefited from a full year of Tuffnells ownership. Adjusted profit before tax of £60.7m is up 7.4% (FY15: £56.5m) benefitting from a full year of Tuffnells ownership. Basic adjusted earnings per share of 19.8p is up 0.5% (FY15: 19.7p). Fully diluted adjusted earnings per share of 19.5p is up 2.6% (FY15: 19.0p). 	Despite challenging markets and increased investment in our business, we are confident of delivering a robust performance in the current financial year and are confident in our longer term prospects
Further reference Note 2, page 81.		
Finance Cost	<ul style="list-style-type: none"> Net finance costs were £7.0m (FY15: £7.3m). Net bank interest and-related charges were £5.5m (FY15: £5.8m) which were lower as a result of lower average borrowings. 	Finance costs in FY17 are expected to remain at a similar level to FY16, as the Group has the majority of its debt protected by interest rate hedges.
Further reference Note 7, page 88.		
Exceptional items	<ul style="list-style-type: none"> Exceptional items after tax totalled £14.9m (FY15: £24.0m). Network and reorganisation costs were £4.4m (FY15: £4.5m), acquisition and disposal costs £3.8m (FY15: £15.1m) include £1.9m of anticipated deferred consideration for Tuffnells and Wordery and £1.9m incurred on external fees relating to acquisition and disposal activity in the period. A £1.1m pension credit relates to Education & Care adjustments to reduce discretionary increases on The Consortium Care scheme. The largest item in the year, at £10.2m, was the non-cash amortisation of intangibles resulting from previous acquisitions. The net book value of the acquired intangibles of £55.2m will continue to be amortised over future years. Legal provision of £1.5m for a potential fine and related legal costs arising from the outcome of the Health & Safety Executive's investigation into the fatality at Parcel Freight's Brierley Hill depot in January 2016 (FY15: £nil). The total cash cost in the year was £10.8m (FY15: £8.2m), a proportion of the exceptional items are accrued at year end and will be paid subsequently. 	The Group expects to incur network and reorganisation costs in FY17 at a similar level to FY16.
Further reference Note 4, page 83.		The cash impact is expected to be in line with the profit impact of network and reorganisation.
Statutory Results	<ul style="list-style-type: none"> Statutory profit before tax of £41.9m is up 44.5% (FY15: £29.0m) largely as a result of acquisition related costs incurred in the prior period not repeating and a full year of Tuffnells ownership. Basic earnings per share of 13.7p is up 47.3% (FY15: 9.3p). Fully diluted earnings per share of 13.5p is up 50.0% (FY15: 9.0p). 	The Group expects the year-on-year movement of statutory results performance to be consistent with adjusted results performance before the impact of any future acquisition and disposal activity.
Further reference Note 10, page 89.		
Taxation	<ul style="list-style-type: none"> The adjusted tax charge was £12.4m (FY15: £11.1m), the adjusted effective tax rate was 20.4% (FY15: 19.7%), which is a result of the FY16 adjusted effective tax rate being adversely impacted by re-measurement of the deferred tax assets due to the future reduction in the UK tax rate from 20% to 18%. The statutory tax charge was £8.5m (FY15: £7.6m), the statutory effective tax rate was 20.3% (FY15: 26.3%) with a tax credit on Exceptionals of £3.9m in FY16 compared to a credit of £3.5m in FY15. 	The Group expects its future tax charges to be broadly in line with standard UK corporation tax rates.
Further reference Note 8, page 88.		
Dividend per share	<ul style="list-style-type: none"> The interim dividend per share of 3.0p up 3.4% (FY15: 2.9p) was paid on 8 July 2016. The proposed final dividend of 6.5p is up 3.2% (FY15: 6.3p) and will be payable to shareholders who are on the register at 13 January 2017 on 10 February 2017. The total proposed dividend for FY16 of 9.5p is up 3.3% (FY15: 9.2p). 	The Group has a progressive dividend policy, expecting to grow future dividends as the Group achieves future profit and cash growth.
Further reference Note 9, page 89.		

Financial measure	FY2016 result and narrative	Guidance FY2017
Cash and debt Further reference Note 19, page 94. Group cash flow statement, page 74.	<ul style="list-style-type: none"> The Group continues to deliver strong free cash flows reporting £49.6m (FY15: £39.8m), up 24.6%. This included a working capital inflow of £nil (FY15: outflow of £8.0m), capital expenditure £13.9m (FY15: £9.2m), net interest paid £4.9m (FY15: £5.8m), taxation £8.5m (FY15: £8.7m), pension funding £5.3m (FY15: £5.4m) and other cash inflows of £1.1m (FY15: £1.5m). As at 31 August 2016 net debt was £141.7m (FY15: £153.4m). Net debt is a combination of £150.8m of gross debt and £9.1m of cash held in local entities to finance local operations. The Group borrowings fluctuate during the financial year resulting in FY16 average borrowings being £21.3m higher than the closing position and maximum borrowings in the period of £193.5m. 	<p>The Group expects to deliver free cash flow in FY17 more in line with those achieved in FY15, as a result of increased investments.</p> <p>The Group expects FY17 net debt to remain at similar levels to FY16, before considering the impact of any corporate activity that may or may not take place.</p> <p>The Group targets net debt to decrease from FY18 onwards.</p> <p>The Group expects to remain comfortably within its banking covenants throughout FY17.</p>
Covenants	<ul style="list-style-type: none"> The Group remains comfortably within each of its banking covenants. Net debt/adjusted EBITDA was 1.7x (FY15: 1.9x) versus a covenant limit of 2.75x. Interest charge cover was 14.5x (FY15: 15.0x) versus a covenant minimum of 3.0x. Fixed charge cover was 3.1x (FY15: 3.3x) versus a covenant minimum of 2.0x. Guarantors' cover exceeded the required standard set by the Company's banks of at least 80% of the annual consolidated turnover, gross assets and pre-tax profits. 	
Bank Facilities Further reference Note 20, page 95.	<ul style="list-style-type: none"> The Group has £250m of committed bank and Treasury facilities in place as at 31 August 2016 through to November 2018 (FY15: £250m). The facility comprises a term loan of £100m with limited repayment over the term period and a revolving credit facility of £150m, which expires in November 2018. Interest rate hedges, used to manage exposure to interest rate fluctuations, covered 65% of the Group's core borrowings as at 31 August 2016. 	<p>The Group expects to continue to have headroom within these facilities in line with those seen in FY16.</p>
Pensions Further reference Note 6, page 84.	<ul style="list-style-type: none"> The Group operates four defined benefit schemes, four are closed to new entrants and two are closed for future accrual. The Smiths News section of the WH Smith pension trust has assets of £641.5m and an actuarial deficit of £23.0m as at June 2013. As at 31 August 2016 the IAS19 surplus of £151.3m (FY15: £135.6m) was not recognised in the accounts as the amount available on a reduction of future contributions is £nil. The Group recognises the present value of the agreed schedule of future contributions as a pension liability of £10.3m on the balance sheet (FY15: £13.8m). The Consortium defined benefit schemes have combined assets of £17.7m and a combined actuarial deficit of £1.5m as at December 2013. As at 31 August 2016 the IAS19 deficit was £7.9m. The Tuffnells defined benefit scheme has assets of £12.7m and an actuarial deficit of £2.5m as at 1 April 2013. As at 31 August 2016 the IAS19 deficit was £3.0m. The total cash contribution of defined benefit schemes and expenses in the cash flow statement for FY16 was £5.3m (FY15: £5.4m). 	<p>The Group expects cash contributions for FY17 to be slightly lower than FY16, pending the agreement of the March 2015 triennial valuation being finalised.</p>
Shares Further reference Note 10, page 89.	<ul style="list-style-type: none"> As at 31 August 2016 the weighted average basic number of shares issued was 243.4m (FY15: 230.9m). As at 31 August 2016 the fully diluted number of shares was 247.2m (FY15: 238.5m). Fully diluted shares include 2.3m for employee incentive schemes (FY15: 4.1m) and 1.5m shares (FY15: 3.5m) being the weighted impact of future share schemes and shares allotted in relating to the deferred consideration arising out of the Tuffnells acquisition. 	<p>The Group expects the deferred consideration from acquisitions which is to be settled in shares and future employee incentive scheme requirements to further increase weighted shares to 247m in FY17.</p>
Acquisitions Further reference Note 12, page 91.	<ul style="list-style-type: none"> There were no acquisitions in the period. In the prior year, the Group acquired The Big Green Parcel Holding Company Limited (which operates as Tuffnells) for a total consideration of £114.0m, with a further potential deferred consideration payable of £15.3m. Deferred consideration for Tuffnells of £5.1m has been paid in cash in the year and £1.1m has been fully accrued for year 2 and 3 deferred consideration. In the prior year, the Group also completed the acquisition of the 49% minority interest in Wordery for an initial cash consideration of £5.2m and further potential consideration of £3.3m. Deferred consideration for Wordery of £0.8m has been fully accrued in the year. 	<p>The Group will continue to pursue its stated strategic ambition of delivering sustainable shareholder returns, which includes potential acquisition and disposal activity.</p>
Critical Accounting Policies Further reference Note 1, page 75.	<ul style="list-style-type: none"> The directors believe that the accounting policies below represent those which require the greatest exercise of judgement. The directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results. Retirement benefit obligations. Goodwill and impairment assessments. Revenue recognition. Property contracts. Taxation judgements. Provision estimates. 	
Going Concern & Viability Assessment Further reference Note 1, page 75. Note 19, page 94.	<ul style="list-style-type: none"> The Group meets its day-to-day working capital requirements through its bank facilities of up to £250m. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities. Considering the principal risks discussed in the Strategic Report, the directors have a reasonable expectation that the Group has adequate resources to continue in operation and meet its liabilities as they fall due for both in the foreseeable future and for the period of the three year viability assessment. Thus, the Group continues to adopt the going concern basis in preparing its consolidated financial statements. 	

An active & integrated approach

The Group operates to a well-established foundation of responsible practice, embracing an awareness of our impact on industry stakeholders, the wider communities in which we operate, our workforce and the environment.

Across the Group we manage corporate responsibility with a focus on four areas: Workplace (including health & safety), Marketplace, Community and Environment.

In addition to Group-wide policies and initiatives, each division has an active programme that relates to its particular market.

Wherever practical, we encourage the integration of corporate responsible policies and goals into our day to day activity, reinforcing our view that responsible practice is integral to our operating model and competitive differentiation.

In seeking to make an active difference in each of these areas, we pay careful attention to developments in our markets, as well as changes to legislation and overall best practice in the management of corporate responsibility. More widely, we work with our industry partners to support responsible practice and make progress across our supply chains that would not be possible on a standalone basis.

The Group's community link-up programme is now in its fourth year. The scheme encompasses fundraising for charities, community volunteering and support for good causes which are important to our people. Through the link-up programme we encourage individuals and teams to become involved in their communities; this year, they have supported a wide variety of community and charity events – from participating in fun runs and bake-offs to the organisation and sponsorship of charity music festivals. Whatever the activity, the enthusiastic involvement of colleagues reflects the goodwill this creates both within and beyond the business.

Corporate responsibility continued

Environment

The Group has continued its progress in reducing the Carbon Emissions from operations and has achieved a carbon footprint reduction of 3.9% on a like for like basis.

Carbon Emissions data

Fuel Type/Scope	1 March 2013 – 28 Feb 2014 Tonnes of CO ₂ e	1 March 2014 – 28 Feb 2015 Tonnes of CO ₂ e	1 March 2015 – 28 Feb 2016 Tonnes of CO ₂ e
Scope 1	5,046	4,006	3,616
Scope 2	6,372	5,141	4,778
Scope 3	13,702	14,726	14,549
TOTAL	25,120	23,872	22,943

Excluding the Parcel Freight division

Greenhouse Gas Emissions Intensity Ratios

Intensity Ratios	Reporting Year	CO ₂ e tonnes per £1m turnover	CO ₂ e tonnes per employee	CO ₂ e tonnes per square metre of premises
	1 March 2013 – 28 Feb 2014	13.96	6.18	0.17
	1 March 2014 – 28 Feb 2015	13.55	6.24	0.17
	1 March 2015 – 28 Feb 2016	13.25	6.22	0.15

The roll out of energy efficient lighting has continued with 12 sites completed in the Parcel Freight division this year and a further eight identified for the next phase of activity. The impact of this programme across the Group has helped achieve a 7% reduction in the Group's scope 2 emissions on a like for like basis.

We have made further progress in the management and monitoring of energy and recycling. The Group met the Energy Saving Opportunity Scheme deadline and notified the Environment Agency of its compliance covering all subsidiaries. The Parcel Freight division was also included in our reporting for the Carbon Reduction Commitment.

Since 2012, the Group has, in partnership with Biffa, successfully introduced waste management strategies that have increased recycling levels of operational waste in the News & Media division, where costs of waste management have reduced by 40% in the period. Parcel Freight's levels of recycling are lower than the Group average, representing an important area of opportunity. A recent trial at its depot in Sheffield, which applied the Group's best practice, saw recycling levels improve by 100%. We therefore plan to apply these ways of working across the full Parcel Freight estate by the end of FY17.

Intensity Ratios exclude the turnover, employees and square metres of premises of the Parcel Freight division.

Notes:

The data collected for this report is in respect of the period 1 March 2015 to 28 February 2016, being the period that the Group previously reported for the Carbon Trust Standard certification. The Carbon Emissions data comparisons are made on a like for like basis for the period of 1 March 2014 to 28 February 2015, excluding the Parcel Freight division and its trading business Tuffnells. The Group acquired Tuffnells on 19 December 2014; prior to this Tuffnells was not subject to a comparable reporting regime for carbon emissions and did not have processes in place appropriately to record and monitor usage. It has not been practical to compile historical data based on manual records which we consider to be potentially inaccurate. The Group has addressed this issue and expects to be in a position to report a complete like for like comparison for the period 1 March 2016 to 28 February 2017.

The Group does not collate data in respect of its overseas operations as these are immaterial in relation to the Group's overall carbon footprint.

Using an operational control approach, the Group has assessed its boundaries to identify activities and facilities for which it has responsibility for the greenhouse gas (GHG) emissions from Scope 1 and 2. The Group has also decided voluntarily to report on selected Scope 3 emissions, namely, the News & Media division's subcontracted mileage (where possible to obtain) and employee business travel. Total GHG emissions were calculated following ISO-14064-1:2006 standards and using DEFRA (2015 and 2012) emissions factors.

Scope 1 (gas and fuel) emissions relate primarily to the consumption of gas to heat the Group's distribution locations and the fuel consumed by our company cars and commercial vehicle fleet. Scope 2 emissions consist of the electricity used in our offices and depots.

Policies and governance of Corporate Responsibility

The Group Executive sets objectives and targets for the areas of corporate responsibility covered in this report. These are considered and reviewed by the Board and progress is monitored throughout the year by the Group Executive and executive teams in each division. Relevant policies are updated in response to initiatives and/or legislation and significant changes are noted and discussed. Health and safety performance is reviewed regularly by the Board and Group Executive throughout the year.

The Group works to ensure a culture that is free from discrimination and harassment in any form. Proper consideration is given to people with disabilities and, should employees develop a disability while working for the Group, every effort is made to continue their employment and provide retraining if required. We are committed to a culture and environment in which workplace concerns can be raised and addressed without recrimination; we supplement this with confidential whistleblowing procedures that are well communicated throughout the organisation.

Health Week

After a successful launch in 2015, Connect Group's Health Week took place again in June this year.

The initiative focuses on supporting employees with advice on physical and mental health and wellbeing, as well as giving advice on safety in the working environment.

As well as being a platform for advice the campaign encourages active participation on healthy pursuits. In our Stockport depot the initiative has led to a successful health awareness partnership with the local council.

Woo Fest annual festival

Woo Fest is a great example of colleagues supporting good causes in partnership with the Group's Community Link-Up programme.

Woo Fest is a family oriented festival, featuring music from a variety of bands and with all proceeds donated to a local hospice. The festival was conceived, launched and managed by our staff at Worcester, and Community Link-Up has supported with volunteering time, publicity and sponsorships. In just two years Woo Fest has raised over £14,000 and next year's event is already in the planning.

Workplace

Employee engagement

In March 2016, we conducted the first Engagement Survey to encompass every business and employee in the Group. Working with an industry specialist we designed an independently conducted survey to measure and understand 'what matters' to our colleagues. The results were transparently communicated, and feedback sessions were held with every team and location to identify issues and opportunities together.

The results confirmed the deeply felt commitment and goodwill of our colleagues – as well as highlighting many areas for potential improvement at a central and local level.

Headlines included:

- Overall all key engagement indicators rated positively, at 65% or above.
- 62% of colleagues responded to the survey and 39% participants rated as fully engaged – rating a positive score against all the key engagement factors.
- Only 1% of colleagues rated as 'disengaged'.
- Organisational pride is high – 90% of colleagues are proud to work for their business and 75% are also proud to work for the Group.
- Roles and contribution are rated highly – 83% of colleagues enjoy their jobs, and over 95% say they are clear on how their work makes a difference to the Group's success.
- Colleague relationships, a friendly atmosphere and flexible working are widely celebrated in the feedback.

To support the action planning from our survey, we have invested in building skills that help managers get the best from their team feedback sessions. Activity has continued throughout the year as teams continue with their conversations, considering ideas and identifying changes that help us become more effective and engaged in the workplace.

We plan to repeat the survey in March 2017 and will be measuring our year on year progress as well as identifying new areas for improvement. We also plan to introduce more online surveys to improve participation levels. Our commitment to employee engagement is part of an ongoing objective to ensure our businesses are great places to work, with a supportive culture that helps all colleagues to be at their best.

The Group is committed to involving our employees in change and listening to their feedback on ways to improve the business. In each of our divisions, we have employee forums to share developments, take feedback and respond to ideas. We consult with employees on a regular basis so that their views can be taken into account in making decisions that are likely to affect their interests.

To encourage further involvement and engagement in the Company's performance we operate an employees' share scheme, enabling employees at all levels to benefit from the progress of the Company.

Workplace Diversity and Human Rights

The Group actively supports diversity in the workplace in all its forms and is committed to improving gender composition over time. The current gender composition is:

	Male	%	Female	%
All employees	4,772	73%	1,768	27%
Board of Directors	6	86%	1	14%
Senior managers*	24	75%	8	25%

- * Senior Managers comprises the Group Executive and its four divisional executive committees, each of whom has responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company

The Group fully supports the human rights of our employees and our policies are built on a commitment to mutual respect, fairness and integrity throughout the Group. These principles are reflected in our Company Values, which are integral to our Employee Relations policies and, more broadly, to the ways in which we work together. The Group has in place ethical trading standards and a commitment to combating modern slavery, each of which are endorsed by the Board and which we expect our supply chain partners to adhere to in our commercial relationships. To encourage staff to raise any matters of concern across what we do, the Group operates a confidential 'speak-up' line.

Health & Safety

The Group is focused on maintaining the highest standards of health and safety, so as to protect our employees, customers and contractors.

The Board and Group Executive are committed to delivering further improvements in our health and safety culture, performance and practice. A Group Health & Safety report is provided to the Group Executive each month and the Audit Committee and Board each conduct regular reviews of incidents, trends and overall performance. Each division is responsible for the management of health and safety risks, supported by dedicated Health & Safety teams that provide advice, guidance, training and support. While there is some commonality in the nature of the risks that are present across the Group, the strategies and annual health and safety initiatives of each division will reflect its particular risks and priorities. The result is a clear focus on health and safety throughout the Group.

We are deeply saddened to report this year that one of our employees in the Parcel Freight division was fatally injured whilst at work. Following the incident we have sought to understand what happened, to determine the root causes, support the impacted family and colleagues, and to learn lessons that need to be applied in our businesses to continue to drive health and safety improvements.

The like for like safety performance in the Books, Education & Care, and News & Media divisions have all improved, with no 'major injury' RIDDORs occurring in the year.

In the Parcel Freight division the number of RIDDORs has increased and it is with deep regret that there was also a fatal incident. We have actively worked to create a more open culture around safety matters and believe the increase in RIDDORs is, in part, due to improved reporting practices. At the same time, we are in no way complacent in our determination to raise standards still further and to ensure our workplaces are as safe as they can possibly be. As a result, the Board and Group Executive remain committed to increasing our efforts, supported by further investment, to ensure that progress is made at pace and that the health, safety and well-being of our colleagues remains paramount in what we do.

The Health & Safety plan across the Group for the coming year focuses on the most common causes of RIDDOR incidents, further training of management and frontline employees and contractors, and the review and updating of risk assessments and safe systems of working practices and processes.

2016	News & Media	Books	Education & Care	Parcel Freight	Group Totals	
					LFL ²	Group
Major Injuries	0	0	0	10	0	10
Injuries resulting in over 3 days absence from work/hospitalisation	4	6	5	83	15	98
All RIDDORs ¹	4	6	5	93	15	108

	2015	2015 LFL ²	2014	2013	2012	2011	2010	2010 LFL ³	2009
Major Injuries	12	3	4	4	0	2	1	1	2
Injuries resulting in over 3 days absence from work/hospitalisation	78	24	33	32	45	53	70	43	40
All RIDDORs ¹	90	27	37	36	45	55	71	44	42

1 RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

2 LFL: excludes the impact of the acquisition of the Parcel Freight division in 2014 to compare on a like for like basis with previous years.

3 LFL: excludes the impact of the new contract areas and depots acquired in 2009 to compare on a like for like basis with previous years.

Approval

This Strategic report has been approved by the Board and signed on its behalf by:

Gary Kennedy
Chairman
18 October 2016

Board of Directors

Committee membership:

A Audit Committee

N Nominations Committee

R Remuneration Committee

Bold denotes Chair of the Committee

Gary Kennedy

Chairman **N A R**

Year of appointment
2015

Background and experience

Gary was formerly Group Director of Finance and Enterprise Technology at Allied Irish Banks plc from 1997 to 2005, following executive positions at Nortel Networks and Deloitte. He has also previously been a non-executive director of Elan Corporation plc and Irish Bank Resolution Corporation Limited, as well as having served on the Board of the Industrial Development Authority of Ireland for ten years.

Other current appointments

- Greencore Group plc, Chairman
- Green REIT plc, Chairman

Andrew Brent

Senior Independent
Non-executive Director **A N R**

Year of appointment
2008

Background and experience

Andy was most recently Chief Customer and Marketing Officer at Barclays Bank and prior to that held senior marketing positions in a number of leading companies including BSkyB, Alliance Boots Plc, Burger King Inc., Iceland Frozen Foods Plc and Procter and Gamble Inc.

Other current appointments
None

Colin Child

Independent Non-executive
Director **A N R**

Year of appointment
2015

Background and experience

Colin is a chartered accountant and has extensive financial experience having previously been Chief Financial Officer at De La Rue plc from June 2010 until July 2015 and prior to that Group Finance Director at each of DTZ Holdings plc, Stanley Leisure plc, Fitness First Plc and National Express Group PLC.

Other current appointments

- fastjet plc, Chairman and non-executive director

Denise Collis

Independent Non-executive
Director **R A N**

Year of appointment
2015

Background and experience

Denise was Chief People Officer at Bupa, the global healthcare business, from May 2010 until December 2014. Prior to that, she held senior HR roles at a number of leading organisations including 3i Group plc, EY, Standard Chartered Bank and HSBC.

Other current appointments

- SThree PLC, non-executive director, Chair of Remuneration Committee and member of Nominations Committee
- British Heart Foundation, Chair of Remuneration Committee and member of Nominations Committee and Advisory Council

Mark Cashmore

Group Chief Executive

Year of appointment
2006

Background and experience

Mark started his career with Pernod Ricard before moving to United News & Media in 1989. Between 1989 and 1999 he held senior positions in a number of news distribution businesses, including Sales Director of United Magazine Distribution, USM and Seymour. He joined WH Smith News in 1999 and was appointed Magazine Sales Director in 2001 and Managing Director in June 2006.

Other current appointments
None

David Bauernfeind

Chief Financial Officer

Year of appointment
2016

Background and experience

Prior to joining, David was Chief Financial Officer and executive director at Xchanging PLC, a position he held 2011 until its takeover and delisting in June 2016. Before joining Xchanging in 2001, David held management roles in BAE Systems PLC and Johnson Matthey PLC.

Other current appointments
None

Note: Nick Gresham served as Chief Financial Officer during FY16 and stepped down from the Board on 1 October 2016 to pursue other opportunities. David Bauernfeind was appointed as Chief Financial Officer on the same date.

Jonathan Bunting

Managing Director, Connect
News & Media

Year of appointment
2010

Background and experience

Jonathan joined WH Smith News in 1994. He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001. In April 2014, Jonathan became Managing Director of the Connect News & Media division.

Other current appointments
None

Group Executive

The Group Executive committee comprises of:

Mark Cashmore

Group Chief Executive

David Bauernfeind

Chief Financial Officer

Jonathan Bunting

Managing Director, Connect News & Media

See previous page for biographies.

Nick Gresham stepped down from the Group Executive on 1 October 2016 at the same time as he was replaced by David Bauernfeind as Chief Financial Officer.

Justin Adams

Managing Director, Connect Books

Year joined
2014

Background and experience

Prior to joining, Justin was the Chief Executive Officer at Sealskinz. Prior to that, he sat on the Greene King plc board and spent over five years as the Managing Director for the Brewing Division. Before joining Greene King, he worked for Diageo, where he had responsibility for Guinness Germany, and Maxxium Worldwide where he was Managing Director UK & Ireland.

Glenn Leech

Managing Director, Connect Education & Care

Year joined
2004

Background and experience

Glenn joined WH Smith News in 2004 as Human Resources Director. Prior to joining WH Smith News, Glenn spent seven years at Ford Motor Company, during which time he held a number of managerial positions in employee relations, HR business operations and as an HR project manager. He was appointed Group Human Resources Director on 1 September 2011 and Managing Director, The Consortium on 26 October 2013. In April 2014, Glenn became Managing Director of the Connect Education & Care division.

Max Livingstone-Learmonth

Group Strategy Director

Year joined
2011

Background and experience

Max joined the Group in March 2011 as Head of Corporate Development. Max has 15 years of strategy and corporate acquisitions experience and prior to joining the Group was a director at PricewaterhouseCoopers. He was appointed Group Strategy Director and joined the Group Executive on 1 September 2014.

Sarah Miles

Group Human Resources Director

Year joined
2013

Background and experience

Prior to joining, Sarah led the Chartered Institute of Personnel and Development's expansion into Asia. Prior to that, she spent 12 years at PepsiCo in a variety of HR leadership roles, most recently as Senior HR Director of PepsiCo's UK Manufacturing & Logistics divisions where she also had HR responsibility for finance, IT and special projects. Before joining PepsiCo she worked for Pearson and Marks and Spencer.

