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

Audited Preliminary Results Announcement for the year ended 31 August 2019

Connect Group, a leading UK specialist distributor, today announces its audited preliminary results for the year ended 31 August 2019.

Adjusted continuing results	**FY2019**	**FY2018**	**% Change**
Revenue	£1,467.9m	£1,534.3m	(4.3%)
Profit before tax	£23.2m	£28.4m	(18.3%)
Earnings per share	7.9p	9.3p	(15.1%)
Statutory continuing results			
Revenue	£1,467.9m	£1,534.3m	(4.3%)
(Loss)/profit before tax	(£37.6m)	(£35.5m)	(5.9%)
(Loss)/earnings per share	(12.9p)	(15.5p)	(16.8%)
Dividend per share	1.0p	3.1p	(67.7%)
Free cash flow	£8.3m	£20.2m	(58.9%)
Net debt	£73.9m	£83.4m	11.3%

- Smiths News delivering a strong performance, but offset by ongoing challenges in Tuffnells
- Tuffnells impacted by flow-through of legacy issues, compounded by lower volumes and especially challenging final quarter
- Strategic review of Tuffnells to be conducted, encompassing further actions to drive recovery and assessing longer term role and prospects in the Group
- As separately announced today, senior management changes and appointment of an Executive Chairman of Tuffnells to provide additional support and expertise during the Strategic Review of Tuffnells
- Impairment of £45.5m in relation to goodwill, tangible and intangible assets of Tuffnells, resulting in a statutory loss before tax of £37.6m
- Free cash flow of £8.3m (FY2018: £20.2m) after settlement of legacy cash adjusted items
- Net Debt £73.9m, down £9.5m (FY2018:£83.4m) and 1.9X net debt:EBITDA, reflecting focus on disciplined capital management
- Sale and Leaseback of 6 Tuffnells' depots in September 2019, raising proceeds of £9.9m that have further reduced net debt.

Gary Kennedy, Chairman, commented: "*In a challenging year, we have been resolute in pursuing a recovery plan that balanced improvements to profitability, with necessary investment and prudent capital management. The revitalised performance of Smiths News and the progress with our central restructure have established a solid foundation for the Group's medium term recovery. The turnaround of Tuffnells remains our most pressing challenge. The strategic review of that business and the management changes that we have announced today reflects our focus on delivering improvement and removing its drag on overall Group performance.*"

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Connect Group PLC's Preliminary Financial Results 2019 are available at www.connectgroupplc.com

A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on 6 November 2019 commencing at 9.30am.

An audio webcast of the analyst meeting will be available from 12 noon today via the following link: https://webcasting.buchanan.uk.com/broadcast/5d9f430234a3cf1389e7d1b0

About Connect Group

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

The Group's core businesses are:

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 25,500 customers across England and Wales on a daily basis. The speed of turnaround and density of Smiths News' coverage is critical to one of the UK's fastest physical supply chains.

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

Notes to Editors:

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

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

(1) The following are the key non-IFRS measures identified by the Group in the consolidated Group financial statements as Adjusted results: Adjusted operating profit is defined as statutory operating profit from continuing operations, excluding the impact adjusting items (defined above). This metric is reconciled on the face of the income statement, with detail of each adjusted item disclosed within note 4. Adjusted profit before tax is defined as statutory profit before tax, excluding the impact of adjusting items (defined above). This metric is reconciled on the face of the income statement, with detail of each adjusted item disclosed within note 4. Adjusted earnings per share; is defined as adjusted PBT, less taxation attributable to Adjusted PBT and including any adjustment for minority interest to result in adjusted profit after tax attributable to shareholders, divided by the basic weighted average number of shares in issue. This metric is reconciled in note 10. Adjusted items are items of income or expense that are considered significant, in nature or value, and are excluded in arriving at Adjusted operating profit. The purpose of excluding these items from adjusted measures is to provide additional performance metrics to users of the financial statements that exclude the impact of the items the directors consider to have a significant impact on reported results and do not relate to the underlying trading activity of the Group. The specific items vary between financial years, and for the current year include certain disposal related costs, legal and regulatory provisions, amortisation and impairment of acquired intangibles including goodwill, impairment of property, plant and equipment, 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 Group 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 dividends, dividends from associates, acquisitions and disposals, the repayment of bank loans, Employee Benefit Trust share purchase, proceeds of share issues and cash flows relating to pension deficit repair. This measure shows the cash retained by the Group in the year and is considered by the directors to provide additional information on the cash available for shareholders' returns. A reconciliation of free cash flow to the net movement in cash and cash equivalents is shown in note 35 of the Group Financial Statements.
(3) Adjusted EBITDA is calculated as Adjusted operating profit (as defined above) before depreciation and amortisation. This metric is reconciled in the Free Cash Flow table within the Financial Review.
(4) Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases. A reconciliation of net debt is presented in the Group Cash Flow Statement.
(5) Continuing operations for FY2018 excludes the sale of the Books division which was sold on 14 February 2018. Discontinued profit for the FY2018 is for the Books division up to the point of disposal.
(6) FY2019 refers to the full year ended 31 August 2019, FY2018 refers to the full year ended 31 August 2018.
(7) All movements are calculated to round thousands.

OPERATING REVIEW

INTRODUCTION

In a year of considerable change, we have resolutely focused on our plans for a sustainable recovery of the Group in the medium term. Smiths News, our largest business and the major contributor to our cash flows, had a strong year, and our plans for central cost efficiencies are on track with further opportunities underway. Tuffnells, however, had a challenging year, with its performance hampered by a flow through of legacy issues, compounded by weakening market conditions.

While the Group has made significant progress against many of its recovery targets the underperformance of Tuffnells has materially impacted our overall performance and, as a consequence, we have fallen short in our ambition for stakeholders. We are therefore implementing a strategic review of Tuffnells to determine both the further actions required for a sustainable recovery and, more widely, to assess its future role and prospects in the Group.

Following management changes announced today, Chief Executive Officer Jozef (Jos) Opdeweegh has stepped down from both his executive role and as a director of the Board; Jon Bunting (CEO, Smiths News), has become Interim Chief Executive Officer of the Group; and Michael Holt (non-executive director) has agreed to temporarily become Executive Chairman of Tuffnells for the period of the Tuffnells strategic review.

FINANCIAL HEADLINES

Group Adjusted profit before tax for continuing operations of £23.2m is down by 18.3% (FY2018: £28.4m) and Adjusted Earnings per Share of 7.9p is down 15.1% (FY2018: 9.3p).

Following an impairment of £45.5m to the goodwill, tangible and intangible assets of Tuffnells, the Statutory loss before tax is £37.6m (FY2018: loss of £35.5m) and Statutory earnings per share is a loss of 12.9p (FY2018: loss of 15.5p).

The Group generated free cash flow from operations of £8.3m (FY2018: £20.2m), helping to reduce Net Debt by £9.5m to £73.9m (FY2018: £83.4m).

Since the year end, the Group has completed the sale and leaseback of 6 Tuffnells depots for £9.9m, the proceeds of which have been used to further reduce the Group's Net Debt from that reported at the year end. We continue to investigate opportunities for remaining depots, but, with strong underlying finances, our capital management strategy is not dependent on further transactions.

After careful consideration of the Group's overall performance in the year and in light of both ongoing confidence in future positive cash flows and the immediate priorities of the business, the Board has recommended a final and full year dividend for FY2019 of 1.0p (FY2018 3.1p, down 2.1p).

SMITHS NEWS

Smiths News had a strong year, benefiting from the return to focused management and the removal of legacy costs and resultant losses in Pass My Parcel and distractions inherent in the former integration strategy. Adjusted Operating Profit of £43.6m is up 12.1% (FY2018: £38.9m), driven by structured cost cutting which more than offset the margin impact of declining sales. The accelerated renewal of publisher contracts representing 80% of our revenues at current values, provides certainty for our territories through to at least 2024, allowing us to plan further network efficiencies that will help meet the ongoing challenge of offsetting the impact of falling sales.

Newspaper and magazine sales continue to decline in line with long term trends upon which our efficiency plans are based. Newspaper revenue of £826.8m was down 2%, with price continuing to help offset volume declines; Magazine categories were down by 8%, and 6% on a like for like basis after excluding World Cup sales in FY2018. We continue to plan on the basis of gradual declines which we aim to mitigate through supply chain simplification and process efficiencies.

In the second half of the year, the operations and management of DMD were fully merged into Smiths News. The change reflects a progression of closer working over recent years and will help to mitigate the impact of the key contract loss of British Airways within DMD, which took effect from June 2019.

Looking ahead, our strategy for Smiths News is unchanged: while we are alert to adjacent opportunities, our primary focus is on delivering unmatched service for publishers and retailers, and securing efficiencies in what is a well-established and predictable business model.

TUFFNELLS

Tuffnells' performance was severely challenged by the carry through of legacy issues, including customer losses, poor quality revenues and operational disruption from the prior year. Their impact was made worse by an insufficiently flexible cost base and inconsistent service which resulted in inefficiency and rectification costs. Despite much progress in addressing the underlying issues, the decline in consignment volume, exacerbated by an especially challenging last quarter, has further delayed our expectation of financial performance improvement.

Sales of £164.6m were down by 6.4% (FY2018: £175.2m) resulting in the Adjusted Operating Loss of £14.1m, worsening by £9.1m (FY2018: loss of £5.0m). The disproportionate impact of declining volumes on profitability reflects the legacy operating model, founded on a relatively high fixed cost base and inflexible processes. Actions we took to review customer rates and exit from unprofitable accounts have been successful in increasing the quality of our revenue, but not without further short term impact on volume. New revenue generation at these more sustainable rates proved especially challenging in what have been disruptive markets, leading to loss of share to competitors over the course of year.

Given the ongoing challenges to performance improvement, an impairment of £45.5m was made to the goodwill, tangible and intangible assets of the business. Furthermore, we have initiated a strategic review of Tuffnells which will be led by our chairman, Gary Kennedy.

While the strategic review will determine our long term plans for Tuffnells, we remain focused on addressing immediate issues. Swift action has been taken to further reduce operating costs through improved last mile routing, and a wider network efficiency programme is underway. The business has ended the financial year with a lower cost base, which will have a positive impact on any volume improvements. Our immediate plans are therefore focused on increasing consignment volumes, new customer wins without undermining profitable rates, the delivery of leaner and more flexible costs and improving the quality of service. These KPIs will spearhead our recovery plans in tandem with the strategic review and we will report on progress in due course.

STRATEGIC REVIEW OF TUFFNELLS

We continue to believe that the operational performance of Tuffnells can be improved, with the immediate priority being to identify measures to reduce costs and improve operational flexibility. However, in the light of its continued drag on overall Group performance, the strategic review will also determine the most appropriate structure and strategy for the business, and more widely to consider its role and future in the Group.

To support the strategic review and performance improvement plans, Michael Holt has agreed to become Executive Chairman of Tuffnells for the duration of the process. Michael has been a non-executive director of the Group since October 2018; with deep experience in the distribution and logistics sector he is well qualified to provide insight and direction that will complement the current management team.

While the strategic review will primarily focus on the necessary actions and investment for a medium term recovery, we will maintain our vigorous pursuit of more immediate cost savings, network efficiencies and quality revenue generation in response to the recent decline in consignment volumes. Throughout the review period, we are conscious of minimising uncertainty for all stakeholders and commit to communicating our progress and conclusions as quickly as possible.

GROUP STRUCTURE AND CENTRAL SERVICES

In October 2018, the Group halted its former integration plans, returning operational management to Smiths News and Tuffnells under a business unit structure, supported by shared central services. Operationally, the change has been a success, removing distraction while driving ownership and accountability of the two distinct businesses. The structure is now well established and we envisage no material changes as we continue with our medium term plans.

The establishment of the business unit model was delivered in parallel with the creation of a Shared Services Centre, designed to streamline central functions and deliver cost savings while improving service to the operating businesses. Outcomes of particular note include: the off-shoring of select technology, customer and finance services which, when fully implemented, will deliver substantial savings to overheads and future capital requirements; the development and trial of revised operating procedures to ensure consistent best practice in both Smiths News and Tuffnells; and the consolidation of finance functions into a single centre which will commence in December 2019.

Currently underway is a further resizing exercise to ensure our Head Office functions reflect the reduced scope of the Group.

PRIORITIES FOR FY2020

The Group's strategy is founded on building the capability of Smiths News and Tuffnells, through actions and investments that deliver sustainable value over time. While we continue to explore and evaluate potential adjacent opportunities, we do not plan to diversify into new sectors.

The following priorities will spearhead the next phase of our recovery, backed by a commitment to update stakeholders on a regular basis.

1. **Tuffnells Strategic Review –** determining the necessary actions and investment for a sustainable recovery of Tuffnells, while evaluating their impact on the overall Group and long term shareholder value. Revenue generation and cost saving initiatives will be pursued in tandem with the review.

2. **Smiths News cost savings –** achieving sustainable efficiencies that aim to offset the margin impact of any decline in core sales.

3. **Network optimisation –** delivering efficiencies in both Smiths News and Tuffnells, while improving service and coverage for customers.

4. **Optimising head-office functions –** optimising our central costs in line with the new Group structure.

5. **Capital discipline –** continuing to reduce Net Debt while meeting the investment needs of the business and delivering attractive returns for shareholders.

6. **Leveraging and energising our people –** harnessing the skills and commitment of colleagues as we address immediate challenges and continue our path to performance recovery.

CAPITAL MANAGEMENT

Following review of our Capital Management strategy, we have followed a strict capital discipline, ensuring that free cash from operations funds the investment needed for recovery, with the surplus used to achieve a reduction in Net Debt while maintaining a focus shareholder returns.

The Group's operations continue to generate strong free cash and we anticipate capital requirements remaining within the guidance of 30%-50% of EBITDA. Net Debt at £73.9m represents 1.9x EBITDA, before the benefit of proceeds from the sale and leaseback of selected Tuffnells depots. We remain committed and on track to reducing net debt to 1x EBITDA by the end of FY2021.

The final and full year dividend of 1.0p reflects our ongoing confidence in the Group's cash generative model.

DIRECTORATE CHANGES

Chief Executive Officer, Jozef (Jos) Opdeweegh, has stepped down from both his executive role and as a director of the Board with immediate effect. Jos has been instrumental in the past 12 months in helping to bring focus to the Group and many changes he has led position us well to meet our ambition in more closely aligning the Group's performance to shareholders' expectations.

Jon Bunting (CEO, Smiths News), who joined Smiths News in 1994 and was appointed to the Board in 2010, has stepped up to become Interim Chief Executive Officer of the Group. In the light of the strategic review of the Tuffnells business we will review this position at the end of that process. Jon will retain accountability as CEO of Smiths News through this interim period.

Michael Holt (non-executive director) has agreed for the period of the strategic review process to become Executive Chairman of Tuffnells, with responsibility for providing relevant and current insight to aid both the broader strategic review and targeted profit recovery at Tuffnells. In order to ensure we retain his expertise and contribution to our wider strategy, Michael will continue as a director of the Group and member of the Board albeit, for the duration of this additional role, he will temporarily relinquish being a member of each of the Audit, Remuneration and Nominations Committees. However, given the short term and specific nature of his interim role, the Board does not currently consider that it will permanently impair Michael's future independence in accordance with the UK Corporate Governance Code.

SUMMARY AND OUTLOOK

The Group remains focused on a turnaround that is founded on the sustainable improvement of our core businesses underpinned by prudent capital management. Sales in Smiths News have started the year a little slowly but we are confident that performance will be brought back on track over the remainder of the year. In Tuffnells, trading in the year to date is more difficult than anticipated but is expected to stabilise in H2. Our actions to reduce costs and increase the flexibility of the operating model in Tuffnells will continue as we pursue a wider strategic review of the business.

FINANCIAL REVIEW

Overall performance is slightly below market expectations as we continue to address the underlying issues that impacted revenue and costs in FY2018 and flowed through into this year. Smiths News re-established its cost saving rhythm to improve margins, which offset the delayed turnaround in Tuffnells performance. The financial position of the Group benefited from positive free cash flow in the year of £8.3m, which reduced Net Debt at year end to £73.9m (FY2018: £83.4m).

CONTINUING ADJUSTED RESULTS - GROUP

Continuing Adjusted results £m	**2019**	2018	Change
Revenue	**1,467.9**	**1,534.3**	(4.3%)
Operating profit	**29.5**	**33.9**	(13.0%)
Net finance costs	**(6.3)**	**(5.5)**	(14.5%)
Profit before tax	**23.2**	**28.4**	(18.3%)
Taxation	**(3.8)**	**(5.5)**	30.9%
Effective tax rate	***16.4%***	***19.4%***	
Profit after tax	**19.4**	**22.9**	(15.3%)

Continuing adjusted operating profit of £29.5m, was down £4.4m (13.0%) on the prior year, a recovery in financial performance at Smiths News which was more than offset by the challenging turnaround at Tuffnells.

Smiths News Adjusted operating profit was up by £4.7m to £43.6m. The structural decline in newspaper and magazine sales, and resultant margin decline, was successfully mitigated by the restoration and catch-up of the network saving programme of £6.5m. In the prior year, Smiths News Adjusted operating profit was favourably impacted by World Cup magazine and sticker sales which generated profits of £2.8m but adversely impacted by a loss in Pass My Parcel of £5.4m. The execution of the closure of the Pass My Parcel proposition has progressed smoothly.

The revenue and profit of DMD has been absorbed into the Smiths News results following the loss of the British Airways contract from June 2019, reflecting the decision to fully integrate the respective operations and marketing functions. Revenue of £24.1m was down £2.4m (9.1%) and Adjusted operating profit reduced by £0.4m (13.3%) to £2.6m, driven primarily by the loss of the British Airways contract from June 2019 and the annualised impact of two publisher contract losses.

Tuffnells reported an Adjusted operating loss of £14.1m, an increase of £9.1m on the prior year (FY2018: £5.0m loss). Performance was hindered by the carry-over of customer losses suffered in the second half of prior year, whilst the second half of FY2019 saw further pressure from a continuing competitive market resulting in lower consignment volumes. Despite the challenging year, management actions to prioritise improvements to revenue quality, cost reduction and standard operating processes have gained traction as we enter the new financial year.

