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

Unaudited Interim Results for the six months ended 28 February 2019

Improved operational execution, in a challenging first half.

Connect Group, a leading specialist distributor, is today announcing its Interim Results for the six months ended 28 February 2019.

Continuing Adjusted results(1)	**Six months to 28 Feb 2019**	Six months to 28 Feb 2018	Change
Revenue	**£732.5m**	£766.5m	-4.4%
EBITDA	**£18.0m**	£24.2m	-25.6%
Operating profit	**£13.0m**	£18.0m	-27.8%
Profit before tax	**£9.9m**	£15.1m	-34.4%
Basic earnings per share	**3.2p**	5.0p	-36.0%
Statutory continuing results			
Revenue	**£732.5m**	£766.5m	-4.4%
Operating profit	**£6.4m**	£12.4m	-48.3%
Profit before tax	**£3.3m**	£9.5m	-65.3%
Basic earnings per share	**1.1p**	3.1p	-64.5%
Interim dividend per share	**Nil p**	3.1p	N/A
Free cash flow (including Adjusted items)(2)	**£5.8m**	£10.0m	-42.0%
Net debt(5)	**£77.5m**	£83.6m	-7.3%

Headlines:

- Overall performance in line with expectations as we address the legacy challenges
- Strategy on track, driving business unit accountability and central efficiencies
- Smiths News demonstrating a good recovery, with a return to strong cost control and excellent progress with 65% of contracts renewed by total revenue
- Tuffnells impacted by revenue and cost challenges that flowed through from second half of FY 2018
- DMD returning a solid performance in the period but loss of key contract will impact FY 2020
- Net Debt of £77.5m, down £6.1m year on year, a net debt: Adjusted EBITDA ratio of 1.95x

Jos Opdeweegh, Chief Executive Officer, commented:

'Today's results confirm the progress we have made, with a good performance in Smiths News and further benefits from central efficiencies and focused capital management. Looking ahead, we continue to drive our strategic priorities, spearheaded by business unit accountability, the turnaround of Tuffnells and lean processes across the entire organisation.'

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow', 'Adjusted revenue', 'Adjusted operating profit', 'Adjusted profit before tax', 'Adjusted earnings per share' 'Adjusted EBITDA' and 'Adjusted items' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies. See the Glossary on page 45 for more details.

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

Continuing Adjusted operating profit - is defined as operating profit including the operating profit of businesses from their date of acquisition and excludes adjusted items and operating profit of businesses disposed of in the prior year or treated as held for sale.

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

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

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

(2) Free cash flow - is defined as cash flow excluding the following: payment of any dividend, acquisitions and disposal costs, the repayment of bank loans, EBT share purchases and cash flows relating to pension deficit repair contributions. Free cash flow (excluding Adjusted items) is Free cash flow adding back Adjusted cash costs.

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

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

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

(6) H1 2018 refers to the half year ended 28 February 2018, H2 2018 refers to the half year ended 31 August 2018 and FY 2018 refers to the full year ended 31 August 2018. H1 2019 refers to the half year ended 28 February 2019 and H2 2019 refers to the half year ended 31 August 2019 and FY 2019 refers to the full year ended 31 August 2019. FY 2020 refers to the full year ended 31 August 2020.

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

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 1 May 2019 commencing at 9.30am. Connect Group PLC's Interim Results 2019 are available at www.connectgroupplc.com

An audio webcast will be available on:

https://webcasting.buchanan.uk.com/broadcast/5c6bc2bae6e1d92d38f4ed50

About Connect Group

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

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

Smiths News

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

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

Tuffnells

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

Notes to Editors

This document contains certain forward-looking statements with respect to Connect Group PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document. Unless otherwise required by applicable law, regulation or accounting standard, Connect Group PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Connect Group PLC. For more detailed information, please see the Interim Results announcement for the half-year ended 28 February 2019 and the Report and Accounts for the year ended 31 August 2018 which can be found on the Investor Relations section of the Connect Group PLC website – www.connectgroupplc.com. However, the contents of Connect Group PLC's website are not incorporated into and do not form part of this document.

INTERIM MANAGEMENT REPORT

OPERATING REVIEW

INTRODUCTION

Overall performance is in line with expectations as we continue to address the underlying issues that impacted revenue and costs in FY 2018 and flowed through into this year. Group continuing Adjusted operating profit of £13.0m was driven by the return to focused accountability in Smiths News and good progress in overhead cost reductions, offset by a continuation of the weaker trading in Tuffnells. We will continue to drive improvements to service and cost control and we remain confident that the steps taken will continue to deliver tangible benefits in the second half of the year.

In January 2019 the Group set out its strategy for recovery, building on the immediate priorities that were identified at the preliminary financial results in November 2018. While it is early days, progress is on track in all key areas.

The underlying financial position of the Group remains strong with free cash flow in the period of £5.8m, and net debt reducing to £77.5m from £83.4m at year end.

Smiths News

The return to focused accountability has restored stability to the Group's largest business. Adjusted operating profit of £20.3m is up by £3.4m (H1 2018: £16.9m) with cost efficiencies more than offsetting the impact of declining revenues, which at -4.0% remain in line with established trends.

Good progress has been made with the accelerated renewal of publisher contracts, with new agreements securing 98% of Smiths News' magazine revenues and 65% of its total revenues, for an average contract extension of 5 years. All our existing territories have been retained, providing the necessary certainty to unlock supply chain efficiencies over the contract periods.

Cost reductions in Smiths News are ahead of plan, mitigating the impact of sales declines through efficiencies in operational and central costs.

In January 2019 the Group disposed of its vending coffee business known as Jack's Beans. This sale was in line with the strategy to divest of non-core assets; the business made negligible contribution and there will be no impact on financial performance in the year.

DMD

DMD had a solid performance in the period with Adjusted operating profit of £1.3m in line with last year (H1 2018: £1.3m). The business was not successful in re-tendering for its contract with British Airways which will terminate in June 2019. Actions are in hand to substantially mitigate the consequential reduction in revenue that would otherwise be estimated to impact profit contribution by up to £1.5m in FY 2020.

Tuffnells

Tuffnells' performance was hindered by the carry-over of customer losses suffered in the second half of last year, which resulted in significantly lower consignment volumes. Revenue of £80.2m was down by 8.1% (H1 2018: £87.3m) resulting in an Adjusted operating loss for the period of £8.6m. This compares to an Adjusted loss of £0.2m in the comparable prior period, and an Adjusted loss of £5.0m in the second half of FY 2018.

Despite the challenging period, we believe that management actions are the right ones for a sustainable recovery. We continue to prioritise improvements to revenue quality, cost reduction and standard operating processes – these actions are beginning to achieve traction and we are confident of achieving an improvement in the second half.

As a predominantly UK business to business carrier, Tuffnells is not expected to be directly impacted by the UK's decision to leave the EU. Nonetheless, in the short term, the stockpiling of goods in bulk by some suppliers has resulted in a more uneven and harder to predict distribution of consignments than would be typically usual in the period.

Looking ahead, our view on stabilising business operations and arresting the decline in performance is unchanged. While trading in the period has been weaker than anticipated, we continue to target a return to positive contribution, after full cost allocation, in FY 2020. Once this is achieved, the market fundamentals remain strong and offer good prospects for a sustainable recovery.

Sale and Leaseback

In January 2019 the Group announced its intention to secure a sale and leaseback agreement in relation to 16 Tuffnells' properties; this process is on-going and we will update shareholders in due course.

Pensions

In October 2018 the Group's largest legacy pension scheme (WH Smith Pension Trust) was subject to an insurance backed annuity buy-in of the News section scheme assets. The Group has subsequently been notified that the assets are expected to be sufficient to cover future liabilities and therefore monthly cash contributions to address a deficit repair are no longer required. This will reduce future cash outflows by £3.3m per annum to March 2020.

Dividend

In line with our strategy of balancing the interests of all stakeholders the Board has resolved not to pay an interim dividend in FY 2019. We continue to plan for a final dividend of circa 1p per share subject to meeting overall financial expectations for the full year.

Outlook

Overall expectations for the full year are unchanged with an anticipated strong performance in Smiths News, further central cost savings, and an improving performance of Tuffnells in H2 2019.

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS – CONTINUING ADJUSTED

£m	6 months to Feb 2019	6 months to Feb 2018	Change
Revenue	**732.5**	**766.5**	**-4.4%**
Adjusted operating profit	**13.0**	**18.0**	-27.8%
Net finance costs	(3.1)	(2.9)	-6.9%
Adjusted profit before tax	**9.9**	**15.1**	**-34.4%**
Taxation	(1.9)	(3.0)	36.7%
Tax rate	*19.2%*	*19.7%*	
Adjusted profit after tax	**8.0**	**12.1**	**-33.9%**

Revenue of £732.5m was down overall by 4.4%. Smiths News' revenue declined by £26.3m, (4.0%) in line with expectations, DMD's revenue fell £0.4m (3%) and Tuffnells' revenue declined £7.1m (8.1%).

Adjusted operating profit of £13.0m was down by £5.0m (27.8%) on the prior period. Of this, Smiths News' Adjusted operating profit was up £3.4m (20.1%) offset by an increased Tuffnells' Adjusted operating loss of £8.6m.

Net finance costs of £3.1m were up by £0.2m (6.9%) on the prior period. The interest cost on borrowings incurred was £2.5m compared to £1.9m in the prior period. Other finance costs include finance lease interest, interest cost on pension obligations and unwinding of discounts on provisions of £0.3m (H1 2018: £0.7m); and the amortisation of banking arrangement fees of £0.3m (H1 2018: £0.2m).

Adjusted profit before tax of £9.9m was down by 34.4%.

The tax charge for the period of £1.9m was £1.1m down on the prior period, reflecting an effective tax rate of 19.2% (H1 2018: 19.7%). This was in line with the reduction in the UK Corporation Tax rate.

Consequently, Adjusted profit after tax of £8.0m was down £4.1m (33.9%) on the prior period.

EPS AND DIVIDEND

	Continuing Adjusted		Continuing Statutory	
	6 months to Feb 2019	6 months to Feb 2018	**6 months to Feb 2019**	6 months to Feb 2018
Profit after tax (£m)	**8.0**	12.1	**2.8**	7.6
Basic weighted average number of shares (millions)	**246.2**	245.7	**246.2**	245.7
Basic EPS (p)	**3.2**	5.0	**1.1**	3.1
Diluted weighted average number of shares (millions)	**246.6**	**248.0**	**246.6**	**248.0**
Diluted EPS (p)	**3.2**	4.9	**1.1**	3.1
Dividend per share	**Nil p**	**3.1p**	**Nil p**	**3.1p**

On a continuing adjusted basis, profit after tax of £8.0m resulted in a basic EPS of 3.2p, a decrease of 36.0% on the prior year. Including Adjusted items, a statutory continuing profit after tax of £2.8m was attributable to equity shareholders. This resulted in a basic statutory EPS of 1.1p, a decrease of 2.0p on the prior year.