Chris Ward

Managing Director, Connect Parcel Freight

Year joined
2015

Background and experience

Chris has a wealth of operational experience, spanning a number of blue chip companies, including Accenture, Boots UK and most recently B&Q, where he was the Chief Operating Officer (Business Transformations) with responsibility for operational functions across supply chain, logistics, IT and property as well as strategy and organisational change.

Richard Webb

Group IT & Services Director

Year joined
1987

Background and experience

Richard Webb joined WH Smith News as a graduate recruit in 1987. Richard worked in a variety of roles at warehouse locations and regional level before moving to head office in 1994 to join the Information Systems Department. He was appointed Information Systems Director in 2004 and Group Information Technology Director on 1 September 2011, assuming responsibility for Group Services on 1 May 2013.

Corporate governance Introduction by the Chairman

I am pleased to present this year's report on the governance of our Board. We remain committed as a Board to implementing and driving good corporate governance practices throughout our business and embedding these principles into the culture of our organisation.

2016

Key Board activities included

Non-executive director succession, recruitment and induction

Against this sound governance backdrop, we embraced and adapted to the changes in our Board membership during the year. Our non-executive director succession planning process was completed and we were pleased to welcome Colin Child and Denise Collis to the Board on 1 December 2015. After having served over nine years with the Company since the demerger from WH Smith PLC in 2006, John Worby and Anthony Cann each retired from the Board at the conclusion of the 2016 Annual General Meeting, when Andrew Brent also succeeded John Worby as Senior Independent Non-executive Director. More recently, we have welcomed David Bauernfeind to the Group following the resignation of Nick Gresham (Chief Financial Officer) after six years with the Group. I would like to thank John, Anthony and Nick for the immense contributions they have made to the Company and on behalf of the Board we wish them well for the future and welcome David to the Board.

In February 2016, John was succeeded as Chair of the Audit Committee by Colin. Building on the improved and streamlined compliance and controls environment, Colin led the Committee through the second half of the year, overseeing the strengthening of our Parcel Freight division's Health & Safety Strategy and ongoing Operating Environment Upgrade project together with the Board's review of the impact of the UK's decision to leave the European Union following the UK's referendum vote held on 23 June 2016.

Strengthening governance and controls environment

As part of the Board's responsibility to maintain sound risk management, we have considered both of these matters within the Group's risk matrix as reflected in our updated principal risks section of this report set out on pages 12 and 13. The Committee also reinforced its commitment to auditor independence as explained further in the Audit Committee report on page 46 and welcomed Anna Marks as the new audit partner at Deloitte LLP.

Further, in February 2016, Anthony was succeeded as Chair of the Remuneration Committee by Denise. Following the appointment of New Bridge Street as the Committee's advisers on 1 August 2015, a remuneration policy review was initiated with the aim of simplifying the structure of executive remuneration and to ensure its alignment with the Group's long term business strategy and direction. Denise subsequently led the consultation with our major shareholders and investment community in respect of the proposed changes (outlined further in our Remuneration report on pages 50 and 51) which is being presented to shareholders at our forthcoming Annual General Meeting and will be subject to a binding vote.

On joining the Board, both Colin and Denise received an extensive and tailored induction programme to ensure a smooth transition into the business. The refreshing of the Board has introduced new competencies, skills and

experience as well as a more diverse insight into our Board discussions. Diversity was one of the key considerations in our recruitment process and accordingly, we are pleased to have achieved our Statement of Ambition to increase female non-executive directors to 25%. We acknowledge however that there is further work to be done on diversity in our Group Executive and senior management population (as disclosed in our Corporate Responsibility report on page 32) which we will continue to keep addressing.

With the new composition of the Board in place I am pleased to report that this year we also undertook an externally evaluated review of the Board and its Committees. Whilst we are not a FTSE350 company we nonetheless remain committed to implementing and driving good corporate governance practices, with the external board evaluation being one of the prime examples of our intent. Furthermore, we are pleased this review concluded that ours is a highly functional Board, peopled with strong-minded – but also team-minded – directors combined with a healthy balance of restraint and a frank questing for new opportunities. I am confident that the Board possesses the skills needed in its task of promoting the future direction and long term interests of the Group.

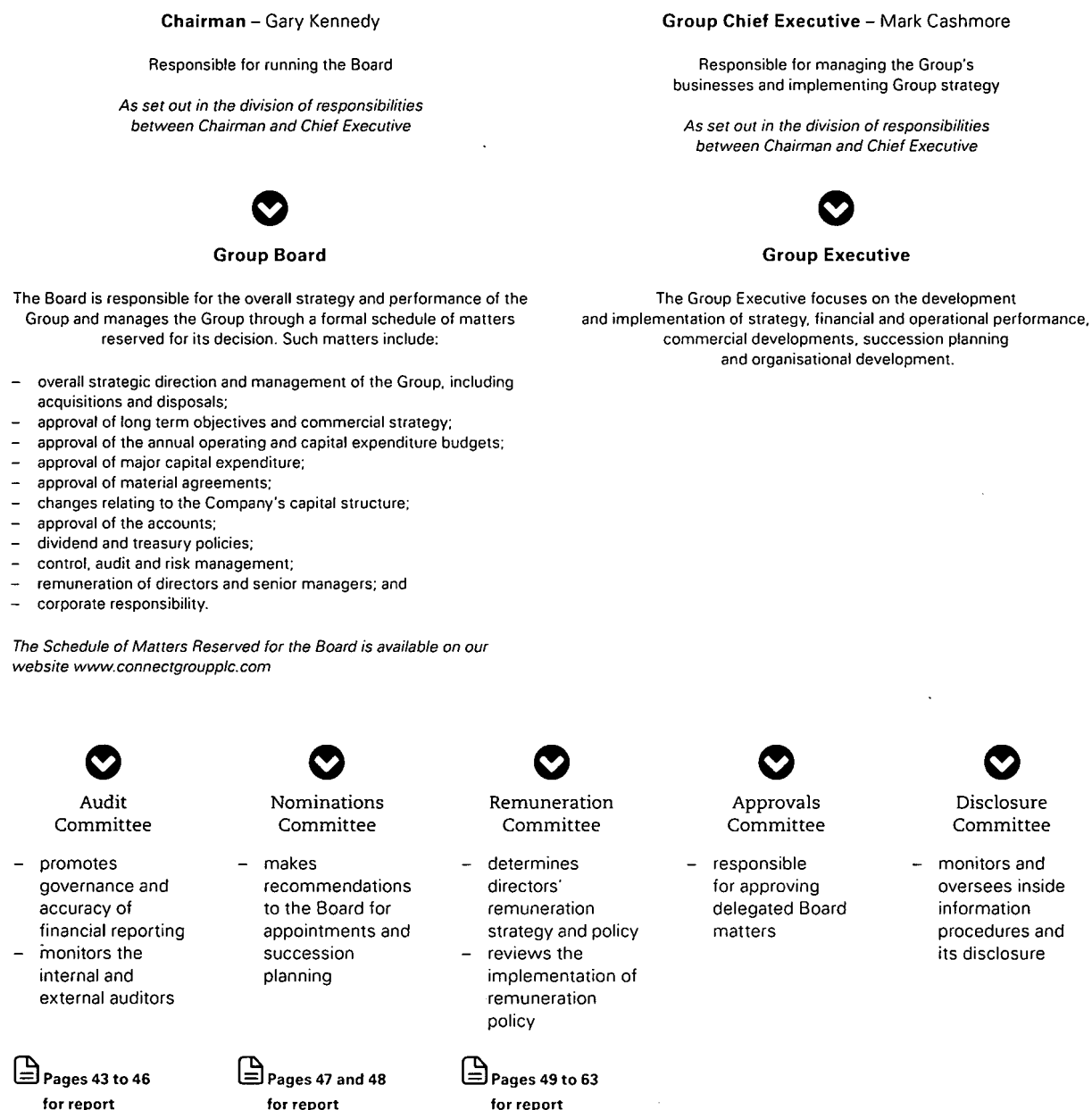
Good governance principles are evident in our corporate culture and expressed through our Company Values, which are cascaded throughout all levels of our divisions. We are committed to strengthening governance across our wider business, enabled through improved systems and processes including our new intranet and policy repository, which were introduced for our employees during the year. We look forward to maintaining this focus for the coming year.

Gary Kennedy
Chairman

Corporate governance

Governance framework

The Group operates within a clear governance framework, which is outlined in the diagram below. The Group's risk management framework along with the Group's principal risks are described in the Strategic report on pages 12 and 13.



Corporate governance continued

Board activities

Board meetings

Board meetings are structured to facilitate the fulfilment of the Board's responsibilities; this is achieved by way of an annual agenda planner which is reviewed and updated at each Board meeting. In preparation for meetings, supporting papers are circulated in a timely manner, with a sufficient level of detail and supplementary information for the Board to take decisions. The Board receives regular updates on matters such as strategy, financial and management reporting, investor relations and corporate governance, in addition to ad hoc matters for consideration such as acquisitions and material transactions.

Directors' attendance

The following table shows the attendance of directors at Board and Committee meetings held during the year.

	Scheduled Board meetings	Additional Board meetings ¹	Committee meetings		
			Audit	Nominations	Remuneration
Number of meetings	8	3	4	5	6
Gary Kennedy	8	3	4	5	5
Jonathan Bunting	8	3			
Mark Cashmore	8	3			
Nick Gresham ²	8	2			
Andrew Brent ³	8	3	4	4	6
Anthony Cann ⁴	3	0	2	2	2
Colin Child ⁵	6	3	3	4	4
Denise Collis ⁵	6	3	3	4	4
John Worby ⁴	3	0	2	2	2

1 The three additional Board meetings held during the year were held by conference call, two of which were in relation to corporate activity and one in relation to the resignation of Nick Gresham.

2 Nick Gresham was absent at one Additional Board Meeting where his resignation was considered.

3 Andrew Brent was absent at one Nominations Committee meeting where his promotion to Senior Independent Director was considered.

4 Anthony Cann and John Worby retired from the Board at the conclusion of the Annual General Meeting on 4 February 2016 and attended all Board and Committee meeting prior to that date, with the exception of one Additional Board Meeting.

5 Colin Child and Denise Collis were each appointed on 1 December 2015 and have attended all Board and Committee meetings since that date.

Board evaluation, induction and training

Board evaluation

The Board has a formal process for evaluating both its effectiveness and the effectiveness of its Committees and of individual directors and, in line with the UK Corporate Governance Code 2014 (the '2014 Code') (albeit not mandatory for 'smaller companies'), aspires to carry out an externally facilitated evaluation every three years. Although the last external evaluation was conducted in 2012, it was agreed by the Board last year that as 2015 was a transitional year for the role of Chairman and in light of the expected retirements of Anthony Cann and John Worby, the external evaluation due to take place in 2015 be postponed until 2016.

Accordingly, this year an external evaluation of the Board and its Committees was conducted by Equitycommunications which took place during June and July 2016 and consisted of: a scoping exercise with the Chairman and Company Secretary to discuss the extent and structure of the evaluation exercise; the development of an agenda for circulation to directors ahead of their one-on-one interviews to prompt initial thought processes; additional question prompts for the facilitator to aid feedback and discussion; and a series of individual director interviews conducted with the external facilitator.

A written report summarising and analysing the responses to the evaluation exercise, along with suggested action points and recommendations, were considered by the Board at its September 2016 meeting. The evaluation confirmed the conclusion drawn from previous evaluations that the Board operates effectively, robustly and with mutual respect. There were a number of actions that were agreed to ensure that the Board, its Committees and individual directors continue to work effectively, including: further improving the clarity and succinctness of Board reporting; advanced planning for non-executive director succession; and increasing Board exposure to the business by re-instating business briefings and informal meetings with key management colleagues.

During June and July 2016 the external Board evaluation process was supplemented by an internal review of individual directors' performance, conducted by way of an extensive questionnaire. One-to-one discussions were subsequently held between the Chairman and each director to discuss their contribution and performance during the year along with any training needs. A meeting of the non-executive directors was led by the Senior Independent Director, in which the performance of the Chairman was discussed.

Induction and training

All new directors receive induction training on joining the Board, which is tailored to meet the needs of the individual. During the year, Colin Child and Denise Collis received a fully tailored induction which included a comprehensive induction pack covering pertinent information on the Group, an overview of the structure of the Board and its Committees and information on the Company's key policies; meetings with the Managing Directors of each division; and informal visits to key operational sites without the executives being present.

The directors' induction programme is supplemented by ongoing training and development, the need for which is regularly assessed by the Board. In addition to the directors taking advantage of external Continuing Professional Development ('CPD') opportunities over the course of the year, on-going training resources available to the directors included:

- membership of the Deloitte Academy, a training and guidance resource for boards and directors;
- a programme of head office and business visits;
- separate presentations by business and functional teams;
- annual reviews with the Chairman to identify any training and development needs;
- advice and regular updates from the Company Secretary on governance, regulatory and legislative changes affecting the business and/or their duties as a director; and
- access to independent professional advice at the Company's expense.

Directors' conflicts of interest

The Board confirms that a formal system for directors to declare their interests and for the independent directors to authorise situational conflicts continues to be in place. Any authorisations given are recorded in the Board minutes and in a register of directors' conflicts which is reviewed annually by the Board.

Shareholder engagement

The Board is responsible for and recognises the importance of communicating with the Company's shareholders to ensure that both strategy and performance are understood. This is achieved principally through the Company's website, www.connectgroupplc.com, and the Annual General Meeting. The website provides investors with a wide range of information about the Company, including Annual Reports and Accounts, regulatory news releases, share price data and the Company's financial calendar, and incorporates a Shareholder Centre containing Annual General Meeting and other useful information.

Following the announcement of the Company's full year and interim results, formal presentations are made to institutional shareholders by the Group Chief Executive and Chief Financial Officer covering a range of key issues affecting the Company's performance. The presentations are available to view on the Company's website at www.connectgroupplc.com.

All shareholders have the opportunity to ask questions at the Annual General Meeting, which is normally attended by all of the directors. The notice of the Annual General Meeting is given to shareholders at least 20 working days before the meeting and includes notice of the availability of the Annual Report and Accounts on the Company's website. At the Annual General Meeting, separate resolutions are proposed on each separate issue and shareholders vote on each resolution by way of a poll (rather than on a show of hands). This ensures that the final result is more democratic as the proxy votes are added to the votes of shareholders present, who vote all their shares (rather than one vote per shareholder). Proxy forms allow shareholders to vote for or against, or to withhold their vote on each resolution, and the results of the poll are announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Chief Financial Officer update the Board following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control including risk management and for reviewing its effectiveness. Such a system is designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has an established framework of internal controls including financial, operational and compliance controls. In addition, there is an ongoing process for identifying, evaluating and managing the principal business risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity. This process was in place throughout the year under review and up to the date of approval of this report and accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'FRC Guidance'). In light of the risk management process and review work undertaken by the Board and the Audit Committee, the Board is satisfied that it has carried out a robust assessment of the principal risks facing the Group as required by the 2014 Code. Further details of the Group's risk management framework, along with the Group's principal risks and how they are being monitored are set out in the Strategic report on pages 12 and 13.

System of internal control

Board

The Board is responsible for the overall strategic direction and management of the Group and undertakes an annual review of its risk appetite, outputs of which are considered when conducting the annual business planning and strategy process. Full details of the Board's responsibilities are set out in the formal schedule of matters reserved for its decision, which are summarised on page 37.

The Board has established an organisational structure with clearly defined reporting lines and controls at all levels of management across the Group, identifying transactions requiring approval by the Board or by the Approvals Committee.



Audit Committee

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper systems of risk management and internal control.



Approvals Committee

The Approvals Committee, which comprises the Group Chief Executive and Chief Financial Officer, and for commercial transactions the relevant member of the executive management, is authorised by the Board to approve routine matters within agreed financial limits.



Internal Audit

The Internal Audit team assists in maintaining adequate financial controls by reviewing the design and operational effectiveness of core financial processes and controls as part of the internal audit plan approved by the Audit Committee annually.

Internal Audit annually discusses the effectiveness of internal controls with all senior executives from across the Group in order to co-ordinate their formal certifications in respect of the effectiveness of those internal controls. These certificates are made available to the Audit Committee in order to assist the Board with conducting its annual review of the effectiveness of internal controls in compliance with the FRC Guidance.

The system of financial control also includes:

- a comprehensive system of budgeting and planning together with monitoring and reporting the performance of the Group's businesses to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- a full appraisal of all major investment projects;
- key controls over major business risks, including reviews against performance indicators and exception reporting;
- monthly reporting of treasury activities and risks, for review by senior executives; and
- annual reports covering treasury policy, tax compliance, pensions and insurance, each for review by the Board or the Audit Committee.

Corporate governance continued

Additional operational and compliance controls include:

- key performance indicators to monitor customer service levels in each business;
- independent customer satisfaction surveys and separate employee relations surveys;
- a corporate responsibility programme which addresses the impact of the Company's activities on the environment, workplace, marketplace and community, which includes a Corporate Responsibility Committee which is responsible for reviewing delivery against corporate responsibility objectives, with annual updates provided to the Board;
- an internal risk committee in each division to assess key risks to the operations and financial controls and the mitigating actions to address them;
- regulatory and compliance policies (including an Environmental Policy, an Anti-Corruption Policy and an Ethical Trading Policy) each of which is reviewed annually by the Board;
- a Health and Safety Policy, which is reviewed annually by the Board;
- Health and Safety Risk Management teams, working with the businesses to assess health and safety risks and introduce systems to mitigate them. Details of major business incidents are reported to the Internal Risk Committees and the Audit Committee, and all notified accidents are investigated;
- reports on health and safety matters including the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR) provided to the Board on a regular basis;
- a commitment by the Company to ensure that its personnel meet high standards of integrity and competence. The Company's systems cover recruitment, training and development of personnel, and the communication of Company policies and procedures throughout the organisation;
- business recovery plans to enable each of the Group's businesses to continue with minimum disruption to customers in the event of a disaster event. These plans are assessed as part of the annual Key Controls Self-Assessment exercise, conducted across all divisions and functions, and reported through to the Risk Committees, Group Executive and the Audit Committee. Periodically, business continuity planning is reviewed by Internal Audit as part of its annual audit planning process;
- an annual Compliance Statement process for the Group Executive and divisional executive teams;
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties;
- a Code of Business Conduct which takes into account the interests of all stakeholders;
- a Whistleblowing Policy and associated speak up line whereby employees can report in confidence incidences of suspected fraud; and
- a comprehensive Data Protection Policy setting strict guidelines for the use and retention of confidential customer and supplier data.

The Audit Committee has carried out a review of the effectiveness of the Company's systems of risk management and internal control during the year, including financial, operational and compliance controls. This assessment considered all significant aspects of risk management and internal control arising during the period covered by this report including the work of Internal Audit. During the course of this review, the Audit Committee considered the strengthened control environment identified in the most recent reviews and noted that no failings or weaknesses had been identified or advised which the Committee determined to be significant in the context of the Group taken as a whole.

Viability statement

In accordance with provision C.2.2 of the 2014 Code, the directors have assessed the prospect of the Company over a period of three years, which has been selected for the following reasons:

- a) the Group's strategic planning cycle covers a three-year period;
- b) for major investment projects, three years is considered by the Board to be a reasonable time horizon for an assessment of the outcome; and
- c) the business model can be evolved for significant changes in market structure or government policy over a three-year period.

The three-year plan review considers the Group's cash flows, dividend cover, bank covenant compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast, both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring and assessing the risk, reporting and monitoring assumptions. The three-year review also makes certain assumptions about the normal level of working capital required and considers whether additional financing facilities will be required.

Based on the results of these analyses, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over both the period to November 2017 and the three-year period of their viability assessment.

Fair, balanced and understandable

During the year, the Board requested the Audit Committee to undertake a review of the Annual Report and Accounts 2016 to ensure that, taken as a whole, it provided shareholders with a fair, balanced and understandable assessment of the Company's position and performance, business model and strategy. Following recommendation by the Audit Committee and discussion by the Board, the directors confirm that they consider that the Annual Report and Accounts 2016 is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance and prospects.

Compliance with the 2014 Code

This section of the Annual Report and Accounts, together with the Audit Committee report on pages 43 to 46, the Nominations Committee report on pages 47 to 48 and the Directors' remuneration report on pages 49 to 63, describes how the Company has applied the main principles contained within the 2014 Code.

The Company confirms that, throughout the year ended 31 August 2016, it has complied in full with the 2014 Code. Set out in the following table, we provide the cross-referencing to other parts of the Annual Report and Accounts to assist with reviewing our compliance. The 2014 Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

A. Leadership

A.1 – The role of the Board

A description of how the Board operates and an overview of the Matters Reserved for the Board are set out on page 37.
The Chairman, Chief Executive, Senior Independent Director and respective Chair of the Committees are set out on page 34.
The Board held eight scheduled meetings during the year as set out in the Directors attendance table on page 38.

A.2 and A.3 – Division of responsibilities and the role of the Chairman

The roles of the Chairman and Chief Executive are set out on page 37 and are set out in writing and agreed by the Board.
The Chairman was independent on appointment.

A.4 – Non-executive directors

Andrew Brent became Senior Independent Director on 4 February 2016 when John Worby stepped down from the Board.
Both the Chairman and the Senior Independent Director make themselves available during the year to attend meetings with major shareholders.
The Chairman held two meetings during the year with the non-executive directors, without the executives being present.
The Senior Independent Director led the review of the Chairman as outlined on page 38.

B. Effectiveness

B.1 – The composition of the Board

The Board considers all non-executive directors to be independent.

B.2 – Appointments to the Board

A description of the work of the Nominations Committee is set out on pages 47 and 48 which includes a description of the process for Board appointments and the Board's policy on diversity.

B.3 – Commitment

The Board is satisfied that the external commitments of the Chairman and the non-executive directors set out on page 34 do not conflict with their duties and commitments to the Company and that any new commitments are disclosed to the Board.
Details of the executive directors' service contracts and non-executive directors' letters of appointment are shown in the Directors' remuneration report on pages 49 to 63 and are available for inspection at the Company's registered office and at our Annual General Meeting.

B.4 and B.5 – Development, information and support

A description of the process of induction, training and development as well as access to the Company Secretary and independent professional advice is set out on page 38.

B.6 – Evaluation

An overview of the Board evaluation process is set out on page 38.

B.7 – Re-election

The Company's Articles of Association (the 'Articles') require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment. However, since 2011 it has been the Board's practice that all directors stand for re-election at the Annual General Meeting, notwithstanding that the Company, which is a 'smaller company' for the purposes of the 2014 Code, is not formally required to re-elect all directors on an annual basis.

C. Accountability

C.1 – Financial and business reporting

The Directors' responsibility statement is set out on page 66.
The fair, balanced and understandable statement is set out on page 40.
The auditor's responsibility statement is set out on page 67.
The going concern statement is set out on page 27.

C.2 – Risk management and internal control

The assessment of principal risks, how they are being managed or mitigated is described on pages 12 and 13.
The Viability statement is set out on page 40.
An overview of the Company's risk management and internal control systems is described in full on pages 39 and 40.

C.3 – Audit Committee and auditors

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 43 to 46.

Corporate governance continued

D. Remuneration

D.1 and D.2 – The level of components of remuneration and procedure

A description of the work of the Remuneration Committee is set out in the Directors' remuneration report on pages 49 to 63.

E. Relations with Shareholders

E.1 and E.2 – Dialogue with shareholders and constructive use of General Meetings

An overview of engagement with shareholders and the use of General Meetings is included on page 39.

Other key reporting requirements

The table below sets out compliance with certain key reporting requirements and provides cross-referencing to other parts of the Annual Report and Accounts for ease of navigation.

Reporting requirement	Location
Description of the Group's strategy and business model.	Strategic report See pages 6 to 11
Environmental impact, including data on greenhouse gas emissions.	Corporate responsibility report See pages 28 to 33
Employee diversity data and human rights.	Corporate responsibility report See pages 28 to 33
Statement that the directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.	Corporate governance and Audit Committee report See pages 40 and 44
Identification of search consultancy used and any connections with the Company.	Nominations Committee report See pages 47 and 48
Description of the significant issues that the Audit Committee has considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the external audit team.	Audit Committee report See page 44
Confirmation that the directors have carried out a robust assessment of the principal risks facing the Company.	Principal risks and Corporate governance See pages 12, 13, 39 and 40
Explanation of how the directors have assessed the prospects of the Company over the longer term and whether there is a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due.	Corporate governance and Audit Committee report See pages 40 and 44
Explanation of how the Audit Committee has monitored the Company's risk management and internal control systems and, at least annually, carried out a review of their effectiveness.	Audit Committee report See page 45
Explanation of how the Audit Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor to enable shareholders to understand why it recommended reappointing or changing the auditor.	Audit Committee report See pages 45 and 46
Remuneration policy report, including future policy tables and notes; performance scenario charts; and remuneration obligations in service contracts.	Directors' remuneration report See pages 52 to 55
Annual report on remuneration, including: single total figure tables; the link between pay and performance; directors' shareholdings and share interests; Group Chief Executive pay comparison to Company performance; relative importance of spend on pay; remuneration paid to external advisers; and statement of shareholder voting on the FY15 Directors' remuneration report.	Directors' remuneration report See pages 56 to 63

Approval

This report was approved by the Board and signed on its behalf by:

Gary Kennedy

Chairman

18 October 2016

Audit Committee report

Colin Child
Audit Committee Chair

Key objectives

To promote effective governance of the Group's financial accounts and reporting including the adequacy of related disclosures, the performance of both the Internal Audit function and the external auditor as well as oversight of the Group's risk management, internal control systems (including whistleblowing reporting processes), and compliance framework and activities.

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website www.connectgroupplc.com and from the Company Secretary on request. The terms of reference, which address all matters set out in Disclosure and Transparency Rule 7.1 and the 2014 Code, are reviewed annually by the Committee and then referred to the Board for approval.

The principal responsibilities of the Committee are:

- monitoring the integrity of the financial statements of the Company, including its Annual and Interim Reports, trading statements, preliminary and interim results announcements and reviewing significant financial reporting issues and judgements which they contain;
- reviewing the content of the Annual Report and Accounts and advising the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- keeping under review the effectiveness of the Company's internal financial controls and internal control and risk management systems including monitoring and reviewing the effectiveness of the Group's Internal Audit function;
- considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing the policy on the engagement of the external auditor to supply non-audit services;
- ensuring the Company maintains suitable arrangements for employees, customers, contractors and other external parties to raise matters of concern in confidence (whistleblowing); and
- reviewing the Group's regulatory compliance framework and the systems and controls for the prevention of fraud and bribery.

