CONNECT GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2019

OUR VALUES Creative Trusted Fair Quick Open Friendly

Connect Group PLC
Annual Report 2019

INSIDE THIS ANNUAL REPORT

For regular updates on the performance and governance of the Group visit: www.connectgroupplc.com

02 Strategic Report

32 Governance

Welcome to the Connect Group PLC Annual Report 2019.

In a challenging year, the Group has focused on building the underlying strength of its core operations, with priorities that balanced improvements in profitability, continued investment and prudent capital management.

Gary Kennedy
Chairman

Connect Group PLC is a specialist distributor and a leading player in newspaper and magazine wholesaling and mixed freight deliveries. Our business model is founded on the delivery of great service, scale efficiencies and unmatched value for customers.

Our Values

Quick – Make informed decisions and act quickly. Be agile in the way we work together and deliver for our customers

Creative – Be imaginative, adventurous and curious. Develop inspirational ideas and innovative solutions

Open – Share your thoughts freely and always stay open to new ideas. Listen to others, be positive and engage in communications

Trusted – Safe, reliable and responsible. Take pride in our work and do the right thing for our customers and each other

Friendly – Have fun and be helpful. Enjoy working together to deliver great performance

Fair – Be inclusive, honest and respectful to everyone, whatever their role or experience

A Year in Review

LOOKING BACK ON A CHALLENGING YEAR

The Group continues to deliver substantial profit and cash, achieving a reduction in net debt after meeting the investment needs of the business.

Connect Group PLC is a specialist distributor and a leading player in newspaper and magazine wholesaling and mixed freight distribution. We connect our suppliers to their customers with networks that provide scale efficiencies and market expertise which adds value across the supply chain. Our business models are founded on an unmatched ability to meet the needs of our customers to standards that other distributors would struggle to achieve.

www.connectgroupplc.com

Smiths News, the UK's largest news wholesaler reaches more than 25,500 retailers across England and Wales. Operating seven days a week, we deliver supplies, collect and process returns and use technology to forecast demand and manage products efficiently. Serving a fixed but fragmented customer base, the density of our coverage is unprecedented, and the speed of turnaround is critical to one of the UK's fastest physical supply chains. Smiths News has long-term and exclusive distribution contracts with its major publishers, underpinning a highly predictable business model in what is a uniquely specialised sector. Smiths News includes two adjacent businesses, DMD and Instore, which provide complementary services for publishers and retailers.

www.smithsnews.co.uk

Tuffnells is a leading specialist in mixed and irregular freight, serving small and medium-sized enterprises across the UK. Whether it is a parcel or a pallet load, Tuffnells has solutions for the deliveries that others find difficult to make. With a mix of local and national clients, our network offers a range of timed deliveries that complements our capability in specialist distribution.

www.tuffnells.co.uk

Financial highlights

Total Group revenue

£1,467.9m

2018: £1,534.3m

Adjusted profit before tax

£23.2m

2018: £28.4m

Statutory (loss) before tax

£(37.6)m

2018: £(35.5)m

Adjusted earnings per share

7.9p

2018: 9.3p

Free cash flow

£8.3m

2018: £20.2m

Dividend per share

1.0p

2018: 3.1p

Net debt

£73.9m

2018: £83.4m

Business overview

Connect group | Smiths News | Tuffnells.

In a challenging year the Group's performance was driven by a strong recovery in Smiths News, offset by significantly weaker trading in Tuffnells.

Smiths News

Revenue £m

2019: 1,303.3
2018: 1,361.6

Operating profit £m

2019: 43.6
2018: 38.9

Operational headlines
- Cost savings offsetting impact of declining sales
- Swift removal of legacy Pass My Parcel costs
- Service improvements reducing rectification costs
- Major contract renewals secured
- Pathway to future network efficiencies

Outlook
With a well-established and successful business model, Smiths News' primary focus is on great service and the delivery of efficiencies that aim to offset the decline in sales of newspapers and magazines.

Tuffnells

Revenue £m

2019: 164.6
2018: 175.2

Operating profit £m

2019: (14.1)
2018: (5.0)

Operational headlines
- Legacy cost and service issues impacting performance
- Revenue quality improvements offset by loss of volume
- Network and trunking review underway
- Strategic review of the business underway

Outlook
After an extremely challenging year, we are implementing a strategic review to determine the most appropriate structure and strategy for the Tuffnells business and, more widely, to consider its role and future in the Group. In tandem with this review, Tuffnells will continue to focus on improving the quality of its revenue, leaner and more flexible cost structures, new customer wins, increased volumes and improvements to service.

STRATEGIC REPORT

Chairman's Statement

CHALLENGE AND PROGRESS – LAYING THE FOUNDATION FOR RECOVERY

These headline results have been achieved in the context of widespread change and restructure, impacting all areas of the Group.

Gary Kennedy
Chairman

In a challenging year, the Group has focused on building the underlying strength of its core operations, with priorities that balanced improvements to profitability and continued investment and prudent capital management. The performance of Smiths News and the restructure of our central functions have gone well, however overall progress was severely hampered by a worsening of Tuffnells' performance in a challenging and competitive environment. Overall Group Adjusted profit before tax is therefore below last year, albeit only marginally behind market expectations. While we are confident that Smiths News can now deliver sustainably positive returns, in the light of its continuing underperformance and future investment needs, we have determined to conduct a strategic review of Tuffnells, encompassing its immediate strategy, and longer-term role and prospects in the Group.

Group Adjusted profit before tax for continuing operations of £23.2m is down by 18.3% (FY2018: £28.4m) and Adjusted earnings per share is down 15.1% to 7.9p (FY2018: 9.3p). Free cash flow for continuing operations was £8.3m (FY2018: £20.2m) and the Group's net debt closed the year at £73.9m (FY2018: £83.4m).

Given the underperformance of Tuffnells and in consideration of its future prospects in the Group, an impairment of £45.5m has been made to the goodwill, tangible and intangible assets of the business. As a consequence, the Statutory loss before tax of £37.6m is adverse by 5.9% (FY2018: loss of £35.5m), and Statutory earnings per share is a loss of 12.9p (FY2018: loss of 15.5p).

The Group's overall performance should be viewed in the context of widespread change and restructure, impacting all areas of the business, our colleagues and customers. In the autumn of 2018, having completed the rationalisation of our portfolio, we returned accountability for Smiths News and Tuffnells from the former integrated structure, to one of distinct business units supported by a suite of shared central services. The new structure was introduced in tandem with clear priorities that would drive recovery by refocusing on our core strengths while being open to new and more efficient ways of working.

It is pleasing to report the significantly improved performance from our largest business Smiths News, which returned Adjusted operating profit of £43.6m (FY2018: £38.9m) up by 12.1%. A combination of sustainable cost efficiencies and the rapid removal of legacy costs from exited business propositions has contributed to this result. But, perhaps most importantly, the focused management structure, led by Jonathan Bunting, has returned Smiths News to its former stability, restoring its reputation for delivering unmatched service and efficiency. The accelerated renewal of our contracts with the major newspaper and magazine publishers has already secured over 80% of our current revenues through to 2024. This is a further boost to confidence, giving us certainty of our territories and an enviable predictability of revenues and cash flow. Smiths News has an excellent track record in finding savings to mitigate the gradual decline in sales – while this inevitably becomes more challenging over time, as a key priority and free of other distractions, we would hope to maintain similar progress over the lifetime of our contracts.

Dawson Media Direct (DMD), the Group's specialist airline and travel point business, has for a number of years worked closely with Smiths News. This year, the business lost a significant contract with British Airways to competitive tenders. We have therefore taken action to mitigate the impact and, following internal review, DMD's operation and management have been fully merged into Smiths News, from where it can continue to make a positive contribution.

> *"During our recovery period we are holding capital management as a priority.*

Tuffnells' Adjusted operating loss of £14.1m (FY2018: £5.0m) was severely impacted by the flow-through of legacy weaknesses which meant we began the year with a significantly worsening run rate of consignment volume, customer attrition, costs and operational performance. The position was exacerbated by uncertainty in the wider economic environment and, as the market tightened, has led to a further loss of sales.

As at Smiths News, the reintroduction of a dedicated management team has improved focus and controls, but it is now clear that the potential solutions in Tuffnells will take longer to flow through to results, and disappointingly the anticipated first signs of performance improvement were further delayed in the second half by an especially challenging final quarter.

It is clear that the recovery of Tuffnells remains the Group's most pressing challenge. 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 profit, 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.

Supporting the strategic review, Michael Holt will take the role of Executive Chairman of Tuffnells for the duration of the process. Michael has been a non-executive director of the Group since October 2018; with a lifetime of experience in the distribution and logistics sector, he is fully qualified to provide insight and direction that will complement the current management team. Meanwhile, and in tandem with the review, we will continue to pursue efficiencies and greater flexibility of working in response to the challenging trading environment.

Efficiencies in our central functions have made good progress and delivered an important contribution to our overall results. A leaner centre, with a simplified management structure has also improved visibility of costs and their allocation across the Group. Working in support of the business units, the central functions have reduced costs in areas such as Recruitment, Technology and People – as well as improving the quality of information which underpins accountability for performance at an operational level. The ongoing development of an offshore shared service centre for the provision of selected technology, customer experience and finance services, will yield significant cost benefit in future years.

Despite the challenges in Tuffnells, which limited progress in the year, the Group generated positive Free cash flow of £8.3m (FY2018: £20.2m), closing the year with net debt of £73.9m, equivalent to 1.9X net debt/ EBITDA. The planned Sale and Leaseback of 16 Tuffnells depots did not proceed in the year as hoped but, in the first three months of FY2020, we reached agreement covering six depots, generating net receipts of £9.9m, which have been used to further reduce borrowing. Furthermore, cash contributions to the deficit repair plan of the Group's largest defined benefit pension scheme (in Smiths News) have now ceased (FY2018: £3.3m), following an insurance led buy-in process in October 2018.

During our recovery period, we are holding capital management as a priority, while being mindful of the need for all stakeholders to share in our progress. This year, we have not met our performance objectives to trigger variable pay awards for our employees. However, in the light of our underlying progress and after consideration of our future prospects, the Board has proposed and recommended a final dividend for FY2019 of 1.0p per share, payable in February 2020. Looking ahead, we continue to expect Free cash flow from operations to be sufficient to fund investment needs, contribute to a reduction in net debt, and provide an attractive yield to shareholders.

The support of my colleagues on the Board and Executive Team has been essential to addressing the opportunities and challenges across the Group. I am grateful for their constructive questioning and thoughtful judgement as we continue to deliver a turnaround based on building a sustainably better core business. Jos Opdeweegh who joined as Chief Executive Officer in September 2018 made a meaningful contribution to the direction and implementation of this strategy, before leaving the Group in November 2019. I am delighted that Jonathan Bunting, who has led the Smiths News business for over ten years, has agreed to take up the role of Interim Chief Executive Officer of Connect Group PLC. His industry experience and deep knowledge of our operations will be invaluable as we conduct the strategic review and determine the future leadership requirements of the Group.

This year, the Board completed an externally facilitated three-yearly evaluation process which concluded that the Board and its Committees are working effectively, but also provided helpful feedback for improvement. Further details of the evaluation's process and findings can be found in the Corporate Governance report on page 41.

Looking to the year ahead, our core strategy remains uncomplicated and unchanged: a resolute focus on building sustainably better businesses, underpinned by prudent capital management. In this regard, the recovery of Smiths News and the improvements to our underlying financial position provide us with a stronger platform to address our most pressing challenge – the turnaround of Tuffnells and the removal of its drag on our overall performance. We recognise there is still much to be done and that, in particular, the outcome of its strategic review will be critical to the long-term delivery of improved shareholder value. I am confident that this combination of focused priorities, wider strategic review and continued prudent capital management is the right way forward, and look forward to reporting on progress in due course.

Finally, I would also like to thank all our colleagues for their understanding and unstinting commitment in the face of what has been a demanding programme of change and renewal. It is their daily efforts which underpin all that we have achieved, and I am always impressed by their determination to deliver the highest standards of service, often in challenging circumstances. As the Group continues with its recovery, their efforts will be vital, and I look forward to them sharing in the benefits of our success.

Gary Kennedy
Chairman

Group Strategy and Business Model

BUILDING SUSTAINABLY BETTER BUSINESSES

Our strategy is to build the capability of Smiths News and Tuffnells, through actions and investments that will deliver sustainable value over time.

Our strategy

The Group's strategy is founded on the delivery of market leading services to our core customer groups. We operate as a leading player in two distinct markets, sharing central services, which provide further efficiencies and enhance our specialist expertise. In both our markets, we strive to offer the best value route to market, providing high quality services that are difficult and costly for others to replicate. By doing so, we aim to establish long-term partnerships with our customers and avoid disintermediation in our supply chains.

The Group remains primarily focused in its core operations, working to enhance capability and investing to build sustainably better businesses. A lean central service model ensures scale economies for those services that can be shared, without hindrance to the smooth running of frontline operations. The Group is alert to the potential for adjacent services which can leverage its core skills and plans to pursue these over time, applying strict investment criteria which deliver an appropriate balance between risk and return.

More broadly, our strategy continues to focus on improvement to the underlying financial strength of the Group, targeting a reduction in net debt, while maintaining our commitment to meeting the investment needs of the business and providing an attractive yield for shareholders.

Our business model

The Group's business model aims to deliver service excellence, scale efficiencies and value for customers. As a leading player in our markets, we develop long-term partnerships, combining core services with bespoke solutions that enhance our role and value across the supply chain.

Our markets are characterised by a large number of suppliers, complex to manage product ranges and a diverse and dispersed customer base. This combination of customer and product fragmentation limits disintermediation in our supply chains and supports the role of an industry distribution specialist providing a valuable service to both suppliers and customers.

The Group's two core businesses serve distinct and specialised customer groups: Smiths News is the UK's largest newspaper and magazine wholesaler; Tuffnells focuses on mixed freight and time sensitive logistics, specialising in deliveries of irregular dimension and weight (IDW).

Supporting these operations are a range of shared central services that provide further efficiencies and value for customers. We have a long-term commitment to investing in systems and infrastructure which maintain our competitive advantage and enhance the service we offer.

Connect group

SmithsNews

- 25,500 customers
- 39 depots
- Tracking and scanning
- Returns collections
- 364 day operation

Tuffnells.

- 36 depots
- Specialists in IDW
- Online parcel tracking
- Collections and deliveries

Services

The Group offers a range of distribution services that can be tailored to customer needs. From time sensitive or difficult deliveries, to stockholding and information services, we provide the expertise and practical know-how that our customers trust to support their business.

Efficiency

Working efficiently is the key to our competitive advantage. With national capability and high market share we can deliver services as standard that would otherwise require a premium, helping to reinforce our partnerships with customers. Our efficiency is underpinned by a culture that actively seeks out improvements that can be shared across the supply chain.

Value

Value is critical to our customers and hence our business model. We aim to deliver the most cost effective route to market, sharing our infrastructure and capability across many thousands of customers so that all can benefit. We understand that value comes in different forms, and as such we offer a range of priced services from the relatively simple and regular, to one off and more complex deliveries.

Services

Smiths News is the UK's largest news wholesaler, working to uniquely challenging and ultra time-sensitive demands. Visiting 25,500 customers 364 days a year, the vast majority of our deliveries and collections are completed before 6.30am. With over 225 years' experience we are a world leader in what is a complex and highly specialised service.

Smiths News also offers adjacent services for customers and suppliers, including airline and travel point distribution, and an extensive field marketing service specialising in newspapers, magazines and other fast-moving categories.

Efficiency

By sharing and consolidating the route to market, both our publishers and retailers benefit from a high quality, efficient daily service. We have long-term contracts with all the major national publishers as well as with the majority of regional press in our territories. This means we can invest for the long-term and work with our partners to find new efficiencies across the supply chain.

Value

Our wider market insight is essential to both publishers and retailers, adding value to the entire supply chain. In addition to daily deliveries, we collect and process unsold copies, providing near to real time sales and marketing data on a daily basis. Our unique view across the entire product range is enhanced by intelligent information systems, enabling us to forecast and swiftly respond to changing trends and spikes in demand.

Services

Tuffnells is a specialist provider of parcel freight services for small and medium sized enterprises, with particular expertise in items of irregular dimension and weight. Our network of local depots means we work closely with our customers, offering a range of services that can be flexed to meet their particular needs.

Efficiency

With 36 depots customers, Tuffnells has local expertise combined with national reach. The network configuration facilitates both a direct carrier service and a 'hub and spoke' capability for more dispersed distribution.

Value

Using smart systems we enhance our core service for suppliers and their customers – adding value with track and trace technology, electronic proof of delivery, back-office systems integration and a customer website interface. We recognise that for many partners, 'time is money' – our goal is to ensure deliveries are completed as quickly and efficiently as possible.

Chief Executive's Review

EFFICIENT, KNOWLEDGEABLE AND **SERVICE-DRIVEN**

In developing and enacting our plans, we have paid close attention to the interests of all stakeholders.

Jonathan Bunting
Interim Chief Executive Officer

A year ago, performance of the Group was negatively impacted by a combination of weakening trade and operational disruption. Despite the best efforts of our people, the strategy to integrate our core businesses had not delivered the hoped for results. By September 2018, it was clear that while Smiths News and Tuffnells were both specialist distributors, they were two distinct businesses with limited opportunity to leverage synergies across their combined networks.

Our first priority was to return focus and accountability to the core operations whilst at the same time resetting our approach, allowing us to leverage the knowledge and skills of those closest to customers to deliver more efficient but still excellent service. With the full support of the Board, and the unstinting commitment of colleagues across the business, we continue to make progress.

Focus and accountability

In October 2018, we introduced a new business unit structure. Smiths News and Tuffnells were returned to dedicated management teams, with accountability for sales, operational service and the financial performance of their frontline operations. These are supported by a lean central shared services model, working in service of the businesses to provide both expertise and economies of scale in areas such as IT, People, Finance and Business Transformation.

By moving accountability nearer to our customers, we sought to ensure those with the most relevant insight and expertise are able to take ownership of the issues they are best placed to address. As a consequence, we have enhanced service and cost control in Smiths News, returning the business to its former stability and confirming the confidence of our publishers with the award of contracts that secure our revenues and footprint through to at least 2024. The Group functions are also now delivering a more customer centric suite of services, firmly focused on helping our operating businesses to succeed. In Tuffnells, progress has been slower; while we have made some steps in improving the quality of revenue and the realignment of cost structures, there remains a significant way to go towards recovery. In the light of its continued drag on the overall Group, we have therefore initiated a strategic review of Tuffnells to determine the most appropriate structure and strategy for the business, and more widely to consider its role and future in the Group.

In developing and enacting our plans, we have paid close attention to the interests of all stakeholders, seeking to ensure that changes are sustainable and deliver benefits over time. For example, we have worked to find cost savings that are compatible with improvements to service, while maintaining necessary capital investment in the context of a wider prudent approach to capital management. Inevitably, we have had to make some difficult decisions, not least in the departure of a number of colleagues as we have restructured operations.