The weighted average number of shares increased by 0.5m to 246.2m.

Dilutive shares increased the basic number of shares at 28 February 2019 by 0.4m to 246.6m. This resulted in a diluted adjusted EPS of 3.2p, a decrease of 36.0% on the prior period.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 0.4m shares (H1 2018: 2.3m).

The statutory continuing EPS was 1.1p (H1 2018: 3.1p), down 64.5%.

The Board has determined not to pay an interim dividend in FY 2019, comparing to an interim dividend payment of 3.1p on last year.

SMITHS NEWS INCOME STATEMENT

£m	6 months to Feb 2019	6 months to Feb 2018	Change
Revenue[7]	**639.4**	665.7	**-4.0%**
Adjusted operating profit	**20.3**	16.9	**20.1%**
Operating margin	**3.2%**	2.5%	70bps

Smiths News' revenue of £639.4m declined 4.0% on the prior period. Newspaper revenue was down by 3.8% with cover price inflation mitigating volume declines. Magazine revenue was down by 5.6% with weekly titles again performing more strongly than monthlies. Revenue decline continues in line with our long term projections.

Smiths News' Adjusted operating profit of £20.3m was £3.4m favourable than the prior period driven by two factors:

- The impact of ongoing reduction in newspaper and magazine sales has been successfully mitigated by the implementation of compensating cost savings to the network and distribution cost base.
- The new Group structure with two separate accountable business units in Smiths News and Tuffnells, has restored a more focused approach by the Smiths News management team. Allowing one-off cost benefits from the abandonment of the Tuffnells integration efforts and the exit of Pass My Parcel to be unlocked.

These have been the primary drivers in the improvement of operating margin in the period to 3.2%.

DMD INCOME STATEMENT

£m	6 months to Feb 2019	6 months to Feb 2018	Change
Revenue	**13.0**	13.4	**-3.0%**
Adjusted operating profit	**1.3**	1.3	**-**
Operating margin	**10.0%**	9.7%	30bps

Revenue of £13.0m was down by £0.4m (3.0%) on the prior period. The reduction reflects a range of contract wins and losses, together with variations in demand from publishers and airline operators. Such fluctuations are not unusual in what is a more dynamic market environment than retail newspaper and magazine distribution. Looking ahead, British Airways re-tendered its contract during the period and mutually acceptable terms could not be agreed; as a consequence the contract will cease from July 2019. Actions to partially offset the impact in FY 2020 are underway.

Adjusted operating profit of £1.3m is flat on prior period and operating margin of 10.0% is up 30bps versus prior year.

TUFFNELLS INCOME STATEMENT

£m	6 months to Feb 2019	6 months to Feb 2018	Change
Revenue[7]	**80.2**	87.3	**-8.1%**
Adjusted operating (loss) / profit	**(8.6)**	(0.2)	**N.A.**
Operating margin	(**10.7%)**	(0.2%)	N.A.

Revenue of £80.2m was down £7.1m (8.1%) on the prior period.

The H1 2019 decline in revenue was driven predominantly by the annualised impact of lower consignment volumes resulting from customer losses suffered in H2 2018.

Further impacting performance, the cost structure in the period has proved insufficiently variable to adjust with sufficient speed to the year on year changes in consignment volumes. In addition, year on year performance has been affected by: the impact of the national living wage; the re-allocation of directly attributable overheads; continued investment in leadership; and maintaining capacity and capability to meet service standards.

As a consequence, the adjusted operating loss was £8.6m, an increase of £8.4m on H1 2018 and an increase of £3.6m on H2 2018.

ADJUSTED ITEMS[1]

£m	6 months to Feb 2019	6 months to Feb 2018
Network and re-organisation costs	(1.3)	(0.5)
Vacant property cost release	-	0.5
IPR settlement income	0.3	-
Sales and leaseback professional fees	(0.5)	-
Pension 'buy-in' professional fees	(1.5)	-
Brierley Hill insurance claim	(0.2)	-
NMW regulatory compliance	0.1	-
Impairment of PMP intangible and tangible assets	-	(2.0)
Amortisation of acquired intangibles	(3.5)	(3.6)
Total loss before tax - continuing	**(6.6)**	**(5.6)**
Total loss before tax - discontinued	-	(10.7)
Total loss before tax	**(6.6)**	**(16.3)**
Taxation – continued	1.4	1.1
Taxation – discontinued	-	-
Taxation	**1.4**	**1.1**
Total loss after tax – continued	**(5.2)**	(4.5)
Total loss after tax – discontinued	**-**	(10.7)
Total loss after tax	**(5.2)**	**(15.2)**

Total continuing adjusted items were £5.2m after tax, compared to £4.5m in the prior period.

Total adjusted items including discontinued were £5.2m after tax, compared to £15.2m in the prior period.

Network and reorganisation costs
There are £1.3m (H1 2018: £0.5m) network and reorganisation costs. In the current period this includes network rationalisation redundancy costs of £0.4m (H1 2018: £0.4m). While costs associated with network and reorganisation recur across financial years and will continue to be incurred in the financial year, the Group consider these to be adjusted items given they are part of a strategic programme to drive future cost savings and are significant in value to the results of the Group.

There are further costs of £0.9m (H1 2018: £nil) relating to redundancies and costs incurred in restructuring the Executive team which were as a result of the appointment of the Group's new CEO in September 2018. This is separate to the network restructuring in the previous financial year. The costs of the previous executive team are considered adjusting as they enable comparability between financial years and segments and therefore consistency of results at a consolidated level.

Vacant property cost release
There were £nil costs attributable to vacant property costs (H1 2018: £0.5m). The vacant property provision release of £0.5m relates to the vacant Smiths News Slough depot which is now being used by Tuffnells.

IPR settlement income
The Group received a one-off payment of £0.3m (H1 2018: £nil) in relation to the settlement of an IPR dispute concerning the proposed use of a similar brand to one of the Group's brands. This is considered an adjusting item given its size and one-off nature.

Amortisation of acquired intangibles
Amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, was £3.5m (H1 2018: £3.6m). This is considered an adjusting item as it allows comparison between segments and therefore consistency of results at a consolidated level.

ADJUSTED ITEMS[(1)] (continued)

Pass My Parcel (PMP) impairment and exit costs
In the current financial year the Group has incurred £nil (H1 2018: £nil).

Following a review of the PMP proposition on 23 May 2018, management decided to close the business unit, as a result of this decision a charge of £6.7m was booked in FY 2018.

Management concluded that losses on winding down the business unit represented an onerous contract with a recognised cost of £4.6m. This comprises the forecast excess of costs over income from the date the Group took the decision to close the business unit. It is considered adjusting due to its one-off nature and significant value. Of this balance, £1.4m remains in provisions to cover the costs to close all contracts (see note 16).

In the period from 1 September 2017 to the date of the decision to close, PMP incurred losses of £5.4m (these losses are included in the Group's adjusted operating results for FY 2018 and H1 2018).

A further £2.0m of impairment charges split £1.0m tangible and £1.0m intangible were recognised to write off the non-current assets relating to the business unit in H1 2018.

Sale and Leaseback professional fees
The Group incurred £0.5m (H1 2018: £nil) in relation to sale and leaseback professional fees. In January 2019 the Group took the decision to sell the Tuffnells' freehold and long leasehold property portfolio and lease it back. The Group expects to realise a profit on the sale and leaseback transaction in the financial year and the total impact of the transaction is expected to be recognised within adjusting items - see note 9 for further information. Given the magnitude and one-off nature this is considered to be an adjusting item.

Pension 'buy-in' professional fees
The Group incurred £1.5m (H1 2018: £nil) in relation to buy in costs incurred on behalf of the WH Smith Pension Trust, which entered into an insurance backed annuity 'buy-in' of the Scheme assets within the section of the Trust sponsored by Smiths News, which thereby minimises the Group's exposure to future pension obligations. Given the magnitude and one-off nature it is considered to be an adjusting item.

Brierley Hill insurance claim
The Group incurred £0.2m (H1 2018: £nil) of insurance settlement costs in relation to the fatality at Tuffnells' Brierley Hill depot that occurred in January 2016. The Group had previously recognised the cost of the fine and legal costs in relation to this in adjusting items see note 4. Given the magnitude, one-off nature and to ensure consistent treatment with previously reported costs it is considered to be an adjusting item.

National Minimum Wage regulatory compliance
The Group has released £0.1m of the provision in relation to the National Minimum Wage (NMW) regulatory compliance (H1 2018: £nil). The Group has been in discussion with HMRC regarding an historical underpayment in relation to a misapplication of national minimum wage legislation in Tuffnells. Dialogue continues and a provision amounting to £1.3m was made in the prior year in respect of any potential liabilities, of which £0.5m related specifically to the estimated fine was classified as adjusting £0.1m of this provision has since been released in the period based on the latest correspondence. This is recognised as an adjusting item to be consistent with prior periods and due to its one-off nature and magnitude.

(Loss)/Profit on disposal of subsidiary
On 14 February 2018, the Group completed the sale of the Connect Books business at a loss of £10.7m. Full details are provided in note 9 in the Connect Group PLC Annual Report and Accounts 2018.

FREE CASH FLOW

£m Continuing operations	6 months to Feb 2019	6 months to Feb 2018
Adjusted Operating profit – continuing	13.0	18.0
Depreciation & amortisation	5.0	6.2
Adjusted EBITDA	**18.0**	**24.2**
Working capital movement	2.4	1.8
Capital expenditure	(2.7)	(4.4)
Finance lease payments	(1.5)	(1.9)
Net interest paid	(2.6)	(3.5)
Taxation	(1.2)	(3.4)
Other movements	0.2	(0.1)
Free cash flow (excluding adjusted items)	**12.6**	**12.7**
Adjusted items	(6.8)	(2.7)
Free cash flow	**5.8**	**10.0**

The Group generated continuing free cash flow of £5.8m in the period, a decrease of £4.2m or 42% on the prior year.

Adjusted EBITDA of £18.0m was down £6.2m caused by weaker trading performance at Tuffnells. The working capital movement in the period was a £2.4m inflow.

Capital expenditure of £2.7m is down £1.7m year on year, as the focus has been on maintenance rather than growth capex spend and a more rigorous capex spend criteria being established.

Net interest paid of £2.6m is down £0.9m on prior year, due to a combination of lower average net debt and prior year including a bank arrangement fee of £1.6m for the £175m bank facility signed in October 2017.

Tax paid of £1.2m compared to £3.4m in the prior period, is a consequence of the lower profit before tax being generated compared to the prior period.

The total cash impact of adjusted items for the period was £6.8m compared to the prior period figure of £2.7m. The increase in cash payments of £4.1m can be attributed to the settlement of a regulatory health and safety matter at Tuffnells Brierley Hill depot for £1.5m in October 2018; pension buy-in costs of £1.5m; closure costs for PMP of £1.4m utilising the year end provision; and redundancy costs from the year end reorganisation programme.