In addition, the Committee seeks to identify matters in respect of which we consider that action or improvement by the Company is needed, and appropriate recommendations are made to the Board as to the steps which should be taken to preserve and promote the integrity of the Company's internal controls framework.

Overview

I am pleased to present this year's report on the activities of the Audit Committee, my first report as Chairman of the Committee since I succeeded John Worby in February 2016. I would like to thank John for his contribution and leadership of the Committee throughout his 9.5-year tenure which has set us in good stead to continue our ongoing focus on the Group's financial reporting, internal control and risk management processes.

Membership

Denise Collis and I joined as members of the Committee on 1 December 2015. Following their retirement at the conclusion of the Annual General Meeting on 4 February 2016, John Worby and Anthony Cann stepped down as members of the Committee and I succeeded John Worby as Chairman of the Committee.

All the members of the Committee are independent non-executive directors, with the exception of Gary Kennedy, who as Chairman of the Board is deemed by the 2014 Code not to be regarded as independent. However, as the Company is a 'smaller company' for the purposes of the 2014 Code, the Chairman of the Board is permitted to be a member, but not Chair of the Committee provided he was considered independent at the date of appointment. In the light of his extensive financial experience, the Committee believes that Gary Kennedy's membership is beneficial to the functioning of the Committee and that he provides a valuable contribution.

Given my qualification as a chartered accountant and my extensive financial experience including most recently Chief Financial Officer of De La Rue plc until July 2015, I am considered by the Board to have recent and relevant experience to chair the Committee in accordance with the requirements of the 2014 Code. Each of the other members of the Committee has extensive business experience.

How the Committee operates

The Committee met four times during the year as part of our standard schedule to consider matters planned around the Group's financial calendar. All Committee members, during the time of their appointment, were in attendance at each of the meetings and, at the invitation of the Committee, representatives of the external auditor, Deloitte LLP (Deloitte), attended meetings together with the Group Chief Executive, Chief Financial Officer, Managing Director Connect News & Media, Group Head of Finance, Group Head of Internal Audit and the Company Secretary & General Counsel. Other members of the Company's executive management and Group functional teams also attended meetings from time to time to present reports specific to their areas of responsibility.

The Committee also seeks to meet regularly with both the external auditor and separately with the Group Head of Internal Audit without others being present. In the year, the Committee met twice with representatives from Deloitte without management present and held a separate private meeting with the Group Head of Internal Audit. The Committee also oversaw the continuing process to replace the Group Head of Internal Audit, who left the Group towards the end of the financial year. Due to the timing of his departure and the close oversight by the Chief Financial Officer, the completion of the FY16 Internal Audit work plan was not impacted. The Committee has initiated a search for a successor (which is continuing) and maintains strong oversight and confidence in the delivery of the FY17 Internal Audit work plan under the interim guidance of the Chief Financial Officer.

Audit Committee Report continued

We believe that the activities of the Committee during the year have enabled the non-executive directors to gain a good understanding of the Group's strategic priorities, the risks and challenges faced by each business division as well as the adequacy and timeliness of appropriate actions being taken to address them. This has assisted the Committee in its review of the Annual Report and Accounts, including the effectiveness of the Group's system of internal control and risk management. Further, in carrying out our duties, the Committee has at all times acted in accordance with its terms of reference and ensured, through ongoing monitoring and review, the independence and objectivity of the external auditor.

Set out over the next pages is a summary of the major activities of the Committee in the year.

Significant issues and key judgements

Matter considered	Outcome
Goodwill accounting and intangibles valuation and amortisation The Committee considered the carrying value of the Books Cash Generating Unit (CGU) following a year of underperformance against its budget.	The Committee reviewed the sensitivity analysis prepared by management to assess whether there had been any impairment in the value in use of the Books CGU. The Committee noted that the assumptions regarding future performance were reasonable and, although the headroom in the year had reduced significantly, the value in use remained above carrying value.
Provisions The treatment of the potential financial implications of the fatality at Tuffnells' Brierley Hill depot.	The Committee reviewed legal advice taken as to whether the matter should be disclosed as a contingent liability or whether a financial provision should be made for the matter. The Committee concluded that a provision should be made for potential fines and associated legal costs in relation to this matter.
Property contracts Management's estimation of the exposure to operating and contingent leases and the resultant provisions required were reviewed.	The Committee reviewed the provisions as at year end and the appropriateness of the additions, utilisation and releases made in the year. The Committee agreed that the provisions held were reasonable and that releases were consistent with the manner in which the original provisions had been made.
Taxation The Committee reviewed the tax charge for the year, including credits in relation to prior year and the treatment of historically held tax provisions.	The Committee was satisfied that the Group has adequately provided for known tax risks (both UK and overseas) and that the tax charge for the year was reasonable.
Retirement benefit obligation The Committee reviewed the assumptions used for the IAS19 calculation of surplus/deficit and the total IFRIC14 liability recognised on the balance sheet for future actuarial deficit contributions.	The Committee satisfied itself that the treatment was reasonable.
Inventories and Trade Receivables Given the size of balances and potential impact on the Income Statement, the Committee reviewed the reasonableness of management estimates of carrying value, paying attention to slow moving inventory and aged receivables.	The Committee was satisfied that the provisions made for slow moving inventory and for doubtful receivables were reasonable.
Exceptional items The Committee considered the appropriateness of the measure of adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as Exceptional items.	The Committee was satisfied that the presentation of Adjusted profits provided a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of the items shown separately as Exceptional items.
Revenue recognition The Committee reviewed the recognition of revenue across the Group.	The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with their contractual obligation during the period, paying attention to period end cut-off and the level of expected customer returns.

Financial reporting

During the year we reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to, and the content of, the financial statements for the half year to 29 February 2016 and the full year to 31 August 2016 to ensure that they included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position and performance, business model and strategy. In undertaking this review, we considered a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgements made in preparing the financial statements. The Committee concluded in its recommendation to the Board that it was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

The significant issues and key judgements considered by the Committee in relation to the FY16 financial statements included the following:

Going Concern and Viability Assessment

The Committee also reviewed a paper prepared by the Chief Financial Officer to support the Going Concern and Viability Assessment referred to on page 27 and concurred that the profit and cash forecasts supported the view that the Group can meet its liabilities as they fall due for the foreseeable future and the three-year period of the Viability Assessment.

Internal control and risk management

The Committee is responsible for keeping under review the robustness and effectiveness of the Company's risk management and internal control systems.

At each meeting, the Committee received updates from Internal Audit on the principal risks facing the Group, recommendations for additional principal risks arising from the evolving risk environment and mitigating actions in place to address them for relevance and appropriateness of identified actions. These risks are set out in risk maps, registers and various legal and regulatory risk reports. Executives responsible for key risk areas across the Group periodically presented to the Committee their plans to monitor, control and mitigate these key risks and such actions being taken in their respective business area which included presentations and discussion on:

- the Parcel Freight division's Health & Safety Strategy and ongoing Operating Environment Upgrade to improve working conditions and the protection of employees and contractors in undertaking their duties at the business' depots, relevant health and safety training and the ongoing compliance programme for staff and the prioritisation and monitoring of incident reporting;
- the impact of the UK's decision to leave the European Union following the UK's referendum vote held on 23 June 2016;
- the IT Information Security Improvement Plan which included PCI compliance against the payment card industry's data security standards; and
- common themes arising from the annual Key Controls Self-Assessment process which has been streamlined by management during the year to reflect the improved control environment.

During the year, we also reviewed progress against the Internal Audit work plan approved by the Committee as well as reports on individual Internal Audit reviews which has been completed. Progress on actions to address control risks highlighted within such internal audit reviews was also monitored and the Group Head of Internal Audit updated the Committee on the effectiveness of the Company's internal controls which, as reported above, the Committee concluded had improved in the year as evidenced in the Company's Key Controls Self-Assessment process. The Committee also received and reviewed reports on the Company's legal, taxation, treasury, fraud prevention, whistleblowing and insurance activities and related policies and procedures for the promotion of the Committee's goals.

As a result of this work, the Committee reported to the Board that, in the context of the Group taken as a whole, it was not aware of any significant deficiencies or material weakness in the Company's systems of internal control.

Internal Audit function

The Committee is responsible for monitoring and reviewing the effectiveness of the Internal Audit function in the context of the Group's overall risk management system. Until his departure, the Group Head of Internal Audit was responsible for the overall management of Internal Audit and reporting of risk. This responsibility is currently being undertaken by the Chief Financial Officer until a successor is appointed.

In fulfilling its responsibilities, in the year the Committee reviewed the following matters:

- the scope, resource and activities of the Internal Audit function and the adequacy of audit coverage;
- Internal Audit's strategy, work plans (including the depot audit programme), status reports against planned activity and business incidents reports;
- a summary of the reports on the results of individual audit reviews, key controls self-assessments, significant findings, management action plans, and timeliness of resolution; and
- the performance and structure of the Internal Audit function which this year was supported by an internal audit effectiveness review undertaken by KPMG LLP, the findings of which concluded that the Internal Audit function remains fit for purpose, with clear methodologies and processes inbuilt into its audit reviews, providing strong assurance to the Group.

Whistleblowing, bribery and fraud

The Group operates a telephone hotline whereby employees can report in confidence suspected incidences of fraud, bribery or non-compliance with Group policies, practices or breaches of law. All such incidences are investigated by Internal Audit and/or management and the findings are reported to the respective business's Internal Risk Committee and the Committee on completion of an investigation.

During the year, we reviewed and updated the Whistleblowing Policy and received reports on incidences of suspected fraud, bribery or other malpractices reported across the Group. Whilst investigations into some of these matters are still on-going, none are currently considered to be significant.

External auditor

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the external auditor on an annual basis.

Assessment of the effectiveness of the external auditor

Each member of the Committee, the Chief Financial Officer, the Head of Group Finance and divisional finance directors completed an extensive questionnaire covering matters such as:

- the external auditor's processes for internal review of accounting judgements, including understanding of the key issues;
- the expertise and technical knowledge within the external audit teams to audit effectively the Company;
- the scope, delivery and execution of the audit plan; and
- the robustness and perceptiveness of the external auditor.



Findings were reviewed by the Committee in the year



The Committee concluded that the external audit process had been effective



Areas identified for improvement were also communicated to Deloitte for action

Audit Committee Report continued

In accordance with Articles 16 and 17 of the EU Audit Regulation, the Company is required to complete a competitive tender process for the external audit every ten years and mandatorily rotate audit firm every 20 years. Following a tender process in 2013, Deloitte was reappointed as external auditor. Accordingly, a new tender will be required following the conclusion of the FY23 audit and the audit firm should at the latest be rotated following the conclusion of the FY26 audit.

In line with professional standards, the Company's external auditor (Deloitte LLP) has a policy of rotating engagement partners every five years. As the FY15 audit was the fifth overseen by Alex Butterworth, a new partner, Anna Marks was appointed to oversee the FY16 audit.

The Company has a formal policy on its relationship with the external auditor which the Committee reviewed and updated during the year. The policy includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed (such as remuneration advisory services) to ensure that the external auditor's objectivity is not impaired. My prior approval is required if the cost of non-audit work is likely to exceed £20,000 per annum or where the maximum combined Group spend is likely to exceed 70% of the annual audit fee for the financial year.

The fees paid to Deloitte during the year in respect of non-audit services amounted to £5,000. The Committee considered, and was satisfied that, it was appropriate for Deloitte to undertake this work and that doing so did not affect their independence. Details of the fees paid to Deloitte during the year in respect of audit and non-audit services are shown in Note 3 to the Accounts.

The Committee is satisfied that Deloitte continue to provide an effective audit service and has recommended to the Board that they be reappointed. Accordingly, we have recommended to the Board that a resolution to reappoint Deloitte will be put to shareholders at the Annual General Meeting.

Approval

This report was approved by the Audit Committee and signed on its behalf by:

Colin Child

Audit Committee Chair
18 October 2016

Nominations Committee report

Gary Kennedy
Nominations Committee Chair

Key objectives

To lead the process for Board appointments having due regard to Board diversity, to ensure orderly succession planning so as to maintain an appropriate balance of skills and experience on the Board and to maintain a progressive refreshing of the Board.

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website, www.connectgroupplc.com, and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee and then referred to the Board for approval.

The principal responsibilities of the Committee are:

- reviewing the structure, size and composition of the Board including the skills, knowledge, experience and diversity of the directors;
- ensuring plans are in place for orderly succession planning for directors and senior management; and
- identifying and nominating candidates to fill Board vacancies.

Overview

I am pleased to present this year's report on the activities of the Nominations Committee, highlighting what has proven to be an active year for the Committee in light of its changing membership and the resignation of Nick Gresham (Chief Financial Officer) after six years with the Group. I am delighted that we have secured new colleagues to join the Board who possess strong business acumen, sound and relevant experience and whom I am confident will implement and deliver the Group's strategic objectives, standing us in good stead for our next period of growth.

Membership

During the year, Colin Child and Denise Collis joined as members of the Committee on 1 December 2015 and following their retirement at the conclusion of the Annual General Meeting on 4 February 2016, John Worby and Anthony Cann each stepped down as members of the Committee.

All members of the Committee are independent non-executive directors, excluding myself as I am deemed by the 2014 Code, by virtue of my Chairmanship of the Board, not to be regarded as independent. I was however independent on my appointment as Chair of the Board and permitted to act as Chair of the Committee.

How the Committee operates

The Committee met five times during the year. All Committee members were in attendance at each of the meetings, except for Andy Brent who was absent at one meeting where his promotion to the role of Senior Independent Director was endorsed. At the invitation of the Committee, the Group Chief Executive and Group Human Resources Director attended the meetings from time to time.

Set out below is a summary of the major activities of the Committee in the year.

Succession planning

As reported last year, mindful that Anthony Cann and John Worby would each have served as directors for nine years in August 2015, in 2014 the Committee undertook an evaluation of non-executive director succession. In accordance with its usual appointment process, having evaluated the composition of the Board and its Committees and the required balance of skills, knowledge, experience and diversity, including gender, it prepared detailed role specifications, including the expected time commitment and duties to be performed. MWM Consulting ('MWM'), a leading external search agency, was appointed to assist with the search to identify suitable candidates with the aim of appointing successors by no later than the Annual General Meeting in early 2016.

Accordingly, during the first half of the year the primary focus of the Committee was to identify suitable candidates to succeed Anthony Cann and John Worby. Following a thorough process, which included considering comprehensive profiles prepared by MWM, initial and second interviews between shortlisted candidates and each member of the Board as well as considering detailed references in respect of the shortlisted candidates, the Committee recommended that Colin Child and Denise Collis be appointed to the Board. The Board accepted the recommendations and accordingly, Colin Child and Denise Collis were duly appointed as non-executive directors on 1 December 2015 and respectively became Audit Committee Chair and Remuneration Committee Chair following John Worby and Anthony Cann's retirements at the conclusion of the Annual General Meeting on 4 February 2016.

Nominations Committee report continued

Executive recruitment

In light of Nick Gresham's resignation from his role as Chief Financial Officer, the Committee reviewed the key attributes, skills, knowledge, experience and diversity required for the role, and developed and agreed a detailed role specification. Following a short tender process, Redgrave Partners were selected by the Committee to assist with the search to identify suitable candidates.

Following a thorough selection process, which included candidate profiling, initial interviews with management, second interviews with each member of the Board, formal and informal references, the Committee recommended that David Bauernfeind be appointed as Chief Financial Officer. The Board approved the recommendation and accordingly, David Bauernfeind succeeded Nick Gresham when he stepped down from the Board on 1 October 2016.

The Committee confirms that MWM and Redgrave Partners have no other connection with the Company, that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory.

Diversity and inclusion

The Committee recognises the benefits of diverse skill sets, capabilities, backgrounds and experience to the effective functioning of the Board and the achievement of the Group's objectives and longer-term strategy. Accordingly, the Board has approved a Statement of Ambition in relation to diversity and inclusion in its broadest sense, encompassing gender, experience and background. The Statement of Ambition sets out the Group's aspiration to increase female representation, in particular, at manager level and above, whilst continuing to ensure that all candidates are selected on merit against objective criteria rather than to meet specific quotas.

The Board considers itself diverse in terms of the background, skills and experience each director brings to the Board. During the year, the Committee achieved its aspiration to increase female representation of the non-executive directors on the Board to 25% through the appointment of Denise Collis. The Board is and has been committed to targeting the recruitment of female Board members through executive search partners who are signed up to the Voluntary Code of Conduct on gender diversity, developed in response to the Davies Report. Accordingly, we encourage our recruitment partners to present more balanced candidate recommendations with at least one credible and qualified female candidate provided within the shortlist for the recruitment processes undertaken during the year.

Female representation

The Committee reviews the diversity progress report and analytics on an annual basis and adopts the approach outlined above to facilitate an increase in female representation on the Group Executive and divisional executive boards.

Group Executive

11%	11%
2016	2015

News & Media Executive Board¹

Parcel Freight Executive Board¹

50%	50%
2016	2015

25%	0%
2016	2015

Education & Care Executive Board¹

Books Executive Board¹

14%	17%
2016	2015

25%	25%
2016	2015

¹ excluding those Managing Directors who are also members of the Group Executive Board.

Further information on gender diversity, including the proportions of women in senior management and within the organisation overall, is contained in the Corporate responsibility report on page 32.

Approval

This report was approved by the Nominations Committee and signed on its behalf by:

Gary Kennedy
Nominations Committee Chair
18 October 2016

Directors' remuneration report

Denise Collis
Remuneration Committee Chair

Shareholder letter from the Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year to 31 August 2016.

This is my first report as Chair of the Remuneration Committee since I took on the role in February 2016. I would like to thank my predecessor Anthony Cann, who chaired the Committee for over nine years, for his contribution and leadership of the Committee throughout this time.

Directors' remuneration policy

In the FY15 Directors' remuneration report, following receipt of shareholder approval for the new long term incentive plan, we committed to undertake a review of the Group's remuneration policy in FY16. During the year, the Committee has undertaken this work and a new policy is proposed for shareholder approval. We believe that the new policy represents a simpler structure for both our executives and for shareholders, and has evolved in line with the Group's long term business strategy and direction. A summary of the new policy, the key areas of change and our strategic rationale for these updates is provided over pages 50 to 51.

The main evolution is to discontinue the Economic Profit Plan ('EPP'); going forwards no further amounts will accrue under this plan and, instead, the opportunity will move into the Long Term Incentive Plan ('LTIP'), hence reducing the number of "long term" incentive plans from two to one. A cash flow performance condition has been added to the LTIP alongside Earnings per Share ('EPS') targets in line with our policy to continue to focus on strong cash generation to support our progressive dividend policy and diversification strategy.

We are also proposing an increase in the policy maximum under the annual bonus (from 100% to 150% of salary) balanced by a reduction in the policy maximum under the LTIP (from 200% to 150% of salary) to ensure there is sufficient flexibility within the policy, over its three-year life, to continue to support the business strategy. In terms of the operation of the policy in FY17, we are not proposing any increases to the incentive opportunity. The base salaries for the coming year have not yet been determined but it is expected that they will be in line with the level of salary increases awarded to employees throughout the Group.

Shareholder support

During the year I have reached out to our largest shareholders and the investor community to discuss our proposed remuneration policy. The Remuneration Committee is grateful for the feedback that we received and for the high levels of support for our remuneration practices over recent years.

Performance in FY16

Executive directors' base salaries were increased by 2% with effect from 1 January 2016, in line with salary increases for employees throughout the Group.

As a result of achieving Group Adjusted profit before tax for FY16 of £60.7m and personal performance, Mark Cashmore's annual bonus is 38.9% of salary and Nick Gresham's annual bonus is 33.9% of salary. As a result of achieving Group Adjusted profit before tax of £60.7m and News & Media division Adjusted profit before tax for bonus purposes of £41.0m for FY16 and personal performance, Jonathan Bunting's annual bonus is 56.5% of salary.

As a result of achieving an economic profit of £11.7m for FY16, each of the executive directors received an EPP pay-out of 36.0% of salary, representing 72% of the maximum opportunity.

The LTIP awards granted in November 2013 were measured for the three-year period up to FY16 against challenging aggregate EPS targets. As a result of achieving three year aggregate EPS of 61.2p, these awards did not vest.

Further details on pay and performance in FY16 are set out on pages 56 to 63.

Concluding remarks

I hope that you find this to be a clear and thorough report that demonstrates the link between the Company's performance, strategy and approach to remuneration. I welcome any feedback and to continuing to engage with investors in this important area. I look forward to seeing shareholders at the Annual General Meeting in January 2017 and for a continuation of your support for our pay arrangements.

Denise Collis
Remuneration Committee Chair

Directors' remuneration report continued

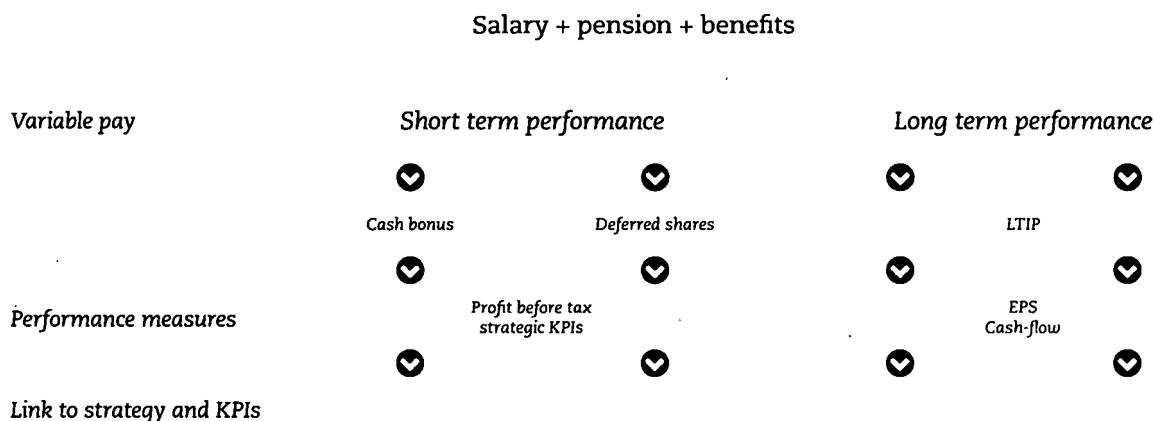
Directors' remuneration policy report

During FY16 we have reviewed our remuneration structure with the aims of:

- deepening the connection between reward and delivery of the Group's long term business strategy;
- further strengthening the alignment between executives and shareholders; and,
- ensuring that the Group can continue to recruit, motivate and retain the high calibre of executives required to drive the business successfully.

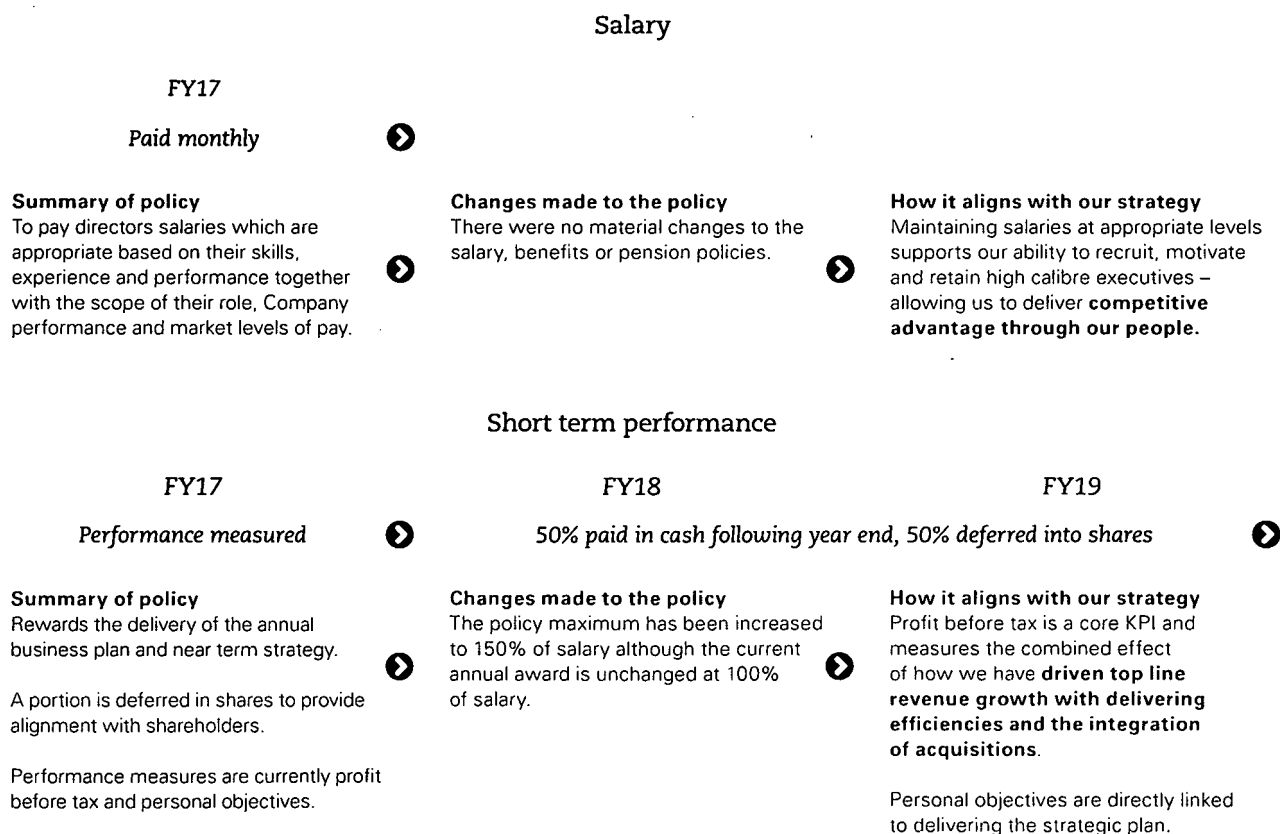
A summary of the revised policy is shown below with the full policy set out on pages 52 to 55.

Revised remuneration policy at a glance



The tables below outline the key changes made to the policy and provide an explanation of how the new policy aligns more closely to the Group's business strategy.

How we have improved the alignment of the policy with business strategy



Long term performance

FY17

FY18

FY19

Awards delivered in shares, only vest if performance conditions over the 3-year performance period are met

Summary of policy

Rewards the delivery of long term business objectives.

Made in shares to provide alignment with shareholders.

Performance measures are currently EPS and cash-flow.