However, we have always been guided by the underlying principle of building a sustainable future, on the basis of robust business models and competitive customer focused offers.

Performance and progress

Smiths News

Smiths News has delivered good results. Adjusted operating profit of £43.6m is up 12.1% (FY2018: £38.9m) driven by strong cost control, the swift removal of legacy costs, and a renewed focus on service. Looking ahead, the renewal of our publisher contracts on improved terms provides surety for the business and gives us enviable predictability of future revenues. Smiths News is a well-managed business and the clear market leader in its sector. Our primary focus is on sustaining this position, delivering great service and securing efficiencies that offset the slow and structural decline in the sales of newspapers and magazines.

Tuffnells

Tuffnells had a difficult year, returning an Adjusted operating loss of £14.1m (FY2018: loss of £5.0m) and we acknowledge that the turnaround of its profitability remains the Group's most significant challenge. Our impairment of the goodwill, tangible and intangible assets by £45.5m reflects the reality that its turnaround as part of the Group will take time to achieve. Meanwhile, the decision to conduct a strategic review of the business will ensure we consider all options for the best interests of the business and its stakeholders.

> *We are now delivering a more customer centric suite of services, firmly focused on helping our operating businesses to succeed.*

While the performance of Tuffnells was severely impacted by the carry through of operational disruption and customer attrition from the prior year, their impact was exacerbated by an insufficiently flexible operating model and underlying cost base. The actions we took to address these weaknesses have led to a gradual improvement to underlying metrics of the business, however, they were offset by weaker than anticipated sales volumes in the second half of the year.

Looking ahead, we are confident that the further actions we are taking will help to stabilise Tuffnells' performance, while the strategic review determines the actions, necessary investment and optimum structure for a sustainable recovery.

Progress Against Priorities

In November 2018, we published a list of priorities that would supplement the newly introduced Business Unit model, helping to drive performance improvement across the Group.

A summary of the progress made in FY2019 is given below.

Tuffnells Profitability

Despite much good work in securing cost efficiencies and improvements to revenue quality, we were not agile enough in responding to lower volumes. Performance was further impacted by continued weakness and disruptive competition in the market, compounded by an especially challenging final quarter. Looking ahead, in addition to conducting a strategic review of the business, we are focused on further improvement to customer attraction, revenue generation and quality, the flexibility of operations and the review of our network's long-haul trunking arrangements.

Smiths News Contracts

The accelerated renegotiation of our publisher contracts on improved terms is almost complete. We have secured agreements encompassing 80% of our current revenues through to at least 2024, and we are confident the outstanding contracts will follow shortly. These agreements underpin our ongoing plans for network and process efficiencies, and together with a relative predictability of sales, give the Group an enviable visibility of revenues and cash flows in our largest business.

Cost Savings in Smiths News

The return of accountability for costs at business unit level has re-established what is one of the core skills of Smiths News. The legacy costs of the closure of Pass My Parcel were swiftly removed and savings were found in the year to offset the impact of the decline in core sales. We have on-going plans to maintain the momentum of this core business model over the lifetime of our contracts.

Efficient Head Office Functions

The streamlining of our head office functions has delivered further savings for the business units and the Group centre, while also improving service through a more customer centric approach. Among a host of initiatives, notable progress this year includes the off-shoring of selected technology, customer experience and finance services; the consolidation of the People function into a single centre of expertise; and the restructure of our finance teams.

Standard Operating Model

Working to best practice principles we have sought to define, measure and improve the flow of goods and effort across our networks. Starting with our depots, in both Smiths News and Tuffnells, we have refined operating procedures to deliver more consistent service and ensure best practice is followed through both networks. A further review of national trunking and overall network structure is now underway.

Culture

In consultation with colleagues, we have introduced new workplace values in service of a more entrepreneurial and customer focused culture. In addition, we have supported the change programme with initiatives to encourage swifter, evidence-based, decision making that is focused on meeting customer needs and business goals. We have made good progress too in involving and listening to frontline colleagues, introducing a cascade of employee forums that includes representation from the non-executive directors and the Executive Team. Colleagues are encouraged to give views and feedback which can be used to refine our strategy and priorities. Further details are included in the Corporate Responsibility report on page 28.

Chief Executive's Review cont.

Priorities FY2020
The Group's priorities have been refreshed for the coming year. These priorities will drive our actions, taking first priority on resources and the attention of the leadership across the business.

01 **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.

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

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

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

05 **Capital discipline**
continuing to reduce net debt while meeting the investment needs of the business and delivering attractive returns for shareholders.

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

For more information on our performance and strategy see pages 12 to 15

Group Central Services
By refocusing our central functions, including Finance, IT and People, we have embraced new ways of working, supporting the business units with improved analytics, project management expertise and an efficient division of roles and responsibilities.

Examples of progress this year include: the off-shoring of selected technology, customer experience and finance functions; the consolidation of the Finance function from its previously devolved structure, benefiting information flow, business analytics and control; and our People teams working tirelessly to improve recruitment, culture, engagement and communication with our colleagues.

Further details of the Group's operating performance can be found in the Operating Review on page 12.

Strategy and direction
Our approach is founded on building sustainably better businesses which can thrive under the umbrella of the Group.

Smiths News and Tuffnells are leading players in their markets, offering scale efficiencies, enhanced by a passion for service and specialist expertise which competitors find difficult to match. These are the core strengths we must strive to enhance, ensuring we continue to offer the best value route to market for our customers.

Our core strategy is therefore to build our capability through actions and investments that will deliver sustainable value over time. While we remain alert to wider market developments and potential adjacent opportunities, we do not currently plan to diversify into new sectors.

We believe the interests of all stakeholders are best met through a combination of improvements to our existing operations and a prudent approach to capital management, with the goal of strengthening the underlying financial position of the Group. The strategic review of Tuffnells will be conducted in this context, balancing the prospects for recovery with the requirements for ongoing investment and their overall impact on the Group and shareholder value.

Summary
Our plans for an overall performance improvement will require swift, but evidence-based decisions and a willingness to adopt new ways of working. In what remains a challenging trading environment, I have no doubt that colleagues across the business will respond with characteristic positivity. Already, they have embraced the return to more focused business units and demonstrate, on a daily basis, a passion for their businesses and a determination to succeed. I am grateful for their support in addressing the setbacks and achieving the progress their efforts so richly deserve.

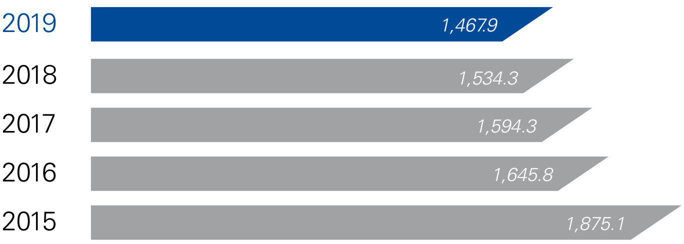
Looking ahead, our recovery plans will continue to balance a prudent approach to underlying finances with clear operational priorities that deliver long-term value for all stakeholders. I have no doubt that our markets will continue to bring a combination of challenges and opportunities, but I believe we are significantly better placed to meet these than we were a year ago, and am looking forward to reporting on progress over the next 12 months.

Jonathan Bunting
Interim Chief Executive Officer

Key Performance Indicators

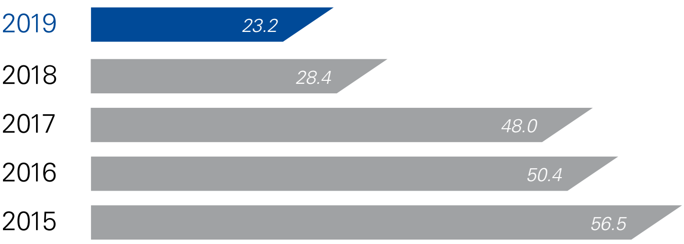
Financial Performance

Total Group Revenue £m

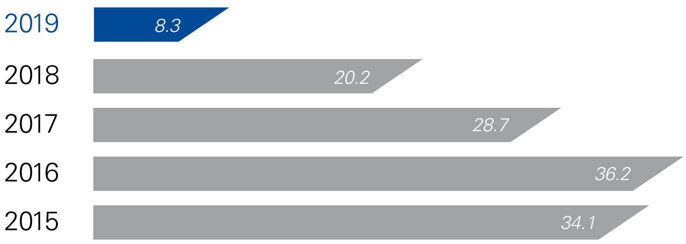


Dividend per share p

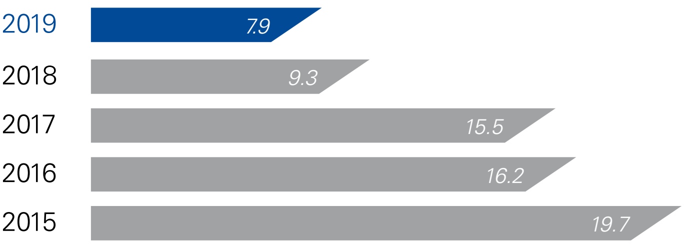
Adjusted profit before tax £m



Free cash flow £m



Adjusted earnings per share p



Net debt: EBITDA

Non-Financial Performance

The Group and its businesses monitor a range of non-financial KPIs which reflect the day to day operating needs of the business:

Required delivery time compliance

96%

2018: 95.4%

Pack accuracy

99.5%

2018: 99.3%

Total RIDDORS

42

2018: 50

Parcels returned to depot

2.7%

2018: 2.8%

On time delivery

95.5%

2018: 94.2%

Key

- Smiths News
- Tuffnells
- Group

Operating Review

FOCUSED OPERATIONS THROUGH ONGOING CHALLENGES

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.

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 on 6 November 2019, 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 six 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.

> *Swift action has been taken to further reduce operating costs through improved last mile routing, and a wider network efficiency programme is underway.*

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.

Operating Review cont.

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.

STRATEGIC REPORT

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 on 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

WORKING FOR A **SUSTAINABLE RECOVERY**

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.

Tony Grace
Chief Financial Officer

Overview

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 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.

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%)

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 the 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 the 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 of £0.5m (FY2018: £0.5m); and pension interest costs of £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 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 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 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		**5.9**		(2.6)	n/a
Effective tax rate		**16.2%**		(7.3%)	
Loss after tax		**(31.5)**		(38.1)	17.3%

Earnings per share £m	**Continuing Adjusted 2019**	**2018**	**Continuing Statutory 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)

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

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 019, the Connect Group PLC Company entity balance sheet continues to have distributable reserves of £131.5m to allow future dividend payments.

Earnings per share

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

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).

STRATEGIC REPORT

Financial Review cont.

Smiths News (including DMD)

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 the 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 costs 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 a 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

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
£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 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)**

Adjusted Items

Continuing operations

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

Of the current year cost £3.2m 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 costs

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 six 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) Pension

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 Parcels 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.

Financial Review cont.

(g) Impairment of Tuffnells intangible and tangible 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 £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**

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.

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 Smiths 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.

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)

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 the prior year 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

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

Net debt reduced compared to the 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 12 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 and includes disclosure regarding its three year viability assessment based on the principal risks.

Principal Risks

A CLEAR FRAMEWORK FOR **MITIGATING RISK**

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

The Group has a clear framework in place to continuously identify and review both the principal and emerging risks to the Group. The Audit Committee report describes how we manage risk from Board level and throughout the Group. Further details can be found on pages 44 to 50.

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 Annual Report:

- 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.

Key to risk

›	No change
^	Increased
˅	Decreased
New	New risk

Principal risks	Change	Potential impact	Mitigating actions and assurances
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.	^	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.

Principal risks	Change	Potential impact	Mitigating actions and assurances
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.	>	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 the 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.	^	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 The 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 are 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.

Principal Risks cont.

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.	^	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 legislative changes or interpretation, impacting the ability to recruit and retain warehouse and delivery contractors, resulting in higher attrition risk in warehousing and distribution and/or increasing liabilities and costs.	>	In the event of any legal claim as to worker status by consultants, subcontractors or agency workers, the business could be liable for increased costs (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.	• 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 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.

Key to risk

No change | Increased | Decreased | *New* New risk

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 parties resulting in a breach of our Transport Operator Licence conditions.

In addition to the danger to staff or the public, the impact of a Health & 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 performance for the Group.

- Safety is a key priority of the Group. Health & 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 Health & Safety improvements, including the role of Health & Safety director and better management reporting.
- Within Smiths News the 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 programmes have been underway to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Management information is in place to monitor compliance on an ongoing basis.

In addition to monitoring the principal risks, the Board also continues to monitor and review the emerging risks to the Group and the likelihood and materiality of their respective impact on the Group's financial performance. Key themes for the Group's emerging risks are as follows:

- tightening debt capital market and the ability of the Group to refinance its existing debt which may lead to financial loss and inability to operate the business normally;
- major incidents following a natural disaster leading to significant disruption of services and/or inability to operate the business normally;
- failure in the successful transition and/or on-boarding of selected services to the shared service centre in India which may lead to service disruption and/or inability to operate the business normally;
- lack of maintenance of an adequate IT infrastructure as a result of technological change leading to loss of innovation ability, lessening agility to serve our customers, loss of business data and integrated management reporting; and
- cyber security risk leading to significant business disruption, data theft, regulatory non-compliance, reputational damage and financial loss through fines or inability to operate the business normally.

Risk severity assessment

Statement of Viability

ROBUST ASSESSMENT OF PRINCIPAL RISKS

1 How Connect Group assesses its prospects

Connect Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 31. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial review on pages 16 to 21. The Group manages its financing by structuring core borrowings and the availability of facilities for draw down. The Group's prospects are assessed primarily through its business planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecast future funding requirements over the assessment period of three years. The most recent was signed off in September 2019, and it is part of the Board's role to consider the appropriateness of any key assumptions, taking into account the external environment and business strategy.

2 The assessment period

The directors have determined that the three years to August 2022 is an appropriate assessment period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above, and reflects the directors' best estimate of the future prospects of the business, including the nature and potential impact of the principal risks that face the business. The Board noted in considering the appropriate assessment period that the Group's current banking facilities are due to expire in January 2021. The Board expects to refinance during 2020 on commercially reasonable terms for a period that is consistent with the three-year plan and reflects the expressed intention to bring net debt: EBITDA to 1x by end of FY2021. The Board also considered whether there are specific foreseeable events relating to the principal risks that could occur beyond the three-year period that should be taken into account when setting the assessment period and concluded there were none. In the Board's assessment of viability, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required (see Note 20 on page 119).

3 Assessment of viability

In generating its plan the Board has considered the overall strategy of the Group, the principal 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;
4. Continued decline in sales of printed media during the assessment period, offset by overhead efficiencies in the assessment period;
5. Retention of major contracts in Smiths News at rates which maintain acceptable margins;
6. No major changes in working capital profile;
7. Successful renewal of banking facilities in January 2021; and
8. No significant acquisitions or disposals in the assessment period.

In making this statement, the directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the Board considered the conclusions from their regular review of risk management and internal control systems (as described on pages 42 to 50).

To make the assessment of viability, stress scenarios have been tested over and above those in the business plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 22 to 25). The scenarios were overlaid into the business plan to quantify the potential impact of one or more of these crystallising over the assessment period. Whilst each of the principal risks has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the business plan (shown right).

Scenario modelled	Link to principal risks
Scenario 1 Customer attrition as a result of poor customer service levels and not adapting to the competitive environment	1 3
We have assumed customer attrition in Tuffnells equals new customers, resulting in revenue being flat throughout the assessment period.	Risk 1 & 3: Failure to achieve desired customer experience and service levels.
Scenario 2 Major publisher business failure	1
The business plan assumes all major publishers will continue to trade with Smiths News over the three-year assessment period. We have modelled a scenario that reflects one of the major publishers going out of business or moving to a digital only market.	Risk 1: Failing to optimise profitability in the news business.
Scenario 3 Forecast savings targets are not met	1 3
The business plan assumes both operational and overhead efficiencies in Tuffnells as part of delivering its turnaround, as well as overhead savings in Smiths News throughout the period. We have assumed only 20% of these improvements are achieved.	Risk 1 & 3: Failing to monitor financial performance and/or delays in the Group's financial performance recovery.
Scenario 4 Changes to the gig economy	6
The Group operates a business model that uses a mix of employed operatives, subcontractors and agency staff. If employment law or practices are subject to change which renders the mix unworkable in future, then this would potentially lead to increased cost. We have modelled scenarios that change this mix and lead to increased cost.	Risk 6: Increased labour market constraints and costs.
Scenario 5 Major Health & Safety incidents	7
We considered the financial and reputational impact of a series of Health & Safety incidents, modelling an increased cost and regulatory fines such as from the Health & Safety Executive.	Risk 7: Failing to meet high health & safety standards.
Scenario 6 Reverse stress test – revenue loss, margin erosion and working capital outflow in combination to covenant breach	1 – 7
This combines an extreme series of factors in unison, to illustrate what would result in a covenant breach.	Multiple risks in combination.

As noted above, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced on commercially reasonable rates over an agreed period on similar covenant terms, as and when required. The Board's intention is to seek to re-finance during 2020 with our existing bank syndicate. Any new refinanced facility term is expected to match the period of the viability assessment and be at an adequate level to support our intention to achieve a net debt:EBITDA ratio of 1x by end of FY2021. The availability to refinance can be influenced by wider macro-economic factors at any point in time.

The scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; however, multiple measures are in place to prevent and mitigate any such occurrences from taking place.

In each of the stress scenarios 1-5, the Group would be able to continue operating within existing debt covenants and liquidity headroom. Scenario 6 required such an extreme set of factors in unison that it is considered to be a very remote likelihood and therefore does not represent a realistic threat to the viability of the Group but rather illustrates the factors that would result in a banking covenant breach. The directors considered mitigating factors that could be deployed to counter the negative effects of the crystallisation of each of these risks. The main actions included reducing any non-essential capital expenditure and operating expenditure on projects, as well as not paying dividends or bonuses.

The Board also considered the impact of the EU Exit on the business and does not foresee any significant negative impact which will impact on the viability assessment.

4 Viability statement

Taking into account the Group's and Parent Company's current position and principal risks and uncertainties, the directors confirm that they have a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet its liabilities as they fall due over the three years to August 2022.

5 Going concern

The directors also considered it appropriate to adopt the going concern basis in preparing the Group and parent Financial Statements which are shown on pages 86 to 135.

STRATEGIC REPORT

Corporate Responsibility

SUSTAINABLE BUSINESS THROUGH **CONTINUAL IMPROVEMENT**

The Group operates to a well-established foundation of responsible practice, with governance focusing on four key areas: Governance & Sustainability, Environment & Community, Workplace & Conduct and Marketplace.

Governance and sustainability

The key areas of focus in the Group's Corporate Responsibility (CR) programme are each owned and managed by a relevant executive director with support from specialist teams at the Group centre where necessary. Targets and priorities are agreed for each business, with progress reviewed throughout the year, including regular updates to the Board. In practice, the day to day responsibility is widely shared, with targets integrated into operational businesses and cross functional involvement in initiatives being the norm. To ensure that all stakeholders share an awareness of our approach we publish our policies and, where relevant, build these and future goals into our supplier agreements.