As part of the strategic goal to streamline head office services, an offshore shared service centre has been established with an outsourcing partner, to manage customer service, technology and finance functions. A restructuring provision of £2.5m was made at year end.

Net finance charges of £6.3m (FY2018: £5.5m) were up on prior year. Included within net finance charges are: interest costs on borrowing incurred in the period of £5.1m (FY2018: £4.1m), an increase year-on-year as the annualised interest margin charge was higher under the new facility; finance lease interest of £0.1m (FY2018: £0.6m); amortisation of bank arrangement fees £0.5m (FY2018: £0.5m); and pension interest costs £0.2m (FY2018: £0.2m).
Adjusted profit before tax was £23.2m, down 18.3% on last year.

Taxation of £3.8m resulted in an effective tax rate of 16.4%, effective tax rate was lower than last year driven by movements in deferred tax and tax provision in the prior year.

STATUTORY CONTINUING RESULTS – GROUP

Statutory continuing results £m	**2019**	**2019**	2018	2018	Change
Revenue		**1,467.9**		1,534.3	(4.3%)
Operating (loss)/profit:					
Smiths News	**36.3**		27.7		31.0%
Tuffnells	**(67.6)**		(57.7)		(17.2%)
Operating (loss)/profit		**(31.3)**		(30.0)	(4.3%)
Net finance costs		**(6.3)**		(5.5)	(14.5%)
Loss before tax		**(37.6)**		(35.5)	(5.9%)
Taxation		**6.1**		(2.6)	n/a
Effective tax rate		***16.2%***		*(7.3%)*	
Loss after tax		**(31.5)**		(38.1)	17.3%

Statutory continuing loss before tax of £37.6m is an increase on the prior year by £2.1m (FY2018: £35.5m loss), primarily driven by: an increase in Adjusted trading losses at Tuffnells of £9.1m, impairment charge relating to goodwill and assets of Tuffnells of £45.5m (FY2018: £46.1m); amortisation of acquired intangibles of £6.8m (FY2018: £7.1m); Pass My Parcel exit costs of £0.3m (FY2018 £6.7m); and network and reorganisation costs of £6.4m (FY2018: £3.1m).

At the divisional level, Smiths News statutory operating profit of £36.3m, was up 31.0% on prior year after £7.3m of Adjusted items which included £5.7m network and re-organisation costs; Tuffnells statutory operating loss was £67.6m down £9.9m after impairment of goodwill, tangible and intangible assets of £45.5m and amortisation of acquired intangibles of £6.6m.

The effective statutory income tax rate for continuing operations was 16.2% (FY2018: 7.3%), as the tax impact of Adjusted items was £9.9m (FY2018: £2.9m).

Statutory continuing loss after tax of £31.5m is down by £6.6m (FY2018: £38.1m loss), and Statutory continuing loss per share of 12.9p is up 2.6p (FY2018:15.5p loss).

As a consequence of the Tuffnells impairment, the net liabilities on the balance sheet have increased £28.4m to a reported net liability at 31 August 2019 of £74.3m (FY2018 £45.9m). Following a corporate restructuring in July 2019, the Connect Group PLC company entity balance sheet continues to have distributable reserves of £131.5m to allow future dividend payments.

EARNINGS PER SHARE

	Continuing Adjusted		Continuing Statutory	
	2019	2018	**2019**	2018
Earnings/(loss) attributable to ordinary shareholders (£m)	**19.4**	22.9	**(31.5)**	(38.1)
Basic weighted average number of shares (millions)	**246.4**	246.0	**246.4**	246.0
Basic Earnings/(loss) per share	**7.9p**	9.3p	**(12.9p)**	(15.5p)
Diluted weighted number of shares (millions)	**247.1**	246.7	**247.1**	246.7
Diluted Earnings/(loss) per share	**7.9p**	9.3p	**(12.9p)**	(15.5p)

Earnings attributable to shareholders on a continuing Adjusted basis of £19.4m resulted in an Adjusted EPS of 7.9p, a decrease of 1.4p on last year, driven by a recovery in Smiths News margins and network restructuring programme, but offset by challenging trading conditions in Tuffnells.

The fully diluted weighted number of shares was 247.1m (FY2018: 246.7m). Fully diluted shares includes a 0.7m diluted share adjustment for employee incentive schemes (FY2018: 0.7m).

Including Adjusted items, statutory earnings per share is up 2.6p to 12.9p (loss per share) (FY2018: 15.5p loss per share).

DIVIDEND

	2019	2018
Dividend per share (paid & proposed)	**1.0p**	3.1p
Dividend per share (recognised)	**nil**	9.8p

After careful consideration of the Group's overall performance in the year and in light of both ongoing confidence in future positive cash flows and the immediate priorities of the business, the Board has resolved to recommend a final dividend of 1.0p, leaving the full year dividend as 1.0p to be paid in February 2020, a reduction of 2.1p or 67.7% (FY2018: 3.1p).

SMITHS NEWS (including DMD)

Adjusted figures - £m	**2019**	2018	Change
Revenue	**1,303.3**	1,361.6	(4.3%)
Operating profit	**43.6**	38.9	12.1%
Operating margin	**3.3%**	2.9%	40bps

The return to focused accountability has restored stability to the Group's largest business.

Revenue was £1,303.3m (FY2018: £1,361.6m) down 4.3%. Newspaper and magazine sales have continued to perform in line with long term trends, with a relatively stronger performance than expected from newspapers helping to offset weaker magazine sales. Newspaper sales of £826.8m were down 2%, with price increases helping to offset volume declines. Combined sales of all magazine categories were down by 8%, on a like-for-like basis they were down 6% after excluding the benefit of the FIFA World Cup album and sticker sales in FY2018.

Good progress has been made with the accelerated renewal of publisher contracts, with new agreements securing 98% of Smiths News' magazine revenues and 80% of its total current revenues, for an average contract extension of five years. All our existing territories have been retained, providing the necessary certainty to unlock supply chain efficiencies over the contract periods.

Adjusted operating profit of £43.6m (FY2018: £38.9m) was up £4.7m (12.1%). 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. The restoration and catch-up of the Smiths News network saving programme generated £6.5m of savings in year which mitigates the decline in revenue from newspaper and magazine sales. Network savings were generated from final mile route reductions and the closure of a single depot at the end of the financial year. The execution of the decision to close Pass my Parcel in the second half of FY2018 has progressed smoothly and exit cost were in line with expected prior year-end provisions. Adjusted Operating profit in the prior year was favourably impacted by the World Cup sales and profits of £2.8m, but offset by Pass My Parcel losses of £5.4m. These have been the primary drivers in the improvement of operating margin in the year to 3.3%.

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.

The revenue and profit of DMD has been absorbed into the Smiths News results, reflecting the way in which the business is now managed following the decision to integrate the respective operations and marketing. Revenue of £24.1m was down £2.4m (9.1%) and Adjusted operating profit reduced by £0.4m (13.3%) to £2.6m, in part driven by the loss of two publisher contracts and the British Airways contract from June 2019. Costs were mitigated by prompt action to restructure the operational structure into the Smiths News' Slough depot.

TUFFNELLS

Adjusted figures - £m	**2019**	2018	Change
Revenue	**164.6**	175.2	(6.1%)
Operating (loss)/profit	**(14.1)**	(5.0)	(182.0%)
Operating margin	**(8.6%)**	(2.9%)	n/a

Tuffnells had a particularly challenging year, achieving total revenue of £164.6m down 6.1%, (FY2018: £175.2m), and returning an Adjusted operating loss of £14.1m, down £9.1m (FY2018: £5.0m loss).

Losses were driven by a number of legacy issues carried over from FY2018 which affected consignment volumes and operating cost efficiency. In what became an increasingly competitive market, variability in service standards and customer attrition among the customer base, led to a further loss of volumes, which continued into the second half of the year, but at a slower rate. The decline in parcel volumes combined with a high proportion of operating costs at a depot level being fixed resulted in continuing losses in the second half of FY2019. Separately, operational costs rose from increases in national living wage and higher sub-contractor rates further squeezed margins. The decline in margins was addressed by management actions to: improve revenue quality with targeted price rises; and changes to final mile deliveries at a regional level to ensure optimum routing and amalgamation of rounds.

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 as we enter the new financial year.

ADJUSTED ITEMS
Continuing Operations

£m		**2019**	2018
Network and re-organisation costs	a	(6.4)	(3.1)
Property	b	-	0.7
Sale and leaseback costs	c	(0.7)	-
Amortisation of acquired intangibles	d	(6.8)	(7.1)
Pension	e	(2.2)	-
Brierley Hill insurance claim	f	(0.2)	-
Impairment of Tuffnells tangible and intangible assets	g	(45.5)	(46.1)
Pass My Parcel exit costs	h	0.3	(6.7)
Impairment of tangible assets	i	-	(1.1)
NMW regulatory compliance	j	0.2	(0.5)
IPR settlement income	k	0.5	-
Total before taxation		**(60.8)**	**(63.9)**
Taxation		9.9	2.9
Total after taxation		**(50.9)**	**(61.0)**

The Group incurred a total of £50.9m of adjusted items on a continuing basis, after tax (FY2018: £61.0m).

Adjusting items are defined in the accounting policies in note 1 and in the glossary, in the directors' opinion the impact of removing these items from the adjusted profit give the true underlying performance of the Group and comprises:

(a) Network and re-organisation costs
These are analysed as follows:

- Executive Team redundancies of £0.9m
- Outsourcing of £3.2m
- DMD Restructure of £1.2m
- Other redundancy and re-organisation costs of £1.1m

Executive Team redundancies

Costs of £0.9m have been incurred relating to the restructure of the Group's previous executive team (FY2018: £nil). These costs are considered to be adjusting given the size and they enable comparability between years with equivalent costs of the executive team.

Outsourcing central functions

£3.2m of the current year cost relates to the off-shoring of selected technology, customer services and finance functions. This process has been communicated to employees. The £3.2m comprises a provision of £2.5m related to expected redundancy costs as part of this transition and £0.7m related to legal and set up costs. Further costs of the offshoring are expected to be incurred during the next financial year. These costs are considered adjusting as the impact of the transition to an off shored central function is considered a one off. The running costs once the centre is fully operational will be treated as non-adjusting.

DMD Restructure costs

In May 2019, DMD's biggest contract with British Airways was ended. As soon as notice was given, the business set about a change programme to right size the operations, close sites and reduce teams to reflect the loss of this contract. This was designed to ensure the business was able to continue to deliver profits in future with its smaller customer contract base. In total, costs of £1.2m have been incurred or provided.

These costs are considered to be adjusting given the size and they enable comparability between years with equivalent costs of the day to day operations of the business.

Other redundancy and re-organisation costs

£1.1m has been incurred in redundancy and other reorganisation in streamlining the Smiths News and Tuffnells businesses (FY2018 £nil). This is net of a release of £0.4m of redundancy provisions made in the prior year but not incurred.

The prior year included abortive integration costs of £1.6m with regard to the integration programme announced at the end of the previous financial year.

Costs associated with the re-organisation programmes are considered adjusting 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.

(b) Property

During the prior year the Group made the strategic decision to transfer the vacant Slough depot to the Tuffnells business, resulting in a credit from the release of its onerous lease provision. Onerous charges on property are charged through adjusted items as they form part of the Group's strategic restructuring programme. The reversal of charges has also been made in adjusted items for consistency.

(c) 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. During the year the Group incurred £0.7m of costs related to the sale and leaseback programme. The Group subsequently announced the sale of 6 properties on 23 September 2019. Given the magnitude and one-off nature of the transaction as a whole it is considered to be an adjusting item.

(d) Amortisation of acquired intangibles

A charge of £6.8m (FY2018: £7.1m) has been recognised relating to amortisation of acquired intangibles in Tuffnells. This is considered an adjusting item as it allows comparison between segments and, therefore, consistency in the performance of the Group at a consolidated level.

(e) Pensions

Smiths News incurred professional costs of £2.1m, as a result of the WH Smith Pension Trust (one of the Group's defined benefit pension schemes) entering into an insurance backed annuity 'buy-in' of the Scheme assets, within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations. These pension charges are not considered to be part of normal operations due to their size and nature and are therefore considered to be an adjusted item.

There is a further £0.1m in relation to equalisation of Guaranteed Minimum Payments (GMP) of the Tuffnells Parcel Express pension scheme. This is considered to be an adjusting item as it was due to a one off change in the interpretation of the law relating to previously recognised cost, this is considered out of control of management and the charge relates to service in prior periods and therefore is considered an adjusting item.

(f) Brierley Hill insurance claim

The Group incurred £0.2m of insurance settlement costs this year in relation to a 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. Given the magnitude, one-off nature and to ensure consistent treatment with previously reported costs it is considered to be an adjusting item.

(g) Impairment of Tuffnells assets

Management reviewed the carrying value of the Tuffnells business unit and concluded that an impairment charge of £45.5m (FY2018: £46.1m) is required. This comprises: goodwill £6.0m (FY2018: £46.1m) , acquired intangibles £26.4m (FY2018: nil), other intangibles £0.4m (FY2018: nil) and property, plant and equipment £12.7m (FY2018: nil).

The impairment of Goodwill has no tax impact, the impairment of acquired intangibles has resulted in the release of £4.5m deferred tax liability as a credit to adjusted items income tax. A deferred tax asset of

£2.5m has been recognised which has credited adjusted items income tax as a result of the impairment of the other assets.

It is considered adjusting due to its significant value and aids comparability between years to show the underlying performance of the Group.

(h) Pass My Parcel (PMP) exit costs
Following a review of the PMP proposition on 23 May 2018, the Board decided to close the business unit and as a result a charge of £6.7m was booked in the prior year. This was split £4.7m of contract losses and £2.0m of impairment of associated assets.

Management concluded that losses on winding down the division represented an onerous contract with a cost of £4.7m recognised. This represented the forecast excess of costs over income from the date the Group took the decision to close the division. Of this balance, £2.5m in provisions was held at the year ended 31 August 2018 to cover the remaining costs to close all contracts. In 2019, £2.2m of costs were incurred and booked against this provision. The remaining £0.3m of the provision has been released this year.

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 division.

(i) Impairment of tangible assets
In 2018, the Group took the decision to consider the sale of the Jack's Beans division to focus on its core businesses. Bids received indicated that the net book value of the Jack's Beans assets were overstated and so they were impaired by £1.1m. The Group subsequently disposed of the assets for proceeds equivalent to their revised net book value in January 2019. Given the magnitude, the one-off nature and the Group's strategy to focus on its core businesses it was considered to be an adjusting item.

(j) NMW 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 related specifically to the estimated fine. The £0.5m fine was classified as adjusting in FY2018. The underpayments and fines were all settled during FY2019. The remaining £0.2m of the £0.5m fine provision has been released in FY2019. The release was also recognised as an adjusting item to be consistent with prior periods and due to its one-off nature and magnitude.

(k) IPR settlement income
The Group received a one-off £0.5m 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.

FREE CASH FLOW

Free cash flow generation remains one of the Group's key strengths. Free cash flow includes finance lease payments, Adjusted items, interest and tax; but it excludes pension deficit recovery payments.

£m	**2019**	2018
Operating (loss) continuing (including Adjusted items)	**(31.3)**	**(30.0)**
Adjusted items	60.8	63.9
Depreciation & amortisation	9.3	11.9
Adjusted EBITDA	**38.8**	**45.8**
Working capital movements	(3.9)	7.7
Capital expenditure	(8.6)	(8.5)
Finance lease payments	(2.8)	(3.8)
Net interest and fees	(5.1)	(5.8)
Taxation	(2.6)	(6.5)
Other	0.8	(0.4)
Free cash flow (excluding adjusted items)	**16.6**	**28.5**
Adjusted items – cash effect	(8.3)	(8.3)
Free cash flow	**8.3**	**20.2**

We continue to focus on cash performance in the period, with the Group generating £8.3m in free cash flow, a decrease of £11.9m (58.9%) on the prior year.

Adjusted EBITDA of £38.8m compared to FY2018 of £45.8m, is down by £7.0m 15.3%, driven by mixed trading performance, recovery in Smith News EBITDA margin offset by higher trading losses at Tuffnells. Depreciation and amortisation was lower by £2.6m from a combination of Tuffnells properties being treated as held for sale from January 2019 and prior year write off of Pass My Parcel assets which are no longer depreciated.

The increase in working capital in the period was £3.9m (FY2018: decrease £7.7m) driven by a decrease in provisions and unfavourable timing of weekly receipt and monthly payment cycles relative to the year-end date.

Capital expenditure in the year was £8.6m (FY2018: £8.5m) an increase of £0.1m. New and existing depot and network investments were £2.6m (FY2018: £2.1m). Fleet investment was £1.7m (FY2018: £1.7m). Technology and equipment investment was £4.3m (FY2018: £4.7m).
Finance lease payments of £2.8m (FY2018: £3.8m) have declined by £1.0m as existing IT finance lease arrangements are expiring.

Net interest and fees of £5.1m (FY2018: £5.8m) has decreased by £0.7m. The movement comprises increased interest cash costs from a higher margin on the facility of £0.9m, offset by prior year included the cash payment of a bank arrangement fee of £1.6m paid on the new £175m bank facility concluded in October 2017.

Cash tax costs of £2.6m (FY2018: £6.5m) have decreased in the year reflecting the cash lag from declining profits in the current and prior year.

The total net cash impact of Adjusted items was £8.3m (FY2018: £8.3m). This comprised: £4.0m (FY2018: £6.8m) of network reorganisation and restructuring costs; pension buy-in costs £2.0m (FY2018: £nil) and resolution of legacy regulatory matters £2.0m (FY2018:£nil)

NET DEBT

£m	**2019**	2018
Opening net debt	**(83.4)**	(82.1)
Free cash flow	**8.3**	20.2
Finance lease creditor movement	**2.8**	3.2
Pension deficit recovery	**(1.6)**	(4.7)
Dividend paid	**-**	(24.1)
Disposal proceeds	**-**	12.9
Discontinued disposal proceeds to repay overdraft	**-**	(12.7)
Discontinued operations cash flow	**-**	3.9
Closing net debt	**(73.9)**	(83.4)

Net debt closed the period at £73.9m, of which £2.5m (FY2018: £5.3m) relates to finance leases.