Changes made to the policy

The EPP has been discontinued with no further amounts accruing under the scheme from FY17 onwards. The opportunity will transfer to the LTIP. As a result, the annual award has increased from 50% of salary to 100% of salary.

The policy maximum has decreased from 200% of salary to 150% of salary.

Cash-flow added as a performance condition for the FY17 awards.

How it aligns with our strategy

Cash-flow aligns with our strategic objective to focus on **strong cash generation** which supports our **progressive dividend policy and diversification strategy**.

EPS measures our **profitable long term growth** which creates **long term shareholder value**.

How we have improved the policy's alignment with shareholders

The revised policy has a higher proportion of the executive director incentive pay delivered in shares. This further aligns the long term interests of executives with shareholders and supports our policy to create long term shareholder value.

- a) The figures used in the graph are based on the implied FY17 award opportunities under the incentive plans and excludes salary and benefits.
 b) The former EPP scheme delivered an award opportunity of 50% of salary, 50% of which was deferred into shares for two years. By contrast, with the EPP no longer applied for future remuneration, the additional 50% of salary that has been incorporated into the LTIP is delivered 100% in shares that vest over the normal longer-term vesting period.

Directors' remuneration report continued

Introduction

This report has been prepared on behalf of the Board by the Remuneration Committee, in accordance with the relevant provisions of the Companies Act 2006 and on the basis prescribed in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Where required, data has been audited by Deloitte LLP and is indicated accordingly.

Remuneration policy report

The following section sets out the Company's proposed policy on remuneration for executive and non-executive directors. Shareholders will be asked to approve the policy at the Annual General Meeting on 26 January 2017. If the resolution to approve the updated policy is passed, the directors' remuneration policy will take effect from the conclusion of the Annual General Meeting and will apply until replaced by a new or amended policy. If the resolution is not passed, the Company will continue to make payments to directors in accordance with its existing arrangements until a revised policy is approved.

The aim of the policy remains to facilitate delivery of the Group's long term strategy through attracting, retaining and motivating high calibre directors with the necessary skills and experience. In forming the policy the Committee has adopted the principles set out in Section D of the 2014 Code (compliance with the 2014 Code is explained further in the Corporate Governance statement on pages 41 to 42).

Executive directors

The table below sets out the Company's remuneration policy for executive directors.

Element	Purpose	Operation	Maximum	Performance conditions
Base salary	To provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: <ul style="list-style-type: none"> the skills and experience of the individual; the size and scope of the role; market data for similar roles in comparable companies; and performance of the individual and the business. Typically, salaries are reviewed annually, with any changes effective from 1 January each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases for employees throughout the Group. Larger increases may be awarded where the Committee considers it appropriate to reflect, for example: <ul style="list-style-type: none"> significant changes in the size and/or complexity of the Group and/or of the role; or individuals being moved to market positioning over time. 	None
Benefits		Executive directors are eligible to receive benefits which may include a company car (or cash equivalent), private medical insurance and permanent health insurance. Where relevant, other benefits to reflect specific individual circumstances, such as housing, relocation, travel or expatriate allowances may also be provided. Executive directors may participate in the Company's all employee share plans on the same basis as other employees.	There is no prescribed maximum monetary value of benefits. Benefit provision is set at a level which the Committee considers to be appropriate for the nature and location of the role. Participation in all-employee share plans is subject to statutory limits.	None
Pension		Executive directors may participate in the Group's defined contribution pension plan, receive a salary supplement or a combination of the two. Under the terms of the Group's defined contribution pension schemes, executive directors may also receive death in service benefit.	Subject to the director making the minimum employee contribution (currently 5% of salary - unless an employee has reached either their life-time or annual allowance) the maximum aggregate employer contribution/salary supplement is 20% of salary.	None
Annual bonus	To incentivise the delivery of the annual plan.	Pay-out levels are determined by the Committee after year end based on performance against targets set at the start of the financial year. The Committee retains discretion to adjust bonus payments in the event that performance against targets does not properly reflect the underlying performance of the Group and/or relevant business divisions. Half of the bonus is deferred into shares for two years, subject to continued employment under the terms of the Deferred Bonus Plan (DBP). In future years, the Committee retains discretion to change the deferred amount and/or the deferral period. Clawback and dividend equivalent provisions apply (see notes over page).	The maximum award in respect of a financial year is 150% of salary. The current level of award is 100% of salary as described on page 62 of this report.	Annual measures and targets will be set by the Committee at the start of the financial year. The majority of the bonus will be based on financial performance. For individuals with responsibility for a specific business unit, performance measures and targets specific to the performance of that business unit may be included. The performance measures for FY17 are set out on page 62 of this report.

Element	Purpose	Operation	Maximum	Performance conditions
LTIP	To incentivise the delivery of long term shareholder value.	When granting an award the Committee will determine the face value of the award and the performance conditions and targets attached to it. Awards are made in the form of nil-cost options, the vesting of which is conditional on the achievement of performance targets (as determined by the Committee). Clawback and dividend equivalent provisions apply (see the notes below).	The maximum award in respect of a financial year is 150% of salary. The current level of award is 100% of salary as described on page 62 of this report	Vesting is based on the achievement of financial performance targets over a period of at least three years. For FY17 awards, the measures will be earnings per share (EPS) and cash flow. For achievement of threshold performance target, a maximum of 20% of the award will vest.

- a) Participation in incentive plans is at the discretion of the Committee.
- b) The Committee may at any time amend the rules of the 2016 Connect Group PLC Long Term Incentive Plan (subject to shareholders' approval if the proposed amendments are to the advantage of existing or new participants) or terminate the plan.
- c) Legacy and mandated payments – the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above (i) where the terms of the payment were agreed before the policy came into effect or (ii) where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in contemplation of the individual becoming a director of the Company or (iii) where the Company is mandated to make the payment as a result of an award issued by a competent court, tribunal or authority. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
- d) Dividend equivalents on share awards – the Committee may determine that participants be entitled to receive an amount equal to the value of dividends paid during the deferral/vesting period, paid retrospectively at the end of the period, either in cash or shares, but only in respect of the number of shares that vest.
- e) Clawback – the Company operates clawback and malus provisions across all of its incentive plans (annual bonus and LTIP). The Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in the same overall financial position as they would have been had certain circumstances (described below) not occurred. This includes a reduction or cancellation of unvested share awards and/or a reimbursement to the Company of part or all of any cash or share payments received if those circumstances occur within two years of payment. Such circumstances include, but are not limited to: (i) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (ii) serious reputational damage of the Company, any member of the Group or the relevant business unit as a result of the participant's misconduct; or (iii) gross misconduct by the participant; or (iv) any other similar circumstance or event which has a serious adverse effect on the Company, any member of the Group or the relevant business unit.
- f) Payments will continue to be made under the EPP (as set out in the 2013 Directors' Policy Report) although no further amounts will be accrued under the scheme. Accrued amounts will be payable in two annual tranches (subject to no malus circumstances arising in the reporting period) with a long stop date of 31 December 2020.

Application of the remuneration policy

The charts below illustrate the FY17 executive directors' remuneration packages at different levels of performance. Each element (as a percentage of total remuneration) and the total values have been set out:

Notes

- (a) Fixed pay comprises base salary, benefits and pension benefits.
- (b) The base salary is at 18 October 2016.
- (c) For Jonathan Bunting and Mark Cashmore, the value of benefits receivable under these scenarios is taken to be the value of benefits received in FY16. For David Bauernfeind, the value of benefits receivable under these scenarios is calculated as a projection of the benefits to be paid in FY17, which includes the relocation allowance.
- (d) The value of pension benefits under these scenarios is 20% of salary.
- (e) The on-target level of annual bonus is 42.5% of the maximum opportunity (100% of salary for all executive directors).
- (f) The on-target level of vesting under the LTIP is 50% of value of the award at grant (100% of salary for all executive directors).
- (g) The maximum value of the LTIP is 100% of the value of the award at grant and does not include any share price appreciation or expected dividend equivalents.
- (h) Salary and annual bonus values for David Bauernfeind have been annualised.

Directors' remuneration report continued

Approach to recruitment remuneration

On appointment of a new executive director, the Committee would seek to offer a remuneration package which can secure an individual with the necessary skills while seeking to pay no more than it believes is necessary to facilitate the appointment. Any remuneration package would be in line with the parameters set out in the Directors' remuneration policy table.

Where an individual forfeits outstanding incentive awards with a previous employer as a result of accepting the appointment within the Group, the Committee may offer compensatory awards to facilitate recruitment. These awards would be in such form as the Committee considers appropriate taking into account all relevant factors including the form, expected value, performance conditions, anticipated vesting and timing of the forfeited awards. The expected value of any compensatory awards would be no higher than the value forfeited. While cash may be included to reflect the forfeiture of cash-based incentive awards, the Committee does not envisage that 'golden hello' cash payments would be offered.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share and incentive plans. If necessary, awards may be granted outside of these plans as currently permitted under the UK Listing Authority's Listing Rules, but in accordance with the principles set out in this section.

Contracts of service

It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon twelve months' notice and upon nine months' notice by the executive director. The contracts of employment do not include any provisions for predetermined compensation for early termination.

The Committee may terminate the contract immediately by making a payment in lieu of notice consisting of base salary only for the unexpired period of notice. In normal circumstances, such a payment would be made in monthly instalments over the period, subject to a duty to mitigate, and will be reduced by the amount in respect of income receivable from alternative employment.

Loss of office policy

In the event that the employment of an executive director is terminated, any compensation payable will be determined in accordance with the terms of the service contract as well as the rules of any incentive plans. Incentives will normally be treated in the following way, although the Committee retains the discretion to vary the treatment of awards where it feels it is appropriate to do so:

Annual Bonus	Unless the Committee determines otherwise, executives will not participate in the Annual Bonus if they are under notice. If the Committee determines that the executive should be eligible to receive an annual bonus award, the maximum opportunity will normally be reduced to reflect the portion of the year they were employed. Any payment would remain subject to performance and will typically be paid following the normal year-end assessment process.
Deferred Bonus Plan (deferred annual bonus and EPP² awards)	If the Committee determines that an executive is a "good leaver" ¹ the deferred shares will normally be retained in full by the executive. If an executive leaves the Group for any other reason, the extent to which the shares vest will be determined at the discretion of the Committee.
LTIP	If the Committee determine that an executive is a "good leaver" ¹ LTIP awards will normally be reduced to reflect the portion of the performance period that has elapsed on the date that employment ceases, and typically be subject to the original performance conditions. Treatment of these awards and timing of vesting of any pro-rated shares will be in-line with best practice, as dictated by the Plan Rules, as approved by shareholders during 2015. If an executive leaves the Group for any other reason outstanding awards will normally lapse.

1. Good leaver reasons are if an executive leaves the Group due to death, injury, ill-health, disability, redundancy, retirement by agreement with the Company, the employing entity no longer being part of the Group, or any other reason as determined by the Committee.
2. Any future unpaid awards under the EPP will be forfeited in the event of cessation of employment.

The Committee retains discretion to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment. The details and rationale for any such payments would be disclosed in the following annual report on remuneration.

External non-executive director appointments

It is the Company's policy to allow each executive director to accept one non-executive directorship of a publicly quoted company provided that it is not a chairmanship of a FTSE 100 company and it does not conflict with the interests of the Company. Executive directors may retain the fee for such an appointment.

Consideration of pay and employment conditions elsewhere in the Group

The Committee considers the general basic salary increase for employees throughout the Group when determining the annual salary increases. In addition, the Group/divisional performance targets used in the executive bonus plan are cascaded into broader-based annual bonus arrangements for all eligible employees to ensure alignment across the bonus plans and participating populations.

Employees have not been directly consulted on the design of the Company's senior executive remuneration policy.

Consideration of shareholder views

The views of shareholders are very important to the Committee and feedback received from shareholders following publication of the Annual Report and at the Annual General Meeting is welcomed. It is the Committee's policy to consult with major shareholders and investor representative bodies before proposing any material changes to the remuneration policy.

Non-executive directors

The table below sets out the Company's remuneration policy for non-executive directors.

Element	Purpose and link to strategy	Operation	Maximum
Chairman's and non-executive directors' basic fees	To attract and retain high calibre individuals to serve as non-executive directors.	<p>Fee levels are set to reflect the time commitment, demands and responsibility of the role, taking into account fees paid by similarly sized companies.</p> <p>The Chairman's fee is determined by the Committee and the non-executive directors' fees are determined by the Chairman and executive directors.</p> <p>Fees are reviewed from time to time to ensure that they remain in line with market practice.</p> <p>Fees are paid in equal monthly instalments.</p> <p>The Chairman's fee includes his chairmanship of the Nominations Committee.</p>	The maximum aggregate fee for non-executive directors, including the Chairman, is £500,000 per annum, as set out in the Company's Articles of Association.
Additional fees	To provide compensation to non-executive directors taking on additional Committee responsibility.	Non-executive directors (other than the Chairman) are paid an additional fee for their chairmanship of a Board Committee.	
Benefits	To facilitate the execution of the role.	The Company reimburses reasonable travel and subsistence costs.	

The Chairman and non-executive directors do not participate in any pension or incentive plans.

Recruitment policy

The remuneration package for a newly appointed non-executive director would be in line with the policy outlined above.

Letters of appointment

All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, subject to review thereafter; these are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. Appointments may be terminated by either party giving three months' notice. In line with the Company's aspiration to comply with the 2014 Code requirements for FTSE350 companies notwithstanding that it is a 'Small Cap' company only, all non-executive directors are subject to annual re-election by shareholders at the Annual General Meeting.

Directors' remuneration report continued

Annual report on remuneration

Total remuneration in FY16 was based on the following elements:

Salary  Pension & benefits  Annual bonus (cash & shares)  EPP (cash & shares)  LTIP vesting  Single figure

Based on performance in the year, the following payments were made:

Executive	Salary £	Pension & benefits £	Annual bonus £	EPP £	LTIP vesting £	Single figure £
Jonathan Bunting	289,408	86,768	164,504	105,006	0	645,686
Mark Cashmore	434,112	120,942	169,762	157,508	0	882,324
Nick Gresham	289,408	70,985	49,305	52,503	0	462,201

These were calculated in the following way:

Salary

The numbers shown are the total amounts paid to directors during the financial year. As salary increases are effective during the year (1 January) the numbers represent 4 months of the director's previous salary and 8 months at the increased salary:

Executive	Salary from 1 September 2015 – 31 December 2015 £	Salary from 1 January 2016 – 31 August 2016 £	Total salary paid in the year £
Jonathan Bunting	285,600	291,312	289,408
Mark Cashmore	428,400	436,968	434,112
Nick Gresham	285,600	291,312	289,408

Pension and benefits

Executives receive pension benefits equivalent to 20% of their base salary. In FY16 they also received a car or cash allowance, private medical insurance and were eligible to participate in the Save As You Earn (SAYE).

Annual bonus

The annual bonus opportunity in FY16 was 100% of salary payable if targets on Group PBT, divisional PBT and personal objectives were met. 50% of the total pay-out is then deferred into shares for two years. Nick Gresham tendered his resignation during the year and is serving his notice period in full (this extends beyond the end of FY16). The Committee has determined that he will receive the cash part of his award (50% of the total) and will forfeit the remainder:

Executive	Salary £	Achievement against targets (% of bonus)	Bonus £	Cash payment £	Deferred shares £
Jonathan Bunting	291,312	56.5%	164,504	82,252	82,252
Mark Cashmore	436,968	38.9%	169,762	84,881	84,881
Nick Gresham	291,312	33.9%	98,609	49,305	0

 **Page 58 for further details**

Economic Profit Plan (EPP)

The maximum opportunity under the EPP is 50% of salary. Economic Profit in FY16, combined with the balance of the Economic Profit Pool, resulted in pay-outs of 36% of salary for the executive directors. 50% of the total pay-out is then deferred into shares for two years. Nick Gresham tendered his resignation during the year and is serving his notice period in full (this extends beyond the end of FY16). The Committee has determined that he will receive the cash part of his award (50% of the total) and will forfeit the remainder:

Executive	Salary £	EPP payment (36% of salary) £	Cash payment £	Deferred shares £
Jonathan Bunting	291,312	105,006	52,503	52,503
Mark Cashmore	436,968	157,508	78,754	78,754
Nick Gresham	291,312	105,006	52,503	0

 **Page 59 for further details**

LTIP vesting

In 2013, we granted awards of nil-cost options to our executives which would only vest if the performance condition (EPS targets) were met. These targets have not been achieved and therefore these options lapsed.

 **Page 59 for further details**

Consideration by the directors of matters relating to directors' remuneration

Remuneration Committee

Denise Collis and Colin Child joined the Committee on 1 December 2015. Following their retirement at the conclusion of the Annual General Meeting on 4 February 2016, Anthony Cann and John Worby each stepped down as members of the Committee and Denise Collis succeeded Anthony Cann as Chair of the Remuneration Committee.

Gary Kennedy is non-executive chairman and was deemed independent on appointment. All other members of the Committee were non-executive directors.

	Meetings attended	Possible meetings
Andrew Brent	6	6
Anthony Cann	2	2
Colin Child	4	4
Denise Collis	4	4
Gary Kennedy	5	6
John Worby	2	2

The Committee's terms of reference, which are available on the Company's website www.connectgroupplc.com and from the Company Secretary on request, set out the responsibilities of the Committee.

During the year, the Committee was supported in its work by its appointed external advisers, New Bridge Street. Fees paid to New Bridge Street were £100,635. The Committee is satisfied that the advice received has been objective and independent.

New Bridge Street is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

Mark Cashmore (Group Chief Executive), Sarah Miles (Group Human Resources Director) and Stuart Marriner (Company Secretary & General Counsel) also attended Committee meetings but were not present when their own remuneration was discussed.

Directors' remuneration report continued

Shareholder vote

At the 2016 Annual General Meeting, shareholders were asked to vote on the FY15 Directors' remuneration report. The votes received were:

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Total votes cast	Votes withheld
To approve the Directors' remuneration report	172,516,695	98.56%	2,514,453	1.44%	175,031,148	1,313,629

Nick Gresham 2016 remuneration and leaving arrangements

In January 2016, Nick Gresham (Chief Financial Officer) decided to step down from his role and the Board to pursue new opportunities. Nick was required to work his full notice period and, with his agreement, this was subsequently extended in May 2016 (in preparation for the appointment of a successor) until 31 December 2016, to ensure full coverage of the FY16 year-end accounting process and a smooth handover.

The Committee used its discretion to determine that Nick would be eligible for the cash portion of his annual bonus and EPP award for FY16. He will not receive the deferred element of either award, effectively reducing the annual opportunity by 50%. He will not be eligible for any variable pay for FY17. The Committee has also exercised its discretion to afford good leaver status to any deferred awards or LTIP grants that will vest before 31 December 2016. Any deferred awards or LTIP grants which were due to vest after Nick has left the Group will lapse.

Performance during the year (audited)

Fixed pay

Salaries were increased by 2% with effect from 1 January 2016. The revised salaries were £291,312 for Jonathan Bunting, £436,968 for Mark Cashmore and £291,312 for Nick Gresham. Executives received pension benefits of 20% of salary and other benefits included a car or cash allowance and private medical insurance.

Annual bonus

In FY16, each executive had a maximum opportunity under the annual bonus of 100% of salary. As set out above, as Nick Gresham resigned during the year, the Committee determined that he was only eligible for the cash element of his bonus, effectively reducing his opportunity to 50% of salary. Performance measures and actual performance for the FY16 bonus were as follows:

Measure	Weighting (at maximum)			Targets (£m)			Actual result (£m)
	Bunting	Cashmore	Gresham	Threshold	Target	Max	
Group PBT	20%	70%	70%	59.1	61.7	64.3	60.7
News & Media PBT	50%	–	–	38.6	40.2	41.8	41.0
Individual objectives	30%	30%	30%	Good (10% of max. bonus)	High (20% of max. bonus)	Outstanding (30% of max. bonus)	–

1. Threshold performance results in no pay-out under the Group PBT and News & Media PBT elements and 33% of the maximum for that element for achievement against personal objectives (being 10 of the 30% opportunity).
2. Target performance results in 32.1% of the maximum pay-out under the combined Group PBT and News & Media PBT elements (being 22.5 of the 70% opportunity) and 67% of maximum for achievement against personal objectives (being 20 of the 30% opportunity).

Bonus payable for the achievement of individual objectives

For the financial year under review the executive directors were each given a number of objectives against which the individual element of the annual bonus was assessed. For Mark Cashmore and Nick Gresham these included oversight of investment into the Group's key organic growth drivers of E-Commerce in Education & Care, Wordery, Pass My Parcel and Jack's Beans, the successful integration of Tuffnells into the Group and initiatives designed to leverage the Group which are key strategic objectives for the Company as highlighted in the Strategic Report set out on pages 8 to 11. Taking account of the successes during the year, including the percentage of orders placed online now at 35% in Education & Care (25% last year), growth in Wordery sales of 26%, the successful integration of Tuffnells into the Group which is now complete and the success of initiatives to leverage the Group (in particular Tuffnells support for Pass My Parcel in 11 locations and Smiths News supporting Tuffnells with last mile delivery in 3 locations), the Committee determined that a bonus of 25% of salary for Mark Cashmore and 20% of salary for Nick Gresham should be payable out of the maximum 30% opportunity for individual objectives. For Jonathan Bunting objectives included the ongoing execution of a diversification strategy and the continued successful delivery of the cost out programme, which are key strategic objectives for the News & Media division. Taking account of the overall strong year with sales comfortably within strategic forecasts, successful finalisation of publisher contracts which secures 94% of publisher revenues at today's values until 2019, the continued development of Pass My Parcel including the successful launch of ASOS and Amazon returns, customer Net Promoter Score performance in the upper quartile and national coverage using the support of the Tuffnells network, the continued rollout of Jack's Beans to over 400 outlets and the delivery of £5m of sustainable savings, the Committee determined that a bonus of 20% of salary should be payable out of the maximum 30% opportunity.

Performance against targets resulted in FY16 payments of £164,504 for Jonathan Bunting (50% cash, 50% deferred shares), £169,762 for Mark Cashmore (50% cash, 50% deferred shares) and £98,609 for Nick Gresham (50% of which will be paid in cash, 50% forfeited). The deferred shares will vest two years after grant, subject to continued employment.

EPP

In FY16, each executive had an initial opportunity under the EPP of 50% of salary. As set out above, Nick Gresham resigned during the year and the Committee determined that he was only eligible for the cash element of the EPP, effectively reducing his opportunity to 25% of salary. The table below sets out the target range and payments into the Pool at minimum, target and maximum levels of economic profit for FY16:

Economic profit ¹	Payment into Pool ¹	Value of contribution
£10.6m	7.5% of economic profit	£795,000
£12.5m	10% of economic profit	£1,250,000
£14.5m	12.5% of economic profit	£1,812,500

1. Payments into Pool are calculated on a straight-line basis between the points above.

For FY16, the economic profit was £11.7m. This resulted in a contribution to the Pool of 8.9% of economic profit (£1,050m) bringing the total value of the Pool to £2,019m. One-third of the Pool will be distributed in FY16.

The FY16 payments will be £105,006 for Jonathan Bunting (50% cash, 50% deferred shares), £157,508 for Mark Cashmore (50% cash, 50% deferred shares) and £52,503 for Nick Gresham (100% in cash). The deferred shares will vest two years after grant, subject to continued employment.

As discussed in the Remuneration Committee Chair's letter and policy section, FY16 is the last year during which the EPP will accrue funds. Up to £1,346m, the balance of the Pool which has been earned based on past performance will be distributed over the next two years subject to the Company maintaining a threshold level of profitability. The Scheme will be closed to new entrants and any awards forfeited, for example by way of a bad leaver, will not be redistributed. Awards will be structured in the same way as other awards under the EPP with 50% paid in cash and 50% deferred for two years. The last deferred payment under the EPP will be released in December 2020 (subject to no malus circumstances arising in the reporting period).

Long term incentive

LTIP awards were granted to the executive directors in November 2013 and were subject to the achievement of three-year aggregate EPS targets (as defined by IAS 33, before non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency). Target performance (20% vesting) was aggregate EPS of 66.3p increasing on a straight-line to 100% vesting for 74.7p.

Actual aggregate EPS over the performance period was determined as 61.2p. This meant that the awards lapsed and no payments were made.

Single figure table (audited)

The payments set out above resulted in the following total remuneration for executives in respect of FY16:

Executive	Year	Salary £000	Benefits ^(a) £000	Annual bonus ^(b) £000	Economic Profit Plan ^(c) £000	LTIP ^(d) £000	Pension benefits ^(e) £000	Total £000
Jonathan Bunting	FY16	289	29	165	105	0	58	646
	FY15	284	25	194	88	92	56	739
Mark Cashmore	FY16	434	34	169	158	0	87	882
	FY15	426	27	305	132	121	84	1,095
Nick Gresham	FY16	289	13	49	53	0	58	462
	FY15	284	14	203	88	87	56	732

Notes

(a) Benefits include the taxable value of a company car or car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year.

(b) Half of any award will be deferred into Company shares for a period of two years. Further details of the FY16 Annual Bonus Plan are shown on page 58.

(c) Half of any award will be deferred into Company shares for a period of two years. Further details of the FY16 EPP are shown above.

(d) The awards reported in FY16 were granted on 14 November 2013, the performance conditions of which were not achieved and therefore the options lapsed in full.

(e) Pension benefits comprise total pension supplement, whether taken as an addition to basic pay or pension contribution, and Company pension contribution.

(f) No dividend equivalent payments were payable in respect of FY16.

(g) All of the executive directors served throughout the year.

Directors' remuneration report continued

Performance graph and table

The graph below shows the Company's Total Shareholder Return ('TSR') performance against the FTSE Support Services Sector over the past seven years. The FTSE Support Services Sector was chosen because it represents a broad equity market index of which the Company is a constituent. The table below the graph sets out the remuneration data for the Group Chief Executive during each of the last seven financial years (Mark Cashmore held this position for all seven years).

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Group Chief Executive total remuneration (£'000)	846	862	1,079	1,311	970	1,095	882
Annual bonus payment (% maximum)	100.0%	59.9%	83.1%	67.1%	12.5%	71.3%	38.9%
EPP pay-out (% maximum)	84.1%	79.2%	89.4%	86.8%	55.1%	61.5%	72.0%
LTIP vesting (% maximum)	0.0%	78.0%	100.0%	100.0%	100.0%	63.5%	0.0%

Percentage change in Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between FY15 and FY16, compared to that of all UK-based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY15 – FY16		
	Base salary	Benefits	Annual bonus
Group Chief Executive	2.0	13.9	-44.6
UK employees ¹	5.9	8.7	4.4

¹ The base salary increase for UK employees includes the impact of both the National Living Wage and the National Minimum Wage.