The Group has chosen to seek to comply early with the requirements of the 2018 edition of the UK Corporate Governance Code including those aspects relating to CR. Further details are set out below and in the Corporate Governance report.

Environment and community

The Group's environmental impact is most significantly influenced by our vehicle emissions; energy consumption at our locations; and waste and recycling of product and packaging. These represent our primary areas of focus for environmental impact improvement.

Fuel used by fleet and contractors accounts for the most substantial portion of our total emissions. A substantial proportion of the vehicle fleet was upgraded to Euro 6 standards in FY2018 and in FY2019, our Company car fleet has been reduced by 65 vehicles. Our priority over the next 12 months is to secure further fuel efficiencies, achieved through a combination of driver training and a review of the trunking network which moves products between 'hub and spoke' locations. A project is underway to determine how we can best reduce the number of trunking journeys, while maintaining service, through improved routing and vehicle optimisation.

The Group has made regular progress in reducing its environmental impact through a series of depot consolidations, the introduction of smart metering to monitor electricity and gas consumption, and the conversion of all our larger locations to LED lighting. While many of the most significant opportunities have now been taken, we continue to monitor utility usage and make improvements on an on-going basis.

Carbon Reduction Commitment (CRC)

The CRC measures electricity and gas usage in large and medium sized companies. In the reference period to the end of April 2019 the Group's activities accounted for a total of 3,640 tonnes of CO_2, a reduction of 41% on the previous year. The reduction is in part a consequence of the reduced size of the Group, but also reflects our ongoing actions on lighting, metering and energy monitoring.

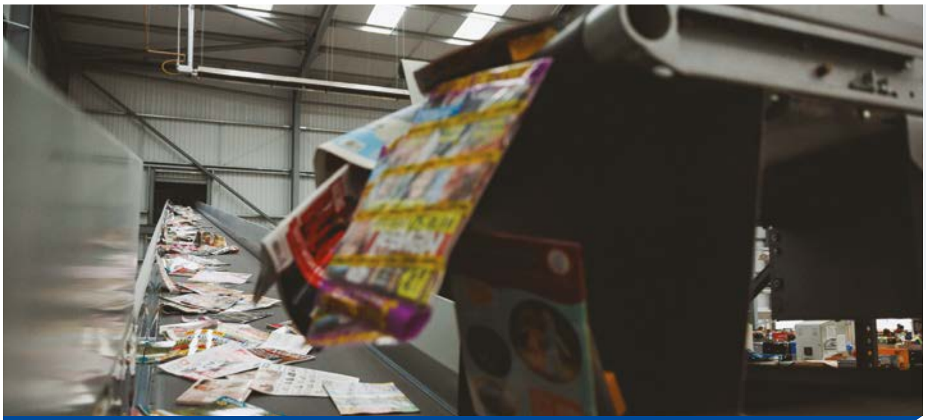
Carbon Emissions data

The Group's Carbon Emissions is reported for the year 1 January 2018 to 31 December 2018, consistent with the period we are required to report and audit for the Government's Energy Saving Opportunity Scheme and the Carbon Reduction Commitment. The Group previously reported its carbon emissions data using the period 1 March to 28 February annually, and these figures are provided for a benchmark comparison. The Group will publish its Greenhouse Gas emissions for the full calendar year of 2019 with appropriate comparisons, on the Company's websites early in 2020.

Carbon Reduction Commitment (CRC)	2017/18	2018/19	Change
Electricity (tonnes CO_2)	4,675	2,789	**-40%**
Gas (kWh) (tonnes CO_2)*	1,466	851	**-42%**
Emissions (tonnes CO_2)	6,141	3,640	**-41%**

Fuel type/scope	1 March 2017 – 28 Feb 2018 (Tonnes of CO_2e)	1 January 2018 – 31 Dec 2018 (Tonnes of CO_2e)
Scope 1	41,145	85,829
Scope 2	5,793	3,979
Scope 3	38,879	10,584
Total	87,717	100,395

* Excluding small meters.



Newspaper and magazine recycling

98%

of unsold copies are recycled

Greenhouse Gas Emissions Intensity Ratios

	Reporting year	CO_2e tonnes per £1m turnover	CO_2e tonnes per employee	CO_2e tonnes per square metre of premises
Intensity ratios	1 January 2018–31 December 2018	66.28	20.73	0.62
	1 March 2017–28 February 2018	51.26	16.26	0.41

Notes

The data collected for this report is in respect of the period 1 January 2018 to 31 December 2018. The data includes all material emissions defined as sources representing over 1% of footprint.

Using an operational control approach, the Group has assessed its boundaries to identify activities and facilities for which it has responsibility for the greenhouse gas (GHG) emissions from Scope 1 and 2. The Group reports on selected Scope 3 emissions, namely, the subcontracted mileage of Smiths News and Tuffnells (where possible to obtain) and employee business travel. Total GHG emissions were calculated following ISO-14064-1:2006 methodology and using DEFRA (2016 and 2012) emissions factors.

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

Community

The Group's community activity is spearheaded by our 'Pass it On' Campaign, supporting homeless people across the UK. In FY2018, the programme was extended to include a summer campaign rather than focusing solely on Christmas and this was repeated in summer 2019. Highlights included over 10,000 items being donated and distributed, with more than 70 colleagues volunteering significant time beyond working hours to ensure the campaign ran smoothly. The programme and our wider CR strategy were highly commended at the HR Excellence Awards in June 2019.

In addition to our flagship campaigns, many teams and individuals continue to support causes that are important to them. Where possible, we provide support with workplace flexibility, publicity and financial support. We offer colleagues time-off for up to five days a year in order to volunteer for community causes and encourage managers to be accommodating and flexible in their assessment of requests.

Workplace & Conduct

This year we have taken measures to improve colleague engagement, with active involvement from the Board and Executive Team, sponsoring a series of initiatives to revisit and improve our values, culture, and communication processes.

Colleague forums

Colleague forums have been established across the Group, with an extensive cascade structure to ensure communication is both swift and comprehensive, with issues and responses addressed promptly.

The Board has taken an active role in shaping the purpose and considering the outputs of the forums. Key outputs from the National Colleague Engagement Forum include constructive discussions on our Health & Safety policies and the Group's 'Safety First' initiative; a desire for greater understanding of executive and colleague reward; proposals for improved two-way communication channels between frontline colleagues and business leaders; and the endorsement of proposals to introduce more flexible benefit structures.

- All locations hold at least one colleague forum meeting every month headed by their manager – this amounts to 80 meetings, generating feedback and ideas, and providing opportunities to communicate.
- Regional forums are held quarterly, headed by Regional Directors.
- National forums are also held quarterly for Smiths News, Tuffnells and Office locations.
- A National Colleague Engagement Forum is an additional meeting held quarterly and chaired by non-executive director Michael Holt, who has been nominated by the Board to promote colleague engagement as a means of ensuring that the views and insight of internal stakeholders are fully considered.

While there is still much work to be done, we are pleased to have established foundations which are consistent with our new values, culture and strategy.

Company values

New Company values were launched in autumn 2018, supported by workshops, communication, management and colleague forums, amounting to a significant and sustained effort to create a more entrepreneurial, faster paced and open culture. The new values were designed to encourage these behaviours among all of our colleagues, guiding the way we work together and with our partners.

Corporate Responsibility cont.

> *The Group works to ensure a culture free from discrimination and harassment in any form.*

Inclusion & Diversity

The Group is committed to pursuing improvements in gender, age and ethnic diversity. While recognising that these will take time to achieve, we are putting in place structures to help ensure regular progress is maintained.

In support of this goal, the 'Everyone In' programme was launched in February 2019. The programme is guided by a regular forum of colleagues across the business with the express purpose of helping to create a more inclusive culture, welcoming diversity and allowing all colleagues to 'be themselves' at work. Initiatives to date include support for the national Mental Health and Carers weeks, and high profile upskilling sessions for managers on the benefits of inclusion and diversity.

Colleague communication

We have significantly increased colleague communication across the business with greater active participation from the Executive Team and the Board. Initiatives include, among others: the establishment of colleague forums, regular town hall meetings to explain strategy and performance to both Smiths News and Tuffnells, a new staff newspaper, improvements to and easier access to the Group's colleague intranet, and Board member visits to operating locations.

The Group's all-colleague engagement survey has been revised in line with the new strategy and was relaunched in September 2019. The results will be an important measure of the effectiveness of actions taken to improve culture, communication and engagement. The Board will play an active role in reviewing results and determining the appropriate action plans and priorities.

Workplace responsibility, diversity and human rights

The Group is committed to responsible practice throughout the workplace and embeds this in its policies and procedures. Regular reviews ensure that updates are made in response to business initiatives and legislation; any significant changes are noted and discussed with the Executive Team and the Board. Health & Safety performance is reviewed regularly by the Board and Executive Team throughout the year.

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

The Group actively supports diversity in the workplace in all its forms and is committed to improving the balance of gender composition over time. The gender composition as at 31 August 2019 can be seen in the table below.

The Group supports the human rights of our employees and our policies are built on a commitment to mutual respect, fairness and integrity throughout the Group. These principles are reflected in our values, which are integral to our Employee Relations policies and, more broadly, to the ways in which we work together. The Group has in place ethical trading standards and a commitment to combatting modern slavery, each of which are endorsed by the Board, and which we expect our supply chain partners to adhere to in our commercial relationships. In the last year, we have increased our efforts to combat modern slavery and human trafficking, strengthening our diligence procedures in the areas we consider to be of greatest risk, including: employee recruitment and on-boarding; contractor appointment and management; procurement and outsourcing; and by raising awareness of anti-slavery and human trafficking through widespread communication of policies and manager guidelines. The Group's full Anti-Slavery and Human Trafficking Statement (September 2019) is available online at www.connectgroupplc.com/modern-slavery-statement

> *All concerns are carefully investigated and any significant matters are brought to the attention of the Board.*

To encourage employees to raise any matters of concern, the Group operates a confidential 'speak-up' line. All concerns are carefully investigated and any significant matters are brought to the attention of the Board.

Gender pay gap reporting

The Group's overall gender pay gap in the year to 31 August 2018 has reduced from 9% to 5.1%. This progress was not fully mirrored in the payment of bonuses, with the mean gender bonus gap increasing from 17% to 35.9%, while the median gender bonus

	Male	%	Female	%	Total
All employees	3,613	77	1,081	23	**4,694**
Board of Directors	6	86	1	14	**7**
Senior Managers*	30	83	6	17	**36**

* Comprises the Executive Team (excluding the Executive Board Directors) and their direct reports as recommended by the Hampton-Alexander Review, with responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company.

gap improved from -84% to -45.4%. A range of legacy factors impact these figures, most notably the number and value of bonuses paid in FY2018 as well as the percentage of women and men receiving a bonus in prior years, both of which influence the calculation of the mean bonus gap.

The Group has put considerable effort into ensuring these results are communicated in an open and transparent way to colleagues and other stakeholders. Details were published on the relevant Government websites during FY2019, supplemented by colleague communications that explained the results, what they mean and the actions we are taking.

Our 2018 Gender Pay Gap report can be found at www.connectgroupplc.com/working-responsibly/a-responsible-business

Marketplace

The Group is committed to working across its supply chains in pursuit of high standards and sustainable best practice. Senior colleagues contribute to a number of industry bodies and forums and we are a leader in transparency and the adoption of relevant voluntary codes.

In the news industry, the Press Distribution Forum conducted a review of its retailer Complaints Process embodied in the Press Distribution Charter. We played an active role in this process and are now working to the new standards which facilitate a more transparent measure of any issues raised by retailers. Under the new (stricter) measures, the industry has seen a significant year on year reduction of Stage 1 and Stage 2 complaints with issues relating to Smiths News down by 63% year on year. The Press Distribution Review Panel noted in its independent Annual Report (2018) that the total number of service breaches across the industry reaching Stage 2 was only 294, of which only 41 were escalated to Stage 3. Furthermore, it commented that these figures need to be placed in the context of the sheer scale of opportunities for complaint, which at its simplest can amount to a single missed delivery for a single product. There are, the report notes, over 396 million delivery complaint opportunities, confirming that the level of both errors and complaints is a tiny percentage of total activity.

More recently, in July 2019 the news industry announced an automatic service failure payment scheme in cases where the daily news is delivered over two hours late, irrespective of inbound delivery times. Smiths News has adopted the new scheme from September 2019.

Across the Group, we have been reviewing our procurement procedures against best practice, developing a supplier code that will include the requirement for suppliers to uphold the relevant CR standards including compliance to our modern slavery and anti-bribery policies. Our preferred suppliers will need to be able to evidence their upholding of both these standards and any additional CR requirements that may be relevant. For categories, such as packaging, stationery and waste we plan to introduce specific compliance checks. We aim to have the code fully in place by the end of the calendar year.

Health & Safety

The Board is committed to achieving the highest standards of Health & Safety, ensuring the appropriate resources are available for improvements to our culture, performance and practice. Each of Smiths News and Tuffnells is supported by specialist Health & Safety teams that provide guidance, training and support in relation to its particular risks and priorities. A Health & Safety report is provided to the Board on a standing item basis; and the Audit Committee and Board each conduct regular reviews of incidents, trends and overall performance. The result is a continual focus on Health & Safety at all levels.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)

The Group has seen a pleasing improvement in its Health & Safety performance across the year. Overall RIDDOR reportable incidents are down by 14% with incidents down by 60% in Smiths News and up by 6% in Tuffnells. We are confident that the increase in Tuffnells reflects occasional variations in statistical reporting, rather than a significant trend as the total number of incidents in Tuffnells (including minor incidents and near misses that are not recorded as RIDDOR) declined by 7 .5% over the same period.

Other measures and training

In FY2019, the Group adopted a measure of 'Lost Time Incidents' as an additional key indicator for tracking safety in the Company. Unlike Specified Injuries, a 'Lost Time Incident' is not dependent on the severity of the injury, so each record could represent as little as one day's absence. This best practice approach is aimed at encouraging a rigorous awareness of all risks, regardless of their severity, reinforcing a positive safety culture. A total of 149 Lost Time Incidents were recorded across the Group (FY2018: 147), though broadly flat on last year, the total is reflective of the drive to increase awareness and a 'zero exceptions' culture of reporting of minor incidents and near misses. With the support of trained Health & Safety practitioners we review all recorded accidents, near misses and any concerns raised by colleagues in pursuit of continual improvement to our processes and performance.

An indication of the improving Health & Safety environment is the award by RoSPA of nine Gold awards across Smiths News and Tuffnells depots, with further silver awards at our Brierley Hill and Haydock locations. Given the complexity of the operations these are significant achievements and set a standard which we are working to achieve across the network.

In support of a positive safety culture we additionally launched a 'Safety First' campaign in our operating locations. Recognising that behaviours are critical to long-term improvement, we have maintained our investment in training, with programmes in the year including Manual Handling Training for all colleagues and our agency partners, and the rollout of video training on safe systems of work.

Approval

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

Gary Kennedy
Chairman
5 November 2019

2019	Smiths News	Tuffnells	Group
Specified Injuries	4	11	15
Injuries resulting in over 7 days absence from work	3	24	27
All RIDDOR	7	35	42

Prior years	2018	2017	2016	2015
Specified Injuries	11	10	10	10
Injuries resulting in over 7 days absence from work	38	41	41	52
All RIDDOR	49	51	51	62

Specified Injuries

Over 7 days

Introduction to Governance

A COMMITMENT TO GOOD GOVERNANCE

As Chairman of the Board, I am pleased to present our Corporate Governance report for the year ended 31 August 2019.

Against a backdrop of change and transformation across the Group during FY2019, we have made great strides in resetting our most important core behaviours by launching the Group's new Values which are expected of, and promoted by, all of our colleagues. We are delighted that these Values have resonated so strongly with our people and are increasingly embedded within our everyday conduct and culture. More information on our Values can be found within the Corporate Responsibility report on pages 28 to 31.

Alongside this cultural shift and at a time when we have continued to experience challenges to our trading profile, we have re-energised the way in which we interact with our key stakeholders with a renewed vigour to listen and engage with our colleagues, customers, suppliers, communities and shareholders. This is evidenced in many ways via:

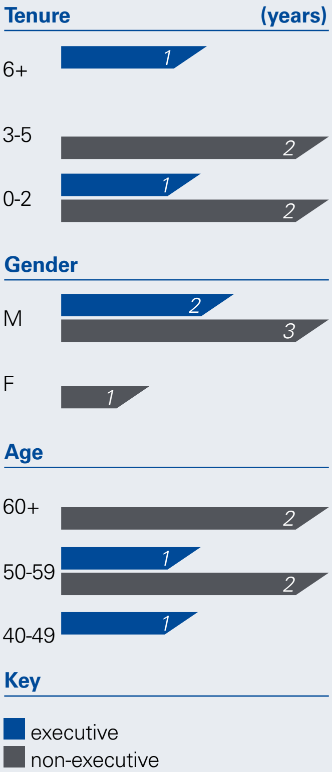
- our new network of colleague forums, including our National Colleague Engagement Forum attended by Michael Holt (as designated non-executive director) as a means of giving the Board direct access to the important views and voice of our frontline and corporate centre colleagues (further information can be found in our Corporate Responsibility report on pages 28 to 31),
- our new diversity and inclusion awareness programmes (information on our new Diversity & Inclusion policy can be found in our Nominations Committee report on page 51),
- our thorough Capital Markets strategy session held in January 2019; and
- our extensive consultation with institutional shareholders in relation to our proposed updated directors' remuneration policy, as summarised by our Remuneration Committee Chair on page 54, and which shareholders are invited to approve at our 2020 Annual General Meeting (AGM).

Separately, we have engaged with a small number of shareholders who voted against my re-election as Chairman at our 2019 AGM in order to understand their concerns over my perceived 'over-boarding' in light of my other chairmanships. The Board has considered these concerns and has concluded that I have sufficient capacity to meet my commitment to the Company, particularly given that one of my chairmanships relates to Green REIT PLC (a real estate investment trust), which due to the nature of its business constitutes considerably less time commitment than a typical trading business, a position formally recognised recently by Legal & General Investment Management who designated such a role as being equivalent to one role (compared with a 'two role' equivalent for a Board Chair) out of a maximum of five permitted non-executive roles. Nevertheless, I can also report that I intend to resign as the Chairman of Green REIT PLC following conclusion of its formal sales process and the recent announcement for its sale to a subsidiary of Henderson Park Real Estate Fund. Further details on this process can be found in our Corporate governance report on page 36.