Net debt reduced compared to prior year, however the Group's Net debt/EBITDA ratio rose to 1.9x, (FY2018: 1.8x) due to the decline in EBITDA. The reduction in net debt by £9.5m was driven predominantly by free cash flow generation of £8.3m from restored Smiths News EBITDA growth and their cash generation which remained sufficient to offset the deterioration in EBITDA from Tuffnells as it met its trading challenges.

The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing of around £40m which utilises the Revolving Credit Facility (RCF) of £125m. This results in a predictable fluctuation of net debt during the course of the month compared to the closing net debt position.

Pension funding reduced to £1.6m (FY2018: £4.7m). The reduction of £3.1m resulted from deficit repair contributions to WH Smith Pension Trust no longer being required from October 2018 following the completion of the annuity backed pension 'buy-in'. Pension deficit repair payments are considered as a non-free cash flow item.

Free cash flow generation (after Adjusted items) in the year went towards the repayment of debt as there were no dividend payments in the year (FY2018: £24.1m).
We have a bank facility commitment of £175m with six relationship banks which runs from October 2017 to January 2021. The facility comprises of a term loan of £50m with no amortisation and an RCF for £125m.

PENSION SCHEMES

The Group operates two defined benefit schemes, both closed to new entrants and WH Smith Pension Trust closed to future accrual.
The largest scheme across the Group is the Smiths News defined benefit pension scheme (the WH Smith Pension Trust) which as at 31 August 2019 had an IAS 19 surplus of £24.0m (31 August 2018: £154.5m). However, as the pension scheme is closed to future accrual, this IAS 19 surplus cannot be used to reduce future contributions or as 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 2018 and concluded it no longer required funding.

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 to 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 re-measurement. Further, the schemes actuary to the Trustees notified the Group that no further deficit repair cash contributions will need to be made. As a result the IFRIC 14 deficit repair liability has been released at 31 August 2019 £nil (31 August 2018: £6.7m).

Pension 'buy-in' costs of £2.2m were recorded within Adjusted Items during the year.

The Tuffnells defined benefit scheme IAS19 deficit at 31 August 2019 was £2.9m (31 August 2018: £2.2m). 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 total cash contribution for both defined benefit schemes, which include pension administration fees and disclosed within the cash flow statement, amounted to £1.6m for FY2019 (FY2018: £4.7m).

DISCONTINUED OPERATIONS

There were no discontinued operations in the year.

In the prior year on 14 February 2018, the Group completed the sale of the Books business at a loss of £10.5m. This represented Adjusted operating profit for the Group of £1.8m and adjusted profit before tax of £1.7m in FY2018.

GOING CONCERN

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

Considering the principal risks discussed in this report, the directors have a reasonable expectation that the Group and the Parent Company have adequate resources to continue in operation and meet its liabilities as they fall due for a period of at least twelve months from the date of approval of the financial statements and for the period of the three year viability assessment. Thus, the Group and the Parent Company continue to adopt the going concern basis in preparing its consolidated financial statements.

PRINCIPAL AND EMERGING RISKS

The Group has a clear framework in place to continuously identify and review both the principal and emerging risks to the Group.

Key risks are plotted on risk maps with descriptions, owners, and mitigating actions, reporting against a level of materiality (principally relating to impact and likelihood) consistent with its size. These risk maps are reviewed and challenged by the Executive Team and Audit Committee and reconciled against the Group's risk appetite. As part of the regular principal risk process, a review of emerging risks (internal and external) is also conducted and a list of emerging risks is maintained and rolled-forward to future discussions by the Executive Team and Audit Committee. Where appropriate, these emerging risks may be brought into the principal risk registers. 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 and emerging risks, the Board has considered the performance of the Group, its markets, the changing regulatory landscape and the Group's future strategic direction and ambition. 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 2018 Annual Report. Two risks that were separately identified in the 2018 Annual Report have been absorbed into principal risks 2 and 4 in this Preliminary Announcement:

- failure to adequately monitor financial performance and/or delays in the Group's financial performance recovery; and
- inadequate processes in place to support People initiatives.

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 each is mitigated.

	Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
1.	**Deterioration of the macro economic environment** – The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with EU Exit, impacts current and/or projected business performance above that included in the business planning and review process and the ability of the Group to access the debt capital market to refinance its existing levels of debt at commercially prudent levels or at all.	**Increasing**	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, debt refinancing and resourcing costs.	• Annual budgets and forecasts take into account the current macro-economic environment to set expectations internally and externally, allowing for or changing objectives to meet short and medium term financial targets. • A thorough EU Exit planning exercise has been undertaken and accountability for the associated actions and risks has been assigned to the relevant Executive Team members. • The Group continues to be significantly cash generating which supports opportunities for refinancing and investment. • The Group will continue to explore Sale & Leaseback opportunities for the Tuffnells property portfolio as a means of reducing net debt, and will separately look at refinancing opportunities and timing in the market.

2.	**Failure to refine, execute and/or monitor the Group's strategy and direction** – The risk of not establishing business plans and a clear vision for the Group impacts employee engagement, financial returns, external confidence and stakeholders' perception.	**No change**	Sales and/or profit expectations may not be met and/or the Company's reputation and stakeholders' support for a recovery plan may be challenged. The change management culture required in the short term for restructuring may result in reduced performance and financial returns.	• The strategy and direction is being defined and will be supported by a clear plan for execution and budget. Accountability at leadership level is clearly defined. • Performance to the business plan and budget is reviewed regularly using a balanced framework. This ensures effective and timely monitoring of performance with action to be taken in the event of shortfalls to expectations. • Financial and operational metrics are considered along with risk assessments and management impact before remedial action is taken.
3.	**Failing to achieve recovery of Tuffnells business, including addressing challenges in customer service levels, revenues, operational efficiency and cash and/or not adapting to the competitive environment** – The risk that the turnaround of Tuffnells may take longer and require greater investment and/or generate lower returns. The risk of not maintaining customer service standards and/or not understanding or adapting to new technologies, competitors and demographics which drive change in customer behaviour and/or that result in deep and expedited structural market changes.	**Increasing**	Impact on growth and profitability within Tuffnells if consistent service standards are not understood and addressed, and/or if organisational efficiency goals and/or commercial opportunities are not met.	• Improved control and insight of Tuffnells' financial performance has led to more timely action both regionally and nationally to respond to changing revenue and cost drivers. Trading performance is monitored in real time. • The Tuffnells turnaround plan is monitored through the PMO Steering Committee although, overall, there is still further progress to make against the turnaround plan. • The team has been strengthened with relevant industry skills and there are various 'change programme' initiatives underway to improve business efficiency. • 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. Data analytics are now available, supporting a more forensic approach to customer profitability modelling and cost forecasting at depot level. • A variety of sales and operational KPIs are being tracked to benchmark

				Tuffnells' customer offering and experience to the market place. Combined investment is being made across the Tuffnells business, including talent, fleet, properties, and network optimisation.
4.	**Capacity and capability to deliver the scale of change** – The risk that lack of capacity and bandwidth to manage numerous change projects may hinder the transformational change or lead to the breakdown of key controls required across the Group to improve financial performance.	**New**	Impact on the ability to address the strategic priorities and to deliver the forecast performance for the Group.	• Through the establishment of Connect Way (the Group's lean process management and continuous improvement programme), six sigma black belt expertise and the introduction of core project management skills in place to lead and project manage the numerous change programmes underway across the Group, with all projects now being managed through PMO. • Each project has its own risk register with progress showing as a RAG status. A PMO Steering Committee meets weekly as the oversight body to monitor progress, resource adequacy and other constraints. This Committee also considers new projects and reprioritises the project portfolio as needed.
5.	**Failing to attract, engage and retain talent within a high performance and values-based culture** – The risk that we do not attract or retain the people and the skills we need to take the Group forward and that employees are not motivated towards, or are disengaged from, the task in hand. Risk that the level of change affects staff and retention levels.	**Increasing**	Impact on the ability to address the strategic priorities and to deliver the forecast performance for the Group.	• We seek to offer market competitive terms to ensure talent remains engaged. • We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Group's culture and core values. • Retention plans are being reviewed to address key risk areas, and attrition across each business is regularly monitored. • Regular surveys are undertaken to monitor the engagement of employees.
6.	**Increased labour market constraints and costs** – The risk of legislative changes or interpretation, coupled with the EU Exit and political uncertainty drives demographic or	**No Change**	In the event of any legal claim as to worker status by consultants, subcontractors or agency workers, the business could be liable for increased	• The Group regularly reviews its legal terms of engagement with contractors and consultants and has appropriate contractual and operational arrangements in place. Self-employed delivery

	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.		costs (PAYE and undeclared National Insurance contributions) and liabilities (such as employee rights). The inability to pass on such statutory increases to our customers could impact profitability, and affect the cost of future efficiency programmes. The implications of EU Exit include a decreasing pool of available, suitably qualified employees and subcontractors.	contractors have clearly articulated agreements which define tasks they are contracted to provide, whether personally or by a substitute. • Known increases to employment cost associated with National Living Wage/Apprenticeship Levy/ Auto Enrolment have been factored into latest budgets. Future changes in this area as a result of political changes / decisions and the full impact of EU Exit on employment risks are unknown at the current time but are being tracked. • Commercial contracts across Smiths News permit the renegotiation of long term supply agreements in the event of changes in law which impact the status of the Group's self-employed delivery contractors. • 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. • Contractor processes, including monitoring compliance, are well established in Smiths News. Work is on-going to strengthen processes within Tuffnells.
7.	**Failing to meet high health & safety standards** – The risk of an inadequate health & safety framework and insufficiently enforcing a health & safety culture results in serious injury to employees and/or the public, and/or a breach of relevant health & safety legislation. The risk of failing to adhere to external laws and regulations by employees, sub-contractors and third	**Reducing**	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. The risk of transport compliance failures may impact consistent service standards and/or the ability to deliver the forecast	• Safety is a key priority of the Group. Health and Safety performance is reviewed by the Board, Audit Committee and Executive Team. • A dedicated Health & Safety team executes improvement programmes, undertakes audits and promotes a safety culture. • The Group continues to invest in H&S improvements, including the role of H&S Director and better management reporting. • Within Smiths News the

	parties resulting in a breach of our Transport Operator Licence conditions.		performance for the Group.	risk is considered to be well managed and the ambition continues to promote consistency in standards and culture. • Dedicated Transport Compliance teams exist specifically focused on transport-related compliance. Improvement programs have been underway exist to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Management information is in place to monitor compliance on an ongoing basis.

GROUP FINANCIAL STATEMENTS

Group Income Statement for the year ended 31 August 2019

£m		2019			2018[*1]		
	Note	Adjusted*	Adjusted items	Total	Adjusted*	Adjusted items	Total
Revenue	2	1,467.9	-	1,467.9	1,534.3	-	1,534.3
Cost of Sales	3	(1,386.0)	(1.0)	(1,387.0)	(1,429.6)	(3.6)	(1,433.2)
Gross profit/(loss)	3	**81.9**	**(1.0)**	**80.9**	**104.7**	**(3.6)**	**101.1**
Administrative expenses	3	(53.0)	(59.8)	**(112.8)**	(71.3)	(60.3)	(131.6)
Income from joint ventures		0.6	-	0.6	0.5	-	0.5
Operating (loss)/profit	2,3	**29.5**	**(60.8)**	**(31.3)**	**33.9**	**(63.9)**	**(30.0)**
Finance costs	7	(6.3)	-	(6.3)	(5.5)	-	**(5.5)**
(Loss)/profit before tax		**23.2**	**(60.8)**	**(37.6)**	**28.4**	**(63.9)**	**(35.5)**
Income tax credit/(expense)	8	(3.8)	9.9	6.1	(5.5)	2.9	**(2.6)**
(Loss)/profit for the year from continuing operations		**19.4**	**(50.9)**	**(31.5)**	**22.9**	**(61.0)**	**(38.1)**
Discontinued operations							
(Loss)/Profit for the year from discontinued operations	11	**-**	**-**	**-**	**1.3**	**(10.2)**	**(8.9)**
(Loss)/Profit attributable to equity shareholders continuing and discontinued operations		**19.4**	**(50.9)**	**(31.5)**	**24.2**	**(71.2)**	**(47.0)**

(Loss)/earnings per share from continuing operations					
Basic	10	7.9p	(12.9p)	9.3p	(15.5p)
Diluted	10	7.9p	(12.9p)	9.3p	(15.5p)
Equity dividends per share (paid and proposed)	9		1.0p		3.1p

* This measure is described in note 1(4) of the accounting policies and the Glossary to the Accounts on page 45. Adjusted items are set out in note 4 to the Group Accounts.
[*1] The income statement has been restated to show an analysis of costs see note 1.27 for details.

Group Statement of Comprehensive Income for the year ended 31 August 2019

£m Continuing	Note	2019	2018
Items that will not be reclassified to the Group Income Statement			
Actuarial (loss) on defined benefit pension scheme	6	(136.3)	(2.1)
Impact of IFRIC 14 on defined benefit pension scheme	6	139.7	2.1
Tax relating to components of other comprehensive income that will not be reclassified	8	(0.7)	-
		2.7	**-**
Items that may be subsequently reclassified to the Group Income Statement			
Currency translation differences		0.1	(0.3)
		0.1	**(0.3)**
Other comprehensive result/(loss) for the year - continuing		**2.8**	**(0.3)**
Loss for the year – continuing		**(31.5)**	**(38.1)**
Total comprehensive (expense)/income for the year - continuing		**(28.7)**	**(38.4)**
Loss for the year – discontinued		**-**	**(8.9)**
Total comprehensive (expense)/income for the year - discontinued		**-**	**(8.9)**
Total comprehensive (expense)/income for the year		**(28.7)**	**(47.3)**

Group Balance Sheet at 31 August 2019

£m	Note	2019	Restated[1] 2018
Non-current assets			
Intangible assets	13	10.1	50.8
Property, plant and equipment	14	10.9	38.8
Interest in joint ventures	15	5.3	5.1
Deferred tax assets	23	5.2	-
		31.5	**94.7**
Current assets			
Inventories	16	16.2	13.3
Trade and other receivables	17	124.2	129.7
Cash and bank deposits	19	24.0	18.0
Current tax asset		-	0.3
Assets classified as held for sale	11	16.8	0.5
		181.2	**161.8**
Total assets		**212.7**	**256.5**
Current liabilities			
Trade and other payables	18	(173.7)	(175.6)
Current tax liabilities		-	(0.8)
Bank loans and other borrowings	19	(46.1)	(47.2)
Obligations under finance leases	21	(2.2)	(2.8)
Retirement benefit obligations	6	(0.4)	(3.7)
Provisions	24	(7.3)	(9.5)
		(229.7)	**(239.6)**
Non-current liabilities			
Retirement benefit obligations	6	(2.5)	(3.6)
Bank loans and other borrowings	19	(49.3)	(48.8)
Obligations under finance leases	21	(0.3)	(2.5)
Other non-current liabilities	22	(1.2)	(0.6)
Deferred tax liabilities	23	-	(2.5)
Non-current provisions	24	(4.0)	(4.8)
		(57.3)	**(62.8)**
Total liabilities		**(287.0)**	**(302.4)**
Total net liabilities		**(74.3)**	**(45.9)**

1. The Group has applied IFRS 15 using the fully retrospective method. See note 36.

Group Balance Sheet at 31 August 2019 (continued)

£m	Note	2019	2018
Equity			
Called up share capital	28(a)	12.4	12.4
Share premium account	28(c)	60.5	60.5
Demerger reserve	29(a)	(280.1)	(280.1)
Own shares reserve	29(b)	(1.7)	(2.1)
Translation reserve	29(c)	0.3	0.2
Retained earnings	30	134.3	163.2
Total shareholders' deficit		**(74.3)**	**(45.9)**

Group Statement of Changes in Equity for the year ended 31 August 2019

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging & translation reserve	Retained earnings	Total
Balance at 31 August 2017		**12.4**	**60.5**	**(280.1)**	**(3.1)**	**0.5**	**234.9**	**25.1**
Loss for the year		-	-	-	-	-	(47.0)	**(47.0)**
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	(2.1)	**(2.1)**
Impact of IFRIC 14 on defined benefit pension scheme		-	-	-	-	-	2.1	**2.1**
Currency translation differences		-	-	-	-	(0.3)	-	**(0.3)**
Tax relating to components of other comprehensive income		-	-	-	-	-	-	**-**
Total comprehensive income for the year		-	-	-	-	(0.3)	**(47.0)**	**(47.3)**
Issue of share capital	28	-	-	-	-	-	-	**-**
Purchase of own shares		-	-	-	-	-	-	**-**
Dividends paid	9	-	-	-	-	-	(24.1)	**(24.1)**
Employee share schemes		-	-	-	1.0	-	(1.0)	**-**
Recognition of share based payments net of tax		-	-	-	-	-	0.4	**0.4**
Balance at 31 August 2018		**12.4**	**60.5**	**(280.1)**	**(2.1)**	**0.2**	**163.2**	**(45.9)**
Loss for the year		-	-	-	-	-	(31.5)	(31.5)
Actuarial loss on defined benefit pension scheme	6	-	-	-	-	-	(136.1)	(136.1)
Impact of IFRIC 14 on defined benefit pension scheme	6	-	-	-	-	-	139.7	139.7
Currency translation differences		-	-	-	-	0.1	-	0.1
Tax relating to components of other comprehensive income		-	-	-	-	-	(0.7)	(0.7)
Total comprehensive expense for the year		**-**	**-**	**-**	**-**	**0.1**	**(28.6)**	**(28.5)**
Issue of share capital	28	-	-	-	-	-	-	**-**
Purchase of own shares		-	-	-	-	-	-	**-**
Dividends paid	9	-	-	-	-	-	-	**-**
Employee share schemes		-	-	-	0.4	-	(0.4)	-
Recognition of share based payments net of tax		-	-	-	-	-	0.1	0.1
Balance at 31 August 2019		**12.4**	**60.5**	**(280.1)**	**(1.7)**	**0.3**	**134.3**	**(74.3)**

Group Cash Flow Statement for the year ended 31 August 2019

£m	Note	2019	2018
Net cash inflow from operating activities	27	**23.0**	**37.5**
Investing activities			
Dividends received from joint ventures		0.1	0.2
Purchase of property, plant and equipment		(7.4)	(6.1)
Purchase of intangible assets		(1.2)	(2.4)
Proceeds on sale of property, plant and equipment		0.5	-
Proceeds on sale of subsidiary (net of disposal costs)		-	12.9
Net cash (used in) / generated from investing activities		**(8.0)**	**4.6**
Financing activities			
Interest paid		(5.1)	(5.8)
Dividend paid	9	-	(24.1)
Repayments of obligations under finance leases		(2.8)	(3.8)
Net (decrease) / increase in revolving credit facility		(8.0)	25.3
New bank loans raised		-	48.8
Repayment of borrowings		-	(80.0)
Net cash used in financing activities		**(15.9)**	**(39.6)**
Net (decrease)/increase in cash and cash equivalents		**(0.9)**	**2.5**
Effect of foreign exchange rate changes		0.1	(0.2)
		(0.8)	**2.3**
Opening net cash and cash equivalents		8.7	6.4
Closing net cash and cash equivalents	19	**7.9**	**8.7**

During the year, cash outflow from operating activities attributed to discontinued operations amounted to £nil (2018: £8.8m inflow) and paid £nil (2018: £4.3m) in respect of investing activities. There were no cash flows associated with financing activities attributable to discontinued operations.