Relative importance of spend on pay

The table below illustrates the Company's expenditure on pay in comparison to profit before tax, corporation tax paid and distributions to shareholders by way of dividend payments.

	FY15 £m	FY16 £m	% change
Total employee pay ¹	136.5	153.7	12.6%
Adjusted Group profit before tax	56.5	60.7	7.4%
Income tax paid	8.7	8.5	-2.3%
Dividends paid	21.4	22.7	6.1%

¹ The increase in total employee pay includes the impact of the acquisition of Tuffnells and the increases in both the National Living Wage and the National Minimum Wage.

The figures above are as set out in the Group income statement on page 71 and on pages 84 and 89 in the Notes to the Accounts. Total employee pay is the total pay for all Group employees. Adjusted Group profit before tax has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

Share plans – grants in the year

LTIP awards granted in FY16 (audited)

On 12 November 2015, executive directors were granted the LTIP awards of 50% of salary:

Executive	Share price at date of grant (p) ¹	Number of nil-cost options subject to award	Face value of award	Percentage of awards released for achieving threshold targets ²	End of performance period
Jonathan Bunting	167.67p	85,167	£142,800	20%	FY18
Mark Cashmore	167.67p	127,751	£214,200	20%	FY18
Nick Gresham	167.67p	85,167	£214,200	20%	FY18

1. Based on the average closing price for the three dealing days prior to the date of grant, used to calculate the numbers of shares under award.

2. 100% for hitting maximum targets.

Awards are subject to aggregate EPS (as defined by IAS 33, before exceptional or non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency).

Aggregate EPS of 60p will result in threshold vesting (20%) increasing to full vesting for aggregate EPS of 68p.

DBP awards granted in FY16 (audited)

On 12 November 2015, executive directors were granted DBP awards for the deferred shares element of the annual bonus and EPP schemes:

Executive	Share price at date of grant (p) ¹	Number of nil-cost options subject to award	Face value of award
Jonathan Bunting	167.67p	83,937	£140,737
Mark Cashmore	167.67p	130,282	£218,443
Nick Gresham	167.67p	86,854	£145,628

1. Based on the average closing price for the three dealing days prior to the date of grant, used to calculate the numbers of shares under award.

There are no further performance conditions attached to the DBP awards, which are exercisable subject only to continued employment.

Sharesave Scheme awards granted in FY16 (audited)

On 22 June 2016, Mark Cashmore was granted 5,598 shares at an option price of 128.60p per share (the face value of the award was £7,199).

The maximum amount which could be saved in FY16 was £500 per month, the total savings at the end of the term being used to purchase shares at 80% of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Employee Benefit Trust

The Company's Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's executive share schemes. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Company. The Trust waives its right to vote and to dividends on the shares that it holds.

The Trustee is Computershare Trustees (Jersey) Limited, an independent professional trustee company based in Jersey.

The number of shares held in the Employee Benefit Trust at 31 August 2016 was 2,313,644. The accounting treatment is shown in the Group statement of changes in equity on page 73.

Dilution of share capital by employee share plans

Awards granted under the Company's Sharesave Scheme are satisfied by the issue of new shares when the options are exercised. All other share plans are satisfied by market purchase shares. The Company monitors the number of shares issued under the Sharesave Scheme and as at 31 August 2016 had issued 2,961,382 new shares since 31 August 2006 (demerger), representing 1.20% of the issued share capital, well within the all share plans dilution limit of 10% in any rolling ten-year period set by The Investment Association.

Executive directors' share interests (audited)

The table below sets out details of outstanding share awards held by executive directors. This shows, in relation to each executive director, the total number of share awards and options with performance measures (unvested) and without performance measures (deferred shares), those vested but unexercised and those exercised during the year.

	Share awards and nil-cost options			
	With performance measures	Without performance measures	Vested but unexercised	Exercised during the year
Jonathan Bunting	243,125	172,871	0	123,598
Mark Cashmore	360,732	198,683	0	171,629
Nick Gresham	242,466	140,231	0	119,698

Directors' remuneration report continued

Executive directors' shareholdings (audited)

The table below sets out the beneficial interests of the executive directors and their immediate families in the ordinary shares of the Company.

	31 August 2016	31 August 2015
Jonathan Bunting	275,894	210,506
Mark Cashmore	778,832	691,560
Nick Gresham	211,409	148,084

There has been no change in the executive directors' shareholdings shown above between 1 September 2016 and 18 October 2016.

Shareholding guidelines

In June 2013, the shareholding guideline for executives was increased to 150% of salary (from 100% of salary). Until those levels are reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, the executives will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the SAYE).

In exceptional circumstances, executive directors may seek permission from the Remuneration Committee to temporarily go below their target holding.

Shareholdings against the guideline are as follows:

Name	Target Shareholding	Salary	Current holding	Valuation of current holding ¹	% of Target Shareholding reached
Jonathan Bunting	150%	£291,312	275,894	£451,087	155%
Mark Cashmore	150%	£436,968	778,832	£1,273,390	291%
Nick Gresham	150%	£291,312	211,409	£345,654	119%

¹ using share price of 163.5p as at 31 August 2016).

Contracts of employments

Details of the contracts of employment for executive directors are as follows:

Executive	Date of contract	Notice period by Company	Notice period by director
Jonathan Bunting	1 April 2010	12 months	9 months
Mark Cashmore	5 September 2013	12 months	9 months
Nick Gresham	23 August 2010	12 months	9 months

Implementation FY17

Salaries

The salaries of the executive directors are reviewed annually, with any new salaries normally taking effect from 1 January. When conducting any review, the Committee takes into account a range of factors including the Group's performance, changing size and complexity, market conditions, the prevailing market rates for similar positions in a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases across the Group.

The salaries for the coming year have not yet been determined but it is expected that they will be in line with the level of salary increases awarded to employees throughout the Group.

Bonus

There have been no changes to opportunity, performance measures or the amount paid at target for the FY17 annual bonus plan (see page 57 for details).

LTIP

Subject to shareholder approval, FY17 awards will be granted under the LTIP following the Annual General Meeting. Awards will have a face value of 100% of base salary and will be subject to end-to-end EPS and aggregate operating cash flow targets as follows:

Performance period	End-to-end EPS performance target	Aggregate cash flow performance target	Proportion exercisable
Three years ending 31 August 2019	Below 22.9p	Below £205.0m	Zero
	22.9p	£205.0m	20% vesting
	24.5p	£224.0m	57% vesting
	26.4p or more	£246.4m	100% vesting

Recruitment

David Bauernfeind joined the Board on 1 October 2016 on a salary of £310,000. In line with policy, in FY17 he will have an annual bonus opportunity of 100% of salary and an LTIP award with a face value of 100% of salary.

In addition to our standard benefits and pension provision, he will receive a one-off relocation allowance of £25,000 to facilitate a move closer to the Company headquarters.

Non-executive directors

Letters of appointment

All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, which can be terminated by either party giving three months' notice, as set out in the table below.

Non-executive ¹	Date of appointment	Notice period/unexpired term
Gary Kennedy	2 March 2015	3 months/3 months
Andrew Brent	1 September 2008	3 months/3 months
Colin Child	1 December 2015	3 months/3 months
Denise Collis	1 December 2015	3 months/3 months

1. Anthony Cann and John Worby served on the Board during the year and stood down from the Board on 6 February 2016.

Non-executive director fees

Following a review of non-executive director fees in comparable companies, the fee paid to Andrew Brent was increased from £35,000 to £40,000 with effect from 1 January 2016. Further, with effect from 4 February 2016, Andrew Brent received an additional fee of £5,000 for the role of Senior Independent Director.

The fees paid to new non-executive directors (excluding the Chairman) on appointment were also reviewed and the non-executive director base fee was increased to £40,000, with the additional fee for chairing a Committee increased to £10,000.

This resulted in the following non-executive directors' 'single figure' of remuneration for FY16 and FY15 (audited):

	Year	Base fee £000	Additional fees £000	Total fees £000
Gary Kennedy ¹	FY16	140	–	140
	FY15	70	–	70
Andrew Brent	FY16	38	3	41
	FY15	35	–	35
Anthony Cann ²	FY16	15	2	17
	FY15	35	5	40
Colin Child ³	FY16	30	8	38
	FY15	–	–	–
Denise Collis ³	FY16	30	8	38
	FY15	–	–	–
John Worby ²	FY16	15	2	17
	FY15	35	5	40

1 Gary Kennedy is paid a single fee which includes chairmanship of the Nominations Committee.

2 Anthony Cann and John Worby each retired from the Board on 4 February 2016.

3 Colin Child and Denise Collis each joined the Board on 1 December 2015.

Non-executive directors' shareholdings (audited)

The beneficial interests of the non-executive directors and their immediate families in the ordinary shares of the Company are set out below:

	31 August 2016	31 August 2015
Gary Kennedy	20,000	20,000
Andrew Brent	12,987	12,987
Anthony Cann	–	38,571
Colin Child	0	–
Denise Collis	14,864	–
John Worby	–	15,428

There has been no change in the non-executive directors' shareholdings shown above between 1 September 2016 and 18 October 2016.

Non-executive director fees in FY17

There are no proposals to increase the non-executive director fees in FY17.

Approval

This report was approved by the Board and signed on its behalf by:

Denise Collis

Remuneration Committee Chair
18 October 2016

Other statutory disclosures

Directors' Report

This Annual Report and Accounts includes the Directors' report and the audited accounts of Connect Group PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 August 2016. The information required to be disclosed in the Directors' report is provided in the following sections of the Annual Report and Accounts, which are incorporated into the directors' report by reference:

- Strategic report on pages 1 to 33;
- Corporate governance on pages 36 to 42;
- Audit Committee report on pages 43 to 46;
- Nominations Committee report on pages 47 and 48;
- Remuneration report on pages 49 to 63;
- this section, Other statutory disclosures;
- Directors' responsibilities statement on page 66; and
- Notes to the Accounts as detailed in this section.

By their nature, the statements concerning the risks and uncertainties facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

The Directors' report has been drawn up and presented in accordance with, and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

Subsidiaries and branches

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 33 to the Accounts.

Post balance sheet events

There were no post balance sheet events.

Profit and dividends

The profit for the financial year, after taxation, was £33.4m (FY15: £21.4m).

The directors recommend the payment of a final dividend for the year of 6.5p per ordinary share (FY15: 6.3p) on 10 February 2017 to members on the Register at the close of business on 13 January 2017.

This final dividend, together with the interim dividend of 3.0p per ordinary share paid on 8 July 2016, makes a total dividend of 9.5p per ordinary share for the year ended 31 August 2016 (FY15: 9.2p).

Share capital

The Company's issued share capital comprises a single class of ordinary shares of 5p each. All issued shares are fully paid, can be held in certificated or uncertificated form and are listed on the London Stock Exchange. Details of movements in the issued share capital during the year can be found in Note 28 to the Accounts.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (Articles), a copy of which can be obtained from Companies House or from the Company's website www.connectgroupplc.com. The Company's Articles may only be amended by a special resolution of the Company. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of ordinary shares are entitled to: attend and speak at general meetings of the Company; to appoint one or more proxies and, if they are corporations, to appoint corporate representatives; and to exercise voting rights. Holders of ordinary shares may also receive a dividend and on a liquidation may share in the assets of the Company. In addition, holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts. Subject to meeting certain thresholds, holders of ordinary shares may require a general meeting of the Company to be held or propose resolutions to be considered at Annual General Meetings.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. None of the ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. However, when calculating the 48 hour period, no account is taken of any part of a day that is not a working day.

The directors may refuse to register a transfer of a certificated share: which is not fully paid, provided that the refusal does not prevent dealings in the shares in the Company from taking place on an open and proper basis; or on which the Company has a lien. The directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged at the office, or such other place as the directors may decide accompanied by the certificate for the share to which it relates and such other evidence (if any) as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

There are no other restrictions on the transfer of ordinary shares in the Company other than those imposed by prevailing laws and regulations (such as insider trading laws and market requirements in respect of close periods).

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

Shares held by the Employee Benefit Trust

The Trustee of the Smiths News Employee Benefit Trust holds ordinary shares of the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair. The Trustee waives its right to vote and to dividends on the shares that it holds. Further details on the Trust can be found in the Directors' remuneration report on page 61.

Purchase of own shares

At the Annual General Meeting held on 4 February 2016, authority was given for the Company to purchase, in the market, up to 24,432,840 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during the financial year. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2017 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2016, 2,606,751 ordinary shares in the Company were issued, of which 442,570 relate to the allotment of shares under the Sharesave Scheme at prices between 70.85p and 142.42p. All of the new ordinary shares issued during the year rank pari passu with those previously in issue.

The Articles provide that the Board may, subject to the prior approval of the Company's shareholders, exercise all the powers of the Company to allot relevant securities including new ordinary shares.

Interests in voting rights

As at 31 August 2016, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following notifiable interests in its issued share capital:

Holder	Number	% of voting rights	Nature of holding
Silchester International Investors LLP	18,332,319	9.94	Indirect Interest
Henderson Global Investors	19,333,649	7.91	Indirect Interest
Standard Life	14,814,266	6.00	Indirect Interest
Aberforth Partners LLP	10,051,763	5.32	Indirect Interest
Hargreave Hale Limited	9,656,422	5.11	Indirect Interest
Ameriprise Financial, Inc.	11,820,430	4.79	Indirect Interest

There have been no changes to the notifiable interests in the period 1 September 2016 to 18 October 2016.

Except for the above, the Company is not aware of any ordinary shareholders with interests in 3% or more of the voting rights attached to the issued share capital of the Company.

Change of control

Each of the Company's trading subsidiaries has agreements with customers and suppliers that may contain change of control clauses giving rights to those customers and suppliers on a takeover of the Company.

A change of control of the Company following a takeover bid may cause a number of other agreements to which the Company and/or one or more of its subsidiaries is party, such as banking arrangements, property leases and licence agreements to alter or be capable of termination at the election of the counterparty.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover.

Directors

The directors who served during the year are set out on page 34 with the exception of David Bauernfeind who replaced Nick Gresham as Chief Financial Officer and member of the Board on 1 October 2016. The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation and the Company's Articles.

The Company's Articles give power to the Board to appoint directors and (where notice is given signed by all the other directors) remove a director from office. They also give a power to the Company to appoint directors (by ordinary resolution) and remove a director from office (by special resolution or by ordinary resolution of which special notice has been given).

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Directors' remuneration report on pages 49 to 63.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors and secretary and for the directors of its Associated Companies, to the extent permitted by law, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006.

Employees

Details of the Group's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the Corporate responsibility report on page 32.

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are set out in the Corporate responsibility report on page 30.

Political donations

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (FY15: Nil).

Financial instruments

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in Note 20 to the Accounts.

Disclosure of information to auditor

Each director confirms that, so far as he is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditor is unaware and that each director has taken all the steps he ought reasonably to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

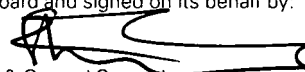
Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on 26 January 2017 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes to the proposed resolutions to be considered at the meeting, in the booklet which accompanies this report.

Approved by the Board and signed on its behalf by:

Stuart Marniner
Company Secretary & General Counsel
18 October 2016



Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board on 18 October 2016 and signed on its behalf by:

Mark Cashmore
Group Chief Executive
18 October 2016

David Bauernfeind
Chief Financial Officer
18 October 2016

Independent auditor's report to the members of Connect Group PLC

Opinion on financial statements of Connect Group PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 33. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the directors' statement on the longer-term viability of the group on page 45.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 45 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 12–13 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 45 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee has requested that while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

Independent auditor's report to the members of Connect Group PLC continued

Risk description	How the scope of our audit responded to the risk	Key observations
<p>Defined Benefit Pension Schemes</p> <p>At 31 August 2016, the Group recognised a net retirement benefit obligation of £21.2m, which includes gross pension obligations of £531.4m, representing 4 schemes across the Group.</p> <p>The determination of the value of the retirement benefit obligations requires significant judgement in the selection of key assumptions and is highly sensitive to such assumptions. The level of volatility in exchange rates, bond yields and equity prices has increased since the United Kingdom's decision to leave the European Union, which may have a material impact on the net scheme positions.</p> <p>Management's key judgements in deriving the value of the retirement benefit obligations are mortality rates, price inflation, discount rates, pension increases and earnings growth.</p> <p>Specifically on the Pension Trust scheme there are two further aspects which require significant judgement:</p> <ul style="list-style-type: none"> – On an IAS 19 basis, the scheme is in a surplus position of £151.3m meaning there is a judgement taken whereby this surplus is not available for use by the Group, and therefore it is restricted to nil in the consolidated financial statements. – The presence of a schedule of contributions in place to fund the Pension Trust scheme, separate to the surplus above, means there is a requirement under IFRIC14 to recognise a liability of £10.3m in respect of this funding commitment. <p>This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1, and financial statement disclosure requirements provided in Note 6.</p>	<p>We evaluated the assumptions made in the valuation of the pension scheme obligations and evaluated the information contained within the actuarial valuation reports for each of the four schemes.</p> <p>We considered management's assessment of the sensitivity of changes in assumptions and we determined an acceptable range for each key input used in management's calculation of the scheme positions.</p> <p>We used our internal actuarial experts to assist us in assessing the assumptions applied in determining the pension obligations, particularly given recent market volatility following the United Kingdom's decision to leave the European Union, and determined whether the key assumptions are reasonable. This included benchmarking the assumptions in respect of:</p> <ul style="list-style-type: none"> – the discount rate; – pension increases in payment, deferment & salary; and – price inflation and mortality assumptions. <p>For the Pension Trust scheme, in addition to the above procedures we have:</p> <ul style="list-style-type: none"> – reviewed the agreements with the Scheme's Trustees to ability of the Group to recover any surplus from the Scheme; and – assessed the value of the IFRIC 14 liability by obtaining the schedule of contributions and recalculating management's estimate of the future liability. <p>In addition, we tested the accuracy of membership data used in the valuation of each scheme by agreeing a sample of members to underlying records; the accuracy of payments made to the scheme by agreeing a sample of payments to bank records; and the existence and valuation of scheme assets by agreeing a sample to supporting documentation and external valuation data.</p>	<p>From the work performed, we are satisfied that all assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate.</p>
<p>Impairment of Goodwill and Other Intangibles</p> <p>At 31 August 2016, the Group recognised £96.3m of goodwill and £68.5m of other intangibles including customer relationships and trade names. There is a risk regarding the potential impairment of the carrying value of these assets.</p> <p>The directors' assessment of impairment of goodwill and other intangibles arising on historical acquisitions is a judgemental process which requires estimates concerning the future cash flows and associated discount rates, and growth rates based on management's view of future business prospects.</p> <p>As part of our assessment of the risk of impairment, we considered the trading performance and profitability of each segment, as disclosed in Note 2 of the financial statements.</p> <p>This is further discussed within management's key sources of judgement and estimation uncertainty within Note 1, and financial statement disclosure requirements provided in Note 11.</p>	<p>We assessed the adequacy and reasonableness of assumptions used in management's impairment calculations and the appropriateness of judgements and forecasts used to conclude on asset impairment including a specific review and challenge of discount rates and growth rates.</p> <p>We used our internal valuation specialists to benchmark the discount rates with published rates of similar companies. We also compared the forecast cashflows used in the model against historical performance, post period trading data, and external market trend data.</p> <p>We considered reasonably possible changes in assumptions and compared these to management's sensitivity analysis. We recalculated these sensitised scenarios by considering the highest discount rate applied by peer group companies, capping the short term growth rates at long term rates, and capping the growth assumed in the budgets at historical growth levels.</p> <p>We assessed whether the annual report disclosures were sufficient to meet the requirements of IFRS and whether there was appropriate disclosure in respect of sensitised scenarios.</p>	<p>From the work performed, we are satisfied that all assumptions applied in respect of goodwill and other intangible assets are appropriate. We draw your attention to the disclosures within Note 11 regarding the reasonably possible impairment sensitivity on Connect Books.</p>
<p></p>	<p>In respect of the Books division, where headroom is lowest, we specifically challenged the cashflow forecast assumptions based on management's latest approved budgets in light of the performance of the Books division. This included understanding the reasons for the historical performance and its impact on the forecast assumptions.</p>	<p></p>

Risk description	How the scope of our audit responded to the risk	Key observations
Revenue recognition – sales returns Revenue recognition represents a risk due to the sale or return basis on which the News business operates. Any products which are not sold by the customer have the ability to be returned to the Group. Accordingly, the risk is focused on cut-off at the year-end date. Significant management judgement is required to determine the level of returns of newspapers and magazines anticipated at the year end date, particularly in relation to one-off promotional products for key events such as the European Football Championships “Euro 2016”, and therefore appropriateness of cut-off to revenue. This is further discussed within management’s key sources of judgement and estimation uncertainty within Note 1.	We used internal IT specialists to assist us in testing a number of key automated controls. In addition, we have used data analytics to test revenue to cash receipts within the Smiths News entity. We considered external industry data to evaluate the sales trends within the business to identify any anomalies or unusual transactions which could impact on the cut-off of revenue and investigated all such anomalies and unusual transactions. In respect of goods sold on a sale or return basis, we evaluated management’s judgement with regards to the level of sale returns through the use of historical return data and evidence of actual returns post year-end. We tested specific provisions relating to “Euro 2016”, challenging management’s judgement on expected returns through evaluation of sales data and analysis of similar events in prior years.	We are satisfied that the key assumptions applied in calculating the sales return provisions are appropriate.

Last year our report included one additional risk in respect of the acquisition accounting for Tuffnells Parcel Express which is not included in our report this year, since there have been no significant acquisitions during the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 44.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £2.3m (2015: £2.2m), which is 5% of Adjusted pre-tax profit (2015: 5%). Pre-tax profit has been adjusted in 2016 for acquisition related costs (£2.0m), deferred consideration (£1.9m) and legal costs (£1.5m) as these were considered to be one-off costs in the year. Adjusted pre-tax profit is a key performance measure for the group and is therefore an appropriate basis on which to determine materiality. In the prior year, the acquisition related costs that were adjusted were £15.1m.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2015: £44,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We have increased the threshold following us reassessing the level of audit differences that we considered clearly trivial. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at seven (2015: eight) components – the only change was to remove from scope an insignificant subsidiary where a statutory audit was no longer required. All of these components were subject to a full audit. These seven components represent the principal business units and account for 98% (2015: 99%) of the group’s net assets, 98% (2015: 98%) of the group’s revenue and 91% (2015: 97%) of the group’s pre-tax profit. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the seven components was executed at levels of materiality applicable to each individual entity which were lower than group materiality, ranging between £1.2m and £1.8m (2015: £1.1m to £1.6m).

At the parent level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the group audit team visits each component at least once a year.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Connect Group PLC continued

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Anna Marks, FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
18 October 2016

Group income statement for the year ended 31 August 2016

£m	Note	2016			2015		
		Adjusted*	Adjustments	Total	Adjusted*	Adjustments	Total
Revenue	2	1,906.5	–	1,906.5	1,875.1	–	1,875.1
Operating profit	2,3	67.7	(18.8)	48.9	63.8	(27.5)	36.3
Finance costs	7	(7.0)	–	(7.0)	(7.3)	–	(7.3)
Profit before tax		60.7	(18.8)	41.9	56.5	(27.5)	29.0
Income tax expense	8	(12.4)	3.9	(8.5)	(11.1)	3.5	(7.6)
Profit for the year		48.3	(14.9)	33.4	45.4	(24.0)	21.4
Profit attributable to equity shareholders		48.3	(14.9)	33.4	45.5	(24.0)	21.5
Loss attributable to non-controlling interest		–	–	–	(0.1)	–	(0.1)
		48.3	(14.9)	33.4	45.4	(24.0)	21.4
Earnings per share							
Basic	10	19.8p		13.7p	19.7p		9.3p
Diluted	10	19.5p		13.5p	19.0p		9.0p
Equity dividends per share (paid and proposed)	9			9.5p			9.2p

* Adjusted before Exceptional items. This measure is described in Note 1d of the accounting policies. Exceptional items are set out in Note 4 to the accounts.

All amounts are derived from continuing operations.