Building on our commitment of lean six sigma process management, continuous improvement and transformation, we are satisfied with the continued focus and improvement in the risk management process and the strengthening of our internal control environment as overseen by our Audit Committee and reported on page 44. We will continue with this focus into FY2020. During the year, as explained on page 34, we initiated a tender for external audit services and we are pleased to recommend BDO LLP as our new auditor. I would like to express, on behalf of the Board, our gratitude to the former Deloitte audit team for their robust and professional audit services to the Company since demerger from WH Smith PLC in 2006.

The Board remains committed as it has always done to driving good governance principles through our Group and for this reason we have sought to comply a year earlier than required with the updated 2018 edition of the UK Corporate Governance Code (the 'Code'). Set out within the Corporate governance report on pages 36 to 43, we detail our compliance during the year with the new Code and we look forward to continuing our commitment to good governance through the year ahead.

Gary Kennedy
Chairman



Board of Directors – changes in FY2019

On 1 October 2018, Michael Holt joined the Board as a non-executive director.

On 5 November 2018, Tony Grace, who had joined the Group on an interim basis in June 2018, was appointed to the Board, following a successful induction.

On 5 November 2019, Jos Opdeweegh stepped down as a director and Chief Executive Officer and was replaced by Jonathan Bunting as Interim Chief Executive Officer. In addition, Michael Holt agreed, for the limited period of the Tuffnells strategic review, to become Executive Chairman of Tuffnells.

Governance framework

We operate within a clear governance framework, which is outlined in the diagram below. Our risk management framework along with the principal risks is described in the Strategic report on pages 22 to 26.

Chairman

Responsible for running the Board

As set out in the division of responsibilities between Chairman and Chief Executive Officer available on our website
www.connectgroupplc.com

Chief Executive Officer

Responsible for leading our businesses and for developing & implementing strategy

As set out in the division of responsibilities between Chairman and Chief Executive Officer available on our website
www.connectgroupplc.com

Board

The Board is responsible for overseeing the Group's strategy and performance and manages business requirements through a formal schedule of matters reserved for its decision. Such matters include:

overall strategic direction and management, including acquisitions and disposals;
—
approval of appointments to the Board following recommendation by the Nominations Committee;
—
approval of long-term objectives and commercial strategy;
—
approval of the annual operating and capital expenditure budgets;
—
approval of major capital expenditure;
—
approval of material agreements;
—
changes relating to the Company's capital structure;
—
approval of the financial statements and accounts;
—
dividend and treasury policies;
—
control, audit and risk management;
—
remuneration of directors and senior managers and oversight of workforce pay arrangements;
—
annual evaluation of the Board and directors, considering its composition and the effectiveness of directors working together to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society; and
—
corporate responsibility.

The Schedule of Matters Reserved for the Board is available on our website
www.connectgroupplc.com

Executive Team

The Executive Team focuses on the development and implementation of strategy, financial and operational performance, commercial developments, succession planning and organisational development.

Audit Committee

promotes governance and accuracy of financial reporting
—
monitors the internal and external auditors

Read more on pages 44 to 50

Nominations Committee

makes recommendations to the Board for executive and non-executive appointments and succession planning
—
promotes employee engagement and diversity

Read more on pages 51 to 53

Remuneration Committee

determines directors' and senior management remuneration strategy and policy
—
oversees the implementation of remuneration policy

Read more on pages 54 to 74

Approvals Committee

responsible for approving delegated Board matters

Disclosures Committee

monitors and oversees the Company's compliance with the Market Abuse Regulation and the consideration of inside information procedures and disclosures

Board of Directors

AN **EXPERIENCED** AND CONFIDENT TEAM

Key to Committee membership

A Audit and Risk
N Nominations and Governance
R Remuneration
D Disclosure
AP Approvals
● Member
● Chair

Gary Kennedy
Chairman

Jonathan Bunting
Interim Chief Executive Officer (and CEO of Smiths News)

Tony Grace
Chief Financial Officer

Mark Whiteling
Senior independent non-executive director

Denise Collis
Independent non-executive director

Michael Holt
Independent non-executive director

Gary Kennedy
Chairman

Year of appointment
2015

Skills and experience
Gary has extensive experience of Board chairmanship within listed companies and brings to the Group a deep understanding of business operations and finance. Gary uses his experience and knowledge, to lead the Board in reviewing and approving management's plans for the development of the Group's strategy and operational performance. As Chair of the Nominations Committee, Gary is also responsible for leading the assessment of the capabilities and skills of the executive and non-executive leadership, and for succession planning through the Group's transformation programme.

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

Other current appointments
- Greencore Group plc, Chairman.
- Green REIT plc, Chairman.

Jonathan Bunting
Interim Chief Executive Officer (and Chief Executive Officer of Smiths News)

Year of appointment
2010

Skills and experience
Jonathan has deep commercial and operational leadership skills, combined with extensive experience gained within the newspaper and magazine distribution industry, experience which is critical for the long-term development and execution of the Group's strategic plans.

Jonathan joined WH Smith News in 1994. He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001. In April 2014, Jonathan became Managing Director of the Connect News & Media division and subsequently Chief Operating Officer in September 2017, a position which spanned both the Tuffnells and Smiths News businesses. With effect from 1 October 2018, following a decision to re-establish business unit leadership, Jonathan assumed the role of Chief Executive Officer of Smiths News, including responsibility for DMD and on 5 November 2019 became Interim Chief Executive Officer following the decision for Jos Opdeweegh to step down as a director and Chief Executive Officer.

Other current appointments
- None.

Tony Grace
Chief Financial Officer

Year joined
2018

Skills and experience
Tony brings extensive, recent and relevant finance and business transformation experience to the Group. These skills are essential in ensuring the Group complies with its accounting, financial reporting, financial and risk management policies and processes, as well as legal and regulatory requirements during its business transformation phase.

Tony was most recently Chief Financial Officer at Yodel Delivery Network and has previously held senior finance and operational roles at Virgin Media and Telewest.

Other current appointments
- None.

Mark Whiteling
Senior independent non-executive director

Year of appointment
2017

Skills and experience
Mark has gained extensive finance and operational experience at a senior level within a number of diverse organisations. He brings recent and relevant financial expertise required to lead the Audit Committee.

Mark was most recently the Chief Financial Officer of Interserve PLC and has previously been the Deputy Chief Executive Officer and Chief Financial Officer of Premier Farnell plc. He was a non-executive director of Future plc until December 2014 and the Senior Independent Director of Hogg Robinson Group PLC until July 2018, in both cases acting as chair of the respective Audit Committees as well as serving on their Nomination and Remuneration Committees.

Other current appointments
- None.

Stuart Marriner
Company Secretary & General Counsel

D

Skills and experience
Stuart joined the business in October 2008 and is responsible for business, legal and regulatory support across the Group. Prior to joining the Company, he had spent four years as a corporate finance solicitor, including extensive periods on secondment with Somerfield Stores and Punch Taverns. Stuart was appointed as Company Secretary and General Counsel on 1 September 2011 and continues to lead the legal and Company secretariat teams.

Denise Collis
Independent non-executive director

Year of appointment
2015

Skills and experience
Denise holds a wealth of business experience with a particular focus on people and talent management, development, retention and reward. She therefore has the relevant knowledge and experience required to lead the Remuneration Committee, a position she has also held with SThree PLC since September 2016.

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

Other current appointments
- SThree PLC, senior independent non-executive director, chair of Remuneration Committee and member of the Audit Committee and Nomination Committee.
- British Heart Foundation, chair of Remuneration Committee and member of Nomination Committee and Advisory Council.

Michael Holt
Independent non-executive director

Year of appointment
2018

Skills and experience
Michael possesses highly relevant commercial and operational experience gained within the logistics and distribution industry. Due to his detailed understanding of the sector, its opportunities and challenges, Michael is an important independent voice and sounding board in the development and execution of the Group's long-term strategy.

Michael was, most recently, Chief Operating Officer of FedEx Express, Europe until the end of September 2018 and held a number of other senior executive roles with FedEx Corporation since 2006. Prior to that, Michael held senior executive roles at a number of leading logistics organisations including ANC Group, where he was instrumental in leading the turnaround of the business from a position of loss-making to industry leading margins and strong profit recovery prior to its successful sale to FedEx in 2006.

On 5 November 2019, in light of the Group's announcement that a strategic review of the Tuffnells business would take place, Michael Holt has agreed, for the limited period of the strategic review, 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. For the period of this temporary role, Michael will relinquish being a member of each of the Audit, Remuneration and Nominations Committees. In addition, for the purposes of the 2018 edition of the UK Corporate Governance Code, Michael will no longer be considered 'independent'. 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.

Other current appointments
- None.

Corporate Governance

GOVERNANCE FRAMEWORK

GOVERNANCE

Directors' attendance

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

	Scheduled Board meetings	Additional Board meetings[1]	Committee meetings: Audit	Committee meetings: Nominations	Committee meetings: Remuneration
Number of meetings	10	5	4	2	6
Gary Kennedy	10	5		2	6
Denise Collis	10	5	4	2	6
Michael Holt[2]	9	4	4	2	5
Mark Whiteling	10	4	4	2	6
Jonathan Bunting[3]	9	4			
Tony Grace[4]	7	4			
Jos Opdeweegh[5]	10	5			

1. There were five additional Board meetings held during the year, one of which was in relation to trading performance, one in relation to the Group's banking facilities, one in relation to the consideration of the award of publisher contracts in Smiths News and two in relation to the proposed sale and leaseback transaction. For completeness, there were also two Board sub-committee meetings held during the year, one of which was in relation to the approval of the FY2018 full year preliminary financial results and one in relation to the HY2019 interim financial results.
2. Michael Holt joined the Board on 1 October 2018 and attended all Board and committee meetings occurring after that date. On 5 November 2019, Michael Holt agreed, for the limited period of the Tuffnells strategic review, to become Executive Chairman of Tuffnells and, in light of this, to step down from each of the Audit, Remuneration and Nominations Committees for the duration of his role as Executive Chairman of Tuffnells.
3. Jonathan Bunting was absent from one meeting due to illness.
4. Tony Grace joined the Board on 5 November 2018 and attended all Board meetings occurring after that date, with the exception of one due to an unavoidable pre-arranged diary conflict.
5. On 5 November 2019, Jos Opdeweegh stepped down as a director and Chief Executive Officer and was replaced by Jonathan Bunting as Interim Chief Executive Officer.

Board activities in FY2019

The following table summarises the matters considered by the Board during FY2019 and notes the consideration given to key stakeholder groups in its deliberations. One of the primary areas of focus for the Board at any time is the impact any decision or action taken may have on key stakeholder groups represented within the Board's common duty under s172 of the Companies Act 2006. The Board remains mindful of the levels of engagement it has at such times with key stakeholder groups and how their respective views may be incorporated into relevant decision-making. Board materials and discussions therefore seek to appropriately consider the impact and views of key stakeholder groups whilst always ensuring the need to promote the success of the Company for the benefit of its members as a whole.

Key to stakeholder icons

Long-term

Colleagues

Shareholder

Suppliers

Customers

Community

Environment

Business conduct

Matters considered by the Board in the year	Stakeholder impact	Stakeholder and s172 Companies Act considerations
Business Review, Performance & Strategy		
• Regular updates from the Chief Executive Officer, the CEO of Smiths News and the CEO of Tuffnells. • Approving the Group's strategy and capital allocation programme together with updates on the proposed sale and leaseback of up to 16 freehold and long leasehold properties within Tuffnells. • Approval of key publisher contracts in Smiths News. • Integration and transformation project updates including the establishment of the offshore shared service centre. • Disposal of the Jack's Beans business in January 2019.		The consideration and approval of the Group's strategy and capital allocation programme is an example in this area where the Board has had regard to its duty under s172, including ensuring regard is to be made to the interests of key stakeholder groups and the likely consequences of any decision in the long-term. Prior to setting the capital allocation strategy, the Board considered the interests of key stakeholder groups: • Shareholders/Lenders – adopting a prudent and disciplined approach to capital management, where free cash from operations is expected to fund investment needed for the Group's recovery, with surplus used to reduce net debt while also maintaining an attractive total shareholder return. • Customers – delivering sustainable improvements to the core businesses, underpinned by the introduction of lean process management and continuous improvement principles to drive efficiency savings and improved customer experience. • Employees/Community – ensuring the right investment in support of hygiene and recreational facilities at our sites, and promoting reward and benefits that are market competitive.
Financial		
• Regular updates from the Chief Financial Officer on financial performance and legal and regulatory matters. • Approval of the Group's budget and business plan. • Approval of the half year and full year reports, including going concern and viability assessments. • Approval of the issuance of trading updates during the year.		Following the announcement of the Company's full year and interim financial results, formal presentations are made to institutional shareholder and analysts by the Chief Executive Officer and Chief Financial Officer covering a range of key issues affecting the Company's performance. Similarly, the cascade and dissemination of such information is also shared with the Company's workforce through, inter alia, 'Town Hall' meetings hosted by the Executive Team and via a cascade of 'key messages' as part of the Group's employee engagement forums, which facilitate the views of colleagues and can be reported to the Board.
Internal Controls & Risk Management		
• Regular updates from the Audit Committee Chair. • Periodic updates on Health & Safety progress, particularly within Tuffnells. • Approval of Group-wide policies and terms of reference.		'Safety First' is a key concept promoted by the Group in all activities across the organisation. It ensures that the well-being and safety of our colleagues is foremost in all that we do. The success of this and our Group-wide policies is a demonstration of how we interact with our community, our stakeholders and ensure that we deliver improved customer experience.
Governance		
• Review and approval of the values & culture. • Updates from the National Colleague Engagement Forum. • Regular updates and training from the Company's brokers and advisers.		Feedback from colleagues has helped to shape and embed across the organisation the Group's core values – quick, open, friendly, creative, trusted and fair.

In the course of its activities, the Board is always mindful of how effectively the directors work together and of the effective functioning of the Board in promoting the long-term sustainable success of the Company and generating value for shareholders and contributing to wider society. An overview of the external Board evaluation process can be found on page 41.

Corporate Governance cont.

Compliance with the UK Corporate Governance Code

This section of the Annual Report, together with the Audit Committee report on pages 44 to 50, the Nominations Committee report on pages 51 to 53 and the Directors' Remuneration report on pages 54 to 74, describes how the Company has applied the main principles contained within the UK Corporate Governance Code (the 'Code'). The Company confirms that, throughout the year ended 31 August 2019, it has complied fully with the principles and provisions of both the 2016 edition of the Code and, notwithstanding that the 2018 edition of the Code is applicable only to accounting periods beginning on or after 1 January 2019, the 2018 edition of the Code also.

Given the increasing rigour of the 2018 edition of the Code, the Board has taken the decision to seek to comply with the 2018 edition of the Code a year earlier than formally required. Accordingly, set out in the following table is a demonstration of our compliance with the 2018 edition of the Code, which includes cross-references to other parts of the Annual Report to assist with reviewing compliance. Compliance with Section 5 (Remuneration) is set out in the Remuneration report on pages 54 to 74.

A copy of the 2016 and 2018 editions of the Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

1. Board leadership and Company purpose

A. Board leadership

A description of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management are set out on page 33.

B. Company purpose

The Group's purpose and strategy is set out in detail in the Strategic Report on pages 2 to 31. During the year, we implemented a cultural change programme across the Group through the resetting and introduction of our Values. Management regularly review and promote alignment with the Values across the Group. The Values are explained in more detail within our Corporate Responsibility report on page 28 to 31.

C. Objectives and controls

The Group's objectives and KPIs are set out within the Strategic Report on pages 2 to 31. The Board receives regular updates across a broad range of internal KPIs and performance metrics. The Group has a clear framework in place to continuously identify and review the risks to the business as explained further within our principal and emerging risks on pages 22 to 25.

D. Engagement

An overview of how the Group engages with its stakeholders is set out within the Corporate Responsibility report on pages 28 to 31.

The Board, as a whole, is kept fully informed of the views and concerns of major shareholders and other key stakeholders. The Chief Executive Officer and Chief Financial Officer regularly update the Board at each Board meeting of key stakeholder interests and views that may have been received in the reporting period. Further, following meetings with major shareholders, independent feedback is provided to the Board by the Company's advisers and brokers.

In order to facilitate engagement with investors, following the announcement of the Company's full year and interim financial results, formal presentations are made to institutional shareholders and analysts by the Chief Executive Officer and Chief Financial Officer covering a range of key issues affecting the Company's performance. The presentations are available to view on the Company's website at www.connectgroupplc.com. Similarly, the dissemination of such information is also shared with colleagues through, inter alia, 'Town Hall' meetings hosted by the Executive Team and via a cascade of 'key messages' as part of the Group's employee engagement forums, which facilitate the views of colleagues and can be reported to the Board.

In addition, during the year as part of our investor relations activity, meetings were held with major institutional shareholders and financial analysts to discuss business performance and strategy. This included a trading and strategy capital markets presentation on 22 January 2019.

Separately, institutional shareholders also met or engaged with the Chairman, Remuneration Committee Chair and Company Secretary at various times in the year to discuss matters of governance and remuneration policy, with a thorough investor consultation exercise undertaken with our largest shareholders to inform the Company's new directors' remuneration policy to be presented to shareholders for approval at the 2020 AGM.

Finally, other key stakeholder interests have been represented and consulted through ad hoc presentations made by the Chief Executive Officer and Chief Financial Officer to lenders (in particular, on the Group's capital allocation strategy) and with the workforce – see section 5 below for further details.

E. Workforce

During the year, group-wide employee policies and manager guidelines were updated in line with the new Values and relaunched across the Group.

To encourage colleagues to raise any matters of concern, the Group operates a confidential 'speak up' whistleblowing line. We continue to raise awareness among colleagues of this facility and more generally to encourage a culture of appropriately calling-out concerns.

1. Business model and risks

The Group's business model and principal and emerging risks are set out in more detail in the Strategic Report on pages 6 and 22 onwards.

2. Cultural alignment

During the year, we implemented a cultural change programme across the Group through the introduction of our Values and our diversity and inclusion initiative called 'Everyone In'. This programme is guided by a regular forum of colleagues from across the business with the express purpose of helping to create a more inclusive culture, welcoming diversity and allowing all colleagues to 'be themselves' at work. Initiatives to date include support for the national Mental Health and Carers weeks, and high profile upskilling sessions for managers on the benefits of inclusion and diversity.

We regularly monitor colleague engagement and culture through our 'What Matters' employee surveys and, thereafter, the Board will play an active role in reviewing results and determining the appropriate action plans and priorities. Furthermore, the survey results also help to inform future decision making – further details of which are set out in the Corporate Responsibility report on pages 28 to 31.

Management regularly receive whistleblowing and employee relations reports on deviations in stakeholder behaviours, taking corrective action where required.

We undertake workforce planning; performance review, talent and succession initiatives; and learning and development programmes. Our approach to workforce remuneration is set out in more detail within our Directors' Remuneration report on pages 54 to 74.

3. Shareholder engagement

We recognise the importance of communicating with our shareholders. Both the Chairman, the Senior Independent Director and Committee chairs seek to engage with major shareholders and make themselves available during the year to attend meetings with major shareholders.