Notes to the accounts

1. Accounting policies

(1) Basis of consolidation

Connect Group PLC ('the Company') is a company incorporated in England UK under Companies Act 2006. The Group accounts for the year ended 31 August 2019 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in joint ventures and associates. Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition. All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts. Further to the EU IAS Regulation (Article 4) the Group Accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Unless otherwise noted references to 2018 and 2019 relate to fiscal year ended 31 August 2018 and 31 August 2019 as opposed to calendar year.

The accounts were authorised for issue by the directors on 5 November 2019.

(2) Accounting basis of preparation

The financial information contained within this preliminary announcement for the 12 months to 31 August 2019 and 12 months to 31 August 2018 does not comprise statutory financial statements for the purpose of the Companies Act 2006, but is derived from those statements. The statutory accounts for Connect Group Plc for the 12 months to 31 August 2018 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2019 will be filed following the Company's annual general meeting. The auditor's reports on the accounts for both the 12 months to 31 August 2019 and 12 months to 31 August 2018 were unqualified, did not draw attention to any matters by way of emphasis, and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006. The Annual Report and Accounts will be available for shareholders in December 2019.

(3) Going concern

The Group currently has a net liability position of £74.3m as at 31 August 2019. Given this position the directors have carefully considered the ability of the Group to meet its debts as they fall due. The Group's current banking facility is considered to have adequate headroom, with a total facility of £175m available to the Group and with a balance undrawn of £95.0m at the 31 August 2019. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance, show that the Group should be able to operate within the level of its current banking covenants defined as a period of not less than 12 months from the date of approval of this report. The directors expect that the Group will be able to negotiate a facility post January 2021 to enable the Group to trade for the foreseeable future.

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

(4) Alternate 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 to this document, 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.

(5) **Estimates and judgements**

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

Key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill, intangibles and property plant and equipment (PPE)

The Group tests annually whether goodwill has suffered any impairment, it also tests intangibles and PPE when impairment indicators exist in accordance with the accounting policy.

The carrying amounts of cash-generating units (CGU's) have been determined based on value in use calculations. The value determined on the cash generating units has been compared against the assets of the division to calculate impairments. These calculations require the use of estimates (note 13).

Tuffnells

The deterioration in trading performance of the Tuffnells business unit, a current year loss of £14.1m (2018: loss £5.0m), resulted in the Group performing an impairment assessment of goodwill, intangibles and PPE. As a result of the review, the goodwill, acquired intangibles and PPE were impaired, the value of the remaining assets in the division has been written down to their fair value less costs to sell as the value in use does not support them.

Given the results of the value in use review, an impairment charge of £6.0m, £26.4m and £13.2m arose to goodwill, intangibles and PPE respectively. The Directors consider that the assets should be valued based on the fair value less cost to sell and is based on the best estimates. note 13 and 14 include details of directors' assumptions and impact of changing these.

Dawson Media Direct (DMD) – Estimated value of goodwill

The loss of a major contract in DMD has resulted in the value in use of the business unit being sensitive to changes in estimations of future performance. Changes to these estimates would result in an impairment to the goodwill. For details of the sensitivities and the assumptions used to calculate the value in use see note 13.

Provisions

The Group holds a number of provisions which are subject to estimates. The key provisions established in the year relate to restructuring provisions of the offshoring of certain of the Group's central functions and specific operational restructuring projects for further details see note 24.

Key accounting judgements

The significant judgements made in the accounts for the year ended 31 August 2019 are:

Revenue

The Group recognises the wholesale sales price for its sales of newspapers and magazines. The Group is considered to be the principal based on the following indicators of control over its inventory: discretion to establish prices, it holds some of the risk of obsolescence once in control of the inventory and has the responsibility of fulfilling the performance obligation on delivery of inventory to its customers. If the Group were considered to be the agent, revenue and cost of sales would reduce by £1,111.0m (2018: £1,154.5m).

Retirement benefits

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.

If this was not considered to be an actuarial re-measurement the resulting difference of £130m would need to be recognised as a charge in the FY2019 income statement. The offsetting £130m, being the release of the restriction, would continue to be included within other comprehensive income.

Adjusting items

Adjusting items of income or expense that are excluded in arriving at Adjusted operating profit. This enhances the 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 measures are defined with other APM's in the glossary to this document.

Based on the nature of the transactions that it had Adjusting items totalling £60.8m (2018: £63.9m) and a breakdown is included within note 4.

Onerous contracts

This judgment relates to the year ended 31 August 2018. Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The calculation of onerous contract provisions includes estimates of all future costs and income to occur. Significant judgement is applied in the determination of when contracts become onerous. Management concluded that as result of the decision to close the PMP division on 28 May 2018 all further losses of £4.7m would be recognised as an onerous contract loss. See note 24 for further details.

Held for sale assets

In January 2019, the Group took the decision to actively market the Tuffnells freehold, long leasehold property and related assets. Post-sale, the Group would then leaseback these properties. Given the above, the Group considered that the following criteria for recognition of assets held for sale had been met:

- The properties were available for immediate sale,
- The properties were being actively marketed,
- The sale was considered highly probable,
- The sale was expected to conclude within 1 year of January 2019.

Therefore these properties have been reclassified as assets held for sale. This has resulted in £0.6m of depreciation relating to these properties not being charged. For further details see note 11.

(6) Non-current assets held for sale and disposal groups

Non-current assets held for sale and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of their carrying amount or fair value less costs to sell.

Held for sale as assets are assets that have met all the criteria required by IFRS 5 to be classified as held for sale, at which point they are derecognised as non-current assets.

(7) Discontinued operations

In accordance with 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 comparatives restated) and the assets and liabilities of operations are presented separately in the Group balance sheet if they meet the held for sale criteria at the balance sheet date.

A cash generating unit would meet the classification of a discontinued operation when considered a material to the Group's overall results.

(8) Revenue

Smiths News - Sales of Newspapers and Magazines

Sales of Newspapers and Magazines are recognised when control of the products has transferred, that is, when the products are delivered to the retailer and there is no unfulfilled obligation that could affect the retailer's acceptance of the products, the risks of obsolescence and loss have been transferred to the retailer. Goods are sold to retailers on a sale or return basis.

Revenue for goods supplied with a right of return is stated net of the value of any returns. Newspapers and magazines are often sold with retrospective volume discounts based on aggregate sales. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discount and returns, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A returns reserve accrual and discount accrual (included in trade and other payables) is recognised for expected volume discounts and refunds payable to customers in relation to sales made until the end of the reporting period. A right to the returned goods (included in other current assets) are recognised for the products expected to be returned. No element of financing is deemed present, because the sales are made with short credit terms, which is consistent with market practice.

A receivable is recognised when the goods are delivered, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Tuffnells - Delivery revenue

Delivery revenue is recognised on delivery when there are no unfulfilled obligations. Retrospective volume discounts based on aggregate sales are often given based on the aggregate sales over a short period. Revenue is only recognised to the extent that it is highly probable and a significant reversal will not occur.

A receivable is recognised when the goods are delivered, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Accrued income on all revenue is recognised when a service has been performed but an invoice has not been raised, the Group accrued income is short term and invoiced close to the service being provided.

(9) Cost of Sales and Gross profit

The Group considers cost of sales to equate to cost of inventories recognised as an expense, net impairment losses on financial assets and distribution costs as these are considered to represent for the Group direct costs of making a sale.

The Group considers gross profit to equal revenue less cost of sales.

(10) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable based on the taxable profit for the year, using tax rates enacted, or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

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

(11) Dividends

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

(12) Capitalisation of internally generated development costs

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

(13) Joint ventures

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

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

(14) Business combinations goodwill and intangibles

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

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

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

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

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

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

(15) Property, plant and equipment

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

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

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

(16) Leasing

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

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

(17) Inventories

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

(18) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise trade and other receivables and cash and cash equivalents. Financial liabilities comprise trade payables, financing liabilities, bank borrowings.

(19) Trade receivables

Trade and other receivables are initially measured at fair value, which for trade receivables is equal to the consideration expected to be received from the satisfaction of performance obligations, plus any directly attributable transaction costs. Subsequent to initial recognition these assets are measured at amortised cost less any provision for impairment losses including expected credit losses. In accordance with IFRS 9 the Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics such as the ageing of the debt and the credit risk of the customers. An historical credit loss rate is then calculated for each group and then adjusted to reflect expectations about future credit losses. The Group does not have any significant contract assets.

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 17.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(20) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(21) Treasury

Cash and bank deposits

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and bank overdrafts held for trading purposes.

Financial liabilities and equity

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

Bank borrowings

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

Foreign currencies

Financial statements of foreign operations

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

Foreign currency transactions

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

(22) Provisions

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

(23) Retirement benefit costs

The Group operates a number of defined contribution schemes for the benefit of its employees. Payments to the Group's schemes are recognised as an expense in the income statement as incurred. The Group operates two defined benefit pension schemes. The largest scheme The WH Smith Pension Trust is closed to further accrual. The charge to the Group of providing benefits for these two schemes is determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the group statement of comprehensive income. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit, reduced by the fair value of scheme assets. An asset ceiling cap is applied in accordance with IFRIC 14 with an additional liability recognised where there is a contractual obligation to make further payments into the scheme.

(24) Employee Benefit Trust

Smiths News Employee Benefit Trust

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

(25) Share schemes

Share based payments

The Group operates several share-based payment schemes, being the Sharesave Scheme, the Executive Share Option Scheme, the LTIP and the Deferred Bonus Plan. Details of these are provided in the Directors' Remuneration report and in note 31.

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

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

(26) Changes in accounting policies

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 September 2018:

- IFRS 9, 'Financial Instruments';
- IFRS 15, 'Revenue from Contracts with Customers';
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2;
- Annual Improvements 2014–2016 cycle;
- Transfers to Investment Property – Amendments to IAS 40; and
- Interpretation 22, 'Foreign Currency Transactions and Advance Consideration'.

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. This is disclosed in note 36. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New Standards and Interpretations not yet applied

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

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Tax Treatments
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

The Group will apply IFRS 16, which replaces IAS 17, with effect from 1 September 2019. The standard will have a material impact for the Group as it introduces a new lessee accounting model and requires the recognition of assets and liabilities for the majority of leases. Rental costs currently recognised in operating profit will be replaced by depreciation of the assets and finance costs on the liabilities. The total cash outflow for lease payments will not change. However, the payments related to the principal liabilities will be presented as cash outflows from financing activities, as opposed to the current treatment as cash outflow from operating activities.

The Group intends to apply IFRS 16 using the modified retrospective approach; the cumulative effect of initial adoption being recognised as an adjustment to the opening balance of retained earnings as at 1 September 2019 with no restatement of comparative information. The lease liabilities on transition will be the present value of lease payments discounted using the incremental borrowing rate at 1 September 2019. The right-of-use asset will be valued at an amount equal to either the lease liability or the carrying amount as if IFRS 16 had been applied since the start of the lease, but using the discount rate at 1 September 2019 (the date of initial application), determined on a lease by lease basis. The Group plans to take advantage of practical expedients to:

- apply IFRS 16 only to contracts previously identified as leases under IAS 17 Leases and IFRIC 14 Determining whether an Arrangement contains a Lease;
- exclude leases where the lease term is 12 months or less from the date of initial application and class such leases as short term leases;
- exclude low value assets;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate;
- apply a single discount rate to a portfolio of leases with similar characteristics; and
- rely on its assessment as to whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.

At 31 August 2019, the Group held a significant number of operating leases for which the future undiscounted minimum lease payments amounted to £79.3m as disclosed in note 25 to the consolidated financial statements. On adoption of IFRS 16, the expected effect on the balance sheet is the recognition of 'right of use' assets of around £74.5m, a corresponding lease liability of around £74.5m. The expected effect on the income statement in 2020, based on the leases held on transition, will be an increase in the Group annual depreciation charge of around £16.8m offset by a decrease in rental charges by £18.9m and an improvement in operating profit by £2.1m. The interest charge relating to leased creditors will also increase by £3.4m. The Group currently has £1.4m of lease incentives, £0.4m of onerous lease provisions, these will be included within the right of use asset on transition. Post year end the Group entered into a sale and leaseback for 6 of its properties the IFRS 16 impact is disclosed within note 11.

As the lease liability is expected to match the right of use asset at 1 September 2019 there is no expected change to deferred tax.

The Group will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the half year results to 28 February 2019 are issued. However, at this time these are not expected to be material.

The covenant requirements for the Group's committed financing facilities are based on "Frozen GAAP" and therefore are not impacted by the transition to IFRS 16.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(27) Restatement of Income Statement

The prior year income statement has been restated, to present a split of costs to comply with the principles of IAS 1, this has no impact on overall result for the period.

2. Segmental analysis

In accordance with IFRS 8 'Operating Segments', management has identified its operating segments. The performance of these operating segments is reviewed, on a monthly basis, by the Board. The Board primarily uses a measure of Adjusted operating profit before tax to assess the performance of the operating segments. However, the Board also receives information about the segments' revenue.

The continuing operating segments are:

Smiths News	The UK market leading distributor of newspapers and magazines to 27,000 retailers across England and Wales from 39 distribution centres.
Tuffnells	A leading provider of next day B2B delivery of irregular weight and dimensions consignments.

The Board no longer consider the previously reported DMD segment a reportable segment. The Board took the decision to rationalise the proposition and it is now included within the results of Smiths News. The results of Smiths News have been restated to include the results of the previously reported DMD segment.

As explained in note 11, the Books business, a leading UK distributor of physical and digital books was disposed of on 14 February 2018. The business has been presented as a discontinued operation and has been included below where necessary for the purpose of reconciliation.

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

	Revenue	
£m	**2019**	Restated* 2018
Smiths News	**1,303.3**	**1,361.6**
Tuffnells	**164.6**	**175.2**
Elimination of Intra group revenue	**-**	**(2.5)**
Continuing operations	**1,467.9**	**1,534.3**
Discontinued operations	**-**	**114.3**
Total continuing and discontinued operations	**1,467.9**	**1,648.6**

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

Intra group revenue relates to services provided by Tuffnells to Smiths News in respect of Pass My Parcel.

	2019			Restated* 2018		
£m	**Adjusted operating profit**	**Adjusted items**	**Statutory operating profit**	**Adjusted operating profit**	**Adjusted items**	**Statutory operating profit**
Smiths News	43.6	(7.3)	36.3	38.9	(11.2)	27.7
Tuffnells	(14.1)	(53.5)	(67.6)	(5.0)	(52.7)	(57.7)
Continuing operations	**29.5**	**(60.8)**	**(31.3)**	**33.9**	**(63.9)**	**(30.0)**
Discontinued operations*	-	-	-	1.8	(10.6)	(8.8)
Total continuing and discontinued operations	**29.5**	**(60.8)**	**(31.3)**	**35.7**	**(74.5)**	**(38.8)**
Net finance expense	(6.3)	-	(6.3)	(5.5)	-	(5.5)
Profit before taxation	**23.2**	**(60.8)**	**(37.6)**	**30.2**	**(74.5)**	**(44.3)**

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

*The above tables have been restated to consolidate the results of DMD within the results of Smiths News. DMD results for 2018 were as follows: £26.5m revenue, £3.0m of Adjusted operating profit, (£0.3m) of Adjusting items, £2.7m of operating profit.

Information about major customers

Included in revenues arising from Smiths News are revenues of approximately £136.5m (2018: £141.3m) which arose from sales to the Group's largest customer. No other single customer contributed 5.9% or more of the Group's revenue in 2019 (2018: 6.0%).

Segment depreciation, amortisation and non-current asset additions

	Depreciation		**Amortisation**		**Impairment**		**Additions to non-current assets**	
£m	**2019**	Restated * 2018	**2019**	Restated * 2018	**2019**	Restated * 2018	**2019**	Restated * 2018
Smiths News	**(2.8)**	(4.0)	**(2.4)**	(3.5)	**-**	(3.0)	**5.4**	3.9
Tuffnells	**(4.1)**	(4.6)	**(6.8)**	(6.8)	**(45.5)**	(46.1)	**4.8**	4.4
Continuing operations	**(6.9)**	(8.6)	**(9.2)**	(10.3)	**(45.5)**	(49.1)	**10.2**	8.3
Discontinued operations	**-**	-	**-**	-	**-**		**-**	0.6
Consolidated total	**(6.9)**	(8.6)	**(9.2)**	(10.3)	**(45.5)**	(49.1)	**10.2**	8.9

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

*The above tables have been restated to consolidate the results of DMD within the results of Smiths News. DMD results for 2018 were as follows £0.2m depreciation, £0.3m of amortisation, £0.1m of additions to non-current assets.