NET DEBT AND BANK FACILITIES

£m	As at Feb 2019	As at Feb 2018	As at Aug 2018
Opening net debt	**(83.4)**	**(82.1)**	**(82.1)**
Free cash flow	5.8	10.0	20.2
Finance lease creditor movement	1.5	1.5	3.2
Pension deficit recovery	(1.2)	(2.5)	(4.7)
Dividend paid	-	(16.5)	(24.1)
Other	(0.2)	1.3	-
Disposal proceeds	-	13.7	12.9
Discontinued disposal proceeds to repay overdraft	-	-	(12.7)
Discontinued operations cash flow	-	(9.0)	3.9
Closing net debt	**(77.5)**	**(83.6)**	**(83.4)**

Net debt at the end of the period was £77.5m compared to £83.4m at August 2018 and £83.6m at February 2018. Debt at the end of the half year was lower than the year end position as no final dividend for FY 2018 was announced and paid in H1 2019.

Pension deficit recovery of £1.2m (H1 2018: £2.5m), in respect of Smiths News and Tuffnells, was significantly lower than the prior period as WH Smith Pension Trustees notified Smiths News that deficit repair payments could cease from November 2018 following the completion of the pension buy-in process. Pension deficit repair payments are considered as a non-free cash flow item.

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

Net debt:EBITDA[(4)] at the end of February 2019 was 1.95x versus 1.47x at August 2018 and 1.86x at February 2018. This remains comfortably within our main covenant ratio of 2.75x.

Within the Trading and Strategy Update issued on 22 January 2019 it was announced that the Group plans to enter into a sale and leaseback transaction for sixteen Tuffnells freehold and long lease properties which is expected to complete in H2 2019 with the proceeds applied to reduce net debt.

PENSIONS

The Group operates a combination of defined benefit and defined contribution schemes.

The completion of the Smiths News pension scheme buy-in in October 2018 has facilitated the elimination of the pension deficit repair liability of £5.1m at August 2018. The deficit repair payment in H1 2019 has fallen to £1.2m from £2.5m in the prior year. This will reduce future cash outflows by £3.3m per annum to March 2020.

Pension 'buy-in' costs of £1.5m were recorded within Adjusted Items during the period.

The Tuffnells defined benefit scheme IAS19 deficit at 28 February 2019 was £2.0m (31 August 2018: £2.1m). The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was a scheme deficit of £4.3m. Deficit recovery contributions have been agreed and remain at £0.3m per annum.

The largest scheme across the Group is the Smiths News defined benefit pension scheme (the WH Smith Pension Trust) which as at 28 February 2019 had an IAS 19 surplus of £16.5m (Aug 2018: £154.2m). However, as the pension scheme is closed to future accrual, this IAS 19 surplus is not available as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this surplus on the balance sheet. The Smiths News section of the WH Smith Pension Trust completed the actuarial triennial valuation as at 31 March 2015 and had an actuarial deficit of £17.5m.

Smiths News had previously agreed with the WH Smith Pension Trust a schedule of cash contributions of £3.3m per annum to March 2020. In October 2018, the Trust entered into an insurance backed annuity (the buy-in') of the Scheme assets within the section of the Trust sponsored by Smiths News. This 'buy-in' annuity is recognised as a plan asset and the difference in value is considered an actuarial remeasurement. The pension Trustees notified the Group that future cash contributions by the Group to address the deficit would no longer be required and the Group has released the liability. The present value of the agreed deficit repair contributions as a pension liability at 28 February 2019 is £nil (28 February 2018: £6.7m).

DISCONTINUED OPERATIONS

There were no discontinued operations in the period.

Discontinued operations contributed Adjusted operating profit of £1.6m in HY 2018, in respect of the former Books division which was sold in February 2018.

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

RISKS AND UNCERTAINTIES

The Group has a clear framework in place to continuously identify and review the principal risks. This includes, amongst others, a detailed assessment of each business unit and functional team's principal risks together with a separate assessment of those risks relating to the Group as a whole and regular reporting to and robust challenge from the Audit Committee. The Directors' assessment of the Group's principal risks is aligned to the strategic business planning process.

Specifically, key risks are plotted on risk maps with descriptions, owners, and mitigating actions, reporting against a level of materiality consistent with its size. These risk maps are reviewed and challenged by the Executive Team and Audit Committee. Additional risk management support is provided by external experts in areas of technical complexity to complete our bottom-up and top-down exercises.

As part of the Board's ongoing assessment of the principal risks, the Board has considered the performance of the Group, its markets, the changing regulatory landscape and future strategic plans. Principal risks previously reported have been reviewed in detail and they have been refined and made more specific. Compared to the principal risks reported in the Annual Report 2018 the following observations are reported from the Board's half year review:

- The mitigating actions for the risks related to Failing to Attract, Engage and Retain Talent and Inadequate Processes to Support People Initiatives have been updated in line with the progress made with our on-going talent, recruitment and Connect People projects; and
- A new principal risk relating to Capacity and Capability to deliver change has been introduced.

These risks are still subject to ongoing monitoring and appropriate mitigation.

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

	Principal risks	Potential impact	Mitigating actions and assurance
1.	**Failure to refine and execute the Group's strategy and direction** – The risk of failing to establish and execute the Group strategy through detailed business plans at the Group, Tuffnells and Smiths News level. The lack of a clear vision and supporting business plans for the Group could impact colleague engagement, financial returns, external confidence and shareholder perception.	Management fail to identify, win and deliver new adjacencies opportunities profitably. Budgeted cost reductions are not achieved as a result of increasing near adjacencies which result in a sub-optimal result in the short term before achieving medium and longer term benefits.	A high level strategy and mission statement is in place which will be developed into a 3-5 year business plan. Performance to the budget is reviewed regularly using a balanced scorecard framework. This ensures effective and timely monitoring of performance with action taken in the event of shortfalls to expectations. Financial and operational KPIs are considered along with risk assessments and impact on management before remedial action is taken. Accountability at leadership level is redefined.
2.	**Tuffnells – Failure to deliver the turnaround of the business as expected by the market** – The risk that management fail to turnaround the Tuffnells business due to not maintaining customer service standards and/or not understanding and adapting to new technologies, competitors, demographics which drive change in customer behaviour and/or that result in deep and speedy structural market changes.	Impact on growth and profitability within Tuffnells if consistent service standards are not understood and addressed, and/or if organisational efficiency goals are not met.	More work is planned to understand the changes in customer expectations and to improve customer service, in particular around the operating model, the management information, supporting technology, IT infrastructure and safe workplace. The team is being strengthened with industry skills. There are various change programmes to improve service levels and business efficiency.
3.	**Failure to adequately monitor financial performance and/or delays in the Group's performance recovery** – The risk that the Group does not achieve or monitor financial performance or meet forecast commitments, as well as the associated risk that the current financial position does not allow for planned investment programmes and business improvements to be undertaken.	Impact on ability to meet financial commitments and ability to invest in the programmes and improvements that are essential to sustainable performance in the medium to long term.	Annual budgets and forecasts, supported by regular financial management reporting, take into account the current financial position of the Group, allowing for or changing objectives to meet short and medium-term financial targets, as well as longer term aspirations. Provision of financial information to the business has improved over the last six months.
4.	**Failing to secure revenue on contract retenders together with optimising profitability within**	Impact on supply of product or route to market may erode margin and/or increase cost	As the market leader Smiths News is well placed to maximise its margins and margin share which is demonstrated by recently

	Smiths News – The risk of failing to retain major contracts in Smiths News at acceptable rates and manage costs in a declining market impacts current and projected business performance.	to serve.	securing 65% of revenues at today's value pursuant to new five year contracts and is in line with the business plan. The management team has been reinforced to focus on Six Sigma Black Belt and lean ways of working to improve profitability and achieve cost reduction. Strong relationships across the supply chain help the business to understand and demonstrate its strengths for the benefit of its suppliers and customers and in particular to build on the service proposition as central to achieving excellence.
5.	**Failing to attract, engage and retain talent within a high performance and values-based culture** – The risk that we do not establish a high performing and inclusive culture, where we are able to attract and retain a diverse colleague profile to deliver the company strategy.	Impact on the ability to address the strategic priorities and deliver the forecast performance for the Group.	The Executive team has planned to review talent and succession planning in addition to holding quarterly strategic business unit resourcing reviews. We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Group's culture and core values, for example, through the launch of our Everyone-In programme and our approach for 'Everyday Performance'. An annual survey and monthly colleague forums are undertaken to monitor the engagement of colleagues and these are followed by action plans. We improved our approach to Talent Management through improved focus on the 'what and the how' with a focus on critical roles. We sustain our focus on Total Reward Strategy through a new approach to pay benchmarking and broader benefits offer. We have started to re-build leadership capability and diversity in senior management through our investment in talent and leadership programmes scheduled for FY 2020.
6.	**Inadequate processes in place to support People initiatives** – The risk that the People processes and systems do not deliver the Connect Way for a standard operating model, which reflects requirements in compliance, legislation and lean thinking.	Impact on the ability to address the control and efficiency improvements and change programmes necessary to changes in culture and to support compliance.	A Group-wide People and Payroll system, Connect People, has been introduced, alongside Connect Recruit. Both systems are supported by updated processes and tools to support management in ensuring compliance. Improved management information will become available following Connect People going live, enabling managers to have better insight for key people metrics, compliance and legislation. We are developing a full People Operating Model to enable managers to have the processes, tools and skills to support colleagues at every stage of the colleague life cycle for completion by August.
7.	**Failing to meet high health and safety standards** – The risk of inadequate health and safety framework and insufficiently enforcing a health and safety culture results in serious injury to colleagues and/or the public or a breach of relevant health and safety legislation.	In addition to the danger to staff or the public, the impact of a health and safety failure negatively impacts operations, profitability and/or corporate reputation, together with the risk of possible enforcement action.	Safety is a key priority of the Group. Health & Safety performance is reviewed at Board meetings, Audit Committee, and Executive Team meetings. A dedicated Health and Safety Team led by the H&S Director has been executing an improvement programme within Tuffnells and promoting a safety culture. The Group continues to invest in improvements. Improvements have been achieved in safety culture in Tuffnells through increased communication supported by the H&S audit programme. These activities have also supported better management reporting. The aim continues to be consistency in standards and culture across the Group.