During the year, the Chair of the Remuneration Committee engaged and consulted with our largest shareholders as well as three prominent proxy advisory service firms in relation to the proposed FY2020-2022 directors' remuneration policy.

As outlined above, the Board receives regular investor relations reports.

4. Votes against proposed resolutions

The Board acknowledges a significant number of votes cast at the 2019 AGM by a small number of shareholders against resolution 6 for the re-election of Gary Kennedy, Chairman (equating to 22.0% of the votes received). The Company has sought to engage with the shareholders concerned and published on its website in March 2019 an update statement on the actions taken. A final summary of the outcome is provided within section 15 below.

5. Stakeholder views – workforce

The employee engagement mechanisms the Board uses to understand the views of stakeholders include:

- the Group's local and regional employee engagement forums which take place on a monthly or quarterly basis respectively;
- a designated non-executive director (Michael Holt) who informally updates the Board following attendance at the National Colleague Engagement Forum, established and launched during the year as a means of giving the Board direct access to the important views and voice of our frontline and corporate centre colleagues. Key issues discussed in the year included constructive discussions on the Group's Health & Safety policies and its 'Safety First' initiative; proposals for improved two-way communication channels between frontline colleagues and business leaders; and the endorsement of proposals to introduce more flexible benefit structures. In addition, the Chair of the Remuneration Committee attended one of the meetings to engage with participants on the structure of remuneration across the business and specifically on the reward of executive directors;
- 'Town Hall' meetings hosted by the Executive Team;
- 'listening lunches' with the Chairman and/or Chief Executive Officer; and
- newsworthy items and updates on the Group-wide intranet 'The Angle', and/or published in the Group's monthly newsletters ('Get Connected') to frontline and corporate centre colleagues.

An overview of how the Group engages with all stakeholders is set out within the Corporate Responsibility report on pages 28 to 31 and an overview of how stakeholder views are taken into consideration in board discussions and decision making is set out in the Board activities table on pages 36 and 37.

6. Whistleblowing

To encourage colleagues to raise any matters of concern, the Group operates a confidential 'speak up' whistleblowing line. We continue to raise awareness among colleagues of this facility and more generally to encourage a culture of appropriately calling-out concerns. The Board regularly receives whistleblowing and employee relations reports which detail the investigation and follow-up of all notifications.

Corporate Governance cont.

7. Conflicts of interest

The Board confirms that a formal system for the declaration of conflicts of interests continues to be in place and, as part of such system, the Company's articles of association permit the directors to consider and, if thought fit, authorise situations where a director has an interest that conflicts, or may possibly conflict, with the Company's interests. In deciding whether to authorise a conflict or potential conflict, the non-conflicted directors must act in a way they consider would be most likely to promote the Company's success and they may impose limits or conditions when giving their authorisation, or subsequently, if they think it is appropriate. Any authorisation given is recorded in the Board minutes and the Board subsequently monitors and reviews potential conflicts of interest on a regular basis.

8. Unresolved concerns

No unresolved concerns about the running of the Company or a proposed action were raised by any director in the reporting period.

2. Division of responsibilities

F. Chairman

The responsibilities of the Chairman, as described on page 33, are set out in writing and agreed by the Board.

G. Division of responsibilities

A statement of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management, as described on page 33, are set out in writing and agreed by the Board.

H. Non-Executive Directors

The Board is satisfied that the external commitments of the Chairman and the non-executive directors set out in their biographies do not conflict with their duties and commitments to the Company and that any new commitments are disclosed to the Board.

I. Functioning of the Board

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

All directors have access to independent professional advice at the Company's expense as well as the advice and services of the Company Secretary.

9. Independence of Chairman

The Chairman was independent on appointment in March 2015.

The division of responsibilities between the Chairman and Chief Executive Officer, as described on page 33, are set out in writing and agreed by the Board.

10. Independence of Non-Executive Directors

During FY2019, the Board considers that all non-executive directors were independent as identified as such within the director biographies on page 35. However, as noted within Michael Holt's biography, on 5 November 2019, Michael Holt was temporarily appointed as Executive Chairman of Tuffnells for the limited period of the strategic review of Tuffnells. For the purposes of the 2018 edition of the UK Corporate Governance Code, Michael will no longer be considered 'independent'. 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. All other non-executive directors continue to be independent.

11. Board independence

Excluding the chair, half of the Board were independent non-executive directors during the reporting period. However, in light of Michael Holt's temporary appointment as Executive Chairman of Tuffnells on 5 November 2019 as noted above, during FY2020 at least half the Board will no longer be made up of independent non-executive directors for the limited period of Michael's temporary appointment as Executive Chairman of Tuffnells.

12. Senior Independent Director

Mark Whiteling became Senior Independent Director on 23 January 2018.

The Senior Independent Director leads the annual appraisal of the Chairman's performance.

13. Performance of Executive Directors

The Remuneration Committee receives regular updates and reports from management on the achievement of objectives and regularly challenges management on its performance.

The Chairman held three meetings during the year with the non-executive directors, without the executives being present.

14. Role responsibilities

The responsibilities of the Chairman, Chief Executive Officer, Senior Independent Director and the Terms of Reference for the Committees are set out in writing, agreed by the Board and are available on our website www.connectgroupplc.com.

The Board held ten scheduled meetings during the year as set out in the directors' attendance table on page 36.

15. External commitments

The Board is satisfied that the external commitments of the Chairman and the non-executive directors do not conflict with their duties and commitments to the Company and that any new commitments are approved by the Board.

As noted at section 4 above, the Board acknowledges a number of votes were cast at the 2019 AGM by a small number of shareholders against resolution 6 for the re-election of Gary Kennedy, Chairman due to a perception of 'over-boarding' in light of the Chairman's other chairmanships. The Board has considered these concerns and, on the basis that the Chairman has, to date, made himself available as required for all Company matters, the Board has concluded that he has sufficient capacity to meet his commitment to the Company, particularly given that one of the chairmanships relates to Green REIT PLC (a real estate investment trust), which in light of the nature of its business constitutes minimal engagement and time commitment. Separately, the Board is also aware that Gary Kennedy intends to resign as the Chairman of Green REIT PLC following conclusion of its formal sales process and the recent announcement of its sale to a subsidiary of Henderson Park Real Estate Fund. In addition, the Board has determined that the Chairman's knowledge of the business and his extensive experience brings many benefits to the Group and that his time availability and attention have been without question and have not been adversely impacted by his other Board commitments.

16. Company Secretary

All directors have access to independent professional advice at the Company's expense as well as the advice and services of the Company Secretary.

3. Composition, succession and evaluation

J. Board appointments

A description of the work of the Nominations Committee is set out on page 51. The Committee receives an annual update on succession planning for the Board and senior management.

K. Board membership

A description of the work of the Nominations Committee is set out on page 51.

L. Board evaluation

A performance review of the Board, its Committees, the Chair and individual directors is carried out annually and an externally facilitated evaluation is carried out every three years.

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

A written report summarising and analysing the responses to the evaluation exercise, along with suggested action points and recommendations, were considered by the Board at its July 2019 meeting. The evaluation confirmed the conclusion drawn from previous evaluations that the Board operates effectively. There were a number of actions that were agreed to ensure that the Board, its Committees and individual directors continue to work effectively, including: greater focus on the development of cohesive strategic goals; consideration of Board cadence to ensure frequent face-to-face meetings during busier periods and to help foster stronger relationships amongst Board members; increasing reliance on accurate and timely data to help drive analytical decision making; balancing the focus of reporting between historical results and future strategic aims; and deepening the non-executive directors' understanding of the Group's businesses and those businesses' respective strengths and opportunities.

The external Board evaluation process was supplemented by an internal review of individual directors' performance. One-to-one discussions were held between the Chairman and each director to discuss their contribution and performance during the year along with any training needs. A meeting of the non-executive directors was led by the Senior Independent Director, in which the performance of the Chairman was discussed. Following the performance evaluations for the directors as outlined above, each director was confirmed as committed and effective in performing their duties and are accordingly proposed for re-election as set out in the Notice of Annual General Meeting.

Corporate Governance cont.

17. Nominations Committee

The Board has established a Nominations Committee and its terms of reference are available at www.connectgroupplc.com. Membership and a description of the work of the Committee is set out on page 51 including its approach to succession and diversity.

18. Director re-election

The Company's Articles of Association (the Articles) require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment. However, it is the Board's practice that all directors stand for re-election at the Annual General Meeting.

Following the performance evaluations for the continuing directors, each director was confirmed as committed and effective in performing their duties and are accordingly proposed for re-election with full details of the reasons set out in the Notice of Annual General Meeting.

19. Chair tenure

The Chairman was appointed in 2015. The Nominations Committee receives an annual update on succession planning for the Board and senior management.

20. Recruitment agencies

External recruitment agencies are generally used for the appointment of non-executive directors.

21. Board evaluation

As described above, a performance review of the Board, its Committees, the Chair and individual directors is carried out annually and an externally facilitated evaluation is carried out every three years. This year we have undertaken an externally facilitated evaluation conducted by EquityCommunications who have no other connection with the Company or any directors.

22. Board evaluation actions

As part of the annual Board evaluation process, the Chairman discusses and agrees with each director their needs for training and development. Ongoing training resources available to the directors include: annual listed company compliance board training, membership of the Deloitte Academy and other opportunities for promoting continuing professional development, a training and guidance resource for boards and directors; a programme of head office and business visits; and regular updates from the Company Secretary on governance, regulatory and legislative changes affecting the business and/or their duties as a director.

23. Work of the Nominations Committee

A description of the work of the Nominations Committee is set out on page 51.

4. Audit, risk and internal control

M. Independence of internal and external audit

The Board has established an Audit Committee to oversee the independence and effectiveness of the Internal Audit function and the external auditor and to review the content and integrity of the Group's external reporting.

N. Fair, balanced and understandable assessment

The Board is responsible for the preparation and approval of the Annual Report and financial statements and considers them, taken as a whole, to be fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The fair, balanced and understandable assessment is set out in the Financial Review on pages 16 to 21.

O. Risk and internal control

The Board confirms that there is a process for identifying, evaluating and managing the risks we face. A description of the work of the Audit Committee in relation to risk and internal control is set out on pages 45 to 46.

24. Audit Committee

The Board has established an Audit Committee, the membership of which is set out in the director biographies on page 35. At the beginning of the reporting period, the Chairman stepped down as a member of the Committee.

25. Role and responsibilities of the Audit Committee

The terms of reference for the Audit Committee are available from our website www.connectgroupplc.com. A description of the role and responsibility of the Audit Committee is set out on pages 44 to 46.

26. Work of the Audit Committee

A description of the work of the Audit Committee is set out on pages 44 to 46.

27. Fair, balanced and understandable assessment

The Board is responsible for the preparation and approval of the Annual Report and financial statements and considers them, taken as a whole, to be fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The fair, balanced and understandable assessment is set out in the Financial Review on pages 16 to 21.

28. Principal and emerging risks

The principal risks assessment is set out on pages 26 and 27. Emerging risks are identified as part of the Group's risk management framework, further details of which is set out in the Audit Committee report on pages 45 to 47.

29. Effectiveness of risk management and internal controls

A description of the work of the Audit Committee in relation to monitoring the effectiveness of risk management and internal control is set out on pages 45 to 47.

30. Going concern assessment

The Going Concern Statement is included within the Financial Review of the Strategic Report on page 21.

31. Viability assessment

The Viability Statement is included within the Financial Review on page 26.

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

Gary Kennedy
Chairman
5 November 2019

Audit Committee Report

PROMOTING AND SUPPORTING **ROBUST GOVERNANCE**

The Committee has continued to play a pivotal role within the governance framework.

Mark Whiteling
Audit Committee Chair

Key objectives

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

Responsibilities

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website www.connectgroupplc.com and from the Company Secretary on request. The terms of reference, which address all matters set out in Disclosure and Transparency Rule 7.1 and the 2018 edition of the Code, are reviewed annually by the Committee and referred to the Board for approval.

The principal responsibilities of the Committee are:

- monitoring the integrity of the financial statements of the Company, including its Annual and Interim Reports, trading statements, preliminary and interim financial results announcements and reviewing significant financial reporting issues and judgements which they contain;
- keeping under review the adequacy and effectiveness of the Company's internal financial and non-financial controls, including monitoring and reviewing the effectiveness of the Internal Audit function;
- reviewing the Group's assurance and risk management framework and providing oversight and input into the Group's risk strategy, appetite and risk management mitigations;
- reviewing the content of the Annual Report and the Group Financial Statements and advising the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance and prospects, together with its business model and strategy;
- reviewing the regulatory compliance framework and the systems and controls for the prevention of fraud and corruption, tax evasion, modern slavery and bribery;
- ensuring the Company maintains suitable arrangements for employees, customers, contractors and other external parties to raise matters of concern in confidence (whistleblowing);

- considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing the policy on the engagement of the external auditor to supply non-audit services; and
- reporting to the Board on how it has discharged its responsibilities.

If there is a disagreement with the Board and/or executive management on any of the Committee's responsibilities that cannot be resolved, the Committee retains the right to report the issue to shareholders as part of its report on the Committee's activities.

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

Overview

I am pleased to present this year's report on the activities of the Audit Committee, where the Committee has continued to play a pivotal role within the governance framework in key matters relating to internal control, risk management and financial reporting, particularly in the context of the Group's recent trading profile and transformation programme.

One key event considered by the Committee in the year related to the Committee's tender for external audit services and subsequent recommendation for the appointment of BDO LLP (BDO) as the Company's auditor in place of Deloitte LLP, who had advised that they would look to step down following conclusion of the 2019 Annual General Meeting. On behalf of the Committee I'd like to extend my sincere appreciation to the Deloitte audit team for their steadfast and robust audit services since the Company's demerger from WH Smith PLC in 2006.

Looking to the future, the Committee was delighted with the thorough audit tender process that was conducted and the very credible responses received from short listed audit firms. In recommending BDO for appointment, the Committee concluded that its strong credentials coupled with its leading proposition, its enriching partner-led engagement and its market-leading audit quality, as highlighted by independent analysis conducted by the Financial Reporting Council, identified BDO as the standout firm. In the period since its engagement, the Committee is pleased with the scope and manner of BDO's induction, the robustness of its audit to date and the effectiveness of the external audit process generally.

Separately, another significant milestone achieved in the reporting period included positive progress made in our overall risk management and internal control environment as described in more detail below. This was identified in last year's Annual Report as a key activity for FY2019 in light of the reinforced focus on the Group's risk management framework and internal control processes which had been initiated in the latter part of FY2018 and the Committee welcomes the continued focus and improvement in the risk management process and the strengthening of internal controls during the year.

The Committee notes that it has at all times during the reporting period acted in accordance with its terms of reference and confirms that it has ensured, through ongoing monitoring and review, the independence and objectivity of the external auditor.

Membership

All members of the Committee who served during the year were independent non-executive directors. In order to comply early with the 2018 edition of the Code, Gary Kennedy stepped down as a member of the Committee on 31 August 2018 and now attends Committee meetings by invitation only. Additionally, on 1 October 2018, we welcomed Michael Holt as a member of the Committee.

Given my qualification as a chartered accountant and my extensive financial experience, including my former roles as Chief Financial Officer of each of Interserve PLC (until March 2019) and Premier Farnell plc (until June 2016), I am considered by the Board to have recent and relevant experience to chair the Committee in accordance with the requirements of the 2018 edition of the Code. Each of the other members of the Committee has extensive and highly relevant business, commercial and operational experience.

How the Committee operates

The Committee met four times during the year as part of our schedule to consider matters planned around the financial calendar. All Committee members were in attendance at each of the meetings and, at the invitation of the Committee, representatives of the external auditors (Deloitte LLP (until 18 February 2019) and BDO (from 15 March 2019)) and the internal auditors attended meetings together with the executive directors and other members of the executive management team from time to time to present reports specific to their areas of responsibility.

As Chair, I regularly engage with the external auditor and with the Head of Internal Audit both ahead of Committee meetings and also as part of a regular dialogue we have on issues relevant to the Committee, in each case in order to ensure that each of their independent views, opinions and comments are reflected within the Committee's deliberations and dealings. Separately, the Committee also seeks to collectively meet regularly with both the external auditor and separately with the Head of Internal Audit without the executives being present. In the year, the Committee met once with representatives from Deloitte and once with representatives from BDO without management present and held two separate private meetings with the Head of Internal Audit.

Risk management and internal control framework

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

The Board has overall responsibility for our system of internal control, including risk management and for reviewing its effectiveness. The Group's risk management and internal control system is designed, however, only to manage or mitigate rather than eliminate risk, as taking on manageable risk is an inherent part of undertaking the Group's commercial activities, and can only provide reasonable and not absolute assurance against material misstatement or loss.

We have developed, and in the year made further enhancements to, the framework of internal controls across the Group including financial, operational and compliance controls. Enhancements introduced in the year include improved financial forecasting and budgetary management processes, a new e-payroll system and a revised purchase to pay system together with improvements in the respective control frameworks, robust programme management governance controls led by Six Sigma principles deployed across key strategic projects (including offshoring certain transactional activities from across the Group to a new service provider in India), the deployment of new governance policies, greater levels of reporting and accurate oversight of key performance indicators (both financial and non-financial) relevant to the long-term success of the Group and the development of operational and compliance controls in both Smiths News and Tuffnells as part of the transformation governance framework. Together, these enhancements provide more accurate and insightful information and have been assessed by our Internal Audit function as having achieved a more mature and improved level of awareness and oversight from across the Group.

Audit Committee Report cont.

In addition, the processes for identifying, evaluating and managing the principal business risks (and emerging risks) that we face, including those that would threaten the Group's business model, future performance, solvency or liquidity, have been refreshed and renewed throughout the year under review. These processes accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'FRC Guidance') and we continue to develop such processes to ensure that they remain relevant to the changing composition and market competitiveness of the Group and the landscape of the sectors in which we operate.

In light of the risk management processes deployed within the Group and, in particular, mindful of the dedicated review of the principal risk environment undertaken by the Board and the Audit Committee, the Board is satisfied that it has carried out a robust assessment of the principal and emerging risks that we face, including those that would threaten the business model, future performance, solvency or liquidity of the Group, as required by the 2016 and 2018 editions of the Code. The structure is set out below. Further details of our risk management framework, along with our evaluation of the principal risks and how they are being monitored are set out in the Strategic Report on pages 4 to 31.

The system of internal control which has been in place for the year under review and up to the date of approval of the Annual Report and accounts also includes:

Financial controls

- a system of budgeting and planning, together with monitoring and reporting the performance of the businesses to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- appraisal of all major investment projects;
- a dedicated purchase to pay system, including a revised "no purchase order. no pay" policy approach introduced at the end of the reporting period;
- key controls over major business risks, including reviews against performance indicators and exception reporting;
- monthly reporting of treasury activities and risks, for review by senior executives; and
- Annual Reports covering treasury policy, tax compliance, pensions, information and cybersecurity and insurance, each for review by the Board or the Audit Committee.