Geographical analysis

£m	**Revenue by destination**		**Non-current assets by location of operation**	
	2019	2018	**2019**	2018
United Kingdom	**1,454.9**	1,521.2	**40.2**	**94.6**
Spain	**0.5**	0.7	**-**	**-**
France	**1.2**	1.7	**-**	**-**
Germany	**2.9**	2.6	**-**	**-**
Netherlands	**4.1**	3.6	**-**	**-**
Rest of World	**4.3**	4.5	**-**	**-**
Continuing operations	**1,467.9**	1,534.3	**40.2**	**94.6**
Discontinued operations	**-**	114.3	**-**	**-**
Total Continuing and discontinued operations	**1,467.9**	1,648.6	**40.2**	**94.6**

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

3. Operating profit/(loss)

The Group's results are analysed as follows:

£m		2019			Restated* 2018		
Continuing operations	**Note**	**Adjusted**	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue		**1,467.9**	**-**	**1,467.9**	**1,534.3**	**-**	**1,534.3**
Cost of inventories recognised as an expense		**(1,111.0)**	**-**	**(1,111.0)**	**(1,154.5)**	**-**	**(1,154.5)**
Net impairment losses on financial assets		**(0.1)**	**-**	**(0.1)**	**(0.4)**	**-**	**(0.4)**
Distribution costs		**(274.9)**	**(1.0)**	**(275.9)**	**(274.7)**	**(3.6)**	**(278.3)**
Gross profit		**81.9**	**(1.0)**	**80.9**	**104.7**	**(3.6)**	**101.1**
Other administrative expenses		**(50.2)**	**(7.5)**	**(57.7)**	**(68.3)**	**(7.1)**	**(75.4)**
Share-based payment expense	31	**(0.4)**	**-**	**(0.4)**	**-**	**-**	**-**
Impairment of assets	13	**-**	**(45.5)**	**(45.5)**	**-**	**(46.1)**	**(46.1)**
Amortisation of intangibles	13	**(2.4)**	**(6.8)**	**(9.2)**	**(3.0)**	**(7.1)**	**(10.1)**
Administrative expenses		**(53.0)**	**(59.8)**	**(112.8)**	**(71.3)**	**(60.3)**	**(131.6)**
Share of profits from joint ventures	15	**0.6**	**-**	**0.6**	**0.5**	**-**	**0.5**
Operating profit		**29.5**	**(60.8)**	**(31.3)**	**33.9**	**(63.9)**	**(30.0)**

*The above note has been restated to combine other cost of sales and distribution costs as the Group considers these to equate to the same type of expense.

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

£m	Note	2019			2018		
		Continuing	**Discontinued**	**Total**	Continuing	Discontinued	Total
Depreciation on property, plant & equipment	14	**6.9**	**-**	**6.9**	**8.6**	**-**	**8.6**
Amortisation of intangible assets	13	**9.2**	**-**	**9.2**	**10.3**	**-**	**10.3**
Operating lease charges							
• occupied land and buildings		**10.1**	**-**	**10.1**	**10.2**	**0.5**	**10.7**
• equipment and vehicles		**15.5**	**-**	**15.5**	**16.7**	**0.1**	**16.8**
Operating lease rental income – land and buildings		**(0.3)**	**-**	**(0.3)**	**(0.2)**	**-**	**(0.2)**
Write down of inventories recognised as an expense		**-**	**-**	**-**	**-**	**-**	**-**
(loss)/gain on disposal of non-current assets		**(0.3)**	**-**	**(0.3)**	**(0.4)**	**-**	**(0.4)**
(loss)/gain on disposal of non-current assets held for sale	12	**-**	**-**	**-**	**-**	**(10.5)**	**(10.5)**
Staff costs (excluding share based payments)	5	**(124.5)**	**-**	**(124.5)**	**125.5**	**6.7**	**132.2**

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

£m	2019	2018
Fees payable to the Company's auditor for the audit of the Company's annual accounts – Deloitte LLP	-	0.5
Fees payable to the Company's auditor for the audit of the Company's subsidiaries – Deloitte LLP	0.1	0.2
Fees payable to the Company's auditor for the audit of the Company's annual accounts – BDO LLP	0.2	-
Fees payable to the Company's auditor for the audit of the Company's subsidiaries – BDO LLP	0.2	-
Total non-audit fees	0.1	-
Total fees	0.6	0.7

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report.

4. Adjusted items

£m		2019	2018
Continuing operations			
Network and re-organisation costs	**(a)**	**(6.4)**	**(3.1)**
Property	**(b)**	**-**	**0.7**
Sale and leaseback costs	**(c)**	**(0.7)**	**-**
Amortisation of acquired intangibles	**(d)**	**(6.8)**	**(7.1)**
Pension	**(e)**	**(2.2)**	**-**
Brierley hill insurance claim	**(f)**	**(0.2)**	**-**
Impairment of Tuffnells assets	**(g)**	**(45.5)**	**(46.1)**
Pass My Parcel exit costs	**(h)**	**0.3**	**(6.7)**
Impairment of Jacks Beans	**(i)**	**-**	**(1.1)**
NMW regulatory compliance	**(j)**	**0.2**	**(0.5)**
IPR settlement income	**(k)**	**0.5**	**-**
Total before tax		**(60.8)**	**(63.9)**
Taxation		**9.9**	**2.9**
Total after taxation		**(50.9)**	**(61.0)**
Discontinued operations			
Loss on disposal of subsidiary	**(l)**	**-**	**(10.5)**
Re-organisation costs	**(m)**	**-**	**(0.1)**
Total before tax		**-**	**(10.6)**
Taxation		**-**	**-**
Total after taxation		**-**	**(10.6)**
Continuing and discontinued operations			
Total before tax		**(60.8)**	**(71.6)**
Taxation		**9.9**	**2.9**
Total after taxation		**(50.9)**	**(68.7)**

The Group incurred a total of £60.8m (2018: £63.9m) of Adjusted items on a continuing basis, after tax £50.9m (2018: £61.0m).

Adjusting items are defined in the accounting policies in note 1 and in the glossary to this document, in the directors opinion the impact of removing these items from the adjusted profit give the true underlying performance of the Group and comprises:

(a) Network and re-organisation costs

These are analysed as follows:

- Executive Team redundancies of £0.9m
- Outsourcing of the shared service centre £3.2m
- DMD Restructure of £1.2m
- Other redundancy and reorganisation costs of £1.1m

Executive Team redundancies

Costs of £0.9m have been incurred relating to the restructure of the Group's previous Executive Team (2018: £nil). These costs are considered to be adjusting given the size and they enable comparability between years with equivalent costs of the Executive Team. As the restructure of the previous Executive Team has been completed, no further costs are expected to be incurred.

Outsourcing central functions

£3.2m of the current year cost relates to the off-shoring of selected technology, customer services and finance functions. This process has been communicated to employees. The £3.2m comprises a provision of £2.5m related to expected redundancy costs as part of this transition and £0.7m related to legal and set up costs. Further costs of the offshoring are expected to be incurred during the next financial year. These costs are considered adjusting as the impact of the transition to an off shored central function is considered a one off. The running costs once the centre is fully operational will be treated as non-adjusting.

DMD Restructure costs

In June 2019, DMD's biggest contract with British Airways was ended. As soon as notice was given, the business set about a change programme to right size the operations, close sites and reduce teams to reflect the loss of this contract. This was designed to ensure the business was able to continue to deliver profits in future with its smaller customer contract base. In total, costs of £1.2m have been incurred on redundancies and transferring operations into the Smiths News Slough depot.

These costs are considered to be adjusting given the size and they enable comparability between years with equivalent costs of the day to day operations of the business.

Other redundancy and re-organisation costs

£1.1m has been incurred in redundancy and other re-organisation in streamlining the Smiths News and Tuffnells businesses (2018: £nil).

The prior year included abortive integration costs of £1.6m with regard to the integration programme announced at the end of the previous financial year.

Costs associated with the reorganisation programmes are considered Adjusting items given they are part of a strategic programme to drive future cost savings and therefore the impact of the costs in the current year distorts the true underlying performance of the Group.

(b) Property

During the prior year, the Group made the strategic decision to transfer the previously vacant Slough depot to the Tuffnells business, resulting in a credit from the release of its onerous lease provision. Onerous charges on properties are charged through Adjusted items as they form part of the Group's strategic restructuring programme to generate future cost savings. The reversal of charges has also been made in Adjusted items for consistency.

(c) 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. During the year the Group incurred £0.7m of costs related to the sale and leaseback programme. The Group announced the sale of some properties post year end - for further details see note 11. Given the magnitude and one-off nature of the transaction as a whole it is considered to be an Adjusting item.

(d) Amortisation of acquired intangibles

A charge of £6.8m (2018: £7.1m) has been recognised relating to amortisation of acquired intangibles in Tuffnells. This is considered an Adjusting item as it allows comparison between segments and, therefore, consistency in the performance of the Group at a consolidated level.

(e) Pensions

Smiths News incurred professional costs of £2.1m, as a result of the WH Smith Pension Trust (one of the Group's defined benefit pension schemes) entering into an insurance backed annuity 'buy-in' of the Scheme assets, within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations. These pension charges are not considered to be part of normal operations due to their size and nature and are therefore considered to be an Adjusted item.

There is a further £0.1m in relation to equalisation of Guaranteed Minimum Payments (GMP) of the Tuffnells Parcel Express pension scheme. This is considered to be an Adjusting item as it was due to a one off change in the interpretation of the law relating to previously recognised cost, this is considered out of control of management and the charge relates to service in prior periods and therefore is considered an Adjusting item.

(f) Brierley Hill insurance claim

The Group incurred £0.2m of insurance settlement costs this year in relation to a 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. Given the magnitude, one-off nature and to ensure consistent treatment with previously reported costs it is considered to be an adjusting item.

(g) Impairment of Tuffnells assets

Management reviewed the carrying value of the Tuffnells business unit and concluded that an impairment charge of £45.5m (2018: £46.1m) is required. This comprises £6.0m (2018: £46.1m) Goodwill, £26.4m (2018: nil) acquired intangibles, £0.4m (2018: nil) other intangibles and £12.7m (2018: nil) property, plant and equipment. For further details for the reason and how the impairments were calculated see note 13 and 14.

The impairment of Goodwill has no tax impact, the impairment of acquired intangibles has resulted in the release of £4.5m deferred tax liability as a credit to adjusted items income tax. A deferred tax asset of £2.5m has been recognised which has credited adjusted items income tax as a result of the impairment of the other assets.

It is considered adjusting due to its significant value and aids comparability between years to show the underlying performance of the Group.

(h) Pass My Parcel (PMP) exit costs
Following a review of the PMP proposition on 23 May 2018, the Board decided to close the division and as a result a charge of £6.7m was booked in the prior year. This was split £4.7m of contract losses and £2.0m of impairment of associated assets.

Management concluded that losses on winding down the division represented an onerous contract with a cost of £4.7m recognised. This represented the forecast excess of costs over income from the date the Group took the decision to close the division. Of this balance, £2.5m in provisions was held at the year ended 31 August 2018 to cover the remaining costs to close all contracts. In 2019, £2.2m of costs were incurred and booked against this provision. The remaining £0.3m of the provision has been released this year.

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 division.

(i) Impairment of Jack's Beans
In 2018, the Group took the decision to consider the sale of the Jack's Beans division to focus on its core businesses. Bids received indicated that the net book value of the Jacks Beans assets were overstated and so they were impaired by £1.1m. The Group subsequently disposed of the assets for proceeds equivalent to their revised net book value in January 2019. Given the magnitude, the one-off nature and the Group's strategy to focus on its core businesses it was considered to be an Adjusting item.

(j) NMW 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 related specifically to the estimated fine. The £0.5m fine was classified as adjusting in 2018. The underpayments and fines were all settled during 2019. The remaining £0.2m of the £0.5m fine provision has been released in 2019. The release was also recognised as an Adjusting item to be consistent with prior periods and due to its one-off nature and magnitude.

(k) IPR settlement income
The Group received a one-off £0.5m 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.

(l) Loss 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 12.

(m) Re-organisation costs
Re-organisation costs of £nil (2018 £0.1m) were incurred by the Books business during the year. Re-organisation costs are considered to be adjusted items as they are part of the Group's wider restructuring programme to deliver cost savings and were incurred prior to the disposal. These are disclosed separately from other reorganisation costs on the basis the Books business was discontinued.

5. Staff costs and employees

(a) Staff costs

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

£m Continuing	Note	2019	2018
Wages and salaries		**113.5**	**112.6**
Social security		**9.5**	**11.0**
Pension costs	6	**1.9**	**1.9**
Total		**124.9**	**125.5**

Pension costs shown above exclude charges and credits for pension scheme financing and actuarial gains and losses arising on the pension schemes. Wages and salaries shown above exclude amounts related to share based payment charges. On a continuing basis there was a charge of £0.4m in 2019 (2018: £nil) relating to share based payments (refer to note 3). There was £nil (2018: £6.7m) of staff costs relating to discontinued operations these are not included in the above table.

(b) Employee numbers

The average total monthly number of employees relating to continuing operations (including executive directors) was:

Number	2019	2018
Operations	**3,263**	**3,707**
Support functions	**1,763**	**1,137**
Total	**5,026**	**4,844**

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

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

The amounts recognised in the balance sheet are as follows:

£m	WH Smith Pension Trust	Tuffnells Parcels Express	2019	WH Smith Pension Trust	Tuffnells Parcels Express	2018
Present value of defined benefit obligation	(470.2)	(13.4)	(483.6)	(428.6)	(11.8)	(440.4)
Fair value of assets	494.2	10.5	504.7	583.1	9.6	592.7
Net surplus/ (loss)	**24.0**	**(2.9)**	**21.1**	**154.5**	**(2.2)**	**152.3**
Amounts not recognised due to asset limit	(24.0)	-	(24.0)	(154.5)	-	(154.5)
	-	**(2.9)**	**(2.9)**	**-**	**(2.2)**	**(2.2)**

Additional liability recognised due to minimum funding requirements	-	-	-	(5.1)	-	(5.1)
Pension liability	**-**	**(2.9)**	**(2.9)**	**(5.1)**	**(2.2)**	**(7.3)**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £24.0m at 31 August 2019 (2018: £154.5m surplus) which the Group does not recognise in the accounts as the Group do not have an unconditional right to either a reduction of future contributions or right to a refund on closure of the scheme. The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

WH Smith Pension Trust
The actuarial valuation of the Smiths News section of the WH Smith Pension Trust at 31 March 2018 was completed and resulted in no further funding being required from the Group at this time. 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.

Tuffnells Parcels Express scheme
The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was an agreed liability of £4.3m. Guaranteed Minimum Pension ("GMP") equalisation has led to an increase in scheme liabilities by £0.1m. Deficit recovery contributions to the scheme have been agreed at £0.3m per annum.

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

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

% p.a.	**2019**		2018	
Discount rate	1.8		2.6	
Inflation assumptions – CPI	2.2		2.2	
Inflation assumptions – RPI	3.2		3.2	
Demographic assumptions for WH Smith Pension Trust:	**2019**		2018	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21.5	23.3	21.4	23.3
Member currently aged 45	22.5	24.5	22.5	24.5
Demographic assumptions for Tuffnells Parcels Express scheme:	**2019**		2018	
Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	22.1	24.1	22.2	24.1
Member currently aged 45	23.3	25.4	23.3	25.4

Inflation assumptions
Pension increases in deferment in both Schemes are granted in line with CPI for all deferred members. RPI inflation is used to determine the increases for pensions currently in payment, subject to any annual caps and floors.

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)
Net interest cost	14.4	(10.9)	(3.7)	(0.2)
Administration expenses	(0.2)	-	-	(0.2)
Total amount recognised in income statement	14.2	(11.0)	**(3.7)**	(0.5)
Actual return on scheme assets (excluding amounts included in net interest expense)	(23.4)	-	(1.7)	(25.1)
Actuarial gains arising from experience	-	(3.1)	-	(3.1)
Actuarial gains arising from changes in financial assumptions	-	21.9	-	21.9
Actuarial gains arising from changes in demographic assumptions	-	2.5	-	2.5
Change in surplus not recognised	-	-	3.8	3.8
Amount recognised in other comprehensive income	(23.4)	21.3	2.1	-
Employer contributions	4.7	-	-	4.7
Employee contributions	-	-	-	-
Benefit payments	(22.9)	22.9	-	-
Amounts included in cash flow statement	(18.2)	22.9	**-**	**4.7**
At 31 August 2018	**592.7**	**(440.4)**	**(159.6)**	**(7.3)**
Current service cost	-	-	-	-
Net interest cost	14.9	(11.0)	(4.1)	(0.2)
Past service cost		(0.1)		(0.1)
Administration expenses	(0.4)	-	**-**	(0.4)
Total amount recognised in income statement	**14.5**	**(11.1)**	**(4.1)**	**(0.7)**
Actual return on scheme assets (excluding amounts included in net interest expense)	(83.0)	-	5.2	(77.8)
Actuarial gains/(loss) arising from experience	-	7.3	-	7.3
Actuarial gains/(loss) arising from changes in financial assumptions	-	(60.1)	-	(60.1)
Actuarial gains/(loss) arising from changes in demographic assumptions	-	(0.4)	-	(0.4)
Change in surplus not recognised	-	-	134.5	134.5
Amount recognised in other comprehensive income	**(83.0)**	**(53.2)**	**139.7**	**3.5**
Employer contributions	1.6	-	-	1.6
Employee contributions	-	-	-	-
Benefit payments	(21.1)	21.1	-	-
Amounts included in cash flow statement	**(19.5)**	**21.1**	**-**	**1.6**
At 31 August 2019	**504.7**	**(483.6)**	**(24.0)**	**(2.9)**
Included within Current liabilities				**(0.4)**
Included within Non-current liabilities				**(2.5)**

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

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

£m		2019	2018
Gilts and swaps portfolio	Quoted and Unquoted	10.8	362.9
Corporate bonds	Quoted and Unquoted	-	216.0
Equity funds	Unquoted	10.5	9.6

Insurance policy	Unquoted	470.2	-
Cash and other	Unquoted	13.2	4.2
		504.7	**592.7**

The return on scheme assets during 2019 was a loss of £83.0m (2018: a loss of £23.4m) due to a change in investment strategy to purchase an insurance policy for the WH Smith Pension Trust.

The value of the assets held by the Trust in Connect Group PLC issued financial instruments is £nil (2018: £nil).