Group statement of comprehensive income for the year ended 31 August 2016

£m	Note	2016	2015
Items that will not be reclassified to the Group Income Statement			
Actuarial (loss)/gain on defined benefit pension scheme	6	(2.0)	53.5
Impact of IFRIC 14 on defined benefit pension scheme	6	(6.5)	(52.8)
Tax relating to components of other comprehensive income that will not be reclassified	8	1.7	(0.1)
		(6.8)	0.6
Items that may be subsequently reclassified to the Group Income Statement			
Loss on cash flow hedges	29	(1.2)	(0.6)
Currency translation differences		0.6	(0.1)
Tax relating to components of other comprehensive income that may be reclassified	8	(0.3)	–
		(0.9)	(0.7)
Other comprehensive income for the year		(7.7)	(0.1)
Profit for the year		33.4	21.4
Total comprehensive income for the year		25.7	21.3
Total comprehensive income attributable to equity shareholders		25.7	21.4
Total comprehensive income attributable to non-controlling interest		–	(0.1)

Group balance sheet at 31 August 2016

£m	Note	2016	2015
Non-current assets			
Intangible assets	11	164.8	174.8
Property, plant and equipment	14	50.3	44.6
Interest in jointly controlled entities	15	4.1	4.5
Retirement benefit assets	6	0.3	0.4
Deferred tax assets	23	7.7	7.5
		227.2	231.8
Current assets			
Inventories	16	42.3	42.0
Trade and other receivables	17	139.2	147.3
Derivative financial instruments	20	0.1	–
Cash and cash equivalents	19	9.1	10.9
		190.7	200.2
Total assets		417.9	432.0
Current liabilities			
Trade and other payables	18	(198.8)	(203.5)
Current tax liabilities		(6.9)	(5.4)
Bank loans and other borrowings	19	(61.0)	(56.5)
Obligations under finance leases	21	(3.0)	(2.9)
Retirement benefit obligations	6	(4.1)	(3.3)
Provisions	24	(8.5)	(10.4)
		(282.3)	(282.0)
Non-current liabilities			
Retirement benefit obligations	6	(17.4)	(15.2)
Bank loans and other borrowings	19	(79.1)	(98.4)
Obligations under finance leases	21	(7.7)	(6.5)
Derivative financial instruments	20	(1.5)	(0.2)
Other non-current liabilities	22	(1.1)	(1.0)
Deferred tax liabilities	23	(10.9)	(13.5)
Non-current provisions	24	(4.9)	(6.0)
		(122.6)	(140.8)
Total liabilities		(404.9)	(422.8)
Total net assets		13.0	9.2
Equity			
Called up share capital	28(a)	12.3	12.2
Share premium account	28(c)	59.2	55.2
Demerger reserve	29(a)	(280.1)	(280.1)
Own shares reserve	29(b)	(3.5)	(4.1)
Hedging & translation reserve	29(c)	(1.1)	(0.5)
Retained earnings	30	226.2	226.5
Total shareholders' equity		13.0	9.2

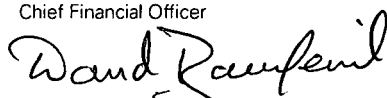
The accounts were approved by the Board of Directors and authorised for issue on 18 October 2016 and were signed on its behalf by:

Registered number – 05195191

Mark Cashmore
Group Chief Executive



David Bauernfeind
Chief Financial Officer



Group statement of changes in equity for the year ended 31 August 2016

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging & translation reserve	Retained earnings	Non-controlling interests in equity	Total
Balance at 31 August 2014		9.5	5.3	(280.1)	(5.2)	(0.3)	228.5	0.2	(42.1)
Profit/(loss) for the year		–	–	–	–	–	21.5	(0.1)	21.4
Loss on cash flow hedges		–	–	–	–	(0.6)	–	–	(0.6)
Actuarial gain on defined benefit pension scheme		–	–	–	–	–	53.5	–	53.5
Impact of IFRIC 14 on defined benefit pension scheme		–	–	–	–	–	(52.8)	–	(52.8)
Currency translation differences		–	–	–	–	(0.1)	–	–	(0.1)
Tax relating to components of other comprehensive income		–	–	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the year		–	–	–	–	(0.7)	22.1	(0.1)	21.3
Issue of share capital	28	2.7	49.9	–	–	–	–	–	52.6
Reclassification between reserves		–	–	–	–	0.5	(0.5)	–	–
Purchase of own shares	–	–	–	(4.2)	–	–	–	–	(4.2)
Dividends paid	9	–	–	–	–	–	(21.4)	–	(21.4)
Employee share schemes		–	–	–	5.3	–	(5.3)	–	–
Adjustment arising from change in NCI		–	–	–	–	–	(5.1)	(0.1)	(5.2)
Recognition of share based payments net of tax		–	–	–	–	–	8.2	–	8.2
Balance at 31 August 2015		12.2	55.2	(280.1)	(4.1)	(0.5)	226.5	–	9.2
Profit for the year		–	–	–	–	–	33.4	–	33.4
Loss on cash flow hedges		–	–	–	–	(1.2)	–	–	(1.2)
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(2.0)	–	(2.0)
Impact of IFRIC 14 on defined benefit pension scheme		–	–	–	–	–	(6.5)	–	(6.5)
Currency translation differences		–	–	–	–	0.6	–	–	0.6
Tax relating to components of other comprehensive income		–	–	–	–	–	1.4	–	1.4
Total comprehensive income for the year		–	–	–	–	(0.6)	26.3	–	25.7
Issue of share capital	28	0.1	4.0	–	–	–	–	–	4.1
Purchase of own shares	–	–	–	–	(1.1)	–	–	–	(1.1)
Dividends paid	9	–	–	–	–	–	(22.7)	–	(22.7)
Employee share schemes		–	–	–	1.7	–	(1.7)	–	–
Recognition of share based payments net of tax		–	–	–	–	–	(2.2)	–	(2.2)
Balance at 31 August 2016		12.3	59.2	(280.1)	(3.5)	(1.1)	226.2	–	13.0

Group cash flow statement for the year ended 31 August 2016

£m	Note	2016	2015
Net cash inflow from operating activities	27	58.2	46.5
Investing activities			
Dividends received from associates		0.7	0.2
Acquisitions	12	–	(105.7)
Purchase of property, plant and equipment		(9.1)	(4.7)
Purchase of intangible assets		(4.8)	(4.5)
Net cash used in investing activities		(13.2)	(114.7)
Financing activities			
Interest paid		(4.9)	(5.8)
Dividend paid	9	(22.7)	(21.4)
Purchase of equity in subsidiary	13	–	(5.1)
Repayments of obligations under finance leases		(3.5)	(2.9)
Proceeds on issue of shares		0.4	52.6
Net outflow on purchase of shares for Employee Benefit Trust		(1.1)	(4.2)
New bank loans raised		–	50.0
Decrease in borrowings		(15.5)	(4.4)
Net cash(used in)/from financing activities		(47.3)	58.8
Net decrease in cash and cash equivalents		(2.3)	(9.4)
Effect of foreign exchange rate changes		0.5	(0.1)
		(1.8)	(9.5)
Opening net cash and cash equivalents		10.9	20.4
Closing net cash and cash equivalents	19	9.1	10.9
Analysis of net debt			
Cash and cash equivalents	19	9.1	10.9
Current borrowings	19	(61.0)	(56.5)
Non-current borrowings	19	(79.1)	(98.4)
Net borrowings		(131.0)	(144.0)
Finance lease liabilities	21	(10.7)	(9.4)
Net debt		(141.7)	(153.4)

The year on year movement in net borrowings includes £0.7m amortisation of bank fees.

Notes to the accounts

1. Accounting policies

(a) Basis of consolidation

Connect Group PLC ('the Company') is a company incorporated in the UK under Companies Act 2006. The Group accounts for the year ended 31 August 2016 comprise the Company and, its subsidiaries (together referred to as the 'Group') and the Group's interests in jointly controlled entities and associates. Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition. All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts. Further to the EU IAS Regulation (Article 4) the Group accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Unless otherwise noted references to 2015 and 2016 relate to fiscal year ended 31 August 2015 and 31 August 2016 as opposed to calendar year.

The accounts were authorised for issue by the Directors on 18 October 2016.

(b) Basis of preparation

Accounting basis of preparation

The accounts are prepared on the historical cost basis except certain financial instruments and assets acquired on acquisition detailed below and are presented in Pound Sterling and rounded to £0.1m, except where otherwise indicated.

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

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

Going concern

As detailed in Note 20, at the year end the Group had committed bank facilities in place of £250m, with associated covenants. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance and the Group's negative working capital position, show that the Group should be able to operate within the level of its current financing covenants for the foreseeable future.

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

(c) Estimates and judgements

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

The significant judgements made in the accounts for the year ended 31 August 2016 are:

Retirement benefit obligation

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

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

Revenue recognition

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

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

Legal provision estimate

Legal provisions are established when a past event creates a present obligation and it is probable an economic outflow will occur. The provision is calculated based upon a reliable estimate and is reviewed on a regular basis.

Valuation of acquired intangibles and goodwill

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

Notes to the accounts continued

1. Accounting policies continued

Onerous property contracts

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

Taxation judgements

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

(d) Adjusted measures

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

The following are the key non-IFRS measures identified by the Group in the consolidated financial statements as adjusted results:

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

Adjusted profit before tax; is defined as adjusted operating profit less finance costs attributable to adjusted operating profit and before exceptional items (formerly non-recurring and other items); including amortisation of intangibles and network and reorganisation costs.

Adjusted earnings per share; is defined as 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.

Exceptional items; are material items of income or expense excluded in arriving at Adjusted operating profit to enable a more representative view of underlying performance. These include certain Mergers & Acquisitions related costs, 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 the accounts where necessary to provide further understanding of the financial performance of the Group.

Free cash flow; is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the proceeds on the disposal of freehold properties, payments of obligations under finance leases, the repayment of bank loans, EBT share purchase and cash flows relating to Exceptional items.

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, Exceptional items and share based payments charge but after adjusting for the last 12 months of profits for any acquisitions or disposals made in the year.

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

(e) Revenue

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

(f) Operating profit

Operating profit is stated after charging Exceptional items and after the share of results of associates but before investment income and finance costs.

1. Accounting policies continued

(g) Taxation

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

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

(h) Dividends

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

(i) Capitalisation of internally generated development costs

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

(j) Jointly controlled entities

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

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

(k) Business combinations and goodwill

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Any deferred or contingent purchase consideration is recognised at fair value over the period of entitlement. If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for in equity. Any deferred or contingent payment deemed to be remuneration as opposed to purchase consideration in nature is recognised in profit or loss as incurred, and excluded from the acquisition method of accounting for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The non-controlling interest is measured, initially, at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arising on all acquisitions is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Customer relationships	– 2.5 to 7.5 years
Trade name	– 5 to 10 years
Software and development costs	– 3 to 7 years

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

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

Notes to the accounts continued

1. Accounting policies continued

(l) Property, plant and equipment

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

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

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

(m) Leasing

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

Property and equipment and vehicle rentals paid under operating leases are charged to income on a straight line basis over the lease term. The benefits of rent free periods and similar incentives are credited to the income statement on a straight-line basis to the first break clause.

(n) Inventories

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

(o) Trade receivables

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

(p) Trade payables

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

(q) Treasury

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

1. Accounting policies continued

Derivative financial instruments and hedge accounting

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

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

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

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

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

Foreign currencies

Financial statements of foreign operations

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

Net investment in foreign operations

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

Foreign currency transactions

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

(r) Provisions

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

(s) Retirement benefit costs

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

The WH Smith Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 (revised) surplus in the pension scheme of £151.3m (2015: £135.6m) available on a reduction of future contributions is £nil (2015: £nil). The Group recognises an onerous liability for the future agreed deficit contributions, a liability of £10.3m (2015: £13.8m).

Notes to the accounts continued

1. Accounting policies continued

(t) Employee Benefit Trust

Smiths News Employee Benefit Trust

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

(u) Share schemes

Share based payments

The Group operates several share-based payment schemes, the largest of which are the Sharesave Scheme, the Executive Share Option Plan, the Long Term Incentive Plan (LTIP) and the Deferred Bonus Plan. Details of these are provided in the Remuneration report and in Note 31.

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

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

(v) Changes in accounting policies

New Standards and Interpretations not yet applied

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

IFRS 9 'Financial Instruments (2014)' – effective for accounting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers' – effective for accounting periods beginning on or after 1 January 2018.

IFRS 16 Leases – effective for periods beginning on or after 1 January 2019.

Investment Entities: – Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28 – effective for accounting periods beginning on or after 1 January 2016.

IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' – effective for accounting periods beginning on or after 1 January 2016.

Annual Improvements 2012–2014 Cycle – effective 1 January 2016.

Amendments to IAS 1 – effective for accounting periods beginning on or after 1 January 2016.

Amendments to IAS 27 'Equity Method in Separate Financial Statements' – applicable for accounting periods beginning on or after 1 January 2016.

Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' – applicable for accounting periods beginning on or after 1 January 2016.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) effective 1 January 2017.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, the only exception is IFRS16 Leases which the Group is currently assessing.

New Standards and Interpretations applied for the first time:

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

IAS19 (amended) 'Defined Benefit Plans: Employee Contributions' (effective February 2015).

2. Segmental analysis

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

These operating segments are:

Connect News & Media: News Distribution (also referred to as Smiths News)	The UK market leading distributor of newspapers and magazines to 30,000 retailers across England and Wales from 42 distribution centres.
Connect News & Media: Media (also referred to as DMD)	A supplier of newspaper and magazines to airlines and a provider of inflight services.
Connect Parcel Freight (also referred to as Tuffnells)	A leading provider of next day B2B delivery of mixed parcel freight consignments.
Connect Education & Care (also referred to as The Consortium)	A leading distributor of education and care consumable products servicing 30,000 customers across the UK.
Connect Books (also referred to as Bertrams, Dawson Books and Wordery)	A leading UK distributor of physical and digital books to high street and online retailers, public libraries, academic institutions and direct to consumers with a strong international presence, supplying 100 countries.

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

£m	Revenue	
	2016	2015
Connect News & Media: News Distribution	1,443.8	1,479.3
Connect News & Media: Media	27.6	25.4
Connect Parcel Freight	174.4	114.4
Connect Education & Care	64.8	65.9
Connect Books	195.9	190.1
Total Group	1,906.5	1,875.1

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

£m	2016			2015		
	Adjusted operating profit	Exceptional items	Statutory operating profit	Adjusted operating profit	Statutory operating profit	Exceptional items
Connect News & Media: News Distribution	40.0	(5.9)	34.1	41.4	(18.2)	23.2
Connect News & Media: Media	2.4	(0.4)	2.0	2.3	(0.4)	1.9
Connect Parcel Freight	15.0	(8.9)	6.1	9.7	(4.6)	5.1
Connect Education & Care	7.8	(1.1)	6.7	7.8	(2.1)	5.7
Connect Books	2.5	(2.5)	–	2.6	(2.2)	0.4
Total group	67.7	(18.8)	48.9	63.8	(27.5)	36.3
Net finance expense			(7.0)			(7.3)
Profit before taxation			41.9			29.0

Information about major customers

Included in revenues arising from newspaper and magazine wholesaling are revenues of approximately £156.8m (2015: £155.1m) which arose from sales to the Group's largest customer. No other single customer contributed 8% or more of the Group's revenue in either 2016 or 2015.

Segment assets and liabilities

£m	Assets		Liabilities		Net assets/(liabilities)	
	2016	2015	2016	2015	2016	2015
Connect News & Media: News	89.4	93.1	(280.4)	(293.0)	(191.0)	(199.9)
Connect News & Media: Media	20.5	18.9	(7.6)	(7.2)	12.9	11.7
Connect Parcel Freight	175.9	176.5	(49.0)	(40.5)	126.9	136.0
Connect Education & Care	57.4	63.6	(20.4)	(18.9)	37.0	44.7
Connect Books	74.7	79.9	(47.5)	(63.2)	27.2	16.7
Consolidated assets/(liabilities)	417.9	432.0	(404.9)	(422.8)	13.0	9.2

Notes to the accounts continued

2. Segmental analysis continued

Segment depreciation, amortisation and non-current asset additions

£m	Depreciation		Amortisation		Additions to non-current assets	
	2016	2015	2016	2015	2016	2015
Connect News & Media: News	(4.5)	(4.2)	(2.3)	(1.8)	5.2	8.0
Connect News & Media: Media	(0.1)	(0.1)	(0.4)	(0.4)	0.3	0.2
Connect Parcel Freight	(3.3)	(1.8)	(7.1)	(4.7)	11.1	131.8
Connect Education & Care	(0.4)	(0.5)	(2.2)	(2.0)	1.5	1.8
Connect Books	(0.6)	(0.7)	(2.7)	(2.5)	1.2	1.9
Consolidated total	(8.9)	(7.3)	(14.7)	(11.4)	19.3	143.7

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

Geographical analysis

£m	Revenue by destination		Non-current assets by location of operation	
	2016	2015	2016	2015
United Kingdom	1,823.6	1,791.9	218.9	223.7
Europe	47.5	48.8	0.3	0.2
Rest of World	35.4	34.4	–	–
Consolidated total	1,906.5	1,875.1	219.2	223.9

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

3. Operating profit

The Group's results are analysed as follows:

£m	Note	2016			2015		
		Adjusted	Exceptional items	Total	Adjusted	Exceptional items	Total
Revenue		1,906.5	–	1,906.5	1,875.1	–	1,875.1
Cost of inventories recognised as an expense		(1,531.5)	–	(1,531.5)	(1,562.1)	–	(1,562.1)
Write down of inventories recognised as an expense		(0.1)	–	(0.1)	(0.1)	–	(0.1)
Other cost of sales		(118.5)	–	(118.5)	(76.0)	–	(76.0)
Cost of sales		(1,650.1)	–	(1,650.1)	(1,638.2)	–	(1,638.2)
Gross profit		256.4	–	256.4	236.9	–	236.9
Distribution costs		(106.5)	–	(106.5)	(92.3)	–	(92.3)
Administrative expenses		(76.3)	(8.6)	(84.9)	(76.3)	(12.9)	(89.2)
Share-based payment expense	31	(1.7)	–	(1.7)	(1.3)	(6.7)	(8.0)
Amortisation of intangibles	11	(4.5)	(10.2)	(14.7)	(3.5)	(7.9)	(11.4)
Administrative expenses		(82.5)	(18.8)	(101.3)	(81.1)	(27.5)	(108.6)
Share of profits from jointly controlled entities	15	0.3	–	0.3	0.3	–	0.3
Operating profit		67.7	(18.8)	48.9	63.8	(27.5)	36.3

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

£m	Note	2016	2015
Depreciation on property, plant & equipment	14	8.9	7.3
Amortisation of intangible assets	11	14.7	11.4
Operating lease charges			
– occupied land and buildings		11.0	9.3
– equipment and vehicles		19.4	12.1
Operating lease rental income – land and buildings		(0.4)	(0.1)
Loss on disposal of fixed assets		–	0.2
Staff costs	5	153.7	136.5

3. Operating profit continued

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

£m	2016	2015
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	0.2	0.2
Total audit fees	0.4	0.4
Other services	–	0.2
Total non-audit fees	–	0.2
Total fees	0.4	0.6

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Corporate Governance Report on page 36. In the prior year the Group incurred £0.2m of non-audit fees with Deloitte relating to acquisition/transaction support, remuneration advice and other advisory services.

4. Exceptional items

£m	Note	2016	2015
Network and re-organisation costs	(a)	(4.4)	(4.5)
Acquisition and disposal costs	(b)	(3.8)	(15.1)
Pension credit	(c)	1.1	–
Amortisation of acquired intangibles	(d)	(10.2)	(7.9)
Legal provision – potential health and safety offences	(e)	(1.5)	–
Total before taxation		(18.8)	(27.5)
Income tax expense		3.9	3.5
Total after taxation		(14.9)	(24.0)

The Group incurred a total of £14.9m (2015: £24.0m) in exceptional items, after tax.

This comprises:

(a) Network re-organisation costs

Network and re-organisation costs of £4.4m are predominantly rationalisation costs to drive efficiency savings in Smiths News. They also include costs incurred in the reorganisation of the Books international divisions and of operations within Education & Care.

(b) Acquisition and disposal costs

Acquisition costs include £1.9m in relation to deferred contingent consideration payable conditional on the financial performance and on continued employment of former owners of Tuffnells £1.1m and the acquisition of Wordery £0.8m. The remaining £1.9m related to professional fees on acquisition and disposal activity.

In the prior year acquisition related costs for the Tuffnells acquisition included £3.5m for deal expenses and cost of integration plus £11.6m of deferred contingent consideration payable conditional on the financial performance and on continued employment of former owners. A further £3.1m of equity raise expenses were charged directly to reserves.

(c) Pension credit

The pension credit is associated with the impact of the Trustees decision to cease payment of discretionary increases on pre 97 pension rights within The Consortium Care scheme which results in a past service credit.

(d) Amortisation of acquired intangibles

Amortisation of acquired intangibles of £10.2m (FY15: £7.9m) has been incurred relating to acquisitions amortised over their expected economic lives for which there is no ongoing cash impact. The amortisation charge has increased compared to the prior year due to the acquisition of Tuffnells. The net book value of acquired intangibles of £55.1m will be amortised over future years.

(e) Legal provision – potential health and safety offences

Potential fine and legal costs arising from the outcome of the HSE investigation into the fatality at Parcel Freight's Brierley Hill depot in January 2016. See Note 24 for further details.

Notes to the accounts continued

5. Staff costs and employees

(a) Staff costs

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

£m	Note	2016	2015
Wages and salaries		137.4	117.7
Social security		11.6	7.8
Pension costs	6	3.0	3.0
Share based payments	31	1.7	8.0
Total		153.7	136.5

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

(b) Employee numbers

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

Number	2016	2015 (restated)
Operations	4,398	4,542
Support functions	1,570	1,486
Total	5,968	6,028

The prior year number has been restated bringing News in line with 2016 which is stated on an FTE (full time equivalent) basis. News was previously stated on a headcount basis.

6. Retirement benefit obligation

Defined benefit pension schemes

The Group operates four defined benefit schemes, of which the WH Smith Pension Trust (the 'Pension Trust') represents 92% of the total obligation at 31 August 2016. As part of the acquisition of The Consortium, the Group acquired the assets and liabilities in respect of two other defined benefit schemes (the 'Consortium CARE' and 'Platinum' schemes). The Group acquired the assets and liabilities of Tuffnells Parcels Express Pension Scheme on its acquisition of The Big Green Parcel Holding Company Limited on 19 December 2014.

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

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

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Consortium CARE	Platinum	Tuffnells Parcels Express	2016	WH Smith Pension Trust	Consortium CARE	Platinum	Tuffnells Parcels Express	2015
Present value of defined benefit obligation	(490.2)	(24.0)	(1.6)	(15.7)	(531.5)	(401.2)	(18.7)	(0.8)	(11.3)	(432.0)
Fair value of assets	641.5	15.8	1.9	12.7	671.9	536.8	14.7	1.2	10.6	563.3
Net surplus/(loss)	151.3	(8.2)	0.3	(3.0)	140.4	135.6	(4.0)	0.4	(0.7)	131.3
Amounts not recognised due to asset limit	(151.3)	–	–	–	(151.3)	(135.6)	–	–	–	(135.6)
	–	(8.2)	0.3	(3.0)	(10.9)	–	(4.0)	0.4	(0.7)	(4.3)
Additional liability recognised due to minimum funding requirements	(10.3)	–	–	–	(10.3)	(13.8)	–	–	–	(13.8)
Pension liability	(10.3)	(8.2)	–	(3.0)	(21.5)	(13.8)	(4.0)	–	(0.7)	(18.5)
Pension asset	–	–	0.3	–	0.3	–	–	0.4	–	0.4

6. Retirement benefit obligation *continued*

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £151.3m at 31 August 2016 (2015: £135.6m surplus) which the Group does not recognise in the accounts as the investment policy being used means that the amount available on a reduction of future contributions is expected to be £nil (2015: £nil). The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

WH Smith Pension Trust

The actuarial valuation of the Smiths News section of the WH Smith Pension Trust, at June 2013 was a deficit of £23.0m.

Future cash contributions by the Group to the pension trustees and investment manager total £4.1m per annum through to March 2019. The Group recognises the present value of these agreed contributions as a pension liability of £10.3m (2015: £13.8m).

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0.8m in 2016. The funding valuation of the Consortium CARE scheme as at 31 December 2013 was a deficit of £1.5m. The Platinum scheme's 31 December 2013 funding valuation showed no deficit. The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2013 was an agreed liability of £2.5m. Guaranteed Minimum Pension ("GMP") equalisation is expected to lead to an increase in scheme liabilities at some future date on the Consortium Care and the Tuffnells Parcels Express scheme.

The weighted average duration of the schemes is 17 years for the Pension Trust, 20 years for the Consortium Care scheme, 29 years for the Platinum scheme and 21 years for the Tuffnells Parcels Express scheme.

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

% p.a.	2016	2015
Discount rate	2.0	3.8
Inflation assumptions – CPI	2.0	2.2
Inflation assumptions – RPI	3.0	3.2
Demographic assumptions for WH Smith pension trust:		

Demographic assumptions for WH Smith pension trust:

Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.5	23.5	21.7	23.7
Member currently aged 45	22.8	25.0	23.0	25.2

Notes to the accounts continued

6. Retirement benefit obligation continued

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2014	522.7	(450.7)	(93.0)	(21.0)
Current service cost	(0.5)	–	–	(0.5)
Net interest cost	20.0	(17.2)	(3.6)	(0.8)
Total amount recognised in income statement	19.5	(17.2)	(3.6)	(1.3)
Actual less expected return on scheme assets	28.7	–	–	28.7
Actuarial gains arising from experience	–	25.1	–	25.1
Actuarial loss arising from changes in financial assumptions	–	(2.2)	–	(2.2)
Actuarial gains arising from changes in demographic assumptions	–	1.9	–	1.9
Change in surplus not recognised	–	–	(52.8)	(52.8)
Amount recognised in other comprehensive income	28.7	24.8	(52.8)	0.7
Employer contributions	5.3	0.1	–	5.4
Employee contributions	0.1	(0.1)	–	–
Benefit payments	(23.6)	23.6	–	–
Amounts included in cash flow statement	(18.2)	23.6	–	5.4
Acquisition of subsidiary	10.6	(12.5)	–	(1.9)
At 31 August 2015	563.3	(432.0)	(149.4)	(18.1)
Current service cost	–	(0.3)	–	(0.3)
Net interest cost	20.9	(15.8)	(5.7)	(0.6)
Administration expenses	(0.1)	–	–	(0.1)
Past service credits	–	1.1	–	1.1
Total amount recognised in income statement	20.8	(15.0)	(5.7)	0.1
Actual less expected return on scheme assets	115.4	–	–	115.4
Actuarial gains arising from experience	–	7.5	–	7.5
Actuarial loss arising from changes in financial assumptions	–	(128.3)	–	(128.3)
Actuarial gains arising from changes in demographic assumptions	–	3.4	–	3.4
Change in surplus not recognised	–	–	(6.5)	(6.5)
Amount recognised in other comprehensive income	115.4	(117.4)	(6.5)	(8.5)
Employer contributions	5.3	–	–	5.3
Employee contributions	0.1	(0.1)	–	–
Benefit payments	(33.0)	33.0	–	–
Amounts included in cash flow statement	(27.6)	32.9	–	5.3
At 31 August 2016	671.9	(531.5)	(161.6)	(21.2)
Included within Non-current assets		0.3		0.3
Included within Current liabilities				(4.1)
Included within Non-current liabilities				(17.4)

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

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

£m		2016	2015
Swap financing portfolio	Unquoted	388.0	431.9
Interest rate and inflation swaps	Unquoted	226.7	79.5
Loan fund	Unquoted	26.7	25.4
Equities (CARE, Tuffnells)	Unquoted	24.1	21.0
Bonds (CARE, Platinum)	Unquoted	6.1	5.0
Cash (CARE, Platinum, Tuffnells)		0.3	0.5
		671.9	563.3

6. Retirement benefit obligation continued

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

The actual return on scheme assets during 2016 was a gain of £136.2m (2015: a gain of £48.7m).

The value of the assets held by the trust in Connect Group PLC issued financial instruments is £nil (2015: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	+/- 0.5%	-£42.5m/+£45.9m
Rate of inflation	+/- 0.5%	+£42.5m/-£39.4m
Life expectancy	+/- 1 year	+£18.9m/-£18.9m

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

The history of experience adjustments is as follows:

£m	2016	2015	2014	2013	2012
Present value of defined benefit obligation	(531.5)	(432.0)	(450.7)	(419.2)	(395.3)
Fair value of assets	671.9	563.3	522.7	469.6	433.1
Impact of IFRIC 14 on defined benefit pension schemes	(161.6)	(149.4)	(93.0)	(73.5)	(73.8)
Net deficit in the schemes	(21.2)	(18.1)	(21.0)	(23.1)	(36.0)
Experience adjustments on scheme liabilities	(117.4)	25.1	0.8	(1.4)	(1.0)
Experience adjustments on scheme assets	115.4	28.7	44.6	27.9	34.0

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £29.2m (2015: a loss of £20.7m).