Operational controls

- key performance indicators to monitor operational activity, including customer service levels;
- independent customer satisfaction surveys; and
- business recovery plans to enable the businesses to continue with minimum disruption to customers in the event of a disaster event. Periodically, business continuity planning is reviewed by Internal Audit as part of its annual audit planning process.

People and environment controls

- monitoring employee engagement and sharing policy updates utilising our employee-wide intranet, obtaining feedback from local management meetings, and frequent site visits by the Executive Team to encourage open dialogue and exchange of good practice;
- a Code of Business Conduct which takes into account the interests of all stakeholders;
- a Whistleblowing Policy and associated speak-up line whereby employees can report in confidence incidences of suspected fraud or other malpractices;
- a new e-payroll system introduced in the second half of the year, together with improvements in the respective control frameworks; and
- a corporate responsibility programme which sets out the Company's activities on governance & sustainability, environment & community, workplace & conduct and marketplace.

Health & Safety controls

- a Health & Safety Policy, the implementation of which is actively monitored at each Board meeting, and the policy is reviewed annually by the Board;
- Health & Safety Risk Management teams, working to assess Health & Safety risks and introduce systems to mitigate them. Details of major business incidents are reported to Internal Audit and the Audit Committee, and all notified accidents are investigated;
- reports on Health & Safety matters including the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR) which are both provided and presented to the Board on a regular basis; and
- a commitment by the Company to ensure that its personnel meet high standards of integrity and competence. The Company's systems cover recruitment, training and development of personnel, and the communication of Company policies and procedures throughout the organisation.

Compliance controls

- robust programme management governance controls influenced by Six Sigma principles deployed across key strategic projects;
- regulatory and compliance policies (including an Environmental Policy, an Anti-Corruption Policy and an Ethical Trading Policy) each of which is reviewed annually by the Board;
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties;
- oversight of our adherence to the requirements of the Modern Slavery Act, and annual approval of the Modern Slavery Statement; and
- a comprehensive Data Protection Policy setting strict guidelines for the use and retention of confidential customer, supplier and employee data, and reflecting a 'privacy by design' approach as well as the legal requirements under the General Data Protection Regulations ('GDPR').

Internal Audit function

The Committee is responsible for monitoring and reviewing the effectiveness of the Internal Audit function in the context of the overall risk management system.

Our risk management and internal audit arrangements are currently undertaken by an external outsourced provider. During the year, the Committee reviewed the continuing suitability and appropriateness of the external provider and concluded that this arrangement ensures maximum flexibility for the continuing audit programme as well as access to specialist expertise and skills. Accordingly, the Committee intends to continue with the current outsourced arrangement but to keep this engagement under review as we determine the future shape of the Group in light of the Group's recent trading profile, its transformation programme and recent changes in the executive team and how best to utilise the Internal Audit function.

In fulfilling its responsibilities, in the year the Committee reviewed the following matters in relation to the Internal Audit function:

- the scope, resource and planned activities of Internal Audit and the adequacy of audit coverage;
- Internal Audit's strategy, work plans, status reports against planned activity and business incidents reports;
- a summary of the reports on the results of individual audit reviews, significant findings, management action plans, and timeliness of resolution; and
- the performance of the Internal Audit function.

Committee's activities during the year

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

Financial reporting

During the year we reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to, and the content of, the financial statements for the full year to 31 August 2019 and considered reports from the Chief Financial Officer in relation to the half year to 28 February 2019 to ensure that they each included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position, performance and prospects, as well as the Group's business model and strategy. In undertaking this review, we considered a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgements made in preparing the financial statements. The Committee concluded in its recommendation to the Board that it was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

The significant issues and key judgements considered by the Committee in relation to the FY2019 Group Financial Statements are set out below. In light of these significant issues and key judgements included below, the Committee has considered whether each of these areas is a key judgement or estimate and, therefore, whether it should be disclosed within Note 1(5) to the Group Financial Statements. It was concluded that the matters included within Note 1(5) reflect the key judgements and estimations.

Risk management and internal control framework

The Board is responsible for the overall strategic direction and management and undertakes an annual review of its risk appetite, outputs of which are considered when conducting the annual business planning and strategy process. Full details of the Board's responsibilities are set out in the formal schedule of matters reserved for its decision, which are summarised on page 33.

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

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

The Approvals Committee, which comprises the Chief Executive Officer and Chief Financial Officer is authorised by the Board to approve routine matters within agreed financial limits.

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

Internal Audit presents its findings to the Executive Team, and all internal audits have an executive sponsor assigned.

Audit Committee Report cont.

Significant issues and key judgements

Area	Matter considered	Outcome
Carrying value of goodwill, intangibles and tangible assets	The Committee considered the carrying value of Cash Generating Units (CGU) following a year of underperformance against budgets.	The Committee reviewed the forecast and sensitivity analysis which management had prepared to assess whether there had been any impairment in the value in use of the Group's CGUs. The Committee agreed with management's conclusion that the Tuffnells business should be impaired to reflect the significant deterioration in its value in use; the impairment being applied against the carrying value of the Group's goodwill, intangible and certain tangible assets in the Tuffnells business. The Committee also agreed with management's view that on the basis that the fair value less costs to sell of certain Tuffnells properties and fleet assets was in excess of their net book value, it was not necessary to impair these assets. The Committee also reviewed the assumptions regarding the value in use of the other CGUs and agreed that they were appropriately recognised and measured and the value in use remained significantly above carrying value for those CGU's.
Carrying value of investments held by Connect Group PLC in its subsidiaries	The Committee considered the carrying value of the investments held by Connect Group PLC following a year of underperformance against budgets.	The Committee reviewed and agreed with management's conclusion that there was impairment in the value of these investments in Connect Group PLC. This review used the same value in use calculations prepared for all businesses noted above.
Adjusted Items	The Committee considered the appropriateness of the measure of Adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as such.	The Committee was satisfied that the presentation of Adjusted profits provided a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of the items shown separately as Adjusted Items.
Provisions	The Committee reviewed the provisions as at year end and the appropriateness of the additions, utilisation and releases made in the year. The key provisions established in the year related to restructuring provisions relating to the offshoring of certain of the Group's central functions and specific operational restructuring projects.	The Committee agreed that the provisions held were appropriately recognised and measured and that releases were consistent with the manner in which the original provisions had been made.
Held for sale assets	The Committee reviewed the accounting classification of the freehold and long leasehold properties in Tuffnells.	The Committee was satisfied with management's judgement that these properties met the criteria set out in IFRS 5 to be held for sale in January 2019 and that these conditions continued to be met at the balance sheet date.
Retirement benefit obligation	The Committee reviewed the proposed accounting treatment for the 'Buy In' for the Smiths News Defined Benefit Pension Scheme. The Committee reviewed the assumptions used for the IAS 19 calculation of surplus/deficit and the total IFRIC 14 liability recognised on the balance sheet for future actuarial deficit reduction contributions.	The Committee satisfied itself that the actuarial measurement approach that results in the IFRIC14 gain being matched against the loss appropriately reflects the 'fact pattern' that led to the 'Buy In' The Committee satisfied itself that the assumptions used were reasonable.
Revenue recognition	The Committee reviewed the recognition of revenue across the Group.	The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with its contractual obligation during the period, paying attention to period end cut-off and the level of expected customer returns. The Committee also satisfied itself that the requirements of IFRS 15 'Revenue from contracts with customers' adopted this financial year have been met and reflected. As part of this review, the Committee specifically considered and agreed with management's judgement that Smiths News was acting as principal in its trading activity in respect of the news and magazines market.

Adoption of new accounting standards

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' both of which are effective for the period beginning on 1 September 2018. The impact of both standards is explained in the notes to the Group Financial Statements. At the balance sheet date, the only new standard in issue but not yet effective that will have a material impact on financial reporting is IFRS 16 'Leases'. IFRS 16 is expected to have a material impact on the value of lease liabilities and right of use assets. An associated finance charge and depreciation charge will replace the existing operating lease charge, and as a result there is expected to be an impact on operating profit in future periods, but there will be no impact on the underlying commercial performance of the Group or the cash generated. There is also expected to be an impact on classifications within cash flows. Appropriate resources have been assigned to ensure the readiness of systems and financial reporting requirements with regular reporting to the Committee. The impact of IFRS 16 is explained in the notes to the Group Financial Statements.

Going Concern and Viability Assessment

The Committee also reviewed a paper prepared by the Chief Financial Officer to support the Going Concern and Viability Assessment referred to on page 27 and, on the assumption that external debt is either repaid as it becomes due in January 2021, or will be refinanced on commercially reasonable rates over an agreed period on similar covenant terms, concluded in its recommendation to the Board that the profit and cash forecasts supported the view that the business can meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the Group Financial Statements and the three-year period of the Viability Assessment. The Financial Review on pages 16 to 21 sets out further details on the process applied in relation to this assessment.

Risk management

The Committee received regular reports on the Company's legal, taxation, treasury, fraud prevention, whistleblowing, information security and data protection, insurance activities and related policies and procedures for the promotion of the Committee's goals. Additionally during the year, the Committee oversaw the Group's assessment of its expected exposure to the risks arising from the UK's proposed exit from the EU ('Brexit'), which had been undertaken by the Internal Auditor. The summary findings of the review were considered by the Committee with the actions arising progressed by management.

Given the lack of clarity around the nature and timing of the UK's exit arrangements, the Committee subsequently encouraged management to ensure that detailed and thorough plans for a worst case 'no deal' scenario were in place prior to 31 October 2019. Accordingly, a Brexit steering committee was established in order to meet on a regular basis to discuss the key impacts of the Brexit decision and report to the Executive Team and the Committee. The Committee is satisfied that the Group continues to seek ways to mitigate potential risks and, in the meantime, has concluded that the direct impact of Brexit to the Group is expected to be muted but the indirect impact on general consumer confidence and market uncertainty to have greater significance across each of our businesses. We will continue to monitor the risks and uncertainties arising from Brexit within the Group's existing risk management and control process as outlined on pages 22 to 25.

In line with usual procedures, a refresh of the Group's principal and emerging risks was carried out at the half and full year, taking into account the continuing environment of considerable change and transformation within the Group. The review was conducted through discussion with a cross section of the executive and senior management teams and the non-executive directors, who were asked to consider the key risks (in place and emerging) and challenges to the business (by reference to the existing principal risks); the current management activities and controls that help address these risks; and future actions that may be taken to further mitigate the risks (where appropriate). The review identified that formal risk management activities have improved during the year and there is a general alignment around the nature of risks, the risk ownership, the direction of travel and any risk mitigating actions.

Internal controls

As outlined in our FY2018 report, Internal control health checks were conducted in FY2018 in order to identify areas of priority and focus. Key internal control themes were identified and the review resulted in the recommendation of a number of mitigating actions, each of which were progressed by management as a means of strengthening and rebasing the internal control environment. We are pleased with the progress made on the Group's internal control environment and continue to closely monitor the improvements made.

Further details of the principal risks, any emerging risks and how they are managed and mitigated can be found on pages 22 to 25.

Whistleblowing, bribery and fraud

We operate a confidential telephone hotline whereby employees can report in confidence suspected incidences of fraud, bribery or non-compliance with Company policies, practices or breaches of law. All such incidences are assessed and categorised according to severity and risk by the Employee Relations team and an investigating manager appointed, with the findings reported to the Committee on completion of an investigation.

During the year, the Committee received quarterly reports on incidences of whistleblowing, suspected fraud, data breaches, bribery or other malpractices reported across the business and separately Internal Audit re-established the Group's fraud risk management framework to improve the identification of, and mitigating actions to prevent and report, incidences of fraud.

External auditor

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the external auditor on an annual basis. Further, in accordance with Articles 16 and 17 of the EU Audit Regulation, the Company is required to complete a competitive tender process for the external audit every ten years and mandatorily rotate audit firm every 20 years.

Following the conclusion of a formal tender process in January 2019, the Board approved the appointment of BDO as the Company's auditor from the conclusion of the 2019 Annual General Meeting until their re-appointment by shareholders at the 2020 Annual General Meeting. Following the conclusion of the tender process, Deloitte resigned as the Company's auditor.

The Company has a formal policy on its relationship with the external auditor which the Committee has reviewed and updated during the year. The policy includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed to ensure that the external auditor's objectivity is not impaired. My prior approval is required if the cost of non-audit work is likely to exceed £20,000 per annum or where the maximum combined spend is likely to exceed 70% of the annual audit fee for the financial year. Furthermore, various regulatory authorities, including the Auditing Practices Board and the Institute of Chartered Accountants of England and Wales, have identified common non-audit services which may present a high

GOVERNANCE

Audit Committee Report cont.

risk of conflict and threat to external auditor independence. Consequently, the Committee has adopted a mandatory prohibition on the external auditor's engagement in relation to the following services unless it can be clearly shown to present no threat to external auditor independence and it is in the best interests of the Group:

- work related to the maintenance of accounting records and the initial preparation of financial statements that will ultimately be subject to external audit;
- management of, or significant involvement in, internal audit services;
- financial information systems design and implementation;
- actuarial services;
- investment advice and banking services;
- secondments to management positions that involve any decision-making;
- legal services;
- custody of assets;
- tax advisory, including tax planning and compliance;
- valuation services of a public nature; and
- any work where a mutuality of interest is created that could compromise the independence of the external auditor.

No fees were paid to Deloitte during the year in respect of non-audit services. However, fees paid to BDO during the year in respect of non-audit services support for the Company's interim financial results amounted to £30,000. The Committee considered, and was satisfied that, it was appropriate for BDO to undertake this work and that doing so did not affect their independence. Details of the total fees paid to Deloitte and BDO during the year in respect of audit and non-audit services are shown in Note 3 to the Group Financial Statements.

Assessment of the effectiveness of the external auditor

The Committee also regularly undertakes a review of the effectiveness of the external auditor. A dedicated session is then typically held to collate the views of each member of the Committee, the Chief Financial Officer and the Group Financial Controller on matters such as the external auditor's processes for internal review of accounting judgements, including understanding of the key issues; the expertise and technical knowledge within the external audit teams to audit effectively the Company; the scope, delivery and execution of the audit plan; and the robustness and perceptiveness of the external auditor.

After the conclusion of the FY2018 audit, the Committee evaluated the performance of Deloitte and concluded that the external audit process in FY2018 had been effective. Following Deloitte's decision to resign as auditor and BDO's successful appointment in February 2019, the Committee expects to conduct a thorough assessment of BDO's first year as external auditor for the Group and to ensure that any areas identified for improvement in its first audit are communicated to BDO for action. This will be reported in next year's Annual Report.

During the financial year under review, the Company had no interaction with the FRC's Corporate Reporting Review Team or its Audit Quality Review Team.

Approval

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

Mark Whiteling
Audit Committee Chair
5 November 2019

Nominations Committee Report

LEADING WITH A **PROGRESSIVE APPROACH**

The committee recognises the benefits of diverse skill sets, capabilities, backgrounds and experience.

Gary Kennedy
Nominations Committee Chair

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

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

The principal responsibilities of the Committee are:

- reviewing the structure, size, composition and balance of the Board including the skills, knowledge, experience and diversity of the directors;
- ensuring plans are in place for orderly succession planning for directors and senior management and overseeing the development of a diverse pipeline for succession;
- establish and promote employee engagement with the Board to ensure that workforce views are collected and considered; and
- identifying and nominating candidates to fill Board vacancies.

Overview
I am pleased to present this year's report on the activities of the Nominations Committee. The Committee has had a productive period during the year which included the recommendation for the permanent appointment of Tony Grace (Chief Financial Officer) to the Board with effect from 5 November 2018 as reported in last year's Annual Report, establishing the Group's colleague engagement mechanisms, considering the results and action plans arising from the 2018 group-wide colleague survey, overseeing the resetting and launch of our Group's culture and values as well as approving and overseeing the implementation of our new Diversity and Inclusion policy.

Membership
During the year, Denise Collis, Mark Whiteling and Michael Holt (with effect from 1 October 2018) were members of the Committee. All members of the Committee who served during the year were independent non-executive directors, excluding myself as I am deemed by the 2018 Code, by virtue of my Chairmanship of the Board, not to be regarded as independent but permitted to act as Chair of the Committee.

How the Committee operates
The Committee met twice during the year and all Committee members were in attendance at each of the meetings. At the invitation of the Committee, certain executive directors attended the meetings from time to time.

Nominations Committee Report cont.

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

Chief Financial Officer appointment

As reported in last years' Annual Report, following David Bauernfeind's decision to resign from the Board as Chief Financial Officer on 30 April 2018 and the subsequent decision to step down with immediate effect on 12 June 2018, the Committee oversaw the search and appointment of Tony Grace as Chief Financial Officer, initially providing interim cover and, thereafter, following recommendation by the Committee, permanently with effect from 5 November 2018.

The Committee engaged Blackwood Recruitment LLP to assist in this search process and confirms that Blackwood Recruitment LLP has no other connection with the Company or the directors, that all selection decisions were based on merit and that all recruitment activities were fair and non-discriminatory.

Non-executive director appointment

Following the departure of Andrew Brent following conclusion of the 2018 AGM on 23 January 2018, the Committee identified that it would seek the appointment of an additional non-executive director who, following a review of the required skills, knowledge, experience and diversity to enhance the composition of the Board, would ideally possess relevant industry experience applicable to the Tuffnells business and the logistics and distribution sector. Michael Holt was identified as a standout candidate but, due to other work commitments as Chief Operating Officer of FedEx Express, Europe until the end of September 2018, his appointment was deferred until 1 October 2018 when the Committee recommended that Michael Holt be appointed to the Board and the Board accepted the recommendation. Accordingly, Michael Holt was duly appointed as non-executive director on 1 October 2018 and subsequently also became the Group's designated non-executive director on the National Colleague Engagement Forum established and launched during the year.

Succession planning

During the year, the Committee considered the orderly succession planning for board and senior management roles, alongside continued progress being made in the Group's updated approach to succession planning, review of talent and management demographics. The Committee determined that this approach had improved capability across the senior management population, with a more favourable distribution of good/high performance across both leadership level 3 and leadership level 4 compared to previous reviews. Further work also continued during the year on talent mapping against the Group's new values as well as the key priorities for talent development in order to ensure the planned succession of key roles and the development of a diverse pipeline.

Colleague engagement

During the year, the Committee oversaw the creation and development of colleague forums as a means of promoting work place engagement. A structure of local, regional and national forums was established, with representatives nominated by our colleagues. The forums take place monthly or quarterly as appropriate and gather a wide range of views from our colleagues as well as cascading key strategic initiatives and business updates throughout the organisation.

As noted above, a National Colleague Engagement Forum was established and launched during the year and attended by certain nominated representatives from the local and regional forums, plus Michael Holt, as the Board's designated non-executive director. This forum is held quarterly and gives the Board direct access to the important views and voice of our frontline and corporate centre colleagues. Further information on the work of our colleague forums can be found in the Corporate Responsibility report on pages 28 to 31.