Sensitivity of results to changes in the main assumptions:

Assumption	**Change in assumption**	**Impact on IAS 19 liabilities**
Discount rate	+/- 0.5%	(£41.8m)/ +£35.5m
Rate of inflation	+/- 0.5%	£41.3m/ +(£36m)
Life expectancy	+/- 1 year	£22.4m/ +(£15.5m)

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

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £26.8m (2018: a loss of £30.5m).
The Group's defined benefit pension plans have a number of areas of risk, the most significant of which are set out below:

- Life expectancy
  The majority of the plans' obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.
- Inflation risk
  The plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities.
- Changes in bond yields
  Falling bond yields tend to increase the funding and accounting liabilities. The schemes both hold investments in corporate and government bonds which offer a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.

However, as the WH Smith Pension Trust entered into an insurance backed annuity 'buy-in' of the Scheme assets, within the section of the Trust sponsored by Smiths News, which minimises the Group's exposure to future pension obligations.

Defined contribution schemes
The Group operates a number of defined contribution schemes. For the year ended 31 August 2019, contributions from the respective employing company for continuing operations totalled £1.9m (2018: £1.9m) which is included in the Income Statement.

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

7. Finance costs

£m	Note	2019	2018
Continuing operations			
Interest on bank overdrafts and loans		(5.1)	(4.1)
Amortisation of loan arrangement fees		(0.5)	(0.5)
Interest payable on finance leases		(0.1)	(0.6)
Total interest cost on financial liabilities at amortised cost		(5.7)	(5.2)
Net interest expense on defined benefit obligation	6	(0.2)	(0.2)
Unwinding of discount on provisions – trading	24	(0.4)	(0.1)
Finance costs – continuing operations		**(6.3)**	**(5.5)**
Finance costs – continuing and discontinued operations		**(6.3)**	**(5.5)**

8. Income tax expense

£m			2019			2018
Continuing operations	Adjusted	Adjusted items	**Total**	Adjusted	Adjusted items	Total
Current tax	2.9	(1.4)	1.5	5.6	(1.9)	3.7
Adjustment in respect of prior year	0.9	-	0.9	(1.0)	-	(1.0)
Total current tax charge	**3.8**	**(1.4)**	**2.4**	**4.6**	**(1.9)**	**2.7**
Deferred tax – current year	(0.1)	(9.1)	(9.2)	0.6	(1.0)	(0.4)
Deferred tax – prior year	0.1	-	0.1	0.3	-	0.3
Deferred tax – impact of rate change	-	0.6	0.6	-	-	-
Total tax (credit)/charge – continuing operations	**3.8**	**(9.9)**	**(6.1)**	**5.5**	**(2.9)**	**2.6**
Effective tax rate	*16.4%*		*(16.2)%*	*19.4%*		*(7.3%)*
Tax charge – discontinued operations	-	-	-	0.4	(0.4)	-
Tax charge – continuing and discontinued operations	**3.8**	**(9.9)**	**(6.1)**	**5.9**	**(3.3)**	**2.6**

The effective adjusted income tax rate for continuing operations in the year was 16.4% (2018: 19.4%). After the impact of Adjusted items of £9.9m (2018: £2.9m), the effective statutory income tax rate for continuing operations was (16.2)% (2018: (7.3)%).
Corporation tax is calculated at the main rates of UK corporation tax, those being 19.0% (2018: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The impairment of Tuffnells goodwill creates a disallowable expense, the impairment of acquired intangibles has resulted in the release of £4.5m deferred tax liability as a credit to adjusted items income tax. A deferred tax asset of £2.5m has been recognised which has credited adjusted items income tax as a result of the impairment of the other assets. See note 4 and 13 for details relating to the impairments.
The tax charge for the year can be reconciled to the loss in the income statement as follows:

£m	2019	2018
Loss before tax	**(37.6)**	**(35.5)**
Tax on profit at the standard rate of UK corporation tax 19.0% (2018: 19.0%)	(7.1)	(6.7)
Expenses not deductible for tax purposes	1.3	9.8
Non-taxable income	-	(0.5)
Share based payments	-	0.6
Adjustment in respect of prior years	(1.0)	(0.6)
Impact of change in UK tax rate	0.6	-
Impact of higher overseas tax rates	0.1	-
Tax (credit)/charge	**(6.1)**	**2.6**

Expenses not deductible for tax purposes are comprised mainly of the tax effect of the impairment of Goodwill in Tuffnells. See note 4.

Tax charges to other comprehensive income and directly in equity

£m Continuing operations	2019	2018
Current tax relating to the defined benefit pension scheme	(0.3)	(0.7)
Deferred tax relating to retirement benefit obligations	1.0	0.7

Tax charge/(credit) to other comprehensive income and directly in equity – continuing operations	**0.7**	**-**
Tax charge to other comprehensive income and directly in equity – discontinued operations	**-**	**-**
Tax charge/(credit) to other comprehensive income and directly in equity – continuing and discontinued operations	**0.7**	**-**

9. Dividends

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

	2019	2018	2019	2018
Paid & proposed dividends for the year	**Per share**	Per share	**£m**	£m
Interim dividend – paid	**-**	**3.1p**	**-**	**7.6**
Final dividend – proposed	**1.0p**	**-**	**2.5**	**-**
	1.0p	**3.1p**	**2.5**	**7.6**
Recognised dividends for the year				
Final dividend – prior year	**-**	**6.7p**	**-**	**16.5**
Interim dividend – current year	**-**	**3.1p**	**-**	**7.6**
	-	**9.8p**	**-**	**24.1**

There is a proposed final dividend of 1.0p per share for the year ended 31 August 2019 (2018: nil).

10. Earnings per share

		2019			2018	
	£m Earnings	**Weighted average number of shares million**	**Pence per share**	**£m Earnings**	**Weighted average number of shares million**	**Pence per share**
Weighted average number of shares in issue		**247.7**			**247.7**	
Shares held by the ESOP (weighted)		(1.3)			(1.7)	
Basic earnings per share (EPS)						
Continuing operations						
Adjusted earnings attributable to ordinary shareholders	**19.4**	**246.4**	**7.9p**	**22.9**	**246.0**	**9.3p**
Adjusted items	**(50.9)**			**(61.0)**		
Earnings attributable to ordinary shareholders	**(31.5)**	**246.4**	**(12.9p)**	**(38.1)**	**246.0**	**(15.5p)**
Discontinued operations						
Earnings attributable to ordinary shareholder	-	**246.4**	-	1.3	246.0	0.5p
Total – Continuing and discontinued operations						
Adjusted earnings attributable to ordinary shareholders	**19.4**	**246.4**	**7.9p**	**24.2**	**246.0**	**9.8p**
Adjusted items	**(50.9)**			**(71.2)**		
Earnings attributable to ordinary shareholders	**(31.5)**	**246.4**	**(12.9p)**	**(47.0)**	**246.0**	**(19.1p)**
Diluted earnings per share (EPS)						
Effect of dilutive share options		-			-	
Effect of dilutive share options adjusting		0.7			0.7	
Continuing operations						
Diluted adjusted EPS	**19.4**	**247.1**	**7.9p**	**22.9**	**246.7**	**9.3p**
Diluted EPS	**(31.5)**	**246.4**	**(12.9p)**	**(38.1)**	**246.0**	**(15.5p)**

Discontinued operations - Diluted EPS	**-**	**247.1**	**-**	**(8.9)**	**246.0**	**(3.6p)**
Total – Continuing and discontinued operations						
Diluted adjusted EPS	**19.4**	**247.1**	**7.9p**	**24.2**	**246.7**	**9.8p**
Diluted EPS	**(31.5)**	**246.4**	**(12.9p)**	**(47.0)**	**246.0**	**(19.1p)**

Dilutive shares increase the basic number of shares at 31 August 2019 by 0.7m to 246.4m (31 August 2018: 246.7m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 0.7m dilutive shares (31 August 2018: 0.7m).

Dilutive shares are only dilutive for the purposes of the Group's adjusted measure, where a profit is recognised. The application of the dilutive shares to the adjusted profits measure reduces the profit per share. Where the Group's statutory measures are loss making, the potential dilutive effect of employee incentive schemes is antidilutive, in that they would reduce the loss per share. Accordingly, they are not applied to the statutory calculation with basic and dilutive EPS being the same.

11. Discontinued Operations and assets held for sale

£m	2019	2018
Non-current assets held for sale	16.8	0.5

Tuffnells property portfolio
In January 2019 the Group took the decision to enter into a sale and leaseback arrangement for the "Tuffnells property portfolio" made up 12 freehold and 3 long leasehold properties including related assets, the portfolio has net book value of £16.8m being: £13.6m freehold property, £1.1m long term leasehold property, £0.1m short leasehold, £0.5m fixtures and fittings and £1.5m of equipment.

On 23 September 2019, the Group's subsidiary, Tuffnells Parcels Express Limited (Tuffnells), exchanged contracts in respect of the proposed sale and leaseback of 6 distribution depots, of which three were freehold and three were long leasehold properties, to Urban Logistics Prop Co 1 (AC) Limited (Urban Logistics), a subsidiary of Urban Logistics REIT plc. Completion subsequently took place on 27 September 2019.

The sale price received from Urban Logistics was £9.9m. At completion, this first tranche of properties was subsequently leased back from Urban Logistics on 20 year lease terms, with market rent payable at £0.7m per annum, subject to market inflation. In each case, the leases are guaranteed by the Company. The expected impact under IFRS 16 will be to recognise a gain on disposal of £0.7m, a lease creditor of £8.0m, a right of use asset of £3.2m, annual depreciation of £0.2m and year 1 interest of £0.4m.

The Group continues to market the remaining properties and expect to sell the properties by February 2020. Further information is included within note 32.

Jack's Beans
In January 2019, the Group sold the assets relating to the Jack's Beans division for consideration of £0.5m. The division was not considered to meet the definition of a discontinued operation given the size of the operation making up less than 1% of the Groups total revenue. The decision made to sell the division was made in August 2018, to enable the Group to focus on its core businesses, the bids received indicated an excess of net book value of £1.0m, therefore, the Group impaired the assets down to £0.5m in the prior financial year and moved them into non-current assets held for sale.

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

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

£m	12 months to Aug 2019			12 months to Aug 2018		
	Adjusted	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total
Revenue	-	-	-	114.3	-	114.3
Expenses	-	-	-	(112.5)	(10.6)	(123.1)
Operating profit	-	-	-	1.8	(10.6)	(8.8)
Finance costs	-	-	-	(0.1)	-	(0.1)
Profit before tax	-	-	-	1.7	(10.6)	(8.9)
Income tax expense	-	-	-	(0.4)	0.4	-
Profit from discontinued operations	-	-	-	1.3	(10.2)	(8.9)

During the year cash outflow from operating activities attributed to discontinued operations amounted to £nil (2018: inflow £8.8m) and paid £nil (2018: £4.3m) in respect of investing activities. There were no cash flows associated with financing activities attributable to discontinued operations.

12. Disposal of subsidiaries

The Group disposed of the Books business on 14 February 2018.
The net assets of the business at the date of disposal were:

	2018
	£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
Disposal proceeds to repay overdraft*	12.7
Consideration received in cash and cash equivalents	**18.7**
Less: cash and cash deposits disposed	(4.6)
Less: cash disposal costs	(1.5)
Net cash inflow arising from disposal of Books business	**12.6**

**As part of the sale and purchase agreement a Group overdraft balance was settled which was intrinsically linked to the Books business.*

The loss on disposal is included in the 2018 profit for the year from discontinued operations.

Net cash inflow arising from disposal of Books business	12.6
Cash consideration received in the year ending 31 August 2018 arising from disposal of Education & Care	0.3
Net cash inflow arising from disposals	**12.9**

13. Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 1 September 2018	**57.8**	**29.3**	**30.7**	**0.8**	**7.1**	**12.5**	**138.2**
Additions	-	-	-	-	0.4	1.0	1.4
Disposals	-	-	-	-	(0.1)	(2.1)	(2.2)
At 31 August 2019	**57.8**	**29.3**	**30.7**	**0.8**	**7.4**	**11.4**	**137.4**
Accumulated amortisation:							
At 1 September 2018	**(46.1)**	**(15.3)**	**(11.4)**	**(0.8)**	**(5.4)**	**(8.5)**	**(87.5)**
Amortisation charge	-	(3.7)	(3.1)	-	(0.6)	(1.8)	(9.2)
Disposals	-	-	-	-	-	2.3	2.3
Impairment	(6.0)	(10.3)	(16.2)	-	-	(0.4)	(32.9)
At 31 August 2019	**(52.1)**	**(29.3)**	**(30.7)**	**(0.8)**	**(6.0)**	**(8.4)**	**(127.3)**
Net book value at 31 August 2019	**5.7**	**-**	**-**	**-**	**1.4**	**3.0**	**10.1**
Cost:							
At 1 September 2017	57.8	29.3	30.7	0.8	6.4	11.5	136.5
Additions	-	-	-	-	0.7	1.1	1.8
Disposals	-	-	-	-	-	(0.1)	(0.1)
At 31 August 2018	**57.8**	**29.3**	**30.7**	**0.8**	**7.1**	**12.5**	**138.2**
Accumulated amortisation:							
At 1 September 2017	-	**(11.3)**	**(8.3)**	**(0.7)**	**(3.9)**	**(5.8)**	(30.0)
Amortisation charge	-	(4.0)	(3.1)	(0.1)	(0.4)	(2.7)	(10.3)
Disposals	-	-	-	-	-	-	-
Impairment	(46.1)	-	-	-	(1.0)	-	(47.1)
At 31 August 2018	**(46.1)**	**(15.3)**	**(11.4)**	**(0.8)**	**(5.4)**	**(8.5)**	**(87.4)**
Net book value at 31 August 2018	**11.7**	**14.0**	**19.3**	**-**	**1.8**	**4.0**	**50.8**

The Group leases software under various finance lease arrangements. The net book value of finance leases contained within the software balance above is £nil (2018: £0.2m).

The net book value of the Group's acquired intangibles split by CGU is included in the table below.

	Goodwill			Acquired Intangibles			Total		
£m	**2019**	**2018**	**On acquisition**	**2019**	**2018**	**On acquisition**	**2019**	**2018**	**On acquisition**
DMD	5.7	5.7	5.7	-	0.2	2.6	5.7	5.9	8.3
Smiths News	-	-		-	-	0.3	-	-	0.3
Tuffnells	-	6.0	52.1	-	33.1	58.1	-	39.1	110.2
	5.7	11.7	57.8	-	33.3	61.0	5.7	45.0	118.8

Impairment tests goodwill
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 plan for

the following 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 included in the table below, being the Group's weighted average cost of capital adjusted for industry and market risk.

The table below includes the key assumptions used to calculate the Group's cash generating unit value in use:

	Tuffnells		DMD	
	2019	2018	2019	2018
Average plan revenue growth	2.2%	1.4%	2.5%*	0.0%
Post tax discount rate	11.5%	9.5%	10.5%	9.5%
Pre tax discount rate	20.0%	8.1%	19.9%	8.7%
Long term growth rate	2.0%	2.0%	0.0%	0.0%

*Average growth of revenue relates to years FY21-FY23

In generating these budgets the Board has considered the overall strategy of the Group, the principal and emerging risks and uncertainties inherent within the business, as well as making a number of key strategic planning assumptions which are noted below:

1. No significant impact on trading as a result of the EU Exit or other political change;
2. Modest revenue growth in Tuffnells in the assessment period;
3. Delivery of margin improvement in Tuffnells, driven by efficiencies both in operating and overhead costs in the assessment period; and
4. Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period.

Consistent with IAS 36 revenues in relation to enhancement of assets has not been included.

Sensitivity to changes in key assumptions
Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

The Group has conducted sensitivity analysis on the impairment test of each of the CGU's classified within continuing operations.

Tuffnells
The continued deterioration of performance which was, in part due, to the weakening of consignment volumes in comparison to the prior year has resulted in losses of £14.1m in the Tuffnells business unit (2018: £5.0m). This weakening has impacted the future outlook and has negatively impacted the value in use of the Tuffnells CGU and resulted in the Group recording an impairment of £6.0m against the value of the goodwill as it is considered to have no recoverable basis.

The Tuffnells CGU has a recoverable amount of negative £0.6m based on the assumptions in the table above; the effect of a reasonably possible change in the assumptions is disclosed in the table below. This valuation has resulted in in the valuation basis for remaining assets to be the lower of their net book value or the fair value less costs to sell. This has resulted in further impairments beyond that of goodwill for further details see section on other assets below and note 14. While the CGU recoverable amount will be impacted by the changes in the assumptions below it would not result in further impairments to other assets.

	Plan scenario	Change	Effect on value in use £m
Long term growth rate (%)	%	-/+ 0.5%	2.1/(1.9)
Post tax discount rate (%)	%	-/+ 1%	5.8/(4.5)
Average revenue growth	%	- 0.2%	(16.7)
Reduction in cost savings	£m	3.0	(8.2)

DMD
The DMD CGU has a recoverable amount of £7.1m which provides headroom of £1.4m above the carrying value of goodwill based on the assumptions in the table above; the effect of a reasonably possible change in the assumptions is disclosed in the table below.

	Plan scenario	Change	Effect on value in use £m
Long term growth rate (%)	%	-/+ 1%	0.6/(0.5)
Post tax discount rate (%)	%	-/+ 1%	(0.7)/0.8
Reduction in CGU profit	%	- 10%	(1.2)

Other Intangibles

Tuffnells Parcels Express
The value in use calculation performed for the Tuffnells business unit no longer supports the intangible assets relating to the this business unit, see above for details of the assumptions used and reason for this decline in value.

The Group has deemed the fair value less cost to sell to be £nil. As both the fair value and value in use no longer support these assets, an impairment charge of £26.9m (2018: nil) has been recognised split; acquired intangibles £26.5m and computer software £0.4m.

Pass My Parcel
Included within cost of sales is £nil (2018: £1.0m) in relation to the impairment of intangible assets in the PMP division. This is included with the Smiths News CGU, further details of which are included within note 4.