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

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

Notes to the accounts continued

6. Retirement benefit obligation continued

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2016, company contributions totalled £3.0m (2015: £3.0m) which is included in the Income Statement.

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

7. Finance costs

£m	Note	2016	2015
Interest on bank overdrafts and loans		(5.5)	(5.8)
Net interest expense on defined benefit obligation	6	(0.6)	(0.8)
Interest payable on finance leases		(0.7)	(0.4)
Net change in fair value of derivative assets	20	–	(0.2)
Unwinding of discount on provisions – trading	24	(0.2)	(0.1)
Finance costs		(7.0)	(7.3)

8. Income tax expense

£m	2016			2015		
	Adjusted	Exceptional items	Total	Adjusted	Exceptional items	Total
Current tax	13.1	(1.4)	11.7	12.4	(2.3)	10.1
Adjustment in respect of prior year UK corporation tax	(0.8)	(0.1)	(0.9)	(1.1)	(0.9)	(2.0)
Total current tax charge	12.3	(1.5)	10.8	11.3	(3.2)	8.1
Deferred tax – current year	(0.3)	(1.5)	(1.8)	(0.2)	(0.3)	(0.5)
Deferred tax – prior year	(0.1)	(0.1)	(0.2)	–	–	–
Deferred tax – impact of rate change	0.5	(0.8)	(0.3)	–	–	–
Total tax on profit	12.4	(3.9)	8.5	11.1	(3.5)	7.6
Effective tax rate	20.4%		20.3%	19.7%		26.3%

The effective adjusted income tax rate for the year was 20.4% (2015: 19.7%). After adjusting for the impact of Exceptional items of £3.9m (2015: £3.5m), the effective statutory income tax rate was 20.3% (2015: 26.3%).

The tax rates used in the 2016 and 2015 reconciliations of the tax charge are the main rates of UK corporation tax, those being 20.0% (2015: 20.6%).

Reconciliation of the tax charge

£m	2016	2015
Profit before tax	41.9	29.0
Tax on profit at the standard rate of UK corporation tax 20.0% (2015: 20.6%)	8.4	5.9
Permanent differences	1.4	3.5
Adjustment in respect of prior year UK corporation tax	(1.1)	(2.0)
Impact of change in UK tax rate	(0.3)	–
Impact of overseas tax rates	0.1	0.2
Total tax charge	8.5	7.6

Tax charges to other comprehensive income and directly in equity

£m	2016	2015
Current tax relating to the defined benefit pension scheme	(0.8)	(0.8)
Current tax relating to share based payments	(0.1)	(0.6)
Deferred tax relating to impact of change in tax rate	0.4	–
Deferred tax relating to derivative financial instruments	(0.3)	–
Deferred tax relating to share based payments	0.3	0.6
Deferred tax relating to retirement benefit obligations	(0.9)	0.9
Tax (credit)/charge to other comprehensive income and directly in equity	(1.4)	0.1

9. Dividends

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

	2016 Per share	2015 Per share	2016 £m	2015 £m
Paid & proposed dividends for the year				
Interim dividend – paid	3.0p	2.9p	7.3	7.0
Final dividend – proposed	6.5p	6.3p	15.9	15.4
	9.5p	9.2p	23.2	22.4
Recognised dividends for the year				
Final dividend – prior year	6.3p	6.0p	15.4	14.4
Interim dividend – current year	3.0p	2.9p	7.3	7.0
	9.3p	8.9p	22.7	21.4

The proposed final dividend for the year ended 31 August 2016 of 6.5p is subject to approval by shareholders at the Annual General Meeting on 26 January 2017 and in line with IAS10 – ‘Events after the reporting period’, this dividend has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 10 February 2017 to shareholders on the register at close of business on 13 January 2017.

10. Earnings per share

	2016			2015		
	£m Earnings	Weighted average number of shares million	Pence per share	£m Earnings	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		245.9			233.9	
Shares held by the ESOP (weighted)		(2.5)			(3.0)	
Basic earnings per share (EPS)						
Adjusted earnings attributable to ordinary shareholders	48.3	243.4	19.8p	45.5	230.9	19.7p
Exceptional and other items	(14.9)			(24.0)		
Earnings attributable to ordinary shareholders	33.4	243.4	13.7p	21.5	230.9	9.3p
Diluted earnings per share (EPS)						
Effect of dilutive share options		3.8			7.6	
Diluted adjusted EPS	48.3	247.2	19.5p	45.5	238.5	19.0p
Diluted EPS	34.9	247.2	13.5p	21.5	238.5	9.0p

Dilutive shares increase the basic number of shares at 31 August 2016 by 3.8m to 247.2m (31 August 2015: 238.5m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 2.3m dilutive shares (31 August 2015: 4.1m) and a weighted 1.5m shares (31 August 2015: 3.5m) being the time apportioned share capital relating to the deferred consideration for the acquisition of The Big Green Parcel Holding Company Limited.

Notes to the accounts continued

11. Intangible assets

£m	Acquired Intangibles				Internally generated development costs	Computer software costs	Total
	Goodwill	Customer relationships	Trade name	Software			
Cost:							
At 1 September 2015	96.3	48.8	33.5	1.5	9.1	13.8	203.0
Additions	–	–	–	–	2.1	2.6	4.7
Transfers between asset classes	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	(0.2)	(0.2)
At 31 August 2016	96.3	48.8	33.5	1.5	11.2	16.2	207.5
Accumulated amortisation:							
At 1 September 2015	–	13.6	4.0	0.8	5.4	4.4	28.2
Amortisation charge	–	6.4	3.5	0.3	1.8	2.7	14.7
Transfers between asset classes	–	–	–	–	–	–	–
Disposal	–	–	–	–	–	(0.2)	(0.2)
At 31 August 2016	–	20.0	7.5	1.1	7.2	6.9	42.7
Net book value at 31 August 2016	96.3	28.8	26.0	0.4	4.0	9.3	164.8
Cost:							
At 1 September 2014	44.2	22.0	3.0	0.7	6.0	6.8	82.7
Additions	–	–	–	–	1.6	3.6	5.2
Acquisition of subsidiary	52.1	26.8	30.5	0.8	–	–	110.2
Transfers between asset classes	–	–	–	–	2.3	5.1	7.4
Disposals	–	–	–	–	(0.8)	(1.7)	(2.5)
At 31 August 2015	96.3	48.8	33.5	1.5	9.1	13.8	203.0
Accumulated amortisation:							
At 1 September 2014	–	8.5	1.4	0.6	3.9	2.6	17.0
Amortisation charge	–	5.1	2.6	0.2	1.6	1.9	11.4
Transfers between asset classes	–	–	–	–	0.7	1.6	2.3
Disposal	–	–	–	–	(0.8)	(1.7)	(2.5)
At 31 August 2015	–	13.6	4.0	0.8	5.4	4.4	28.2
Net book value at 31 August 2015	96.3	35.2	29.5	0.7	3.7	9.4	174.8

The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £0.4m (2015: £0.7m).

Goodwill and Intangibles by CGU

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

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

On the acquisition of Hedgelane Limited on 23 April 2012, the Group recognised goodwill of £20.9m and acquired intangibles of £10.4m which were attributed to the Education & Care CGU.

The acquisition of 100% of the issued share capital of Houtschild Internationale Boekhandel B.V. on 13 June 2012 produced a further £0.3m of goodwill which were attributed to Connect Books CGU.

The acquisition of Erasmus on 17 January 2013 generated £0.8m of goodwill and £0.3m of acquired intangible assets which were attributed to Connect Books CGU.

The acquisition of certain Blackwell contracts on 20 May 2013 generated £2.0m of acquired intangibles, attributed to Connect Books CGU.

The acquisition of trade and assets of Martin Lavell acquired on 1 September 2013 generated acquired intangibles of £0.3m, attributable to News CGU.

The acquisition of Tuffnells on 19 December 2014 generated £52.1m of goodwill and £58.1m of intangible assets which were attributed to Connect Parcel Freight CGU. Further details are disclosed in Note 12.

11. Intangible assets *continued*

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 12.0% to 16.5%, 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% to 4%. The calculation of value in use is sensitive to the discount rate and growth rates used.

The Group has conducted sensitivity analysis on the impairment test of each CGU. The sensitised value in use exceeds the carrying value for all the CGUs, except the Books CGU. The Books CGU has headroom on its carrying value of £2.6m prior to any sensitivities. An increase in the risk adjusted post tax WACC from 12% to 13% for the Books CGU or a reduction in operating profits by 5% would cause the carrying value to equal the recoverable amount.

£m	Goodwill			Acquired Intangibles			Total		
	2016	2015	On acquisition	2016	2015	On acquisition	2016	2015	On acquisition
Connect Books	17.6	17.6	17.6	2.9	4.2	12.7	20.5	21.8	30.3
Connect Media	5.7	5.7	5.7	0.8	1.2	2.6	6.5	6.9	8.3
Connect News	-	-	-	0.1	0.2	0.3	0.1	0.2	0.3
Connect Education & Care	20.9	20.9	20.9	4.7	6.2	10.4	25.6	27.1	31.3
Connect Parcel Freight	52.1	52.1	52.1	46.7	53.6	58.1	98.8	105.7	110.2
	96.3	96.3	96.3	55.2	65.4	84.1	151.5	161.7	180.4

The individual material intangible assets relate to the customer relationships and brand acquired on the acquisition of Tuffnells. The carrying value of these assets at 31 August 2015 is £20.9m and £25.4m respectively with a remaining amortisation period of 6 and 8.5 years respectively.

12. Acquisitions

There were no acquisitions in the current year.

Last year, on 19 December 2014, Smiths News Holdings Limited acquired 100% of the issued share capital of The Big Green Parcel Holding Company Limited (Tuffnells) for a cash consideration of £114.0m and deferred contingent consideration of up to £15.3m, payable over 3 years following the acquisition contingent on both profit targets and the continued employment of certain former owners.

The initial cash cost of the acquisition was £114.0m, financed by a combination of increased debt facilities and a £55m Rights Issue. The initial cash cost of £114.0m plus £0.5m of deferred consideration is consideration as defined by IFRS3 and has been allocated against the identified net assets with the balance recorded as goodwill.

The net cash outflow in respect of the acquisition of the Big Green Parcel Holding Company Limited (Tuffnells) in the prior year comprised:

	£m
Cash consideration	(114.0)
Cash acquired	8.3
Net cash outflow relating to acquisition	(105.7)
Acquisition related costs (recorded in Exceptional items)	(3.2)
Total cash outflow in respect of acquisitions	(108.9)

13. Acquisition of non-controlling interests

Last year on 27 August 2015, the Group purchased the remaining 49% of shares in Magpie Investments Limited for an initial cash consideration of £5.1m with a deferred consideration of £3.3m which is contingent on both profit targets and continued employment of the former owners. This deferred contingent consideration is being charged to the income statement as an Exceptional item over a five year period to August 2020.

Notes to the accounts continued

14. Property, plant and equipment

£m	Land & Buildings			Fixtures & fittings	Equipment & vehicles	Total
	Freehold properties	Long term leasehold	Short term leasehold			
Cost:						
At 1 September 2015	15.5	1.3	13.2	11.3	36.6	77.9
Additions	0.3	0.1	1.2	1.1	11.9	14.6
Transfer between asset classes	–	–	0.2	–	(0.2)	–
Disposals	–	–	–	(0.1)	(0.8)	(0.9)
At 31 August 2016	15.8	1.4	14.6	12.3	47.5	91.6
Accumulated depreciation:						
At 1 September 2015	0.7	0.3	8.7	6.0	17.6	33.3
Depreciation charge	0.2	0.1	0.8	1.2	6.6	8.9
Transfer between asset classes	–	–	(0.2)	–	0.2	–
Disposals	–	–	–	(0.1)	(0.8)	(0.9)
At 31 August 2016	0.9	0.4	9.3	7.1	23.6	41.3
Net book value at 31 August 2016	14.9	1.0	5.3	5.2	23.9	50.3
Cost:						
At 1 September 2014	4.9	0.4	12.0	8.3	39.0	64.6
Additions	–	0.1	0.7	0.4	8.5	9.7
Acquisition of subsidiary	10.6	0.9	1.1	0.8	5.2	18.6
Transfer between asset classes	–	(0.1)	(0.2)	2.2	(9.3)	(7.4)
Disposals	–	–	(0.4)	(0.4)	(6.8)	(7.6)
At 31 August 2015	15.5	1.3	13.2	11.3	36.6	77.9
Accumulated depreciation:						
At 1 September 2014	0.5	0.3	8.2	5.9	20.7	35.6
Depreciation charge	0.2	–	0.8	1.0	5.3	7.3
Transfer between asset classes	–	–	–	(0.6)	(1.7)	(2.3)
Disposals	–	–	(0.3)	(0.3)	(6.7)	(7.3)
At 31 August 2015	0.7	0.3	8.7	6.0	17.6	33.3
Net book value at 31 August 2015	14.8	1.0	4.5	5.3	19.0	44.6

The Group leases plant and equipment under a number of finance lease arrangements and has the option to purchase the equipment at the end of each lease. The net book value of finance leases contained within these balances is £7.7m at 31 August 2016 (2015: £5.8m).

15. Interests in jointly controlled entities

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

£m	2016	2015
Revenue	10.1	9.7
Profit after tax	0.3	0.3
Non-current assets	1.4	1.0
Current assets	2.4	2.6
Total assets	3.8	3.6
Current liabilities	(2.4)	(1.9)
Non-current liabilities	(0.2)	(0.1)
Total liabilities	(2.6)	(2.0)
Goodwill	2.9	2.9
Share of net assets	4.1	4.5

Dividends of £0.7m were received in the year to 31 August 2016.

15. Interests in jointly controlled entities *continued*

The jointly controlled entities of the Group are as follows:

FMD Limited	The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2015: 50%). The latest statutory accounts of FMD Limited were drawn up to 30 April 2015.
Rascal Solutions Limited	The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2015: 50%). The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2015.
BlueBox Avionics Limited	The Group has a 50% interest in the ordinary shares of Bluebox Avionics Limited, a company incorporated in England (2015: 50%). The latest statutory accounts of Bluebox Avionics Limited were drawn up to 31 August 2015.

16. Inventories

£m	2016	2015
Goods held for resale	41.3	41.2
Raw materials and consumables	1.0	0.8
Inventories	42.3	42.0

17. Trade and other receivables

£m	2016	2015
Trade receivables	113.7	123.6
Allowance for doubtful debts	(0.8)	(1.3)
	112.9	122.3
Other debtors	13.2	12.7
Prepayments and accrued income	13.1	12.3
Trade and other receivables	139.2	147.3

Trade receivables

The average credit period taken on sale of goods is 22 days (2015:21 days). Trade receivables are generally non-interest bearing. The Group provides for receivables on an individual customer basis based on circumstances known at that time and the likelihood of recovery.

Included in the outstanding trade receivables balance are debtors with overdue amounts of £7.8m (2015:£8.5m) that the Group has not provided for as these amounts are still considered recoverable and fall outside our pre-determined provisioning policy.

Ageing of past due but not impaired receivables:

£m	2016	2015
30–60 days	3.8	5.2
61–90 days	1.9	1.3
91–120 days	0.9	0.7
Over 120 days	1.2	1.3
	7.8	8.5

Included within the 2016 number is an expected seasonal peak of £2.1m (2015:£3.1m) largely within the 30–60 day ageing relating to the Education & Care division.

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

- One customer (2015:one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of this was £14.2m (2015: £15.2m); and
- A further five customers (2015:four) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £34.4m (2015: £30.5m).

Notes to the accounts continued

17. Trade and other receivables continued

Movement in the allowance for doubtful debts:

£m	2016	2015
At 1 September	1.3	0.7
Impairment losses recognised	–	1.1
Amounts written off as uncollectible	(0.3)	(0.4)
Amounts recovered during the year	0.1	(0.1)
Amounts released during the year	(0.3)	–
At 31 August	0.8	1.3

Ageing of past due and impaired trade receivables:

£m	2016	2015
30–60 days	0.1	0.1
61–90 days	–	–
91–120 days	0.2	0.1
Over 120 days	0.5	1.1
	0.8	1.3

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

Other debtors and prepayments

The largest items included within this balance are £7.5m (2015: £6.8m) of publisher debtors and £4.1m (2015: £5.0m) of accrued revenue.

18. Trade and other payables

£m	2016	2015
Trade payables	148.2	156.8
Other creditors	22.6	19.3
Accruals and deferred income	28.0	27.4
	198.8	203.5

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 33 days (2015: 32 days). No interest is charged on trade payables. The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2016	2015
Cash and cash equivalents	3.0	4.3	1.3	0.5	9.1	10.9
Term loan – disclosed within current liabilities	(20.0)	–	–	–	(20.0)	–
Term loan – disclosed within non-current liabilities	(79.1)	–	–	–	(79.1)	(98.4)
Revolving credit facility	(41.0)	–	–	–	(41.0)	(56.5)
Total borrowings	(140.1)	–	–	–	(140.1)	(154.9)
Net borrowings	(137.1)	4.3	1.3	0.5	(131.0)	(144.0)
Total borrowings						
Amount due for settlement within 12 months	(61.0)	–	–	–	(61.0)	(56.5)
Amount due for settlement after 12 months	(79.1)	–	–	–	(79.1)	(98.4)
	(140.1)	–	–	–	(140.1)	(154.9)

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

Available Group bank facilities are outlined in Note 20. At 31 August 2016, the Group had £109.0m (2015: £95.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Interest payable under the current facility is calculated as the cost of one month LIBOR plus an interest margin of between 1.35% and 2.35% dependent on the net debt/adjusted EBITDA covenant ratio.

20. Financial Instruments

Treasury policy

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

Capital risk management

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

Liquidity risk

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

As at 31 August 2016, the Group had £250m committed bank facilities in place (2015: £250m). Bank facilities comprise:

- a £100m syndicated term loan with £10m repayable in February 2017, August 2017, February 2018 and August 2018 with the balance repayable in November 2018;
- a £150m syndicated revolving credit facility which expires in November 2018;

The facility described above is subject to the following covenants:

- Leverage cover – the net debt: adjusted EBITDA ratio which must remain below 2.75x. At 31 August 2016 the ratio was 1.7x
- Interest cover – the consolidated net interest: adjusted EBITDA ratio which must remain above 3.0x. As at 31 August 2016 the ratio was 14.5x
- Fixed charge cover – the ratio of adjusted EBITDA to consolidated fixed charges is not less than 2.0x to 1. As at 31 August 2016 the ratio was 3.1x
- Guarantor cover – The annual turnover, gross assets and pre-tax profits of the Guarantors contribute at any time 80 per cent or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidiaries of the Connect Group PLC, are Connect Group PLC, Dawson Holdings Limited, Hedgelane Limited, Smiths News Holdings Limited, Smiths News Investments Limited, Smiths News Trading Limited, Bertram Trading Limited, Connect2U Limited, The Consortium for Purchasing and Distribution Limited, Smiths News Instore Limited and Dawson Books Limited, Hammond Bridge Limited, Dawson Books Services Limited, Dawson Guarantee Company Limited, Dawson Limited, The Big Green Parcel Group Limited, The Big Green Parcel Holding Company Limited, The Big Green Parcel Machine Limited and Tuffnells Parcels Express Limited.

At 31 August 2016, the Group had available £109.0m (2015: £95.1m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

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

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle that results in significant predictable swings within each month of around £40m.

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

Notes to the accounts continued

20. Financial Instruments continued

£m	Due within 1 Year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2016				
Non derivative financial liabilities				
Bank and other borrowings	(64.1)	(22.5)	(60.6)	–
Finance leases	(3.8)	(3.6)	(2.6)	(2.6)
Derivative and other financial liabilities				
Net settled derivative contracts – payments	(0.6)	(0.6)	(0.2)	–
Derivative and other financial assets				
Net settled derivative contracts – receipts	0.1	–	–	–
Total	(68.4)	(26.7)	(63.4)	(2.6)
At 31 August 2015				
Non derivative financial liabilities				
Bank and other borrowings	(59.3)	(22.7)	(22.2)	(60.4)
Finance leases	(3.3)	(2.9)	(2.8)	(1.3)
Derivative and other financial liabilities				
Net settled derivative contracts – payments	(0.4)	(0.4)	(0.3)	(0.1)
Derivative and other financial assets				
Net settled derivative contracts – receipts	–	–	–	–
Total	(63.0)	(26.0)	(25.3)	(61.8)

Counterparty risk

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

Foreign currency risk

- The Group has entered into forward currency purchases to purchase US dollars to manage exposure to transactional foreign currency risk. The contracts have monthly maturity dates and those outstanding at 31 August 2016 mature by February 2017. At 31 August 2016 the outstanding contracts had a notional value of £0.6m. Any gains or losses on forward foreign exchange contracts have been recognised within the income statement. The carrying amount of these instruments approximates their fair value. The majority of the Group's transactions are carried out in the functional currencies of its operations, and so transactional exposure is limited.
- The majority of the Group's net assets are held in Sterling, with only £3.7m (2015: £4.4m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

The Group regularly monitors its exposure to interest rate risk. The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The Group avoids the use of derivatives or other financial instruments in circumstances when the outcome would effectively be largely dependent upon speculation on future rate movements. As at 31 August 2016, 80% of the Group's borrowings were at fixed rates achieved through hedging.

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

Hedge accounting

There are £60m of interest rate hedges which mature in November 2017 and £50m which mature in November 2018 contracted at an average effective rate of 1.2%.

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

20. Financial Instruments *continued*

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

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2016	2015	2016	2015	2016	2015
Outstanding receive floating, pay fixed contracts						
2 to 5 years	1.2%	1.2%	£110.0m	£110.0m	(£1.5m)	(£0.2m)

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

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

£m	Current		Non-current	
	2016	2015	2016	2015
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps – Liabilities	–	–	(1.5)	(0.2)
	–	–	(1.5)	(0.2)
Foreign currency cash flow hedges	0.1	–	–	–
	0.1	–	(1.5)	(0.2)

All other financial assets are classified under loans and receivables and other financial liabilities are held at amortised cost. During 2015 a charge of £0.2m was made relating to the portion of the hedge that was deemed ineffective prior to the acquisition of Tuffnells.

Interest rate sensitivity analysis

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

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 August 2016 would decrease/increase by £0.3m (2015: £0.2m) due to the interest rate swaps that are used to mitigate this risk.

Credit risk

The Group considers its exposure to credit risk at 31 August 2016 to be as follows:

£m	2016	2015
Bank deposits	9.1	10.9
Trade receivables	113.7	123.6
	122.8	134.5

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

Notes to the accounts continued

21. Obligations under finance leases

£m	2016		2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	3.8	3.0	3.3	2.9
In the second to fifth years inclusive	8.8	7.7	7.0	6.5
Total	12.6	10.7	10.3	9.4
Less: future finance charges	(1.9)	–	(0.9)	–
Present value of lease obligations	10.7	10.7	9.4	9.4
Less: amount due for settlement within 12 months (shown under current liabilities)		(3.0)		(2.9)
Amount due for settlement after 12 months		7.7		6.5

Group policy is to acquire certain items of its fixtures, equipment and software under finance leases. The average lease term is 4 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

22. Other non-current liabilities

£m	2016	2015
Other creditors	1.1	1.0

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

23. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Accelerated tax depreciation	Other	Share based payments	Intangible assets	Retirement benefits	Total
At 1 September 2015	1.9	0.3	1.6	(13.4)	3.6	(6.0)
Charge to income	0.2	–	–	2.6	(0.5)	2.3
Charge to other comprehensive income and directly in equity	–	0.2	(0.4)	–	0.7	0.5
At 31 August 2016	2.1	0.5	1.2	(10.8)	3.8	(3.2)
Deferred tax assets	2.2	0.5	1.2	–	3.8	7.7
Deferred tax liabilities	(0.1)	–	–	(10.8)	–	(10.9)
At 1 September 2014	0.6	0.1	2.2	(3.1)	4.2	4.0
Charge to income	0.2	(0.9)	–	1.3	(0.1)	0.5
Charge to other comprehensive income and directly in equity	–	–	(0.6)	–	(0.9)	(1.5)
Acquisition/disposal of subsidiary	1.1	1.1	–	(11.6)	0.4	(9.0)
At 31 August 2015	1.9	0.3	1.6	(13.4)	3.6	(6.0)
Deferred tax assets	2.0	0.3	1.6	–	3.6	7.5
Deferred tax liabilities	(0.1)	–	–	(13.4)	–	(13.5)

The Company has capital losses carried forward of £28.2m (2015: £40.7m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

The Finance Act 2013, which provides for a reduction in the main rate of UK corporation tax from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This rate reduction has been reflected in the prior year calculation of current and deferred tax. The Finance (No.2) Act 2015, which provides for a reduction in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017, and from 19% to 18%, effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions have been reflected in the current year calculation of deferred tax. A further rate reduction to 17% effective from 1 April 2020 was announced in the Finance Bill 2016. As this has not been substantively enacted at the balance sheet date, it has not been reflected in the calculation of deferred tax at the balance sheet date.

24. Provisions

£m	Reorganisation provisions	Insurance and legal provision	Deferred contingent consideration	Property provisions	Total
Gross provision:					
At 1 September 2015	1.0	2.8	5.2	7.9	16.9
Additions	1.3	1.9	1.9	0.8	5.9
Released	(0.1)	(0.2)	–	(1.3)	(1.6)
Utilised in year	(1.6)	(0.2)	(5.1)	(0.6)	(7.5)
At 31 August 2016	0.6	4.3	2.0	6.8	13.7
Discount:					
At 1 September 2015	–	–	–	(0.5)	(0.5)
Unwinding of discount utilisation	–	–	–	0.2	0.2
At 31 August 2016	–	–	–	(0.3)	(0.3)
Net book value at 31 August 2016	0.6	4.3	2.0	6.5	13.4
Gross provision:					
At 1 September 2014	0.7	1.4	–	3.6	5.7
Additions	2.3	0.1	5.2	1.0	8.6
Acquisition of business	–	1.3	–	4.1	5.4
Released	(0.2)	–	–	(0.2)	(0.4)
Utilised in year	(1.8)	–	–	(0.6)	(2.4)
At 31 August 2015	1.0	2.8	5.2	7.9	16.9
Discount:					
At 1 September 2014	–	–	–	(0.4)	(0.4)
Acquisition of business	–	–	–	(0.1)	(0.1)
At 31 August 2015	–	–	–	(0.5)	(0.5)
Net book value at 31 August 2015	1.0	2.8	5.2	7.4	16.4

£m	2016	2015
Included within current liabilities	8.5	10.4
Included within non-current liabilities	4.9	6.0
Total	13.4	16.4

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

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims. In January 2016, an employee in our Parcel Freight division was fatally injured in an accident at our Brierley Hill depot. Since the incident, we have been assisting the Health & Safety Executive ("HSE") in its investigation and gave evidence at a Coroner's Inquest held in September 2016. The HSE has not yet completed its investigation and our Parcel Freight division has, to date, not been formally charged.