8.	**Increased labour market constraints and costs** – The risk of legislative changes or interpretation, coupled with the EU Exit and political uncertainty drives demographic or legislative changes or interpretation impacting the ability to recruit and retain warehouse and delivery contractors resulting in higher attrition risk in warehousing and distribution and/or increasing liabilities and costs.	In the event of any legal claim as to worker status by consultants, subcontractors or agency workers the business could be liable for increased costs (National Insurance contributions) and liabilities (such as certain employee rights). The inability to pass on such statutory increases to customers could impact profitability, and affect the cost of future efficiency programmes. The implications of EU Exit may include a decreasing pool of available, suitably qualified employees and subcontractors.	The Group regularly reviews its legal terms of engagement with contractors and has appropriate contractual and operational arrangements in place. Self-employed delivery contractors have clearly articulated agreements defining tasks they are contracted to provide whether personally or by a substitute. Contractor manager resource exists in Smiths News and is being recruited in Tuffnells. Increasing employment cost associated with National Living Wage/Apprentices Levy/Auto Enrolment has been factored into latest budgets. Future impact of EU Exit on employment risks are unknown at the date of this report but are being tracked. Legal developments are monitored to ensure that the business maintains compliance with legislation and best practice. Workforce planning initiatives including apprenticeship and training programmes, such as Warehouse to Wheels, are supporting the longer-term mitigation of driver shortage.
9.	**Deterioration of the Macroeconomic environment** – The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with EU Exit, impacts current and/or projected business performance above that included in the business planning and review process.	Reductions in discretionary spending may impact sales of newspapers or magazines and/or see a reduction in parcel volumes. Uncertainty from EU Exit may affect the business in both the short and medium term on trade arrangements, future capital investment strategies and resourcing costs.	Annual budgets and forecasts take into account the current macroeconomic environment to set expectations internally and externally, allowing for, or changing objectives to meet, short and medium-term financial targets. An exercise has been undertaken to assess the vulnerabilities of the Group to EU Exit risks to assist with contingency planning.
10.	**Capacity and capability to deliver the scale of change within the Group –** The risk of large scale change through numerous projects stretching the capacity of colleagues to complete both the project and BAU work.	The business does not have the capacity to manage the level of change and will fail to execute the required transformation programme to deliver the Group strategy.	Through the establishment of the Group's values, its rigorous project governance processes and the promotion of Six Sigma and lean processes as part of Connect Way, the Group continues to invest in the core skills to enable capacity and capability across all levels. We are continuing with our engagement programme for senior leaders and depot managers to ensure cross functional updates every month. We will start to re-build leadership capability and diversity in senior management through our investment in talent and leadership programmes scheduled for FY 2020.

Responsibility Statement

We confirm that to the best of our knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report includes a true and fair review of the information required by DTR 4.2.7R, being an indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year; and
- the interim management report includes a true and fair review of the information required by DTR 4.2.8R, being disclosure of related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Jos Opdeweegh	Tony Grace
Chief Executive Officer	Chief Financial Officer
1 May 2019	1 May 2019

Connect Group PLC

Condensed Consolidated Income Statement (Unaudited)

For the 6 months to 28 February 2019

£m	Note	**6 months to Feb 2019**			6 months to Feb 2018			12 months to Aug 2018		
		Adjusted	**Adjusted items (note 4)**	**Total**	Adjusted	Adjusted items (note 4)	Total	Adjusted	Adjusted items (note 4)	Total
Continuing operations										
Revenue	3	**732.5**	**-**	**732.5**	**766.5**	**-**	**766.5**	**1,534.3**	**-**	**1,534.3**
Operating profit	3	**13.0**	**(6.6)**	**6.4**	**18.0**	**(5.6)**	**12.4**	**33.9**	**(63.9)**	**(30.0)**
Net finance costs		**(3.1)**	**-**	**(3.1)**	(2.9)	-	**(2.9)**	(5.5)	-	**(5.5)**
Profit before tax	3	**9.9**	**(6.6)**	**3.3**	**15.1**	**(5.6)**	**9.5**	**28.4**	**(63.9)**	**(35.5)**
Income tax (expense)/credit	6	**(1.9)**	**1.4**	**(0.5)**	(3.0)	1.1	**(1.9)**	(5.5)	2.9	**(2.6)**
Profit/ (loss) for the period from continuing operations		**8.0**	**(5.2)**	**2.8**	**12.1**	**(4.5)**	**7.6**	**22.9**	**(61.0)**	**(38.1)**
Discontinued operations										
Profit for the period from discontinued operations	9	-	-	**-**	1.3	(10.7)	**(9.4)**	1.3	(10.2)	**(8.9)**
Profit/ (loss) attributable to equity shareholders continuing and discontinued operations		**8.0**	(5.2)	**2.8**	**13.4**	(15.2)	**(1.8)**	**24.2**	(71.2)	**(47.0)**
Earnings per share from continuing operations										
Basic	8	3.2p		1.1p	5.0p		3.1p	9.3p		(15.5)p
Diluted	8	3.2p		1.1p	4.9p		3.1p	9.3p		(15.5)p
Equity dividends per share	7			-			3.1p			3.1p

Connect Group PLC

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 6 months to 28 February 2019

£m	Note	6 months to Feb 2019	6 months to Feb 2018	12 months to Aug 2018
Continuing				
Items that will not be reclassified to the Group Income Statement:				
Remeasurements of retirement benefit schemes	5	4.4	0.4	-
Tax relating to components of other comprehensive income that will not be reclassified		(0.7)	-	-
		3.7	0.4	-
Items that may be reclassified to the Group Income Statement:				
Currency translation differences		(0.2)	(0.2)	(0.3)
Tax relating to components of other comprehensive income		-	-	-
		(0.2)	(0.2)	(0.3)
Other comprehensive income/(loss) for the period - continuing		**3.5**	**0.2**	**(0.3)**
Profit/(loss) for the period – continuing		2.8	7.6	(38.1)
Total comprehensive income/(loss) for the period - continuing		**6.3**	**7.8**	**(38.4)**
Other comprehensive income/(loss) for the period discontinued		-	-	-
Profit/(loss) for the year – discontinued		-	(9.4)	(8.9)
Total comprehensive income/(loss) for the period - discontinued		-	**(9.4)**	**(8.9)**
Total comprehensive income/(loss) for the period attributable to shareholders:		**6.3**	**(1.6)**	**(47.3)**

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

Connect Group PLC

Condensed Consolidated Balance Sheet (Unaudited)
As at 28 February 2019

£m	Note	As at Feb 2019	Restated[1] As at Feb 2018	Restated[1] As at Aug 2018
Non-current assets				
Intangible assets	12	47.1	101.0	50.8
Property, plant and equipment		19.4	38.9	38.8
Interest in joint venture and associate		5.2	4.8	5.1
Deferred tax assets		-	5.4	-
		71.7	**150.1**	**94.7**
Current assets				
Inventories		16.5	16.1	13.3
Trade and other receivables	14	127.3	139.9	129.7
Cash and cash equivalents	13	25.6	5.0	18.0
Current tax asset		0.1	-	0.3
Assets classified as held for sale	9	16.7	-	0.5
		186.2	**161.0**	**161.8**
Total assets		**257.9**	**311.1**	**256.5**
Current liabilities				
Trade and other payables	15	(178.9)	(183.5)	(175.6)
Current tax liabilities		(0.2)	(3.6)	(0.8)
Obligations under finance leases		(3.0)	(2.8)	(2.8)
Bank overdrafts and other borrowings	13	(50.2)	(33.0)	(47.2)
Provisions	16	(5.9)	(5.7)	(9.5)
Retirement benefits obligation	5	(0.4)	(3.4)	(3.7)
		(238.6)	**(232.0)**	**(239.6)**
Non-current liabilities				
Bank loans and other borrowings	13	(49.1)	(48.6)	(48.8)
Retirement benefit obligation	5	(1.6)	(5.5)	(3.6)
Deferred tax liabilities		(2.8)	(7.4)	(2.5)
Non current provisions	16	(4.1)	(5.8)	(4.8)
Obligations under finance leases		(0.9)	(4.2)	(2.5)
Other non-current liabilities		(0.5)	(0.7)	(0.6)
		(59.0)	**(72.2)**	**(62.8)**
Total liabilities		**(297.6)**	**(304.2)**	**(302.4)**
Total net assets		**(39.7)**	**6.9**	**(45.9)**
Equity				
Called up share capital	18	12.4	12.4	12.4
Share premium account	18	60.5	60.5	60.5
Other reserves		(281.7)	(282.3)	(282.0)
Retained earnings		169.1	216.3	163.2
Total shareholders' equity		**(39.7)**	**6.9**	**(45.9)**

1. The Group has applied IFRS 15 using the fully retrospective method. See Note 2.

Connect Group PLC

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 6 months to 28 February 2019

£m	Note	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total equity
Balance at 31 August 2017		**12.4**	**60.5**	**(282.7)**	**234.9**	**25.1**
Loss for the period		-	-	-	(1.8)	(1.8)
Currency translation differences		-	-	(0.2)	-	(0.2)
Actuarial gain on defined benefit pension scheme		-	-	-	1.4	1.4
Impact of IFRIC 14 on defined benefit pension scheme		-	-	-	(1.0)	(1.0)
Total comprehensive income for the period		**-**	**-**	**(0.2)**	**(1.4)**	**(1.6)**
Dividends paid		-	-	-	(16.5)	(16.5)
Employee share schemes				0.6	(0.6)	-
Recognition of share based payments		-	-	-	(0.1)	(0.1)
Balance at 28 February 2018		**12.4**	**60.5**	**(282.3)**	**216.3**	**6.9**
Loss for the period		-	-	**-**	(45.2)	(45.2)
Actuarial gain on defined benefit pension scheme		-	-	-	(3.5)	(3.5)
Impact of IFRIC 14 on defined benefit pension scheme		-	-	-	3.1	3.1
Currency translation differences		-	-	(0.1)	-	(0.1)
Tax relating to components of other comprehensive income		-	-	-	-	-
Total comprehensive loss for the period		-	-	(0.1)	(45.6)	(45.7)
Issue of share capital		-	-	-	-	-
Purchase of own shares		-	-	-	-	-
Dividends paid		-	-	-	(7.6)	(7.6)
Employee share schemes		-	-	0.4	(0.4)	-
Recognition of share based payments		-	-		0.5	0.5
Balance at 31 August 2018		**12.4**	**60.5**	**(282.0)**	**163.2**	**(45.9)**
Profit for the period		-	-	-	2.8	2.8
Currency translation differences		-	-	(0.2)	-	(0.2)
Remeasurements of retirement benefit schemes		-	-	-	4.4	4.4
Tax relating to components of other comprehensive income		-	-	-	(0.7)	(0.7)
Total comprehensive income/(loss) for the period		-	-	**(0.2)**	**6.5**	**6.3**
Dividends paid		-	-	-	-	-
Employee share schemes		-	-	0.5	(0.6)	(0.1)
Recognition of share based payments		-	-	-	-	-
Balance at 28 February 2019		**12.4**	**60.5**	**(281.7)**	**169.1**	**(39.7)**

Connect Group PLC

Condensed Consolidated Group Cash Flow Statement (Unaudited)
For the 6 months to 28 February 2019

£m	Note	6 months to Feb 2019	6 months to Feb 2018	12 months to Aug 2018
Net cash from operating activities	11	**11.5**	**8.9**	**37.5**
Investing activities				
Dividends from associates		0.1	0.1	0.2
Purchase of property, plant and equipment		(1.9)	(3.6)	(6.1)
Purchase of intangible assets		(0.8)	(1.4)	(2.4)
Proceeds on sale of property, plant and equipment		-	-	-
Proceeds on sale of subsidiary (net of disposal costs & cash held)		-	13.7	12.9
Net cash used in investing activities		**(2.6)**	**8.8**	**4.6**
Financing activities				
Interest paid		(2.6)	(3.5)	(5.8)
Dividends paid		-	(16.5)	(24.1)
Repayments of obligations under finance leases		(1.5)	(1.9)	(3.8)
Net (decrease)/increase in revolving credit facility		(2.0)	-	25.3
New bank loans raised		-	-	48.8
Increase/(repayment) of borrowings		-	3.0	(80.0)
Net cash from financing activities		**(6.1)**	**(18.9)**	**(39.6)**
Net increase/(decrease) in cash and cash equivalents		**2.8**	**(1.2)**	**2.5**
Effect of foreign exchange rate changes		(0.1)	(0.2)	(0.2)
		2.7	(1.4)	2.3
Opening net cash and cash equivalents		8.7	6.4	6.4
Closing net cash and cash equivalents		**11.4**	**5.0**	**8.7**

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £nil (H1 2018: £8.4m inflow) and £nil was paid in respect of investing activities (H1 2018: £0.6m). There were no cash flows associated with financing activities attributable to Discontinued Operations.