14. Property, plant and equipment

£m	Land & Buildings					
	Freehold properties	Long term leasehold	Short term leasehold	Fixtures & fittings	Equipment & vehicles	Total
Cost:						
At 1 September 2018	14.0	1.3	13.6	5.4	42.2	76.5
Additions	0.2	0.3	0.2	0.7	7.4	8.8
Disposals	-	-	(0.2)	(0.4)	(11.3)	(11.9)
Classified as held for sale	(14.0)	(1.3)	(0.2)	(1.2)	(2.6)	(19.3)
At 31 August 2019	0.2	0.3	13.4	4.5	35.7	54.1
Accumulated depreciation:						
At 1 September 2018	(0.2)	(0.3)	(8.7)	(3.6)	(24.9)	(37.7)
Depreciation charge	-	(0.4)	(0.6)	(1.3)	(4.6)	(6.9)
Transfer between asset classes	-	0.3	(0.4)	0.6	(0.6)	(0.1)
Disposals	0.1	-	0.2	0.4	10.9	11.6
Impairments	(0.5)	-	(1.7)	(0.9)	(9.5)	(12.6)
Classified as held for sale	0.6	0.1	0.1	0.7	1.0	2.5
At 31 August 2019	-	(0.3)	(11.1)	(4.1)	(27.7)	(43.2)
Net book value at 31 August 2019	**0.2**	**-**	**2.3**	**0.4**	**8.0**	**10.9**
Cost:						
At 1 September 2017	14.1	1.5	12.6	4.9	42.7	75.8
Additions	-	-	1.3	0.9	6.9	9.1
Transfer between asset classes	-	-	-	-	-	-
Disposals	(0.1)	(0.2)	(0.3)	(0.4)	(4.0)	(5.0)
Classified as held for sale	-	-	-	-	(3.4)	(3.4)
At 31 August 2018	**14.0**	**1.3**	**13.6**	**5.4**	**42.2**	**76.5**
Accumulated depreciation:						
At 1 September 2017	-	(0.4)	(7.7)	(3.5)	(22.9)	(34.5)
Depreciation charge	(0.2)	-	(1.0)	(1.3)	(6.1)	(8.6)
Transfers between asset classes	-	-	-	0.6	(0.6)	-
Disposals	-	0.1	-	0.6	3.8	4.5
Impairments	-	-	-	-	(2.0)	(2.0)
Classified as held for sale	-	-	-	-	2.9	2.9
At 31 August 2018	**(0.2)**	**(0.3)**	**(8.7)**	**(3.6)**	**(24.9)**	**(37.7)**
Net book value at 31 August 2018	**13.8**	**1.0**	**4.9**	**1.8**	**17.3**	**38.8**

The Group leases plant and equipment under a number of finance lease arrangements and has the option to purchase the equipment at the end of each lease. The net book value of finance leases contained within these balances is £0.2m at 31 August 2019 (2018: £3.7m).

Tuffnells
The value in use calculation performed for the Tuffnells business unit resulted in a value in use of negative £0.6m, therefore the assets relating to the this business unit are considered to be no longer supported, see note 13 for details of the assumptions used and reason for this decline in value.

The Group has therefore deemed a more appropriate valuation methodology to be the lower of net book value or fair value less costs to sell. The property plant and equipment relating to the Tuffnells business unit has been valued at £1.6m therefore resulting in an impairment charge of £12.6m (2018: £nil).

Other
Impairments of £1.0m and £1.0m were recognised in the prior year relating to the write down of Jack's Beans and write off of the Pass My Parcel assets respectively to their NBV, further detail is included within note 4.

15. Interests in joint ventures

The Group's share of the results, assets and liabilities of joint ventures is as follows:

£m	2019	2018
Revenue	5.4	5.1
Profit after tax	0.5	0.5
Non-current assets	1.8	1.5
Current assets	2.8	2.5
Total assets	4.6	4.0
Current liabilities	(1.8)	(1.8)
Non-current liabilities	(0.4)	-
Total liabilities	(2.2)	(1.8)
Goodwill	2.9	2.9
Share of net assets	**5.3**	**5.1**

Dividends of £0.1m (2018: £0.2m) were received in the year to 31 August 2019 from joint ventures.

The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (2018: 50%), which in turn owns 100% of the ordinary shares of Open-Projects Limited. The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2019. The Group also has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2018: 50%). The latest statutory accounts of FMD Limited were drawn up to 31 July 2018. Both FMD Limited and Worldwide Magazine Distribution Limited are currently in the process of liquidation.

16. Inventories

£m	2019	2018
Goods held for resale	15.5	12.4
Raw materials and consumables	0.7	0.9
Inventories	**16.2**	**13.3**

17. Trade and other receivables

£m	2019	Restated* 2018
Trade receivables	87.2	86.9
Provision for expected credit losses	(0.3)	(0.5)
	86.9	86.4
Other debtors	32.1	36.7
Prepayments	2.8	3.9
Accrued income	2.4	2.7
Trade and other receivables	**124.2**	**129.7**

* The balances have been restated to reflect the returns reserve accrual of £23.4m (2018: £25.5m) previously net off against trade receivables within other creditors and the returns reserve asset of £20.2m (2018: £22.5m) net off against trade payables included within other debtors. See note 36 for further information.

Trade receivables
The average credit period taken on sale is 22 days (2018: 20 days). Trade receivables are generally non-interest bearing.

The following table provides information about the Group's exposure to credit risk and ECLs against customer balances as at 31 August 2019 under IFRS 9:

£m	2019			2018[1]		
	Gross carrying	Loss allowance	Net carrying	Gross carrying	Bad debt provision	Net carrying
Current (not overdue)	84.5	(0.1)	84.4	83.8	-	83.8
30-60 days overdue	2.0	(0.1)	1.9	2.0	-	2.0
61-90 days overdue	0.4	-	0.4	0.4	-	0.4
91-120 days overdue	-	-	-	0.5	(0.3)	0.2
Over 120 days overdue	0.3	(0.1)	0.2	0.2	(0.2)	-
	87.2	(0.3)	86.9	86.9	(0.5)	86.4

Note:

1. The table above provides information about the ageing of trade receivables as at 31 March 2018 under IAS 39. The Group has adopted IFRS 9 starting 1 September 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

The following table provides information about the Group's loss rates applied against customer balances as at 31 August 2019 under IFRS 9:

%	2019
Current (not overdue)	0.1
30-60 days overdue	2.9
61-90 days overdue	6.1
91-120 days overdue	-
Over 120 days overdue	18.4

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

- One customer (2018: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of this was £13.0m (2018: £13.2m); and
- A further three customers (2018: seven) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £17.0m (2018: £32.8m).

Movement in the allowance for doubtful debts:

£m	2019	2018
At 1 September	0.5	0.5
Impairment losses recognised	(0.1)	0.5
Amounts written off as uncollectible	(0.3)	(0.4)
Amounts recovered during the year	0.2	(0.1)
Amounts released during the year	-	-
At 31 August	0.3	0.5

The directors consider that the carrying amount of trade and other receivables approximates their fair value which is considered to be a level 2 methodology of valuing them.

Other debtors and prepayments
The largest items included within this balance are £20.2m (2018: £22.5m) returns reserve asset, £7.9m (2018: £6.8m) of publisher debtors.

18. Trade and other payables

£m	2019	Restated* 2018
Trade payables	(114.4)	(116.3)
Other creditors	(47.0)	(43.0)
Accruals	(12.1)	(16.1)
Deferred income	(0.2)	(0.2)
	(173.7)	**(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.

Included within other creditors is a balance of £23.4m (2018: £25.5m) relating to the returns reserve accrual.

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 31 days (2018: 31 days). No interest is charged on trade payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value using a level 2 valuation.

19. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2019	2018
Cash and bank deposits	20.9	1.9	0.8	0.4	24.0	18.0
Overdrafts	(16.1)	-	-	-	(16.1)	(9.3)
Net Cash and cash equivalents	4.8	1.9	0.8	0.4	7.9	8.7
Revolving credit facility - disclosed within current liabilities	(30.0)	-	-	-	(30.0)	(38.0)
Term loan – disclosed within non-current liabilities	(49.3)	-	-	-	(49.3)	(48.8)
Total borrowings	(95.4)	-	-	-	(95.4)	(96.0)
Net borrowings	**(74.5)**	1.9	0.8	0.4	**(71.4)**	**(78.1)**
Total borrowings						
Amount due for settlement within 12 months	(46.1)	-	-	-	(46.1)	(47.2)
Amount due for settlement after 12 months	(49.3)	-	-	-	(49.3)	(48.8)
	(95.4)	**-**	**-**	**-**	**(95.4)**	**(96.1)**

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 entered into banking facilities of £175.0m with six relationship banks with a term which runs until January 2021. The facility comprises of a term loan of £50.0m with no amortisation and a revolving credit facility (RCF) for £125.0m (see note 20). The £46.0m due for settlement within 12 months relates to the RCF and overdraft.

Available Group bank facilities are outlined in note 20. Interest payable under the facility in place at 31 August 2019 is calculated as the cost of one month LIBOR plus an interest margin of between 1.35% and 2.35% dependent on the net debt/ adjusted EBITDA covenant ratio. The weighted average interest rate for the year was 5.5% (2018 : 4.9%).

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

£m	Note	01/09/2018	Financing cash flows	New finance leases	Other changes	31/08/2019
Term Loan	19	48.8	-	-	0.5	49.3
Revolving credit facility	19	38.0	(8.0)	-	-	30.0
Finance leases		5.3	(2.8)	-	-	2.5
Total		**92.1**	**(10.8)**	**-**	**0.5**	**81.8**

£m	Note	01/09/2017	Financing cash flows	New finance leases	Other changes	31/08/2018
Term Loan	19	80.0	(30.0)	-	(1.2)	48.8
Revolving credit facility	19	-	24.1	-	13.9	38.0
Finance leases		8.5	(3.8)	-	0.6	5.3
Total		**88.5**	**(9.7)**	**-**	**13.3**	**92.1**

Other changes include interest accruals, payments.

Analysis of net debt

£m	Note	2019	2018
Cash and cash equivalents	19	7.9	8.7
Current borrowings	19	(30.0)	(38.0)
Non-current borrowings	19	(49.3)	(48.8)
Net borrowings		**(71.4)**	**(78.1)**
Finance lease liabilities	21	(2.5)	(5.3)
Net debt		**(73.9)**	**(83.4)**

The movement in net debt in the period includes £0.5m loan fee amortisation.
Cash and cash equivalents includes cash of £24.0m (2018: £18.0m) offset by £16.0m (2018:£9.2m) of overdrafts.

20. Financial Instruments

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

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

The only externally imposed capital requirements for the Group are debt to EBITDA, fixed charge cover and interest cover under the terms of the bank facilities, with which the Group has fully complied during both the current year and the prior year. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders and/or issue new shares. The Group's capital is only restricted by distributable reserves.

The Board regularly reviews the capital structure. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group intends to take a more prudent and disciplined approach to capital management. We expect free cash from operations to be sufficient to fund the investment needed for recovery, with the surplus used to reduce net debt while also maintaining an attractive total shareholder return. The Group is targeting a reduced net debt/EBITDA ratio of 1x by 2021, with repayment achieved through a combination of surplus free cash from operations as well as proceeds from the sale and leaseback of selected freehold and long lease properties. The Group's facilities include a frozen GAAP clause and the net/EBITDA is stated on this basis.

Liquidity risk
The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by monitoring forecast and actual cash flows. The facilities that the Group has at its disposal to further reduced liquidity risk are described below.

As at 31 August 2019, the Group had £175.0m committed bank facilities in place (2018: £175.0m). Bank facilities comprised:

- a £50.0m syndicated term loan; and
- a £125.0m syndicated revolving credit facility,

which together expire in January 2021.

The facility described above is subject to the following covenants which are subject to a frozen GAAP clause:

- Leverage cover - the net debt: adjusted EBITDA ratio which must remain below 2.75x. At 31 August 2019 the ratio was 1.9x (2018: 1.8x);

- Interest cover - the consolidated net interest: adjusted EBITDA ratio which must remain above 4.0x. As at 31 August 2019 the ratio was 7.2x (2018: 9.6x);
- Fixed charge cover - the ratio of adjusted EBITDA to consolidated fixed charges is not less than 1.75x to 1. As at 31 August 2019 the ratio was 2.1x (2018: 2.3x); and
- Guarantor cover - The annual turnover, gross assets and pre-tax profits of the Guarantors contribute at any time 80 per cent or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidiaries of the Connect Group PLC, are each of Connect Group PLC, Smiths News Holdings Limited, Smiths News Trading Limited and Tuffnells Parcels Express Limited.

At 31 August 2019, the Group had available £95.0m (2018: £87.0m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

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

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle at Smiths News that results in significant predictable swings within each month of around £40.0m, which utilises the Revolving Credit Facility of £125.0m.

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

£m	Due within 1 Year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2019				
Non derivative financial liabilities				
Bank and other borrowings	(38.0)	(50.0)	-	-
Finance leases	(2.2)	(0.3)	-	-
Total	**(40.2)**	**(50.3)**	**-**	**-**
At 31 August 2018				
Non derivative financial liabilities				
Bank and other borrowings	(47.2)	-	(50.0)	-
Finance leases	(2.8)	(1.7)	(0.4)	(0.6)
Total	**(50.0)**	**(1.7)**	**(50.4)**	**(0.6)**

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

Foreign currency risk
- The majority of the Group's transactions are carried out in the functional currencies of its operations, and so transactional exposure is limited.
- The majority of the Group's net liabilities are held in Sterling, with only £3.2m (2018: £1.0m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk
The Group monitors its exposure to interest rate in light of the Group's debt exposure, consideration of the macroeconomic environment and sensitivity to potential interest rate rises. The Group avoids the use of derivatives or other financial instruments in circumstances when the outcome would effectively be largely dependent upon speculation on future rate movements.

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

All financial assets are classified under loans and receivables and other financial liabilities are held at amortised cost.

Interest rate sensitivity analysis
Based on the assumption that the liabilities outstanding at the balance sheet date were outstanding for the whole year, if interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the year ended 31 August 2019 would decrease/increase by £0.5m (2018: £0.4m).

Credit risk
The Group considers its exposure to credit risk at 31 August 2019 to be as follows:

£m	2019	2018
Bank deposits	23.9	17.9
Trade and other receivables	124.2	129.4
	148.1	**147.3**

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

21. Obligations under finance leases

£m	2019		2018	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	2.2	2.2	2.8	2.8
In the second to fifth years inclusive	0.3	0.3	2.7	2.5
Total	**2.5**	**2.5**	**5.5**	**5.3**
Less: future finance charges			(0.2)	-
Present value of lease obligations	**2.5**	**2.5**	**5.3**	**5.3**
Less: amount due for settlement within 12 months (shown under current liabilities)		(2.2)		(2.8)
Amount due for settlement after 12 months		**0.3**		**2.5**

Group policy is to acquire certain items of its fixtures, equipment and software under finance leases. The average lease term is 3 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

22. Other non-current liabilities

£m	2019	2018
Other creditors	(1.2)	(0.6)

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

23. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Accelerated tax depreciation	Other	Share based payments	Intangible assets	Retirement benefits	Total
At 1 September 2018	1.9	0.2	-	(5.9)	1.3	**(2.5)**
Charge to income	2.7	(0.2)		5.9	-	8.4

Charge to other comprehensive income and directly in equity	-	-	0.1	-	(0.8)	(0.7)
At 31 August 2019	**4.6**	**-**	**0.1**	**-**	**0.5**	**5.2**
Deferred tax assets	**4.6**	**-**	**0.1**	**-**	**0.5**	**5.2**
Deferred tax liabilities	-	-	-	**-**	**-**	**-**
At 1 September 2017	1.8	0.9	0.7	(7.2)	2.0	(1.8)
Charge to income	0.1	(0.7)	(0.7)	1.3	-	-
Charge to other comprehensive income and directly in equity	-	-	-	-	(0.7)	(0.7)
At 31 August 2018	**1.9**	**0.2**	**-**	**(5.9)**	**1.3**	**(2.5)**
Deferred tax assets	**1.9**	**0.2**	-	-	**1.3**	**3.4**
Deferred tax liabilities	-	-	-	**(5.9)**	**-**	**(5.9)**

The Group has recognised the net balance of deferred tax as the liability and asset are with the same tax authority and unwind over the same time period. The deferred tax assets have been deemed recoverable as they are offset by a liability and the Group forecasts that it will continue to make profits against which the assets can be utilised.

The Group has capital losses carried forward of £28.2m (2018: £28.2m). Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxed at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

24. Provisions

£m	Regulatory	Re-organisation provisions	Insurance and legal provision	Property provisions	Total
At 1 September 2018	(2.8)	(4.0)	(1.9)	(5.6)	(14.3)
Charged to income statement	-	(2.6)	(1.2)	-	(3.8)
Credited to income statement	0.7	0.5	-	0.6	1.8
Utilised in period	2.1	2.5	0.8	-	5.4
Unwinding of discount utilisation	-	-	-	(0.4)	(0.4)
At 31 August 2019	-	(3.6)	(2.3)	(5.4)	(11.3)

£m	2019	2018
Included within current liabilities	(7.3)	(9.5)
Included within non-current liabilities	(4.0)	(4.8)
Total	(11.3)	(14.3)

Included within non-current liabilities is £4.0m (2018: £4.8m) relating to Property provisions.

Regulatory provisions brought forward included £1.3m in relation to legal costs and estimated historical underpayment of national minimum wage compliance, see note 4 for further information, £0.7m of this provision has been released and the remaining liability settled in full. A further £1.5m of the balance brought forward was settled in full on 3 October 2018 following Tuffnells prosecution on 11 September 2018 relating to a fatality at its Brierley Hill depot and an offence under S2(1) of the Health and Safety at Work Act.

Re-organisation provisions include £1.0m relating to the closure of Pass My Parcel. £2.6m of redundancy costs have been accrued as part of the Group's strategy to offshore its shared service centres, the transition had been announced prior to the year end and the total amount is expected to be utilised during the following financial year (see note 4 for further information).

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims.

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 2036, however, a significant portion of the potential liability falls within five years. Included within the provision are amounts of £0.4m in relation to estimated PMP related property costs (see note 4 for further information).

25. Contingent liabilities and capital commitments

£m	2019	2018
Bank and other loans guaranteed	7.8	6.8

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2019 of £0.8m (2018: £1.3m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £2.3m (2018: £nil).

The Group have approved letter of credit of £7.8m to the insurers of the Group for the motor insurance and employer liability insurance policy. The letter of credit covers the employer deductible element of the insurance policy for insurance claims.