In the event that the Parcel Freight division is charged and subsequently found guilty of a Health and Safety offence, the Board expects that a fine and associated legal costs will be incurred, for which we are not insured. In the opinion of the Board and its advisers, there is significant uncertainty over the potential outcome and timing of this process. Having considered these uncertainties and having regard for the circumstances surrounding this incident, the Board considers it appropriate to make a provision of £1.5m for any potential fine and associated legal costs.

The Board will keep this provision under review as the HSE investigation proceeds and the current uncertainties are resolved. It is currently expected that any charges brought against our Parcel Freight division are likely to conclude within 24 months of the balance sheet date.

This provision has been charged as an Exceptional item (see Note 4) and is referred to in the Health & Safety section of the Strategic review (see page 33).

The property provision represents the estimated future cost of the Group's onerous and reversionary leases in non-trading properties based on known and estimated rental sub-leases and for dilapidations on certain properties. The provision has been discounted at a risk adjusted rate and this discount will be unwound over the life of the leases. The provision is expected to be utilised over the period to 2026, when all of the leases provisions will have expired.

Deferred contingent consideration relates to amounts provided in relation to the acquisition of The Big Green Parcel Holding Company Limited (Tuffnells) on 19 December 2014 and Wordery on 27 August 2015, the cost being contingent upon achievement of profit targets and the future employment of the former owners of the businesses.

Notes to the accounts continued

25. Contingent liabilities and capital commitments

£m	2016	2015
Bank and other loans guaranteed	5.1	5.0

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2016 of £2.8m (2015: £3.6m). This excludes the reversionary lease provision included within property provisions in Note 24.

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: Enil (2015: £1.1m).

26. Operating lease commitments

The group as lessee:

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

£m	2016			2015		
	Land & buildings	Equipment & vehicles	Total	Land & buildings	Equipment & vehicles	Total
Within one year	10.7	14.1	24.8	10.2	12.4	22.6
In the second to fifth years inclusive	29.8	23.6	53.4	30.3	19.9	50.2
In more than five years	20.7	–	20.7	23.3	–	23.3
	61.2	37.7	98.9	63.8	32.3	96.1

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

The group as lessor:

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

£m	2016	2015
Within one year	0.3	0.1
In the second to fifth years inclusive	0.2	0.1
	0.5	0.2

Property rental income earned during the year was £0.3m (2015: £0.1m).

27. Net cash inflow from operating activities

£m	2016	2015
Operating profit	48.9	36.3
Losses on disposal of assets	–	0.2
Share of profits of jointly controlled entities	(0.3)	(0.3)
Adjustment for pension funding	(5.3)	(5.4)
Depreciation of property, plant and equipment	8.9	7.3
Amortisation and impairment of intangible assets	14.7	11.4
Share based payments	1.6	8.0
(Increase)/decrease in inventories	(0.3)	3.8
Decrease/(Increase) in receivables	9.7	(7.5)
(Decrease) in payables	(7.2)	(4.9)
Non cash pension costs	(0.6)	0.5
Income tax paid	(8.5)	(8.7)
(Decrease)/increase in provisions	(3.4)	5.8
Net cash inflow from operating activities	58.2	46.5
Net cash inflow from operating activities is stated after the following Exceptional cash items:		
Payment of deferred contingent consideration	(5.1)	–
Re-organisation and restructuring costs	(5.7)	(4.3)
Acquisition expenses	–	(3.9)
Total Exceptional cash items	(10.8)	(8.2)

28. Share Capital

(a) Share capital

£m	2016	2015
Issued and fully paid:		
At 1 September	12.2	9.5
Shares issued during the year	0.1	2.7
246.7m ordinary shares of 5p each (2015:244.1m)	12.3	12.2

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2015	244.1
Shares issued during the year	2.6
At 31 August 2016	246.7

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

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

During the year to 31 August 2015, 54,855,669 ordinary 5p shares were issued for a consideration of £55,765,415 resulting in a share premium of £49,889,432 after accounting for equity issue related costs of £3.1m. 54,137,236 shares were issued as a result of the rights issue in December 2014.

(c) Share premium

£m	2016	2015
Balance at 1 September	55.2	5.3
Premium arising on issue of equity shares	4.0	49.9
Balance at 31 August	59.2	55.2

29. Reserves

(a) Demerger reserve

£m	2016	2015
At 1 September	(280.1)	(280.1)
At 31 August	(280.1)	(280.1)

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

(b) Own shares reserve

£m	2016	2015
Balance at 1 September	(4.1)	(5.2)
Acquired in the period	(1.5)	(4.2)
Disposed of on exercise of options	2.1	5.3
Balance at 31 August	(3.5)	(4.1)

The reserve represents the cost of shares in Connect Group PLC purchased in the market and held by the Smiths News Employee Benefit Trust to satisfy awards and options granted under the Group's Executive Share Schemes (see Note 31). The number of ordinary shares held by the Trust at 31 August 2016 was 2,313,644 (2015: 2,807,124).

Notes to the accounts continued

29. Reserves continued

(c) Hedging & translation reserve

£m	2016	2015
Balance at 1 September	(0.5)	(0.3)
Net movement in cash flow hedges (net of tax)	(1.2)	(0.6)
Amounts previously recognised in the consolidated statement of comprehensive income (Note 30)	–	0.5
Exchange differences on translating net assets of foreign operations	0.6	(0.1)
Balance at 31 August	(1.1)	(0.5)

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

30. Retained Earnings

	£m
Balance at 1 September 2014	228.5
Total comprehensive income for the year	22.1
Reclassification between reserves (Note 29c)	(0.5)
Acquisition of non-controlling interest (Note 13)	(5.1)
Dividends paid	(21.4)
Employee share schemes	(5.3)
Equity-settled share based payments, net of tax	8.2
Balance at 31 August 2015	226.5
Total comprehensive income for the year	26.3
Dividends paid	(22.7)
Employee share schemes	(1.7)
Equity-settled share based payments, net of tax	(2.2)
Balance at 31 August 2016	226.2

31. Share-based payments

The Group recognised total expenses of £1.7m in 2016 (2015: £8.0m) related to equity-settled share-based payment transactions. The average share price throughout the year was 156.7p (2015: 155.4p).

The Group operates the following share incentive schemes:

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

31. Share-based payments continued

Details of the options/awards are as follows:

Number of options/awards	Sharesave		ESOS		LTIP		DBP	
	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price	No of shares	Weighted average exercise price
At 31 Aug 2014	2,627,338	118.9p	4,724,511	126.1p	2,051,191	–	941,385	–
Rights issue adjustment	246,099	–	447,170	–	223,335	–	97,697	–
Granted	1,315,652	128.4p	1,312,575	153.9p	818,203	–	517,016	–
Exercised	(788,584)	76.3p	(1,485,293)	86.9p	(868,573)	–	(592,545)	–
Expired/Forfeited	(307,009)	128.8p	(209,271)	167.5p	(80,326)	–	(15,825)	–
At 31 Aug 2015	3,093,496	123.3p	4,789,692	132.3p	2,143,830	–	947,728	–
Granted	1,009,060	128.6p	1,298,538	167.7p	870,725	–	636,656	–
Exercised	(442,570)	79.6p	(955,333)	104.9p	(460,969)	–	(434,579)	–
Expired/Forfeited	(326,859)	132.0p	(147,926)	162.3p	(274,276)	–	–	–
At 31 Aug 2016	3,333,127	129.9p	4,984,971	145.9p	2,279,310	–	1,149,805	–
Exercisable at 31 Aug 2016	544,303	120.9p	1,708,899	103.6p	–	–	–	–
Exercisable at 31 Aug 2015	363,920	73.0p	1,706,129	84.9p	–	–	–	–

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

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2016	2.2	7.4	8.5	1.8
Outstanding at 31 August 2015	2.4	7.4	8.2	1.7

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

	Sharesave	ESOS	LTIP	DBP
During 2016:				
Effective date of grant or commencement date	June 2016	Nov 2015	Nov 2015	Nov 2015
Average fair value at date of grant or scheme commencement – pence	33.6	27.1	160.0	163.5
During 2015:				
Effective date of grant or commencement date	June 2015	Dec 2014	June 2015	Nov 2014
Average fair value at date of grant or scheme commencement – pence	36.1	22.8	163.0	154.8

The options outstanding at 31 August 2016 had exercise prices ranging from nil to 210.3p (2015: nil to 210.3p).

The weighted average share price on the date of exercise was 162p (2015: 156p).

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

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

	Sharesave	ESOS	LTIP	DBP
2016 options/awards:				
Share price at grant date – pence	160.8	167.7	160.0	163.5
Exercise price – pence	128.6	167.7	–	–
Expected volatility – per cent	33%	35%	–	–
Expected life – years	3.0	3.0	–	–
Risk free rate – per cent	0.83%	1.38%	–	–
Expected dividend yield – per cent	6.0%	5.8%	–	–
Weighted average fair value – pence	33.6	27.1	–	–
2015 options/awards:				
Share price at grant date – pence	160.5	153.9	163.0	154.8
Exercise price – pence	128.4	153.9	–	–
Expected volatility – per cent	35.0	34.0	–	–
Expected life – years	3.0	3.0	–	–
Risk free rate – per cent	1.56	1.27	–	–
Expected dividend yield – per cent	6.0	6.3	–	–
Weighted average fair value – pence	36.1	22.8	163.0	154.8

Notes to the accounts continued

32. Related party transactions

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

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

Trading transactions

£m	Sales to related parties		Amounts owed by related parties	
	2016	2015	2016	2015
Jointly controlled entities	2.9	3.2	0.8	0.6

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

Non-trading transactions

£m	Loans to related parties	
	2016	2015
Jointly controlled entities	0.3	0.3

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

Aggregate remuneration of key management personnel

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

£m	2016	2015
Short term employee benefits	4.5	4.1
Share based payments	0.8	0.8
	5.3	4.9

Information concerning directors' remuneration, interest in shares and share options are included in the Remuneration Report on pages 49 to 63.

33. Subsidiary and associated undertakings

Name	Country of incorporation/ registration	Audit exemption	Proportion of ordinary share ownership interest
Bertram Trading Limited	England		100%
Bluebox Avionics Limited	England		50%
Connect Books Limited	England		100%
Connect Care Limited	England		100%
Connect Education Limited	England		100%
Connect Education & Care Limited	England		100%
Connect Limited	England		100%
Connect Logistics Limited	England		100%
Connect News & Media Limited	England		100%
Connect Parcels Limited	England		100%
Connect Parcel Freight Limited	England		100%
Connect Services Limited	England		100%
Connect Specialist Distribution Group Limited	England		100%
Connect 2U Limited	England	Yes	100%
Dawson Books Limited	England		100%
Dawson Book Services Limited	England	Yes	100%
Dawson Espana Agencia de Ediciones SL	Spain		100%
Dawson Finance Company Limited	England		100%
Dawson France SAS	France		100%
Dawson Guarantee Company Limited	England		100%
Dawson Holdings Limited	England	Yes	100%
Dawson Iberica SRL	Spain		100%
Dawson Limited	England		100%
Dawson Media Direct Anonim Sirkeh	Turkey		100%
Dawson Media Direct China Limited	Hong Kong		100%
Dawson Media Direct Co., Ltd	Thailand		100%
Dawson Media Direct GmbH	Germany		100%
Dawson Media Direct Holdings Inc	USA		100%
Dawson Media Direct Inc	USA		100%
Dawson Media Direct Iberica SL	Spain		100%
Dawson Media Direct Limited	England		100%
Dawson Media Direct Middle East FZ LLC	UAE		50%
Dawson Media Direct NV	Belgium		100%
Dawson Media Direct SAS	France		100%
DMD Holdings Limited	UAE		100%
Erasmus Antiquariaat en Boekhandel B.V.	Netherlands		100%
Erasmus Buchhandlung GmbH	Germany		100%
FMD Limited*	England		50%
Hammond Bridge Limited	England	Yes	100%
Hammond Bridge Trustees Limited	England	Yes	100%
Hedgelane Limited	England		100%
Houtschild Internationale Buchhandlung B.V.	Netherlands		100%
Jack's Beans Limited	England		100%
Magpie Investments Limited	England		100%
Martin-Lavell Limited	England	Yes	100%
Open-Projects Limited	England		50%
Pass My Parcel Limited	England		100%
Phantom Media Limited	England	Yes	100%
Rascal Solutions Limited	England		50%
Smiths News Holdings Limited	England		100%
Smiths News Limited	England		100%
Smiths News Instore Limited	England	Yes	100%

Notes to the accounts continued

33. Subsidiary and associated undertakings continued

Name	Country of incorporation/ registration	Audit exemption	Proportion of ordinary share ownership interest
Smiths News Investments Limited	England		100%
Smiths News Trading Limited	England		100%
Studentpacks Limited	England		100%
Supply Zone Limited	England		100%
The Big Green Euro Machine Limited	England		100%
The Big Green Parcel Group Limited	England	Yes	100%
The Big Green Parcel Holding Company Limited	England		100%
The Big Green Parcel Machine Limited	England	Yes	100%
The Consortium for Purchasing and Distribution Limited	England		100%
The Consortium Limited	England		100%
Tuffnells Parcels Express Limited	England		100%
Wordery.com Limited	England		100%
Worldwide Magazine Distribution Limited	England		100%

Except as indicated above all companies are subsidiaries of Connect Group PLC. Bluebox Avionics Limited and Rascal Solutions Limited are joint controlled entities, for details of which refer to Note 15 to the Group accounts.

Audit exemption statement

For the year ended 31 August 2016, the companies as indicated in the table above were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members of these companies have not required them to obtain an audit of their financial statements for the year ended 31 August 2016.

Five-year financial summary (unaudited)

Group income statement

£m	12 months to				
	31 August 2016	31 August 2015	31 August 2014	31 August 2013	31 August 2012
Revenue	1,906.5	1,875.1	1,808.5	1,810.8	1,803.9
Operating profit before Exceptional items	67.7	63.8	55.5	56.4	51.2
Exceptional items	(18.8)	(27.5)	(6.9)	(10.8)	(10.9)
Operating profit	48.9	36.3	48.6	45.6	40.3
Net finance charges	(7.0)	(7.3)	(5.5)	(6.5)	(3.7)
Exceptional interest cost	–	–	–	(0.2)	–
Profit before tax	41.9	29.0	43.1	38.9	36.6
Income tax expense	(8.5)	(7.6)	(8.3)	(10.2)	(9.1)
Profit for the period	33.4	21.4	34.8	28.7	27.5
Statutory earnings per share					
Basic	13.7p	9.3p	16.8p	14.2p	15.2p
Diluted	13.5p	9.0p	16.2p	13.3p	14.7p
Adjusted earnings per share					
Basic – continuing operations	19.8p	19.7p	19.6p	19.0p	17.9p
Diluted	19.5p	19.0p	19.0p	17.8p	17.4p
Dividend per share	9.5p	9.2p	8.7p	8.4p	7.8p
Dividend paid (£m)	22.7	21.4	17.7	16.0	14.9 ¹
Leverage					
Free cash flow	49.6	39.8	37.2	32.6	27.2
Operating cash flow	58.2	46.5	47.4	37.9	28.5
Total net debt	(141.7)	(153.4)	(93.0)	(98.5)	(100.5)
Net debt/EBITDA (covenant 2.75x)	1.7	1.9	1.4	1.5	1.6
Interest cover (covenant 3.0x)	14.5	15.0	11.8	13.9	12.9
Fixed charge cover (covenant 2.0x)	3.1	3.4	4.7	5.3	4.9

Five-year financial summary (unaudited)

Group balance sheet

£m	31 August 2016	31 August 2015	31 August 2014	31 August 2013	31 August 2012
Non-current assets	227.2	231.8	107.1	107.6	106.1
Current assets	190.7	200.2	193.8	181.4	170.0
Current liabilities	(282.3)	(282.0)	(267.7)	(283.0)	(272.2)
Non-current liabilities	(117.7)	(134.8)	(73.4)	(60.1)	(76.8)
Long term provisions	(4.9)	(6.0)	(1.9)	(2.8)	(4.7)
Net assets/(liabilities)	13.0	9.2	(42.1)	(56.9)	(77.6)
Equity	71.5	67.4	14.8	10.4	9.8
Retained earnings	226.4	226.5	228.5	214.9	196.7
Other reserves	(284.9)	(284.7)	(285.6)	(282.2)	(284.1)
Non-controlling interests in equity	–	–	0.2	–	–
	13.0	9.2	(42.1)	(56.9)	(77.6)

Company balance sheet
as at 31 August 2016

£m	Note	2016	2015
Fixed assets			
Investments in subsidiary undertakings	3	520.0	520.0
		520.0	520.0
Creditors: amounts falling due after more than one year	4	(293.7)	(418.7)
Net assets		226.3	101.3
Capital and reserves			
Called up share capital	5	12.3	12.2
Share premium account	5(c)	59.2	55.2
Retained earnings	6	154.8	33.9
Total shareholders' funds		226.3	101.3


These accounts were approved by the Directors on 18 October 2016.

Registered number – 05195191

Signed on behalf of the Board of Directors

Mark Cashmore
Director

David Bauemfeind
Director




Statement of changes in equity
for the year ended 31 August 2016

£m	Share Capital	Share Premium	Retained earnings	Total
Balance at 31 August 2014	9.5	5.3	55.3	70.1
Dividend paid	–	–	(21.4)	(21.4)
Shares issued in the year	2.7	49.9	–	52.6
Balance at 31 August 2015	12.2	55.2	33.9	101.3
Profit for the year	–	–	68.6	68.6
Dividend paid	–	–	(22.7)	(22.7)
Dividends received from Group companies	–	–	75.0	75.0
Shares issued in the year	0.1	4.0	–	4.1
Balance at 31 August 2016	12.3	59.2	154.8	226.3

Notes to the company balance sheet

1. Accounting Policies

(a) Accounting convention

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The company has taken advantage of section 408 of the Companies Act not to present a profit and loss account and related notes.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted, are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries, and associates are stated at cost less, where appropriate, provisions for impairment.

The key significant judgement made in the accounts for the year ended 31 August 2016 is the carrying value of investments. The company annually reviews its investments for any indicators of impairment and makes provision as necessary.

(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

(c) Financial liabilities and equities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was a profit of £143.6m. There were no other recognised gains or losses. The dividend paid in the year is £22.7m (2015 £21.4m) (refer to Note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2016	2015
Net book value:		
At 1 September	520.0	520.0
At 31 August	520.0	520.0

An impairment of £142.9m has been recognised historically against the cost of these investments. Further information about subsidiaries, including disclosures about non-controlling interests, is provided in Note 33 to the consolidated financial statements.

4. Creditors: amounts falling due after more than one year

£m	2016	2015
Amounts owed to Group companies	293.7	418.7

The amounts owed to Group companies are not considered to be repayable within five years. These balance are not interest bearing.

5. Called up share capital

£m	2016	2015
Issued and fully paid ordinary shares of 5p each		
At 1 September	12.2	9.5
Shares issued in the year	0.1	2.7
At 31 August	12.3	12.2

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

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2015	244.1
Issued in the year	2.6
At 31 August 2016	246.7

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	2016	2015
Balance at 1 September	55.2	5.3
Shares issued in the year	4.0	49.9
Balance at 31 August	59.2	55.2

6. Reserves

£m	Retained earnings
Balance at 1 September	33.9
Profit for the year	143.6
Dividend paid	(22.7)
Balance at 31 August	154.8

7. Related party transactions

The Company has taken advantage of the exemption granted by paragraph 8(k) of FRS 101 not to disclose transactions with Connect Group PLC companies and interests of the Group, which are related parties.

Shareholder information

Company Secretary and registered office

Stuart Marriner, Connect Group PLC, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH.

Telephone 0845 128 8888.

Company website

Connect Group PLC Annual Reports and results announcements are available online at www.connectgroupplc.com. The investor section of our website provides a wide range of information about the Company including Annual Reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing Annual General Meeting information and other useful shareholder information.

Annual Report and Accounts

This Annual Report and Accounts is published on our website and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report and Accounts have been notified of its availability on the website.

A paper copy of the Annual Report and Accounts can be obtained by writing to the Company Secretary at the address listed above or you can e-mail your request to investor.relations@connectgroupplc.com.

Annual General Meeting

The Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Thursday 26 January 2017 at 11.30am. The Notice of AGM sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form and present it at the registration desk on arrival.

Proxy Form

Shareholders unable to attend the AGM should complete a Proxy Form. To be effective, it must be completed and lodged with the Company's Registrars, Equiniti, by not later than 11.30am on Tuesday 24 January 2017.

Electronic proxy voting

You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Proxy Form to hand when you log on as it contains information which will be required. CREST members may appoint a proxy electronically via Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on Tuesday 24 January 2017.

Registrars

If you have any enquiries about your shareholding in Connect Group PLC or wish to advise of a change of address, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0371 384 2771¹ or from outside the UK +44 (0) 121 415 7565). A textphone facility for shareholders with hearing difficulties is available by telephoning 0371 384 2255¹. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Proxy Form).

¹ Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding UK bank holidays.

Financial calendar

Financial year end	31 August 2016
Results announced	18 October 2016
Annual Report published	28 November 2016
Final dividend ex-dividend date	12 January 2017
Final dividend record date	13 January 2017
Annual General Meeting	26 January 2017
Final dividend payment date	10 February 2017
Half-year end	28 February 2017
Interim results announced	April 2017
Interim dividend ex-dividend date	June 2017
Interim dividend record date	June 2017
Interim dividend payment date	July 2017
Financial year end	31 August 2017
Results announced	October 2017

For the dates of events in the second half of the financial calendar, please check the Connect Group PLC website at www.connectgroupplc.com nearer the relevant time for further details, and to ensure that no changes have been made.

The dividend dates shown above are in respect of the Company's ordinary shares of 5p.

Share dealing service

The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing, you may call 03456 037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to shareholders ('boiler room' scams)

In recent years, like other companies, we have become aware of a small number of investors who have received unsolicited calls or correspondence, in some cases purporting to have been issued by us, concerning investment matters. These typically make claims of highly profitable opportunities in UK or US investments which turn out to be worthless or simply do not exist. These approaches are usually made by unauthorised companies and individuals and are commonly known as 'boiler room' scams. Investors are advised to be wary of any unsolicited advice or offers to buy shares. If it sounds too good to be true, it often is.

See the Financial Conduct Authority website www.fca.org.uk/consumers/scams for more detailed information about this or similar activity.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

UK Capital Gains Tax (CGT)

Rights Issue 17 December 2014

Shareholders who acquired shares

For the purposes of calculating any chargeable gains or losses, any ordinary shares you acquired as a result of the Rights Issue (at a price of 102p each) are treated as being acquired at the same time as your original holding of ordinary shares and the subscription cost added to the base cost of your original holding.

Shareholders who sold or renounced their rights or who allowed their rights to lapse

If you sold any or all of your rights to subscribe for the ordinary shares provisionally allotted to you, or if you allowed your rights to lapse and received a cash payment in respect of them, if the proceeds were 'small' as compared with the market value (on the date of sale or lapse) of your existing holding of ordinary shares in respect of which the rights arose, you will not generally be treated as making a disposal for CGT purposes. Instead, the proceeds received should be deducted from the base cost of your existing holding of ordinary shares. HMRC current practice is to regard a sum as 'small' for these purposes where either; (i) the proceeds do not exceed 5% of the market value (at the date of sale or lapse) of the ordinary shares in respect of which the rights arose; or (ii) the sum received is £3,000 or less, regardless of whether the 5% test is satisfied.

If the proceeds you received were not 'small' the sale is treated as a disposal and, in order to calculate any chargeable gains or losses, you need to apportion the original base cost of your existing holding of ordinary shares between the sale proceeds and your existing holding of ordinary shares in the ratio of the sale proceeds divided by the sale proceeds plus the market value of your existing holding of ordinary shares (on the date of sale or lapse). Further guidance can be found on the HMRC website www.gov.uk/capital-gains-tax-share-reorganisation-takeover-or-merger.

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of 2¹³/₈₁p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of 22⁶/₆₇p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original tax base cost of your old WH Smith PLC ordinary shares of 55⁵/₉p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of 2¹³/₈₁p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 2¹³/₈₁p is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₉p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of 55⁵/₉p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55⁵/₉p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If your shares result from a holding of old WH Smith PLC shares acquired on or before 31 March 1982, the tax base cost to be used in order to calculate any chargeable gains or losses arising on the disposal of shares is the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of 22 ⁶ / ₆₇ p	61.62p	50.92p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

Glossary of terms

Connect Group PLC (the 'Company')

Connect Group PLC, registered in England and Wales with registered no. 5195191.

The Group

Collectively, Connect Group PLC and its subsidiaries.

Connect News & Media division

The businesses principally operated by the following subsidiaries of Connect Group PLC:

Smiths News

The news businesses operated by Smiths News Trading Limited comprising Smiths News, Instore, Jack's Beans, Pass My Parcel and Newsworks.

Dawson Media Direct (or DMD)

The international media business operated by a number of UK and international subsidiaries.

Connect Books division

The businesses principally operated by the following subsidiaries of Connect Group PLC:

Bertrams

The books business operated by Bertram Trading Limited.

Dawson Books

The books business operated by Dawson Books Limited comprising Dawson Books and the eBook platform 'Dawsonera'.

Houtschild and Erasmus

The international books businesses operated by Houtschild Internationale Boekhandel BV, Erasmus Antiquariaat en Boekhandel BV and Erasmus Buchhandlung GmbH.

Connect Education & Care division

The businesses principally operated by a subsidiary of Connect Group PLC:

The Consortium

The education and care business operated by The Consortium for Purchasing and Distribution Limited comprising of the business of The Consortium.

West Mercia Supplies

The education and care business operated by The Consortium for Purchasing and Distribution Limited comprising of the business of West Mercia Supplies.

Connect Parcel Freight division

The businesses principally operated by a subsidiary of Connect Group PLC:

Tuffnells

The parcel freight business operated by Tuffnells Parcels Express Limited.

Notes



Connect Group PLC

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connectgroupplc.com