Analysis of net debt

£m	Note	As at Feb 2019	As at Feb 2018	As at Aug 2018
Cash and cash equivalents	13	11.4	5.0	8.7
Current borrowings	13	(36.0)	(33.0)	(38.0)
Non-current borrowings	13	(49.1)	(48.6)	(48.8)
Net borrowings		**(73.7)**	**(76.6)**	**(78.1)**
Finance lease liabilities		(3.8)	(7.0)	(5.3)
Net debt		**(77.5)**	**(83.6)**	**(83.4)**

The movement in net debt in the period includes £0.3m loan fee amortisation.

Cash and cash equivalents includes cash of £25.6m (H1 2018: £15.9m) offset by £14.2m (H1 2018: £10.9m) of overdrafts.

1 Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those described in the Annual Report and Accounts 2018. The financial period represents the 6 months ended 28 February 2019 (prior financial period 6 months ended 28 February 2018, prior financial year ended 31 August 2018).

These condensed consolidated interim financial statements for the current period and prior financial periods do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the prior financial year has been filed with the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006 issued by Deloitte LLP. Following the conclusion of a tender process Deloitte LLP resigned and BDO LLP were subsequently appointed as the Group's auditor.

Discontinued operations

In accordance with International Financial Reporting Standards (IFRS) 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement and the assets and liabilities of these operations are presented separately in the Group balance sheet.

Going Concern

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

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

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

The Group's principal areas of estimation and judgement remain unchanged since the year end and are set out in note 1 (d) on page 79 of the Annual Report and Accounts for the year ended 31 August 2018. The below accounting policy changes include a refresh of estimation and judgments in relation to new accounting standards.

2 Accounting policies

Adoption of new IFRSs

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the period beginning 1 September 2018. IFRS 15 has been applied fully retrospectively and comparatives for the prior periods have been restated, whilst IFRS 9 has been applied retrospectively but the Group has elected not to restate comparatives and to reflect any changes at the date of initial adoption on 1 September 2018. Further details on the transitional impact on adoption of these standards is described below.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is a new standard based on a five-step model framework, which replaces all existing revenue recognition standards. The standard requires revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group adopted IFRS 15 from 1 September 2018 using a fully retrospective approach. The Group considered that the current segmental split of revenue to be appropriately disaggregated in line with IFRS 15. There is no change to the Group's revenue recognition under IFRS 15, however there are other impacts to the Group which are set out in the table below.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

2 Accounting Policies (continued)

As at Feb 2018	Trade and other receivables £m	Trade and other payables £m	Net Assets £m
Balance without IFRS15 adjustment	92.0	(135.6)	**6.9**
IFRS15 Adjustments:			
A – Returns reserve accrual	25.5	(25.5)	**-**
B – Returns reserve asset	22.4	(22.4)	**-**
As reported total	**139.9**	**(183.5)**	**6.9**

As at Aug 2018	Trade and other receivables £m	Trade and other payables £m	Net Assets £m
Balance without IFRS15 adjustment	**81.7**	**(127.6)**	**(45.9)**
IFRS15 Adjustments:			
A – Returns reserve accrual	25.5	(25.5)	-
B – Returns reserve asset	22.5	(22.5)	-
As reported total	**129.7**	**(175.6)**	**(45.9)**

Adjustment A – Returns reserve accrual

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A returns reserve accrual and a corresponding asset representing the right to recover products from the customer is also recognised. The Group previously recognised these items on a net basis on adoption of IFRS 15 the Group was required to adjust trade receivables to gross out the returns reserve accrual with the offset now included within other creditors.

Adjustment B - Returns reserve asset

The asset representing the right to return discussed in Adjustment A has now been recognised within other debtors where it was previously offset against trade payables.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' is a new standard which enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. The adoption of IFRS 9 has no material impact on the Group's financial statements and subsequently prior year comparatives have not been restated. The Group has determined that the provision arising from the expected credit losses on financial assets is in line with the levels of provisions already held and that there have been no changes as a result of adoption of the new classification and measurement model and all financial assets are at amortised cost.

Key accounting judgements

Revenue recognised in relation to sales of newspapers and magazines is at the price charged to retailers as the Group consider themselves to be the principal in the arrangement after considering the indicators of control over the inventory.

Key accounting estimates

Revenue continues to be recognised net of estimated sales returns based on past experience.

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

2 Accounting Policies (continued)

Impairment of financial assets

Since adoption of IFRS 9 on 1 September 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. The three-stage model for impairment has been applied to loans and advances to customers and banks, financial assets at fair value through other comprehensive income, and loan receivables from joint ventures and associates. The credit risk is determined through modelling a range of possible outcomes for different loss scenarios, using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. A 12 month expected credit loss is recognised, unless the credit risk on the financial asset increases significantly after initial recognition, when the lifetime expected credit loss is recognised.

For other financial assets, primarily trade and accrued income, the Group applies the simplified approach permitted by IFRS 9, with expected lifetime credit losses recognised from initial recognition of the receivable. These assets are grouped based on shared credit risk characteristics and days past due, with expected loss allowances for each risk grouping determined based on the Group's historical credit loss experience, adjusted for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

Alternative Performance Measures

The Company uses a number of Alternative Performance Measures (APMs) in addition to those reported in accordance with IFRS. The Directors believe that the APMs, listed in the glossary on page 45, are important when assessing the underlying financial and operating performance of the Group and its segments. The APMs do not have standardised meaning prescribed by IFRS and therefore may not be directly comparable to similar measures presented by other companies.

3 Segmental Analysis of Results

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

These operating segments are:

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

As explained in Note 9 Connect Books was sold in the prior financial year. The division is presented as a discontinued operation and is included below where necessary for the purpose of reconciliation.

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

	Revenue			**Operating profit**		
£m	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018	**6 months to Feb 2019**	6 months to Feb 2018 (restated)	12 months to Aug 2019
Smiths News	639.4	666.0	1,335.1	**20.3**	**16.9**	35.9
DMD	13.0	13.4	26.5	**1.3**	**1.3**	3.0
Tuffnells	80.2	88.1	175.2	**(8.6)**	**(0.2)**	(5.0)
Elimination of Intra group revenue	(0.1)	(1.0)	(2.5)	-	-	-
Continuing operations - adjusted	**732.5**	**766.5**	**1,534.3**	**13.0**	**18.0**	**33.9**
Revenue Discontinued operations – adjusted	-	114.3	114.3			
Revenue - Continuing and discontinued operations - adjusted	**732.5**	**880.8**	**1,648.6**			
Continuing operations –Total Adjusted items				(6.6)	(5.6)	(63.9)
Total Continuing operations after Adjusted items				**6.4**	**12.4**	**(30.0)**
Net finance expense				(3.1)	(2.9)	(5.5)
Profit/(loss) before taxation – Continuing operations				3.3	9.5	(35.5)
Profit/(loss) before taxation – Discontinued operations				**-**	**(9.1)**	(8.8)
Profit/(loss) before taxation – Continuing operations and Discontinued operations				**3.3**	**0.4**	**(44.3)**

Segmental revenue includes intercompany sales.

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

3 Segmental Analysis of Results (continued)

Segment assets and liabilities

	Assets			Liabilities			Net assets		
£m	**6 months to Feb 2019**	6 months to Feb 2018 (Restated)	12 months to Aug 2018 (Restated)	**6 months to Feb 2019**	6 months to Feb 2018 (Restated)	12 months to Aug 2018 (Restated)	**6 months to Feb 2019**	6 months to Feb 2018 (Restated)	12 months to Aug 2018 (Restated)
Smiths News	**134.0**	129.1	124.9	(253.5)	(263.9)	(260.2)	**(119.5)**	(134.8)	(135.3)
DMD	**26.4**	22.8	22.7	(9.9)	(8.6)	(7.3)	**16.5**	14.2	15.4
Tuffnells	**97.5**	159.2	108.9	(34.2)	(31.7)	(34.9)	**63.3**	127.5	74.0
Consolidated assets/ (liabilities)	**257.9**	**311.1**	**256.5**	**(297.6)**	**(304.2)**	**(302.4)**	**(39.7)**	**6.9**	**(45.9)**

Segment depreciation, amortisation and non-current asset additions

	Depreciation			Amortisation			Additions to non-current assets		
£m	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018
Smiths News	**(1.4)**	(3.0)	(3.8)	**(1.2)**	(2.7)	(4.1)	**1.4**	1.5	3.8
DMD	**(0.1)**	(0.1)	(0.2)	**(0.2)**	(0.2)	(0.3)	**-**	-	0.1
Tuffnells	**(2.3)**	(2.3)	(4.6)	**(3.4)**	(3.5)	(53.1)	**0.2**	2.4	4.4
Continuing operations	**(3.8)**	**(5.4)**	**(8.6)**	**(4.8)**	**(6.4)**	**(57.5)**	**1.6**	**3.9**	**8.3**
Discontinued operations	**-**	**-**	-	**-**	**-**	**-**	**-**	-	0.6
Consolidated total	**(3.8)**	**(5.4)**	**(8.6)**	**(4.8)**	**(6.4)**	**(57.5)**	**1.6**	**3.9**	**8.9**

In H1 2018 Smiths News includes a charge for impairment of Pass My Parcel assets within depreciation of £1.0m and amortisation of £1.0m.