The Committee received and reviewed the results of the 2018 group-wide colleague engagement survey, which were largely positive given the context of the Group's recent trading profile. The results demonstrated that there is an opportunity to embrace higher levels of engagement across the Group, creating and communicating a vision for the future strategic direction of the Group and investing in the development of our colleagues.

Following the review of the results, a thorough action plan was developed alongside FY2019 internal communications planning, with an increased emphasis on colleague engagement and two-way communications. Initiatives undertaken in pursuit of these results include the introduction of quarterly 'town hall' meetings in multiple locations, monthly calls with depot management and separately with the senior leadership team. The introduction of regular video updates for the operational depot-based team, reporting on progress across the Group in the delivery of our key strategic initiatives and successes has been well received. We lead all team meetings with a focus on our 'Safety First' initiative and our company values, to consistently underline the importance of both.

Culture and Values

As an important step in our transformational plans, significant consultation and consideration of the Group's stakeholders was undertaken during the year to realign our corporate culture and to introduce new reinvigorated values and core behaviours to be expected of, and promoted by, all colleagues. Six core values were launched which emphasise trusted service for our customers, putting our colleagues and the principles of fairness and openness at the heart of everything we do, encouraging all colleagues to act with appropriate speed and creativity in all that we do, and at all times promoting the delivery of value for our shareholders. The Committee received updates on the integration, cascade and engagement of the new values and is pleased with the levels of progress made in the realignment of culture across the Group.

Further information on our values can be found in the Corporate Responsibility report on pages 28 to 31.

Diversity and inclusion

The Committee recognises the benefits of diverse skill sets, capabilities, backgrounds and experience to the effective functioning of the Board and the achievement of our objectives and longer-term strategy and acknowledges the additional wider company benefits that arise from a comprehensive diversity and inclusion strategy, such as creating and fostering a high performing and inclusive culture and attracting and retaining both customers and talent to the organisation.

Accordingly, the Committee considered and approved a new Diversity and Inclusion policy which has the wider objective of embedding a culture of diversity and inclusion throughout the organisation in support of the Company's long-term strategy. In order to ensure that the objectives of the policy are achieved, a Diversity and Inclusion Council was established, with delegated responsibility to (i) agree annual diversity and inclusion objectives, (ii) monitor diversity data against agreed metrics, (iii) report to the Committee on the effectiveness of the initiatives that have been implemented during the year, (iv) update the Committee on annual progress made against the policy's objectives, and (v) make recommendations for further diversity and inclusion focus.

During the year, the Council implemented the Diversity and Inclusion policy through a series of initiatives, including raising the awareness and improving the education of our managers on the policy through a campaign called 'Everyone In', launching a calendar of awareness events, introducing supporting communications and focusing on diversity within recruitment, talent and development of colleagues. Initiatives to date include support for the national Mental Health and Carers weeks, the establishment of a colleagues assistance and support programme and high-profile upskilling sessions for managers on the benefits of inclusion and diversity. Accordingly, the Committee is encouraged by the early engagement and progress which has been made in achieving the diversity and inclusion annual objectives and we are pleased with the increasing awareness of diversity across our organisation.

The Board considers itself diverse in terms of the background, skills and experience each director brings to the Board and is committed to targeting the recruitment of female Board members through executive search partners who are signed up to the Voluntary Code of Conduct on gender diversity, developed in response to the Davies Report. We encourage our recruitment partners to present more balanced candidate recommendations with at least one credible and qualified female candidate provided within the shortlist for the recruitment processes. The Committee is also mindful of the recommendations of the Parker Review and the Hampton-Alexander Review, when considering potential candidates and acknowledges that by broadening the potential skills base through enhancing the diversity of our business, we will improve the quality of our future decision-making. The Committee also agrees that improving the overall diversity, including gender balance, in leadership roles is good for company performance and productivity.

	Female representation	
	2019	2018
Board	**14%**	17%
Executive Team	**14%**	25%

Further information on gender diversity, including the proportion of women in senior management (being for these purposes, the Executive Team and their direct reports as promulgated by the Hampton-Alexander Review) and within the organisation overall, is contained in the Corporate Responsibility report on pages 28 to 31.

Approval

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

Gary Kennedy
Nominations Committee Chair
5 November 2019

Board appointments and succession planning

The Committee adopts a formal, rigorous and transparent procedure for the appointment of new directors to the Board:

1. Executive search consultant is appointed
2. Following a review of the required skills, knowledge, experience and diversity, detailed job specifications are prepared
3. Comprehensive profiles are prepared and considered, and candidates are shortlisted
4. Initial and second interviews are held with each member of the Board
5. Following recommendation by the Committee, the Board appoints the new director
6. Immediately following appointment the relevant announcements are made to the market

Directors' Remuneration Report

TRANSPARENCY AND STAKEHOLDER ENGAGEMENT

The incentive plans align to the business strategy and culture and provide for a rounded assessment of performance.

Denise Collis
Remuneration Committee Chair

Shareholder letter from the Chair of the Remuneration Committee

Dear shareholder
On behalf of the Board, I am pleased to present the Remuneration Committee's report for the year ended 31 August 2019.

Remuneration matters related to the Tuffnells strategic review and directorate changes
In November 2019 it was announced that a strategic review of the Tuffnells business would take place, accompanied by a number of organisational changes.

The Chief Executive Officer, Jos Opdeweegh, stepped down from the business with immediate effect and was replaced by Jonathan Bunting, who will combine the role of Interim Chief Executive Officer of the Group with continuing accountability as Chief Executive Officer of Smiths News, through the period of the review.

Jos Opdeweegh has received compensation for loss of office in line with his contractual provisions.

Jonathan Bunting's base salary plus salary supplement for the new interim role will take his salary to £450,000 (the "total salary"), the same monetary value as Jos Opdeweegh prior to his departure. The total salary will also be applied to the annual bonus plan and the FY2020-2022 LTIP award, in each case on a pro-rated basis. In addition, for the duration of his interim role, Jonathan Bunting's pension contributions will reduce from 20% to 15% of total salary, the same percentage pension contribution as for Jos Opdeweegh. The remuneration arrangements for Jonathan Bunting will be subject to further review and alignment with shareholder guidelines (in particular around pension contribution) should the role of Chief Executive Officer of the Group become permanent.

As also announced, on 5 November 2019, Michael Holt, currently a non-executive director, became Executive Chairman of the Tuffnells business for the period of the Tuffnells strategic review process. Michael has deep experience and expertise in the logistics sector and will have responsibility for providing relevant and current insight to aid both the broader strategic review and targeted profit recovery at Tuffnells, supporting Peter Birks, Tuffnells' Chief Executive Officer. For the duration of his time in role (which is expected to be only of a short-term nature), Michael will receive an additional fee on top of his current non-executive directors' fees, of £205,000 per annum. He will not receive any benefits or performance related pay.

Full details of each of these arrangements are provided later in this report.

Review of our remuneration policy

The forthcoming 2020 AGM marks the third anniversary of the approval of our remuneration policy and as such, we are required to put a new policy to a binding shareholder vote. This also represents the third time that a binding resolution to approve our remuneration policy has been brought to shareholders and we look forward to the continuing high levels of shareholder support as we have secured in the past. The policy will apply for the full three-year period and will be the framework for setting the pay of the executive directors, non-executive directors and the Group's Executive Team. While the shareholder approved policy applies to the most senior executives in the business, the Committee has also reviewed remuneration and incentives more widely, taking these into account when setting this policy.

In preparation for the 2020 AGM, the Committee has reviewed the directors' remuneration policy, to ensure that it remains aligned to the business strategy and complies with the Companies Act, relevant regulatory requirements (including the UK Corporate Governance Code) and latest investor guidelines. A key component of the Committee's review has included a thorough consultation exercise with our largest shareholders. This indicated that the broad policy framework could be continued for the next policy period, with some relatively minor refinements to align to the Code and investor guidelines. In particular, our share ownership guidelines for executive directors have increased to 200% of base salary and shareholding requirements have been introduced to now require departing executive directors to continue to hold shares after they have left the business for a period of two years. In addition, the maximum policy limit for the annual bonus has been reduced from 150% of base salary to 125% of base salary (with the current applied limit remaining at 100% of base salary).

The Committee considers that the new directors' remuneration policy is clear and as simple as possible, whilst incorporating the necessary safeguards to ensure a strong link between performance and reward and, further, ensuring that failure cannot be rewarded. The incentive plans align to the business strategy and culture and provide for a rounded assessment of performance.

The overall structure of the package provides a market-competitive remuneration opportunity with proportionate levels of pay that vary with performance. Furthermore, the Committee has demonstrated in recent years that it is prepared to use discretion to reduce a formula driven outcome when this does not reflect broader company performance or the shareholder experience.

The proposed changes to the new directors' remuneration policy are set out on page 58.

Performance in FY2019 and incentive payments

At the start of the financial year, the Committee determined that, for the third year running, there should be no increases to base salary for the Executive Team. The FY2019 bonus was measured 70% on Adjusted profit before tax (PBT) and 30% on individual objectives. In what has proved a challenging year in which the Group has focused on rebuilding the underlying strength of its core operations with priorities that balanced improvements to profitability, with continued investment and prudent capital management, the threshold level of Group PBT was not achieved, and as such no bonus is payable for FY2019 under the Group PBT element of the bonus. The Smiths News element of the bonus (for Jonathan Bunting) exceeded its performance target but, due to the Group PBT underpin, no bonus was awarded for this element. Likewise, the personal element of the bonus for all three executive directors in the year was also subject to the Group PBT underpin, and reduced to zero. Overall, bonus payments were zero for the second year running.

The LTIP awards granted in FY2017 were subject to Adjusted basic EPS and aggregate operating cash flow performance measures, weighted equally and measured over the three-year period ending 31 August 2019. Based on performance over this period, the FY2017-2019 LTIP award did not vest as threshold performance was not met.

The Committee considers that the absence of incentive payments for the year is an appropriate outcome, with no discretion required to change the formula driven outcomes.

Operation of the new Remuneration Policy in FY2020

From the date of his appointment, the Interim Chief Executive Officer will receive a salary supplement in addition to his unchanged current base salary of £291,312, taking his total annualised salary to £450,000, the same monetary value as for his predecessor. There will be no increases to base salary for the coming year for the Chief Financial Officer.

The Interim Chief Executive Officer's pension contribution for the duration of his new role will be 15% of total salary, a reduction from the current 20%.

The annual bonus opportunity will remain at 100% of salary. For the Interim Chief Executive Officer, this will be based on actual base salary and salary supplement received over the course of the year. The performance measures will be based 70% on Adjusted Group PBT and 30% on individual objectives linked to strategy and leadership. The Committee has reviewed the operation of the Group financial performance underpin for the payment of the individual element of the bonus and has decided to replace the formulaic approach with a more discretionary one for FY2020. This is aimed at providing greater flexibility for the Committee, if deemed appropriate, whilst ensuring that the overall profitability of the Group remains a key factor in its decision making. Consistent with previous years, there will be a discretionary requirement for a minimum individual performance rating to be achieved before the Group financial performance element may be paid.

The LTIP grant levels for the FY2020-2022 award for the Interim Chief Executive Officer will be 100% of base salary. This will be based on two months base salary plus ten months of combined base salary and salary supplement. In the absence of knowing an exact end date for the Interim Chief Executive Officer's role (although it is reasonably prudent to assume that it will continue for the majority of FY2020), and given that the award will be made shortly (unlike the bonus award which will be considered after the end of the financial year), the Remuneration Committee has determined that this was the most straightforward approach to take. In addition, the LTIP grant for the Chief Financial Officer will be 100% of base salary. However, the Committee has determined that the LTIP award for all participants will be based on either 30p a share or the actual share price at the date of grant, whichever is the higher.

Directors' Remuneration Report cont.

The Committee has reviewed the LTIP performance measures and the alignment of these metrics to the business strategy and shareholders' interests. This was a particular area of focus in the shareholder consultation exercise, although views were varied and there was no consensus in any particular direction. After careful consideration, the Committee has decided to replace the cumulative cash flow measure with a relative total shareholder return performance metric, comparing the Company's stock market performance (share price plus dividends) against the companies comprising the FTSE Small Cap Index (in the absence of a sufficiently robust direct comparator group). We wish to add an element of TSR to provide a more direct incentive to management to improve our share price and dividend performance vs peers in a sustainable manner and to ensure common alignment with the long-term interests of our shareholders. The TSR element will account for 50% of the award, with the remaining 50% being based on Adjusted basic EPS performance, as in the previous policy, measured over three years to FY2022. This will maintain the strong focus on EPS vis-à-vis our long-term financial performance. Although cash flow has been removed as a performance measure for the LTIP, there is a strong cash flow discipline throughout the Executive Team. In particular, the Board remains mindful of the views of some of our shareholders and intends to maintain a deep level of oversight of ongoing cash flow.

Further details on performance targets can be found on pages 66 to 67.

In respect of the annual bonus, 50% of any payout will be deferred for two years and any vested LTIP awards will be subject to a two year holding period. Furthermore, the Committee retains discretion to override the formulaic outcomes of the bonus and LTIP, and robust (and enhanced) clawback and malus provisions will apply.

Employee engagement on remuneration matters

As part of the Board's commitment to broader stakeholder engagement I was delighted to meet with members of our National Colleague Engagement Forum to explain our company-wide remuneration policy and outline how executive remuneration operates. As part of the discussion, we explored the pay structure at different organisation levels, in particular focusing on the checks and balances in place to ensure pay for performance over both short and longer term timeframes. I would like to thank colleagues for their insightful questions, observations and comments. On behalf of the Committee, I look forward to further meetings in the future in order to continue the dialogue and receive valuable feedback whilst at the same time discharging the Committee's commitments under the 2018 edition of the UK Corporate Governance Code.

Concluding remarks

I welcome any feedback on our proposed remuneration policy and its application and look forward to seeing shareholders at the Annual General Meeting on 31 January 2020, where we hope to receive your support for our pay arrangements.

Denise Collis
Remuneration Committee Chair

Directors' Remuneration Policy

At-a-glance summary

A summary of the policy and its application for FY2020 is shown below with the full policy set out on pages 59 to 64.

Policy element	Jonathan Bunting Interim Chief Executive Officer	Tony Grace Chief Financial Officer
Annualised base salary from 1 September 2019	£291,312	£295,000
Annualised salary supplement from 5 November 2019	£158,688	N/A
Total salary for FY2020	£421,740[a]	N/A
% increase from prior year	45% (related to new interim role)	0%
Pension for FY2020	£65,859 (being 20% of £291,312 for 65 days and being 15% of £450,000 for 301 days)[1]	£44,250 (15%)
Annual bonus (ABP)	100% of base salary, plus pro rata of the salary supplement for the duration of the interim role	100% of base salary
Annual bonus metrics	Adjusted Group PBT (70%) Individual objectives (30%)	
ABP payment for threshold performance	0% of salary	
ABP payment for on-target performance	50% of salary	
Deferred bonus plan (DBP)	50% of annual bonus deferred for 2 years in shares	
LTIP	Award of 100% of salary, constructed as two months base salary plus ten months of base salary and salary supplement	100% of base salary
	Award will be calculated based on a share price of 30p or the actual share price at date of grant, whichever is the higher	
LTIP metrics	Adjusted basic EPS (50%) Total Shareholder Return (50%)	
LTIP payment for threshold performance	20% of award	
LTIP post-vesting holding period	2 years	
Malus and clawback	Applies to awards made under the ABP, DBP and LTIP	
Shareholding Guidelines requirement	200% of salary	
Post-cessation of employment shareholding requirement	Lower of 200% of salary or shareholding on departure for 2 years post-cessation, excluding self-purchased shares	

1. For the Interim Chief Executive Officer, the projected figure is based on the duration of the interim appointment being until the end of FY2020.

Introduction

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

Directors' Remuneration Policy

The following section sets out the Company's policy on remuneration for executive and non-executive directors, which will be put to a binding shareholder vote at the Annual General Meeting on 31 January 2020. It is intended that the directors' Remuneration Policy will apply for the maximum three years permitted by the regulations and so, in the absence of a new or amended policy or as otherwise required by law, will only be brought back to the shareholders at the Company's Annual General Meeting in 2023.

The aim of the policy remains to facilitate delivery of our long-term strategy through attracting, retaining and motivating high-calibre directors with the necessary skills and experience. In forming the policy the Committee has adopted the principles set out in the 2018 edition of the UK Corporate Governance Code.

Directors' Remuneration Report cont.

Overview of remuneration policy changes

Following a detailed review of the existing policy for the executive directors and a thorough shareholder consultation exercise, the following changes to our remuneration policy are proposed:

Salary

The salary review date will be changed from 1 April each year to 1 September to align with the financial year.

Pension

New appointments will receive a pension contribution in line with the rate applying to the majority of the workforce at the time of appointment. For existing directors, the pension contribution has been frozen at the relevant percentage for each role, with the effect that any future pay increases will not lead to a change in the monetary value.

Annual bonus

The policy maximum has been reduced from 150% to 125% of salary to align more closely to the current applied bonus maximum of 100% of base salary. Divided equivalents accrued through the deferred bonus plan will normally be payable in shares, in order to improve alignment of interest with shareholders.

The Committee will have discretion to override the formulaic outturn of any bonus if, for example, it is not reflective of business performance, the overall shareholder experience or employee reward outcome.

Clawback and malus provisions have been broadened in line with the 2018 Code to include corporate failure and serious reputational damage.

Long-term incentive Plan

The policy now explicitly includes the two-year post-vesting holding period, which was introduced for the FY2018-2020 grants and onwards, but not formally part of the previous policy.

The choice of performance metrics has been made more flexible to permit the use of metrics other than solely the financial performance of the business, for example Total Shareholder Return.

In line with the bonus, discretion and clawback and malus provisions have been enhanced and dividend equivalents will only be payable in shares on vested awards (other than in the case of exceptional circumstances, such as death in service).

Shareholding requirements

The shareholding requirement will be increased from 150% to 200% of salary for all directors to strengthen alignment of interest with shareholders.

A post-cessation shareholding requirement will be introduced. The requirement will be to retain shares worth the lower of the in-service shareholding requirement or the actual shareholding on departure, for two years post cessation of employment. Shares purchased from an executive director's own funds will not be restricted by the post-cessation shareholding requirement in order to encourage self-purchases. The Committee will retain discretion to reduce or waive this requirement in exceptional circumstances, such as death in service.

Loss of office

For 'good leavers' there will be no early vesting of LTIP or deferred bonus awards on cessation of employment, and post-vesting holding periods will continue to apply to awards post cessation of employment. Awards may only vest or be released earlier than this in exceptional circumstances such as death in service.

Outplacement, legal and other reasonable relevant costs associated with termination will be payable in addition to any claim or potential claim in relation to a termination.