26. Operating lease commitments

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

Continuing	**2019**			**2018**		
£m	Land & buildings	Equipment & vehicles	**Total**	Land & buildings	Equipment & vehicles	**Total**
Within one year	10.0	9.2	**19.2**	12.1	13.3	**25.4**
In the second to fifth years inclusive	27.7	15.7	**43.4**	30.4	18.6	**49.0**
In more than five years	16.2	0.5	**16.7**	22.3	2.3	**24.6**
	53.9	**25.4**	**79.3**	**64.8**	**34.2**	**99.0**

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

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

£m	2019	2018
Within one year	0.2	0.1
In the second to fifth years inclusive	0.7	-
More than five years	0.2	-
	1.1	0.1

Property rental income earned during the year was £0.3m (2018: £0.2m).

27. Net cash inflow from operating activities

£m	Note	2019	2018
Operating (loss)/profit - continuing	3	(31.3)	(30.0)
Operating (loss)/profit - discontinued	3	-	(8.8)
Operating (loss)/profit – total		(31.3)	(38.8)
Losses on disposal of assets		0.2	0.5
Impairment of assets held for sale	4	-	1.1
Impairment of tangible assets	4	-	1.0
Share of profits of joint ventures		(0.4)	(0.5)
Loss on disposal of subsidiary	12	-	10.5
Adjustment for pension funding		(1.2)	(4.2)
Depreciation of property, plant and equipment		6.9	8.6
Amortisation of intangible assets	4	9.2	11.4
Impairment of Tuffnells assets	4	45.5	46.1
Share based payments		0.2	(0.3)
(Increase)/decrease in inventories		(2.8)	0.5
Decrease in receivables		5.3	17.7
Decrease in payables		(2.9)	(10.2)
Decrease in provisions		(3.5)	(0.3)
Non cash pension costs		0.4	0.3
Amortisation of loan arrangement fees	7	-	0.6
Income tax paid		(2.6)	(6.5)
Net cash inflow from operating activities		**23.0**	**37.5**

Net cash flow from operating activities is stated after the following adjusted items:		
Re-organisation & restructuring costs	(4.0)	(4.7)
PMP exit costs	(0.8)	(2.1)
Pension	(2.0)	-
IPR settlement	0.5	-
Brierley Hill settlement	(1.7)	-
NMW settlement	(0.3)	-
Fees relating to disposal activity	-	(1.5)
	(8.3)	**(8.3)**

28. Share Capital

(a) Share capital

£m	2019	2018
Issued and fully paid:		
At 1 September	12.4	12.4
Shares issued during the year	-	-
247.7m ordinary shares of 5p each (2018: 247.7m)	12.4	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
31 August 2018	247.7
Shares issued during the year	-
At 31 August 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 general meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

No shares were issued during the year to 31 August 2019. During the year to 31 August 2018 125 ordinary 5p shares were issued to satisfy share scheme exercises.

(c) Share premium

£m	2019	2018
Balance at 1 September	60.5	60.5
Premium arising on issue of equity shares	-	-
Balance at 31 August	**60.5**	**60.5**

29. Reserves

(a) Demerger reserve

£m	2019	2018
At 1 September	(280.1)	(280.1)
At 31 August	**(280.1)**	**(280.1)**

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

(b) Own shares reserve

£m	2019	2018
Balance at 1 September	(2.1)	(3.1)
Acquired in the period	-	-
Disposed of on exercise of options	0.4	1.0
Balance at 31 August	**(1.7)**	**(2.1)**

The reserve represents the cost of shares in Connect Group PLC purchased in the market and held by the Smiths News Employee Benefit Trust to satisfy awards and options granted under the Group's Executive Share Schemes (see note 31). The number of ordinary shares held by the Trust as at 31 August 2019 was 1,188,537 (2018: 1,506,850). In accordance with IAS 32, these shares are deducted from shareholders' funds. Under the terms of the Trust, the Trustee has waived all dividends on the shares it holds.

(c) Hedging & translation reserve

£m	2019	2018
Balance at 1 September	0.2	0.5
Settlement on termination	-	-
Net movement in cash flow hedges	-	-
Exchange differences on translating net assets of foreign operations	0.1	(0.3)
Balance at 31 August	**0.3**	**0.2**

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

30. Retained Earnings

	£m
Balance at 31 August 2017	**234.9**
Amounts recognised in Total comprehensive income	(47.0)
Dividends paid	(24.1)
Employee share schemes	(1.0)
Equity-settled share based payments, net of tax	0.4
Balance at 31 August 2018	**163.2**
Amounts recognised in Total comprehensive expense	(28.6)
Dividends paid	-
Employee share schemes	(0.4)
Equity-settled share based payments, net of tax	0.1
Balance at 31 August 2019	**134.3**

31. Share-based payments

In 2019, the Group recognised a total charge of £0.4m related to equity-settled share-based payment transactions. In 2018 there was a total credit of £0.4m. The average share price throughout the year was 37.4p (2018: 72.0p).

The Group operates the following share incentive schemes:

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

Details of the options/awards are as follows:

	Sharesave		**ESOS**		**LTIP**		**DBP**	
Number of options/ awards	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price**
At 31 Aug 2017	3,565,191	118.1	6,097,269	144.8	3,006,029	-	910,524	-
Granted	3,154,226	43.6	1,353,061	108.8	2,137,786	-	338,976	-
Exercised	(9,846)	101.3	(114,935)	86.3	-	-	(676,941)	-
Expired /Forfeited	(2,787,326)	115.1	(705,876)	165.0	(2,039,058)	-	(92,705)	-
At 31 Aug 2018	3,922,245	60.4	6,629,519	136.3	3,104,757	-	479,854	-
Granted	3,104,452	30.40	-	-	8,561,924	-	416,378	-
Exercised	-	-	-	-	-	-	(158,785)	-
Expired /Forfeited	(1,908,532)	79.40	(2,290,577)	154.5	(1,786,330)	-	(92,297)	-
At 31 Aug 2019	5,118,165	45.42	4,338,942	126.7	9,880,351	-	645,150	-
Exercisable at 31 Aug 2019	16,312	110.3	152,209	159.8	-	-	-	-
Exercisable at 31 Aug 2018	253,052	128.4	2,753,725	134.3	-	-	-	-

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

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2019	2.5	6.8	1.9	1.3
Outstanding at 31 August 2018	2.6	6.6	8.6	1.2

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

	Sharesave	ESOS	LTIP	DBP
During 2019:				
Effective date of grant or commencement date	Jun 2019		Dec 2018 May 2019	
Average fair value at date of grant or scheme commencement – pence	8.0		36.5	
During 2018:				
Effective date of grant or commencement date	Jun 2018	Dec 17	Dec 17	Dec 17
Average fair value at date of grant or scheme commencement – pence	13.9	11.6	-	109

The options outstanding at 31 August 2019 had exercise prices ranging from nil to 189.5p (2018: nil to 189.5p).

The weighted average share price on the date of exercise was 37p (2018: 108p).

The Sharesave options granted during each period have been valued using the Black-Scholes model, the LTIP and DBP schemes are valued by reference to the share price at the date of grant.

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

	Sharesave	ESOS	LTIP	LTIP	DBP
2019 options/awards:			May 19	Dec 18	Dec 18
Share price at grant date – pence	38.0	-	37.4	36.25	36.25
Exercise price – pence	30.4	-	-	-	-
Expected volatility – per cent	39%	-	-	-	-
Expected life – years	3.0	-	-	-	-
Risk free rate – per cent	0.4%	-	-	-	-
Expected dividend yield – per cent	2.6%	-	-	-	-
Weighted average fair value – pence	8.0	-	37.4	36.25	36.25
2018 options/awards:		Dec 2017			
Share price at grant date – pence	52.3	109	-	109	109
Exercise price – pence	42.0	109	-	-	-
Expected volatility – per cent	50%	33%	-	-	-
Expected life – years	3.0	3.0	-	-	-
Risk free rate – per cent	0.94%	0.78%	-	-	-
Expected dividend yield – per cent	1.9%	9.1%	-	-	-
Weighted average fair value – pence	13.9	11.6	-	109	109

32. Post balance sheet events

On 23 September 2019, the Group's subsidiary, Tuffnells Parcels Express Limited (Tuffnells), exchanged contracts in respect of the proposed sale and leaseback of 6 distribution depots, of which three were freehold and three were long leasehold properties, to Urban Logistics Prop Co 1 (AC) Limited (Urban

Logistics), a subsidiary of Urban Logistics REIT plc. Completion subsequently took place on 27 September 2019.

The sale price received from Urban Logistics was £9.9m. At completion, this first tranche of properties was subsequently leased back from Urban Logistics on 20 year lease terms, with market rent payable at £0.7m per annum, subject to market inflation. In each case, the leases are guaranteed by the Company. The expected impact under IFRS 16 will be to recognise a gain on disposal of £0.7m, a lease creditor of £8.0m, a right of use asset of £3.2m, annual depreciation of £0.2m and year 1 interest of £0.4m.

33. Related party transactions

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

Transactions with the Group’s pension schemes are disclosed in note 6.

Trading transactions

	Sales to related parties		Amounts owed by related parties	
£m	**2019**	**2018**	**2019**	**2018**
Joint ventures	2.6	3.5	0.5	0.8

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

Non-trading transactions

	Loans to related parties	
£m	**2019**	**2018**
Joint ventures	0.6	-

Aggregate remuneration of key management personnel

The remuneration of the directors and the Executive Team, who are the key management personnel of the continuing Group, is set out below in aggregate for each of the categories specified in IAS 24 *‘Related Party Disclosures.’*

£m	2019	2018
Short-term employee benefits	2.9	2.1
Post-employment benefits	-	0.4
Termination benefits	0.3	-
Share based payments	0.2	(0.1)
	3.4	**2.4**

Mark Cashmore, the Group’s former Chief Executive Officer, continued to receive his basic salary, benefits and pension, subject to offset against earnings received elsewhere from any other executive role, until 30 June 2019. This totalled £0.6m up to June 2019. (2018: £0.5m).

34. Subsidiary and associated undertakings

Company name/ (number)	Share Class	Group %	Company name/ (number)	Share Class	Group %
United Kingdom					
Rowan House, Cherry Orchard North, Kembrey Park, Swindon SN2 8UH					
Connect Limited 02008952	Ordinary Shares	100%	Martin-Lavell Limited 02654521 (*)	Ordinary Shares	100%
Connect Logistics Limited 09172965	Ordinary Shares	100%	Pass My Parcel Limited 09172022	Ordinary Shares	100%
Connect News & Media Limited 08572634	Ordinary Shares	100%	Phantom Media Limited 03805661 (*)	Ordinary Shares	100%
Connect Parcel Freight Limited 09295023	Ordinary Shares	100%	Smiths News Holdings Limited 04236079	Ordinary Shares	100%
Connect Parcels Limited 09172850	Ordinary Shares	100%	Smiths News Instore Limited 03364589	Ordinary Shares	100%
Connect Services Limited 08522170	Ordinary Shares	100%	Smiths News Investments Limited 06831284	Ordinary Shares	100%
Connect Specialist Distribution Group Limited 08458801	Ordinary Shares	100%	Smiths News Limited 08506961	Ordinary Shares	100%
Connect2U Limited 03920619	Ordinary Shares	100%	Smiths News Trading Limited 00237811	Ordinary Shares	100%
Dawson Media Services Limited 06882722	Ordinary Shares	100%	The Big Green Euro Machine Limited 02496549	Ordinary Shares	100%
Dawson Guarantee Company Limited 06882393	Ordinary Shares	100%	The Big Green Parcel Group Limited 05356630	Ordinary Shares	100%
Dawson Holdings Ltd 00034273	Ordinary Shares	100%	The Big Green Parcel Holding Company Ltd 06459283	Ordinary Shares	100%
Dawson Limited 03433262	Ordinary Shares	100%	The Big Green Parcel Machine Limited 03125293	Ordinary Shares	100%
Dawson Media Direct Limited 06882366	Ordinary Shares	100%	Tuffnells Parcels Express Limited 00319964	Ordinary Shares	100%
Two Snowhill, Snow Hill, Birmingham, B4 6GA					
Worldwide Magazine Distribution Limited 01206287	Ordinary Shares	50%	FMD Limited 03729720	Ordinary A shares	50%
27 Kings Road, Berkhamsted, Hertfordshire, HP4 3BH					
Fresh On The Go Limited 08775703	Ordinary Shares	30%			
Estantia House, Pitreavie Drive, Pitreavie Business Park, Dunfermline, Fife KY11 8US					
Bluebox Aviation Systems Ltd SC267388	Ordinary Shares	36.1%	Bluebox Systems Group Limited SC544863	Ordinary A Shares	36.1%
Inflight House, Hurricane Way, Langley, SL3 8AG					
Bluebox Avionics Limited 05684001	Ordinary Shares	36.1%			
Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF					
Open-Projects Limited 02422753	Ordinary Shares	50%	Rascal Solutions Limited 05191277	Ordinary A Shares	50%
France					
Dawson Media Direct SAS 450 101 340 RCS Bobigny	Ordinary Shares	100%	11 rue Léopold Bellan, 75000 Paris, France		
Spain					
Dawson Media Direct Iberica SL CIF-B84692904	Ordinary Shares	100%	Avendida de la Industria 38, Nave C-17, 28223 Coslada, Spain		
Germany					
Dawson Media Direct GmbH HRB 99445	Ordinary Shares	100%	Auf der Roos 6-12, 65795 Hattersheim am Main, Germany		
Belgium					
Dawson Media Direct NV 474.114323	Ordinary Shares	99%	Brixtonlaan 1E, 1930 Nossengem, Belgium		
Turkey					
Dawson Media Direct Anonim Sirketi 14449-5	Ordinary Shares	100%	Parima Plaza Maltepe Mahallesi Eski Cirpici Yolu Sok No:8 K:14-176 Merter-Zeytinburnu Istanbul Turkey		
Australia					

Dawson Media Direct Australia Pty Limited 615545545	Ordinary Shares	100%	C/O Grant Thornton Australia Level 17, 383 Kent Street, Sydney NSW 2000, Australia
Hong Kong			
Dawson Media Direct China Limited 1167911	Ordinary Shares	100%	Flat/Rm 5008 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Thailand			
Dawson Media Direct Co. Ltd 105558138385	Ordinary Shares	48.9%	87 M Thai Tower, All Seasons Place, 23rd Floor, Wittayu Road, Lumpini Sub-District, Pathumwan District, Bangkok, Thailand
United Arab Emirates			
DMD Holdings Limited (JAFZA) OF3596	Ordinary Shares	100%	PO Box 7992, Dubai, United Arab Emirates
United States			
Dawson Media Direct Holdings Inc 4056281	Common Stock	100%	Corporation Trust Centre, 1209 Orange Street, Wilmington IL DE19801, United States
Dawson Media Direct Inc 4056283	Common Stock	100%	40 Wall Street, 28th Floor, New York, NY 10005, USA

*** Audit exemption statement**

For the year ended 31 August 2019, the companies as indicated in the table by '(*)' above were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. As such, Connect Group PLC has provided a guarantee against all debts and liabilities in these subsidiaries as at 31 August 2019. The members of these companies have not required them to obtain an audit of their financial statements for the year ended 31 August 2019.

Bluebox Systems Group Limited, Bluebox Aviation Systems Limited and Bluebox Avionics Limited are associated undertakings. Rascal Solutions Limited, Open-Projects Limited, FMD Limited and Worldwide Magazine Distribution Limited are joint ventures (see note 15).

35. Reconciliation of Free cash flow to net movement in cash and cash equivalents

A reconciliation between free cash flow and the net increase/ (decrease) in cash and cash equivalents is shown below:

£m	2019	2018
Net (decrease) /increase in cash & cash equivalents	**(0.8)**	**2.5**
Dividend paid	**-**	**24.1**
Proceeds on sale of subsidiary (net of disposal costs)	**-**	**(12.9)**
Decrease in borrowings	**8.0**	**5.9**
Adjustment for pension funding	**1.2**	**4.7**
Dividends received from associates	**(0.1)**	**(0.2)**
Total Free cash flow	**8.3**	**24.1**
Discontinued free cash flow	**-**	**(3.9)**
Continuing free cash flow	**8.3**	**20.2**

36. Adoption of new accounting standards

In the current year, the Group has adopted and applied the following accounting standards issued by the International Accounting Standards Board that are relevant to the operations of the Group.

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The impact of the adoption of these new standards on the Group's financial statements is explained below. Neither of these standards has had a material impact on the income statement or the net assets/(liabilities) of the Group.

IFRS 9 'Financial Instruments'
IFRS 9 became effective for accounting periods beginning on or after 1 January 2018 and replaced IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduced new requirements for the classification and measurement of financial instruments, impairment of financial assets using an expected credit loss (ECL) model, and hedge accounting.

The adoption of IFRS 9 did not have a material impact on the Group financial statements, the effect being limited to a change in the methodology used to calculate impairment of the Group's financial assets. This change did not have a material impact on the net assets or profit for the year of the Group. The Group has elected not to restate comparative information for the effect of applying IFRS 9 on the basis that the change is immaterial.

Classification and measurement of financial assets
The directors have reviewed and assessed the Group's financial assets and concluded that the application of IFRS 9 does not have an impact. Trade and other receivables, cash and cash equivalents will continue to be classified at amortised cost.

Impairment of financial assets
IFRS 9 requires an expected credit loss approach to impairment rather than the incurred credit loss model under IAS 39. The Group has applied the simplified approach to measuring expected credit losses. This uses a lifetime expected loss allowance for all trade receivables and contract receivables.

Balances have been grouped based on shared credit risk characteristics and the days past due. On this basis there is no significant impact compared to those previously recognised under IAS 39 Financial Instruments Recognition and Measurement.

Classification and measurement of financial liabilities
All the Group's financial liabilities are held at amortised cost. The IFRS 9 requirements regarding the classification and measurement of financial liabilities are broadly consistent with the previous standard, IAS 39. Accordingly, the adoption of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014 and became effective for the Group from 1 September 2018. The Group has applied the fully retrospective approach; therefore comparative periods have been restated.

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.

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.

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.

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	No direct	N/A	Note 4	Are items of income or expense that are excluded in arriving at

Items	equivalent			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	Free cash Flow table included in the Financial Review	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 10	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 27	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 27	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.