Geographical analysis

	Revenue by destination			Non-current assets by location of operation		
£m	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018
United Kingdom	**725.8**	760.0	1,521.2	**71.7**	144.7	94.6
Europe	**4.6**	4.2	8.6	**-**	**-**	-
Rest of World	**2.1**	2.3	4.5	**-**	**-**	-
Continuing operations	**732.5**	**766.5**	**1,534.3**	**71.7**	**144.7**	**94.6**
Discontinued operations	**-**	114.3	114.3	**-**	**-**	-
Total continuing and discontinued operations	**732.5**	**880.8**	**1,648.6**	**71.7**	**144.7**	**94.6**

Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 6 months to 28 February 2019

4 Adjusted Items

£m		6 months to Feb 2019	6 months to Feb 2018	12 months to Aug 2018
Continuing operations				
Network and re-organisation costs	(a)	**(1.3)**	(0.5)	(3.1)
Vacant property costs release	(b)	**-**	0.5	0.7
IPR settlement income	(c)	**0.3**	-	-
Amortisation of acquired intangibles	(d)	**(3.5)**	(3.6)	(7.1)
Pass my parcel exit costs	(e)	**-**	(2.0)	(6.7)
Impairment of tangible assets	(f)	**-**	-	(1.1)
Impairment of Tuffnells goodwill	(g)	**-**	-	(46.1)
Sale and leaseback professional fees	(h)	**(0.5)**	-	-
Pension 'buy-in' professional fees	(i)	**(1.5)**	-	-
Brierley Hill insurance claim	(j)	**(0.2)**	-	-
NMW regulatory compliance	(k)	**0.1**	-	(0.5)
Total before tax		**(6.6)**	**(5.6)**	**(63.9)**
Taxation		**1.4**	1.1	2.9
Total after taxation		**(5.2)**	**(4.5)**	**(61.0)**
Discontinued operations				
(Loss)/ profit on disposal of subsidiary	(l)	-	(10.5)	(10.5)
Acquisition and disposal related costs	(l)	-	(0.2)	(0.1)
Total before tax		**-**	**(10.7)**	**(10.6)**
Taxation		**-**	**-**	-
Total after taxation		**-**	**(10.7)**	**(10.6)**
Continuing and discontinued operations				
Total before tax		**(6.6)**	(16.3)	(71.6)
Taxation		**1.4**	**1.1**	2.9
Total after taxation		**(5.2)**	**(15.2)**	**(68.7)**

Adjusted items on a continuing basis for the period totalled £5.2m after tax for the period, compared to £4.5m (restated) in the prior year.

(a) Network and re-organisation costs

There are £1.3m (H1 2018: £0.5m) network and reorganisation costs. In the current period this includes network rationalisation redundancy costs of £0.4m (H1 2018: £0.4m). While costs associated with network and reorganisation recur across financial years and will continue to be incurred in the financial year, the Group consider these to be adjusted items given they are part of a strategic programme to drive future cost savings and are significant in value to the results of the Group.

There are further costs of £0.9m (H1 2018: £nil) relating to redundancies and costs incurred from restructuring the executive team following the appointment of the Group's new CEO in September 2018, this cost is separate to the network restructuring in the previous financial year. The costs of the previous executive team are considered adjusting as they enable comparability between financial years and segments and therefore consistency of results at a consolidated level.

4 Adjusted Items (continued)

(b) Vacant property cost release

There were £nil costs attributable to vacant property costs (H1 2018: £0.5m). The vacant property provision release of £0.5m relates to the vacant Smiths News Slough depot which is now being used by Tuffnells.

(c) IPR settlement income

The Group received a one-off £0.3m (H1 2018: £nil) of income in relation to the settlement of an IPR dispute concerning the proposed use of a similar brand to one of the Group's brands. This is considered adjusting given its size and one-off nature.

(d) Amortisation of acquired intangibles

Amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, was £3.5m (H1 2018: £3.6m). This is considered an adjusting item as it allows comparison between segments and therefore consistency of results at a consolidated level.

(e) Pass My Parcel (PMP) exit costs

In the current financial year the Group has incurred £nil (H1 2018: £nil) in relation to PMP exit costs.

Following a review of the PMP proposition on 23 May 2018, management decided to terminate the contracts in relation to PMP and close the business unit. As a result of this decision a charge of £6.7m was booked in FY 2018.

Management concluded that losses on winding down the business unit represented an onerous contract with a cost of £4.6m recognised which comprises the forecast excess of costs over income from the date the Group took the decision to close the business unit. It is considered adjusting due to its one-off nature and significant value. Of this balance, £1.4m remains in provisions to cover the costs to close all contracts (see note 16).

In the period from 1 September 2017 to the date of the decision to close, PMP incurred losses of £5.4m. These losses are included in the Groups adjusted operating results for FY 2018 and H1 2018.

A further £2.0m of impairment charges split £1.0m tangible and £1.0m intangible were recognised to write off the non-current assets relating to the business unit in H1 2018.

(f) Impairment of tangible assets

The Group impaired £nil (H1 2018: £nil) of tangible assets. The Group took the decision to consider the sale of the Jack's Beans business unit to focus on its core businesses. Bids received indicated an excess of net book value of £1.1m therefore the Group impaired the assets and moved them into non-current assets held for sale. This was subsequently sold at net book value in January 2019. Given the magnitude, one-off nature and the Group's strategy to focus on core business it is considered to be an adjusting item.

(g) Impairment of Tuffnells goodwill

The Group incurred £nil (H1 2018: £nil) impairment of Tuffnells Goodwill. During the prior financial year management reviewed the carrying value of Tuffnells goodwill and concluded that an impairment charge of £46.1m was required. The recoverable amount of goodwill (in both the current and prior year) is calculated with reference to its value in use based on future cash flow projections. The key assumptions used in the calculation are disclosed in the Connect Group PLC Annual Report and Accounts 2018.

(h) Sale and leaseback professional fees

The Group incurred £0.5m (H1 2018: £nil) in relation to sale and leaseback costs. In January 2019 the Group took the decision to sell the Tuffnells freehold and long leasehold property portfolio and lease it back. The Group expects to realise a profit on the sale and leaseback transaction in the financial year and the total impact of the transaction is expected to be recognised within adjusting items see note 9 for further information. Given the magnitude and one-off nature is considered to be an adjusting item.

(i) Pension 'buy-in' professional fees

The Group incurred £1.5m (H1 2018: £nil) in relation to buy in costs incurred on behalf of the WH Smith Pension Trust, which entered into an insurance backed annuity 'buy-in' of the Scheme assets within the section of the Trust sponsored by Smiths News, this minimises the Group's exposure to future pension obligations. Given the magnitude and one-off nature it is considered to be an adjusting item.

4 Adjusted Items (continued)

(j) Brierley Hill insurance claim
The Group incurred £0.2m (H1 2018: £nil) of insurance settlement costs in relation to a fatality at its Brierley Hill depot that occurred in January 2016. The Group had previously recognised the cost of the fine and legal costs in relation to this - see note 16. Given the magnitude, one-off nature and to ensure consistent treatment with previously reported costs it is considered to be an adjusting item.

(k) National Minimum Wage regulatory compliance
The Group has been in discussion with HMRC regarding an historical underpayment in relation to a misapplication of national minimum wage legislation in Tuffnells. A provision amounting to £1.3m was made in the prior year financial statements. Of this balance £0.5m relates specifically to the estimated fine. This was classified as adjusting in H2 2018. £0.1m of this provision has been released based on the latest correspondence with HMRC. This was recognised as an adjusting item to be consistent with prior periods and due to its one-off nature and magnitude.

(l) (Loss)/Profit on disposal of subsidiary
On 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m full details are provided in note 9.

5 Retirement Benefit Obligation

Defined benefit pension schemes

The Group operates two defined benefit schemes, the WH Smith Pension Trust (the 'Pension Trust') and the Tuffnells Parcels Express Pension Scheme.

The amounts recognised in the balance sheet are as follows:

£m	As at Feb 2019	As at Feb 2018	As at Aug 2018
Present value of defined benefit obligation	(424.9)	(444.9)	(440.4)
Fair value of assets	439.4	596.9	592.7
Net surplus	**14.5**	**152.0**	**152.3**
Amounts not recognised due to asset limit	(16.5)	(154.2)	(154.5)
Additional liability recognised due to minimum funding requirements	-	(6.7)	(5.1)
Pension liability	**(2.0)**	**(8.9)**	**(7.3)**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £16.5m at 28 February 2019 (H1 2018: £154.2m surplus) which the Group does not recognise in the accounts as the investment policy adopted means that the amount available on a reduction of future contributions is expected to be £nil (FY 2018: £nil). The valuation of the defined benefit schemes for the IAS 19 (revised) disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

The actuarial valuation of the Smiths News section of the WH Smith Pension Trust at 31 March 2015 was a deficit of £17.5m. Following the completion of the 'buy-in' in October 2018 where the WH Smith Pension Trust entered into an insurance backed annuity of the Scheme assets within the section of the Trust sponsored by Smiths News the pension schemes actuary notified the Group that future cash contributions by the Group to address the deficit would no longer be required and the Group has released the IFRIC 14 liability. The 'buy-in' annuity is recognised as a plan asset and the difference in value between the value of the insurance asset received of £425m at the date of transaction and the asset transferred in exchange for the policy £555m is considered an actuarial remeasurement recognised within other comprehensive income and is offset by the release of the IFRIC 14 liability.

5 Retirement Benefit Obligation (continued)

Tuffnells Parcels Express scheme

The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was a scheme deficit of £4.3m. Deficit recovery contributions to the scheme have been agreed at £0.3m per annum. The £2.0m of pension liabilities at the period end relates entirely to the Tuffnells Parcels Express scheme.

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

% p.a.	6 months to Feb 2019	6 months to Feb 2018	12 months to Aug 2018
Discount rate	2.65%	2.60%	2.60%
Inflation assumptions – CPI	2.20%	2.25%	2.20%
Inflation assumptions – RPI	3.20%	3.25%	3.20%

5 Retirement Benefit Obligation (continued)

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2017	**620.1**	**(473.6)**	**(158.0)**	**(11.5)**
Current service cost	-	(0.1)	-	(0.1)
Interest cost	7.0	(5.2)	(1.9)	(0.1)
Administrative costs	(0.1)	-	-	(0.1)
Past service cost/(credit)	-	-	-	-
Total amount recognised in income statement	**6.9**	**(5.3)**	**(1.9)**	**(0.3)**
Return on plan assets excluding amounts included in net interest	(21.5)	-	-	(21.5)
Actuarial gains on scheme liabilities	-	22.9	-	22.9
Change in surplus not recognised	-	-	(1.0)	(1.0)
Amount recognised in other comprehensive income	**(21.5)**	**22.9**	**(1.0)**	**0.4**
Employer contributions	2.5	-	-	2.5
Employee contributions	-	-	-	-
Benefit payments	(11.1)	11.1	-	-
Amounts included in cash flow statement	**(8.6)**	**11.1**	**-**	**2.5**
At 28 February 2018	**596.9**	**(444.9)**	**(160.9)**	**(8.9)**
Current service cost	-	-	-	-
Interest cost	7.4	(5.7)	(1.8)	(0.1)
Administration expenses	(0.1)	-	-	(0.1)
Total amount recognised in income statement	**7.3**	**(5.7)**	**(1.8)**	**(0.2)**
Return on plan assets excluding amounts included in net interest	(1.9)	-	(1.7)	(3.6)
Actuarial gains on scheme liabilities	-	(1.6)	-	(1.6)
Change in surplus not recognised	-	-	4.8	4.8
Amount recognised in other comprehensive income	**(1.9)**	**(1.6)**	**3.1**	**(0.4)**
Employer contributions	2.2	-	-	2.2
Employee contributions	-	-	-	-
Benefit payments	(11.8)	11.8	-	-
Amounts included in cash flow statement	**(9.6)**	**11.8**	**-**	**2.2**
At 31 August 2018	**592.7**	**(440.4)**	**(159.6)**	**(7.3)**

5 Retirement Benefit Obligation (continued)

£m	Fair value of scheme assets	Defined benefit obligation	Surplus not recognised	Total
At 31 August 2018	**592.7**	**(440.4)**	**(159.6)**	**(7.3)**
Current service cost	-	-	-	-
Interest cost	7.4	(5.5)	(2.0)	(0.1)
Administrative expenses	(0.1)	-	-	(0.1)
Total amount recognised in income statement	**7.3**	**(5.5)**	**(2.0)**	**(0.2)**
Return on plan assets excluding amounts included in net interest	(151.4)	-	139.9	(11.5)
Gain / (loss) from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest (income)/cost	-	-	5.1	5.1
Actuarial gains on scheme liabilities	-	10.7	-	10.7
Change in surplus not recognised	-	-	-	-
Amount recognised in other comprehensive income	**(151.4)**	**10.7**	**145.1**	**4.4**
Employer contributions	1.1	-	-	1.1
Benefit payments	(10.3)	10.3	-	-
Amounts included in cash flow statement	**(9.2)**	**10.3**	**-**	**1.1**
At 28 February 2019	**439.4**	**(424.9)**	**(16.5)**	**(2.0)**
Included within Current liabilities				**(0.4)**
Included within Non-current liabilities				**(1.6)**

6 Income Tax Expense

The Income tax expense is recognised based on management's best estimate of the income tax charge for the interim period calculated using the interim financial data. The taxation charge on the profit for the half year was £0.5m (H1 2018: charge of £1.9m). The taxation charge on the adjusted profit for the half year was £1.9m (H1 2018: charge of £3.0m). This is based on an adjusted effective tax rate for the interim period of 19.2% (H1 2018: 19.7%). The FY 2018 effective tax rate was 19.4%. The adjusted interim effective tax rate of 19.2% is in line with the UK main rate of tax of 19.0%.

7 Dividends

Proposed dividends for the period	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018	**6 months to Feb 2019**	6 months to Feb 2018	12 months to Aug 2018
	Per share	Per share	Per share	**£m**	£m	£m
Final dividend	**-**	**-**	-	**-**	**-**	-
Interim dividend	**-**	**3.1p**	3.1p	**-**	**7.6**	7.6
	-	**3.1p**	3.1p	**-**	**7.6**	7.6

Recognised dividends for the period						
	Per share	Per share	Per share	£m	£m	£m
Final dividend – prior year	**-**	**6.7p**	6.7p	**-**	**16.5**	16.5
Interim dividend – current year	**-**	**-**	3.1p	**-**	**-**	7.6
	-	**6.7p**	9.8p	**-**	**16.5**	24.1

During the six month period to 28 February 2019, the final dividend for the year ended 31 August 2018 of nil pence (Feb 2018: 6.7p) per ordinary share was paid to shareholders. The Directors have not approved an interim dividend in respect of the period ended 28 February 2019 (Feb 2018: 3.1p per ordinary share).

8 Earnings per share

	6 months to Feb 2019			6 months to Feb 2018			12 months to Aug 2018		
	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**247.6**			247.6			247.7	
Shares held by the ESOP (weighted)		**(1.4)**			(1.9)			(1.7)	
		246.2			**245.7**			**246.0**	
Basic earnings per share (EPS)									
Continuing									
Adjusted earnings attributable to ordinary shareholders	**8.0**	**246.2**	**3.2**	12.1	245.7	**5.0**	22.9	246.0	9.3
Adjusted items	**(5.2)**			(4.5)			(61.0)		
Earnings attributable to ordinary shareholders	**2.8**	**246.2**	**1.1**	**7.6**	**245.7**	**3.1**	**(38.1)**	**246.0**	**(15.5)**
Total - continuing and discontinued operations									
Adjusted earnings attributable to ordinary shareholders	**8.0**	**246.2**	**3.2**	13.4	245.7	**5.5**	24.2	246.0	9.8
Adjusted items	**(5.2)**			(15.2)			(71.2)		
Earnings attributable to ordinary shareholders	**2.8**	**246.2**	**1.1**	**(1.8)**	**245.7**	**(0.7)**	**(47.0)**	**246.0**	**(19.1)**
Diluted earnings per share (EPS)									
Effect of dilutive securities		0.4			2.3			0.7	
Continuing									
Diluted adjusted EPS	**8.0**	**246.6**	**3.2**	**12.1**	248.0	4.9	22.9	246.7	9.3
Diluted EPS	**2.8**	**246.6**	**1.1**	**7.6**	248.0	3.1	(38.1)	246.0	(15.5)
Total - continuing and discontinued operations									
Diluted adjusted EPS	**8.0**	**246.6**	**3.2**	**13.4**	248.0	5.4	24.2	246.7	9.8
Diluted EPS	**2.8**	**246.6**	**1.1**	**(1.8)**	**248.0**	**(0.7)**	**(47.0)**	**246.0**	**(19.1)**

Dilutive shares increased the basic number of shares at February 2019 by 0.4m to 246.6m (Feb 2018: 248.0m) and resulted in a diluted adjusted EPS of 3.2p, a decrease of 1.7p or 40.7% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 0.4m dilutive shares (Feb 2018: 2.3m). There is no further dilutive effect from deferred consideration in the period.

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

9 Discontinued operations and assets held for sale

In January 2019 the Group took the decision to enter into a sale and leaseback arrangement for the Tuffnells freehold and long leasehold property portfolio and related assets with a net book value of £16.7m being: £13.8m freehold property, £0.9m long term leasehold property, £0.1m short leasehold, £0.5m fixtures and fittings and £1.4m of equipment and vehicles. These have been subsequently reclassified as assets held for sale at the balance sheet date as they are considered to meet the definition.

In August 2018 the Group took the decision to consider the sale of the Jack's Beans business unit and focus on its core businesses. It subsequently sold the business unit for £0.5m which was the net book value of the assets. In the prior year the assets relating to the business unit indicated an excess of net book value of £1.0m, therefore, the Group impaired the assets down to £0.5m and moved them into non-current assets held for sale.

The Books division was classified as held for sale on 31 August 2017 as the Group was actively marketing the business. The Group subsequently disposed of the business on the 14 February 2018. As such the results of the Books division are also classified as discontinued.

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

£m	**6 months to Feb 2019**			6 months to Feb 2018			12 months to Aug 2018		
	Adjusted	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Revenue	–	–	–	114.3	-	114.3	114.3	-	114.3
Expenses	–	–	–	(112.7)	(10.7)	(123.4)	(112.5)	(10.6)	(123.1)
Operating profit	–	–	–	1.6	(10.7)	(9.1)	1.8	(10.6)	(8.8)
Finance costs	–	–	–	-	-	-	(0.1)	-	(0.1)
Profit before tax	–	–	–	1.6	(10.7)	(9.1)	1.7	(10.6)	(8.9)
Income tax expense	–	–	–	(0.3)	-	(0.3)	(0.4)	0.4	-
Profit/ (loss) from discontinued operations	–	–	–	1.3	(10.7)	(9.4)	1.3	(10.2)	(8.9)

During the period, discontinued operations contributed £nil cash outflow (H1 2018: £8.4m cash inflow), (FY 2018: £8.8m cash inflow) to the Group's net operating cash flows.

9 Discontinued operations and assets held for sale (continued)

The major classes of assets comprising held for sale are as follows:

	Period ending 28 February 2019	**Period ending 28 February 2018**	**Year ending 31 August 2018**
Property, plant and equipment	16.7	-	0.5
Total assets classified as held for sale	**16.7**	**-**	**0.5**

10 Disposal of subsidiary

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

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

	£m
Goodwill	9.7
Intangible assets	3.6
Property, plant and equipment	4.1
Inventories	20.7
Trade and other receivables	32.7
Cash and bank balances	4.6
Trade and other payables	(45.9)
Corporation tax liability	(0.1)
Deferred tax liabilities	(0.3)
Provisions	(0.5)
Net assets disposed	28.6
Gross proceeds received	18.7
Disposal costs	(1.5)
Release of deferred consideration liability	0.9
Net assets disposed	(28.6)
Loss on disposal	(10.5)
Total consideration	
Satisfied by:	
Cash	18.7
Net cash inflow arising on disposal	
Equity consideration	6.0
Intercompany overdraft repayment	12.7
Consideration received in cash and cash equivalents	18.7
Less: cash and cash equivalents disposed	(4.6)
Less: cash disposal costs	(1.5)
	12.6

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

11 Net Cash Inflow from Operating Activities

£m	6 months to Feb 2019	6 months to Feb 2018	12 months to Aug 2018
Continuing statutory operating profit	6.5	12.4	(30.0)
Discontinued operating profit	-	(9.1)	(8.8)
Operating profit	**6.5**	**3.3**	(38.8)
Losses on disposal of property, plant and equipment	0.1	-	0.5
Impairment of assets held for sale	-	-	1.1
Impairment of tangible assets	-	-	1.0
Share of profits of jointly controlled entities	(0.3)	(0.3)	(0.5)
Loss on disposal of subsidiary	-	10.5	10.5
Pension funding	(1.2)	(2.5)	(4.2)
Depreciation and impairment of property, plant and equipment	3.8	5.4	8.6
Amortisation and impairment of intangible assets	4.8	6.4	57.5
Share based payments	0.2	(0.1)	(0.3)
(Increase)/Decrease in inventories	(3.2)	(2.9)	0.5
(Increase)/Decrease in receivables	2.1	-	17.7
Increase/(Decrease) in payables	4.3	(4.9)	(10.2)
Non cash pension and admin costs	0.1	0.2	0.3
Amortisation of loan arrangement fees	-	-	0.6
Income tax paid	(1.2)	(3.1)	(6.5)
(Decrease)/ increase in provisions	(4.5)	(3.1)	(0.3)
Net cash inflow from operating activities	**11.5**	**8.9**	**37.5**

During the period, discontinued operations contributed £nil cash outflow (H1 2018: £8.4m cash inflow) to the Group’s net operating cash flows.

12 Intangible Assets

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

Tuffnells

The Group performed impairment testing in relation to the Tuffnells business unit in October 2018. This resulted in an impairment charge of £46.1m which was booked in the Connect Group PLC Annual Report and Accounts 2018, this was based on a carrying value of £67.5m, the assumptions and sensitivities of this assessment are also included within the Connect Group PLC Annual Report and Accounts 2018. Subsequently, the Board have concluded, based on the most recent trading, that there were no further indicators of impairment since the previous assessment. The Group will reassess the carrying value of the Tuffnells goodwill in the Connect Group PLC Annual Report and Accounts 2019 consistent with the Groups policy of annual impairment reviews.

12 Intangible Assets (continued)

The individual material acquired intangible assets relate to the customer relationships and brand acquired on the acquisition of Tuffnells. The carrying value of these assets at 28 February 2019 is £12.0m and £17.8m respectively with a remaining amortisation period of 3.5 and 6 years respectively.

	Goodwill				Acquired Intangibles				Total			
£m	**On acquisition**	**H1 2019**	H1 2018	FY 2018	On acquisition	**H1 2019**	H1 2018	FY 2018	On acquisition	**H1 2019**	H1 2018	FY 2018
DMD	5.7	**5.7**	5.7	5.7	2.6	**-**	0.3	0.2	8.3	**5.7**	6.0	5.9
Smiths News	-	**-**	-	-	0.3	**-**	0.1	-	0.3	**-**	0.1	-
Tuffnells	52.1	**6.0**	52.1	6.0	58.1	**29.8**	36.4	33.1	110.2	**35.8**	88.5	39.1
Total	**57.8**	**11.7**	**57.8**	**11.7**	**61.0**	**29.8**	**36.8**	**33.3**	**118.8**	**41.5**	**94.6**	**45.0**
Other intangibles										**5.6**	6.4	5.8
Total Intangible assets										**47.1**	**101.0**	**50.8**

Pass My Parcel

The net book value of intangible assets and tangible fixed assets relating to Pass My Parcel is £nil (H1 2018: £nil). These assets relate to having historically developed the Pass My Parcel service, specifically internally generated development costs and IT equipment, totalling £2.0m (H1 2018: £2.0m). Given the decision to re-engineer and ultimately close the proposition in the prior year, the balance was written down and an impairment of £2.0m was recognised in H1 2018 financial statements see note 4.

13 Cash and Borrowings

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

£m	Sterling	Euro	USD	Other	Total 28 Feb 2019	At 28 Feb 2018	At 31 Aug 2018
Cash and bank deposits	22.4	1.7	1.1	0.4	25.6	15.9	18.0
Overdrafts	(14.2)	-	-	-	(14.2)	(10.9)	(9.2)
Revolving credit facility	(36.0)	-	-	-	(36.0)	(33.0)	(38.0)
Term loan – disclosed within non-current liabilities	(49.1)	-	-	-	(49.1)	(48.6)	(48.8)
Total borrowings	(99.3)	-	-	-	(99.3)	(92.5)	(96.0)
Net borrowings	**(76.9)**	**1.7**	**1.1**	**0.4**	**(73.7)**	**(76.6)**	**(78.0)**
Total borrowings							
Amount due for settlement within 12 months	(50.2)	-	-	-	(50.2)	(43.9)	(47.2)
Amount due for settlement after 12 months	(49.1)	-	-	-	(49.1)	(48.6)	(48.8)
	(99.3)	**-**	**-**	**-**	**(99.3)**	**(92.5)**	**(96.0)**

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

In October 2017, the Group agreed bank facilities of £175m with a syndicate of six banks with a term which runs until January 2021. The facility comprises of a term loan of £50m with no amortisation and a revolving credit facility (RCF) for £125m. The £50.2m due for settlement within 12 months relates to the RCF and overdrafts.

At 28 February 2019, the Group had £89.9m (28 February 2018: £93.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

14 Trade and other receivables

£m	At 28 Feb 2019	Restated* At 28 Feb 2018	Restated* At 31 Aug 2018
Trade receivables	86.7	97.5	86.9
Provision for expected credit losses	(0.3)	(0.4)	(0.5)
	86.4	97.1	86.4
Other debtors	35.4	35.3	36.7
Prepayments	3.3	4.5	3.9
Accrued income	2.2	3.0	2.7
Trade and other receivables	**127.3**	**139.9**	**129.7**

* The balances have been restated to reflect the returns reserve accrual previously net off against trade receivables within other creditors and the returns reserve asset net off against trade payables included within other debtors. See note 2 for further information.

Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 6 months to 28 February 2019

15 Trade and other payables

£m	At 28 Feb 2019	Restated* At 28 Feb 2018	Restated* At 31 Aug 2018
Trade payables	**(120.5)**	(123.4)	(116.3)
Other creditors	**(43.6)**	(44.3)	(42.9)
Accruals	**(14.5)**	(15.6)	(16.2)
Deferred income	**(0.3)**	(0.2)	(0.2)
	(178.9)	**(183.5)**	**(175.6)**

* The balances have been restated to reflect the returns reserve accrual previously net off against trade receivables within other creditors and the returns reserve asset net off against trade payables included within other debtors. See note 2 for further information.

16 Provisions

£m	Regulatory	Reorganisation provisions	Insurance and legal provision	Property provisions	Total
At 1 September 2018	(2.8)	(4.0)	(1.9)	(5.6)	**(14.3)**
Additions	-	-	(0.8)	-	**(0.8)**
Utilised in period	1.5	2.5	0.4	0.1	**4.5**
Released	0.5	-	0.2	-	**0.7**
Unwinding of discount utilisation	-	-	-	(0.1)	**(0.1)**
At 28 February 2019	**(0.8)**	**(1.5)**	**(2.1)**	**(5.6)**	**(10.0)**

£m	Feb 2019	Feb 2018	Aug 2018
Included within current liabilities	**(5.9)**	(5.7)	(9.5)
Included within non-current liabilities	**(4.1)**	(5.8)	(4.8)
Total	**(10.0)**	**(11.5)**	**(14.3)**

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

Regulatory provisions include £0.8m in relation to legal costs and estimated historical underpayment of national minimum wage compliance, see note 4 for further information, £0.5m of this provision has been released based on the latest correspondence with HMRC. A further £1.5m of the balance was settled in full on 3 October 2018 following Tuffnells prosecution relating to the Brierley Hill depot on 11 September 2018 for an offence under S2(1) of the Health and Safety at Work Act.

Reorganisation provisions include £1.4m relating to the closure of Pass My Parcel. During the period £1.1m has been utilised. The remaining balance of £0.1m relates to redundancy provisions, that were announced in the prior financial year end and are all expected to be utilised during the financial year (see note 4 for further information).

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

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

17 Contingent Liabilities

The Group has a potential liability that could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC in 2006, any such contingent liability, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (the actual liability of Connect Group PLC in any 12 month period is limited to £5m). The Group's share of such liability has an estimated future cumulative gross rental commitment at 28 February 2019 of £1.0m (31 August 2018: £1.3m).

18 Share Capital

(a) Share capital

£m	Feb 2019	Feb 2018	Aug 2018
Issued and fully paid ordinary shares of 5p each			
Opening balance at 1 September	12.4	12.4	12.4
Closing balance	**12.4**	**12.4**	**12.4**

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2018	247.7
At 28 February 2019	247.7

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

(c) Share premium

£m	Feb 2019	Feb 2018	Aug 2018
Opening balance at 1 September	60.5	60.5	60.5
Closing balance	**60.5**	**60.5**	**60.5**

19 Related Party Transactions

No related party transactions had a material impact on the financial performance in the period or financial position of the Group at 28 February 2019. There have been no material changes to or material transactions with related parties as disclosed in Note 33 of the Annual Report and Accounts for the year ended 31 August 2018.

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2018 Annual Report. There have been no other material changes to the arrangements between the Group and key management personnel in the period.

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 6 months to 28 February 2019

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

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

	Feb 2019	**Feb 2018**	**Aug 2018**
Net increase/(decrease) in cash and cash equivalents	**2.7**	(1.2)	2.5
Dividend paid	**-**	16.5	24.1
Proceeds on sale of subsidiary (net of disposal costs)	**-**	(13.7)	(12.9)
Decrease/(Increase) in borrowings	**2.0**	(3.0)	5.9
Adjustment for pension funding	**1.2**	2.5	4.7
Net outflow on purchase of shares for EBT	**-**	-	-
Proceeds on issue of shares	**-**	-	-
Dividends received from associates	**(0.1)**	(0.1)	(0.2)
Total free cash flow	**5.8**	**1.0**	**24.1**
Discontinued free cash flow	**-**	9.0	(3.9)
Continuing free cash flow	**5.8**	**10.0**	**20.2**

Connect Group PLC

Glossary – Alternative performance measures

Introduction

In the reporting of financial information, the Directors have adopted various APMs.

These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes.

Glossary – Alternative performance measures (continued)

The key APMs that the Group has focused on and changes to APMs within the period can be found in Note 1.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income Statement				
Adjusted Items	No direct equivalent	N/A	Note 4	Are items of income or expense that are excluded in arriving at Adjusted operating profit. This enhances users understanding of the Group's performance as it aids the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures,
Adjusted operating profit	Operating profit*	Adjusted items	Income statement/ Note 4	Adjusted operating profit is defined as operating profit from continuing operations, excluding the impact of adjusting items (defined above). This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted profit before tax	Profit before tax (PBT)	Adjusted items	Income statement/ Note 4	Adjusted profit before tax is defined as profit before tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted profit after tax	Profit after tax (PAT)	Adjusted items	Income statement/ Note 4	Adjusted profit after tax is defined as profit after tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted EBITDA	Operating profit*	Depreciation and amortisation Adjusted items	Page 12	This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and adjusting items. This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted earnings per share	Earnings per share	Adjusted items	Note 8	Adjusted earnings per share is defined as continuing adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.
Cash flow Statement				
Free cash flow	Cash generated from operating activities	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments	Note 20	Free cash flow is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchases and cash flows relating to pension deficit repair. This measure reflects the cash available to shareholders.
Free cash flow (excluding adjusting items)	Cash generated from operating activities	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments Adjusted items	Note 20	Free cash flow (excluding Adjusted items) is Free cash flow adding back Adjusted cash costs.
Balance Sheet				
Net debt	Borrowings less cash		Cash flow statement	Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases.

* Operating profit is presented on the Group income statement. It is not defined per IFRS, however, is a generally accepted profit measure.

Independent review report to Connect Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 28 February 2019 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Group Cash Flow Statement and the related notes to the Consolidated Unaudited Interim Financial Statements.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 28 February 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Statutory Auditor
London, United Kingdom

1 May 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).