Executive directors

The table below sets out the Company's Remuneration Policy for executive directors:

Element	Purpose	Operation	Maximum	Performance conditions
Base salary	Provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: • the skills and experience of the individual; • the size and scope of the role; • market data for similar roles in comparable companies; and • performance of the individual and the business. Typically, salaries are reviewed annually, with any changes effective from 1 September each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases generally for employees. Larger increases may be awarded where the Committee considers it appropriate to reflect, for example: • significant changes in the size and/or complexity of the Group and/or of the role; or • individuals being moved to market positioning over time.	None.
Benefits	Ensure that benefits are sufficient to recruit and retain individuals of the necessary calibre and provide business continuity.	Executive directors are eligible to receive benefits which may include a company car (or cash equivalent), private medical insurance and permanent health insurance. Where relevant, other benefits to reflect specific individual circumstances, such as housing, relocation, travel or expatriate allowances may also be provided. Executive directors are also provided with insured Death in Service benefits.	There is no prescribed maximum monetary value of benefits. Benefit provision is set at a level which the Committee considers to be appropriate for the nature and location of the role.	None.
Pension	Contribute towards funding later life cost of living.	Executive directors may participate in the Group's defined contribution pension plan, receive a salary supplement or a combination of the two. Under the terms of the Group's defined contribution pension schemes, executive directors may also receive death in service benefit.	The maximum employer contribution or salary supplement for existing executive directors is 15% of salary other than for Jonathan Bunting, whose contribution or salary supplement remains at the legacy level of 20% of salary. This level of contribution has been 'frozen' with the effect that any future pay increases will not lead to an increase in monetary pension contributions. However, as set out earlier, the pension contribution for Jonathan Bunting (comprising both base salary and salary supplement on a pro-rated basis) will be reduced to 15% for the duration of his new role as Interim Chief Executive Officer. For any new executive directors and any existing executive director who has a permanent internal change of role, the maximum employer contribution/salary supplement will be in line with the contribution available to the majority workforce at the time.	None.

GOVERNANCE

Directors' Remuneration Report cont.

Element	Purpose	Operation	Maximum	Performance conditions
Annual bonus	To incentivise the delivery of the annual plan.	Bonus levels are determined by the Committee after the year-end based on performance against targets set at the start of the financial year. The Committee retains discretion to adjust bonus payments, including to override the formulaic outcome of the award, in the event that performance against targets does not properly reflect the underlying performance of the Group and/or the relevant businesses, the overall shareholder experience or employee reward outcome. Half of the bonus is deferred into shares for two years, which vest subject to continued employment under the terms of the DBP. Clawback and dividend equivalent provisions apply (see notes below).	The maximum bonus opportunity in respect of a financial year is 125% of salary. The threshold payment level for the financial performance condition is 0% and up to 50% of the maximum may be payable for target performance. The Company's largest shareholders would be consulted beforehand if the bonus opportunity increases above 100% of salary (the currently applied maximum level).	Annual measures and targets will be set by the Committee at the start of the financial year. The majority of the bonus will be based on financial performance, with the remaining performance condition attributable to personal and/or team objectives as well as any behavioural aspects that require improvement or development, such as leadership effectiveness.
LTIP	To incentivise the delivery of long-term shareholder value.	Awards are made in the form of nil-cost options or conditional share awards, the vesting of which is conditional on the achievement of performance targets (as determined by the Committee). Vested awards must be held for a further two-year period before sale of the shares (other than to pay tax). The Committee retains discretion to adjust the outturn of an LTIP award, including to override the formulaic outcome of the award, in the event that performance against targets does not properly reflect the underlying performance of the Group and/or the relevant businesses, the overall shareholder experience or employee reward outcome. Clawback and dividend equivalent provisions apply (see the notes below).	The maximum award in respect of a financial year is 150% of salary. The Company's largest shareholders would be consulted beforehand if the grant level increases above 100% of salary (the currently applied grant level).	Vesting is based on the achievement of challenging financial or total shareholder return (TSR) performance targets measured over a period of at least three years. For the achievement of threshold performance target, a maximum of 20% of the award will vest.

Element	Purpose	Operation	Maximum	Performance conditions
Shareholding guidelines	To provide alignment of interest between executive directors and shareholders.	The shareholding guideline for executive directors is 200% of salary. Until this level is reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, executives will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the application of the Sharesave scheme). In exceptional circumstances, executive directors may seek permission from the Remuneration Committee to temporarily go below their target holding. Following termination of their employment, executive directors will be required to retain shares at the lower of 200% of base salary, or the actual shareholding on departure, for two years post-cessation. Shares purchased voluntarily will not count towards this requirement.		

Notes to the policy table:

1 For ease of presentation, the table above does not include all of the specific arrangements related to the appointment of Jonathan Bunting as Interim Chief Executive Officer. These are fully documented elsewhere in the Directors' Remuneration report.

2 The changes to the policy are highlighted in the section above the policy table.

3 Participation in incentive schemes is at the discretion of the Committee.

4 Legacy and mandated payments – the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above: (i) where the terms of the payment were agreed before the policy came into effect; or (ii) where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in contemplation of the individual becoming a director of the Company; or (iii) where the Company is mandated to make the payment as a result of an award issued by a competent court, tribunal or authority. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

5 Clawback – the Company operates clawback and malus provisions for the annual bonus, DBP and LTIP. The Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in the same overall financial position as they would have been had certain circumstances (described below) not occurred. This includes a reduction or cancellation of vested or unvested share awards and/or a reimbursement to the Company of part or all of any cash or share payments within two years of payment. Such circumstances include, but are not limited to: (i) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (ii) serious reputational damage of the Company, any member of the Group or the relevant business as a result of the participant's misconduct; or (iii) gross misconduct by the participant; or (iv) corporate failure; or (v) any other similar circumstance or event which in the view of the Committee has a serious adverse effect on the Company, any member of the Group or the relevant business.

6 Details of directors' service contracts are set out on page 71.

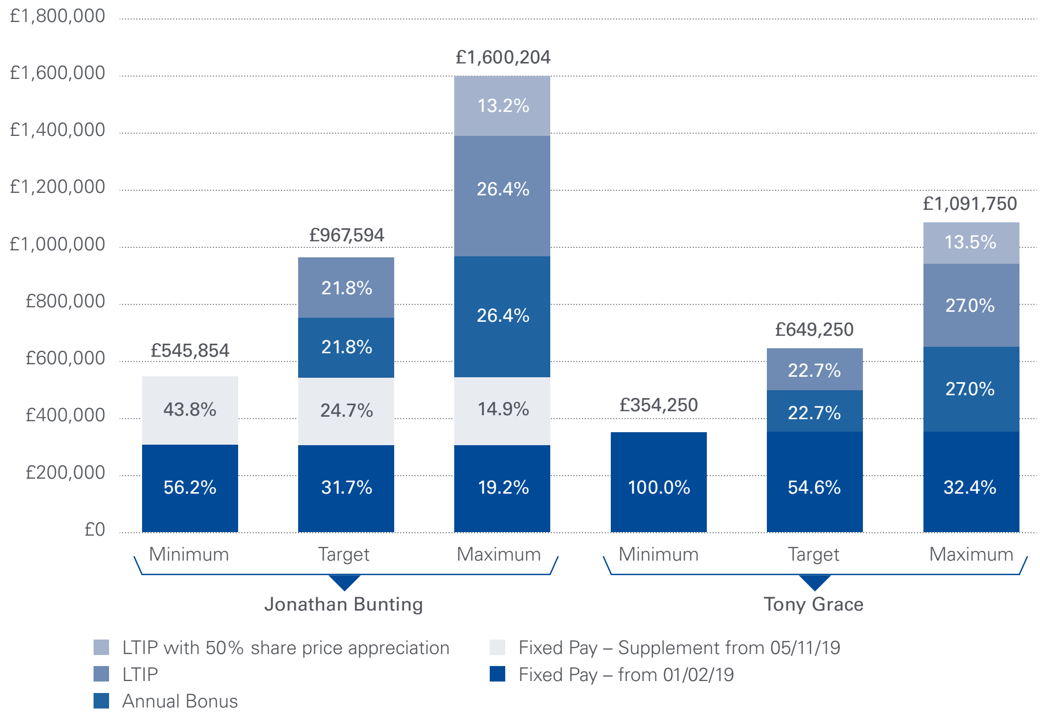
GOVERNANCE

Directors' Remuneration Report cont.

Application of the remuneration policy

The charts below illustrate the application of the proposed policy for FY2020. Each element (as a percentage of total remuneration) and the total values have been set out.

Application of the remuneration policy



Notes
1. Fixed pay comprises annual base salary, benefits and pension, at current rates at the date of this report. However, in the case of Jonathan Bunting, an additional salary supplement is included with effect from 5 November 2019 in recognition of his new role as Interim Chief Executive Officer and, consequently, both his pension contribution and incentive scheme awards are pro-rated as further described in this report.
2. Benefits are the value received in FY2019.
3. The on-target level of annual bonus and LTIP is 50% of the maximum opportunity.
4. The maximum value also shows the impact of an increase in share price of 50% on the value of the LTIP award.
5. The value of dividend equivalents on LTIP or DBP vested awards are excluded.

Approach to recruitment remuneration

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

Where an individual forfeits outstanding incentive awards with a previous employer as a result of accepting the appointment within the Company, the Committee may offer compensatory awards to facilitate recruitment. These awards would be in such form as the Committee considers appropriate taking into account all relevant factors including the form, expected value, performance conditions, anticipated vesting and timing of the forfeited awards. The expected value of any compensatory awards would be no higher than the value forfeited.

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

Contracts of service and policy on loss of office

Contracts of employment with executive directors may be terminated at any time by the Company or employee upon up to 12 months' notice. The contracts of employment do not include any provisions for predetermined compensation for early termination.

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

In the event that the employment of an executive director is terminated, any compensation payable will be determined in accordance with the terms of the service contract as well as the rules of any incentive plans and post-cessation shareholding requirements. Incentives will be treated in the following way:

Annual bonus	Unless the Committee determines otherwise, executives will not be eligible for a bonus if they are under notice. If the Committee determines that the executive is a 'good leaver'[1] they may still receive a bonus, reduced to reflect the portion of the year they were in active employment. Any payment would remain subject to performance and would be paid following the normal year-end assessment process.
DBP (deferred annual bonus)	Deferred bonus will be in shares, awarded at the outset, with a requirement for the executive directors to hold the shares for a two year deferral period. The deferred shares would be subject to clawback and post-cessation shareholding requirements and any held shares would be subject to the executive share ownership requirements, including post-cessation of employment obligations.
LTIP	If the Committee determines that an executive is a good leaver LTIP awards may vest subject to performance and would normally be scaled back to reflect the portion of the performance period that has elapsed on the date that employment ceases. The awards will vest on the normal vesting date (other than in exceptional circumstances such as death in service when the award may accelerate). The post-vesting holding period will continue to apply for the full two year period. If an executive leaves the Group for any other reason, outstanding awards would lapse.

1. Good leaver reasons include death, injury, disability, redundancy, retirement by agreement with the Company, the employing entity no longer being part of the Group, or any other reason as determined by the Committee.

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

External non-executive director appointments

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

Consideration of pay and employment conditions elsewhere in the Group

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

As part of the Board's commitment to broader stakeholder engagement the Committee Chair met with our National Colleague Engagement Forum to explain the company-wide remuneration policy and outline how executive remuneration operates. The discussion explored the pay structure at different organisation levels, in particular focusing on the checks and balances in place to ensure pay for performance over both short and longer-term timeframes.

Consideration of shareholder views

The views of shareholders are very important to the Committee and feedback received from shareholders following publication of the Annual Report and at the AGM is welcomed. It is the Committee's policy to consult with its largest shareholders and investor representative bodies before proposing any material changes to the remuneration policy. In line with our policy, the Committee undertook a thorough consultation with our largest shareholders to inform the policy review during the year.

Directors' Remuneration Report cont.

Non-executive directors

The table below sets out the Company's Remuneration Policy for non-executive directors:

Element	Purpose and link to strategy	Operation	Maximum
Chairman's and non-executive directors' fees	To attract and retain high-calibre individuals.	Fee levels are set to reflect the time commitment, demands and responsibility of the role, taking into account fees paid by similarly sized companies. Fees are reviewed from time to time to ensure that they remain in line with market practice. Fees are paid in equal monthly instalments. The Chairman's fee includes his chairmanship of the Nominations Committee.	There is no prescribed maximum.
Additional fees	To provide compensation to non-executive directors taking on additional responsibility.	Non-executive directors (other than the Chairman) are paid an additional fee for their chairmanship of a Board Committee or additional responsibility, such as chairing the National Colleague Engagement Forum, or may be paid additional fees for significant additional workload or roles.	There is no prescribed maximum.
Benefits	To facilitate the execution of the role.	The Company reimburses reasonable travel and subsistence costs.	There is no prescribed maximum.

Base fees and Committee fees for non-executive directors were last increased in 2015.

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

Recruitment Policy

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

Letters of appointment

All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, subject to review thereafter. Appointments may be terminated by either party giving three months' notice.

Annual report on remuneration

Total remuneration payable in respect of FY2019 (audited)

The total remuneration for each director is set out below. Total pay in FY2019 comprised base salary, benefits and pension. As reported in this section, given performance targets were not met, no payments were made in respect of both the FY2019 annual bonus plan and the FY2017-2019 LTIP incentive plan. As the FY2017-2019 LTIP did not vest during the year, there has been no impact of the share price upon remuneration.

	Jos Opdeweegh[3]		Tony Grace[4]		Jonathan Bunting	
Fixed Pay	**FY2019 '000**	FY2018 '000	**FY2019 '000**	FY2018 '000	**FY2019 '000**	FY2018 '000
Salary	**£450**	–	**£243**	–	**£291**	£291
Benefits[1]	**£19**	–	**£15**	–	**£30**	£32
Pension benefits[2]	**£68**	–	**£36**	–	**£61**	£59
Total Fixed Pay	**£537**	–	**£294**	–	**£382**	£382
Performance Related Pay						
Annual bonus payments	**£0**	–	**£0**	–	**£0**	£0
LTIP award vesting	**£0**	–	**£0**	–	**£0**	£0
Dividend equivalent payments[5]	**£0**	–	**£0**	–	**£19**	£0
Total Variable Pay	**£0**	–	**£0**	–	**£19**	£0
Total single figure	**£537**	–	**£294**	–	**£401**	£382

Notes
1. Benefits include the taxable value of a company car or car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year, as applicable to each director.
2. The CEO and CFO receive pension benefits equivalent to 15% of base salary and the CEO of Smiths News receives pension benefits equivalent to 20% of base salary paid over the year. The pension payment to the CEO of Smiths News includes an adjustment of £2.9k that will be corrected in the current tax year.
3. Jos Opdeweegh joined the Board on 1 September 2018.
4. Tony Grace joined the Board on 5 November 2018.
5. Dividend payments equivalent to the aggregate of all dividends paid during the vesting period applicable to both LTIP and DBP, paid in shares. In the case of Jonathan Bunting, the dividend equivalent payment arose out of the exercise of his FY2016 DBP award which was exercised on 7 February 2019 and paid in shares.

Remuneration and link to performance during the year (audited)

Annual bonus

In FY2019, each executive had a maximum opportunity under the annual bonus of 100% of salary, split 70% on financial performance (for Jonathan Bunting 20% Group and 50% based on Smiths News) and 30% personal objectives.

Performance measures and actual performance was as follows:

		Targets				
Measure	Weighting	Threshold	Target	Max	Actual result (£m)	Bonus achievement
Group adj. PBT	70%	£23.75m	£25.0m	£31.25m	£23.2m	0
Smiths News division adj. Operating Profit[1]	50%	£66.25	£70.34	£77.90	£72.5m but bonus reduced to zero due to the failure to achieve the Group financial underpin	0
Personal objectives	30%		See detail below		Partial achievement in totality but strong performance in part, reduced to zero due to the failure to achieve the Group financial underpin	0

1. Smiths News and DMD Adjusted operating profit after controllable overhead allocation.

Directors' Remuneration Report cont.

For the financial year under review the executive directors were each given a number of personal objectives against which the individual element of the annual bonus was assessed. These are set out in the table below.

As the financial underpin of requiring Group adjusted PBT of £22.5m was not achieved (after taking into account the aggregate cost of bonuses that would have been made), the Committee determined that no bonus would be payable for the personal objectives notwithstanding partial achievement of performance against the personal objectives as set out in further detail below:

	Personal objectives	Link to key strategic objectives
Jos Opdeweegh	• Maximize cost savings at Smiths News. • Lead a transformation plan to return Tuffnells to profitability. • Develop a plan to reduce head office support function cost. • Develop a detailed strategic plan to identify and execute 'near adjacent' revenue streams.	• Cost savings at Smiths News. • Tuffnells profitability. • Efficient head office functions. • Leveraging Smiths News.
Performance against objectives	Within Smiths News, the reintroduction of a focused management team improved oversight on cost control and helped to address the root causes of previous under-performance. Tuffnells' return to profitability was severely impacted by a number of issues including a flow through of legacy weaknesses, uncertainty in the wider economic environment, disruptive pricing from competitors in the sector and inconsistent service performance leading to further customer attrition and/or down trading. These together led to Tuffnells' performance being materially weaker, resulting in an increased loss in the year. Head office cost reduction was delayed by the shifting focus to address challenges in Tuffnells but some progress was nevertheless achieved through the deployment of a shared service centre in India for the provision of selected back-office support functions and a zero based budgeting process which is expected to conclude in Q1 of FY2020. Near-adjacency strategy was purposefully deprioritised in order to focus on other strategic objectives.	
Tony Grace	• Lead process for sale and leaseback of Tuffnells properties. • Lead process to buyout SN Pension Scheme, so as to be on track for wind up of scheme in 2020. • Implement upgraded 'purchase to pay' system and revise 'Order to Cash' and 'Record to Report' processes, each in order to enhance finance efficiency, effectiveness and control environment.	• Tuffnells profitability. • Cost savings at Smiths News. • Efficient head office functions
Performance against objectives	Adverse market conditions prevented successful completion of the proposed sale and leaseback of Tuffnells properties. Good progress was made in securing the buy-in of the Smiths News Pension Scheme. Implementation of the revised 'purchase to pay' system and the revision of the 'Order to Cash' and 'Record to Report' processes have made good progress and will be delivered in Q1 of FY2020. Further good progress was made in strengthening the Finance function and its key output and controls.	
Jonathan Bunting	• Publisher contract renegotiation. • Deliver £4.4m of 'in year' savings. • To be compliant across all key publisher contractual KPIs. • Safety First.	• Smiths News contracts. • Cost savings at Smiths News. • Smiths News contracts. • Culture.
Performance against objectives	7 major publisher contracts were successfully renegotiated which represent over 80% of Smiths News' current revenues having been secured through to at least 2024. This was a highly significant achievement. £4.4m of in year savings from the Smiths News business unit were delivered. All locations achieved key publisher contractual KPIs. Lost time incidents per 100,000 hours worked were substantially less than target.	

More detail on our key strategic objectives is provided in the Strategic Report set out on pages 10 and 11.

Long-term incentive plan

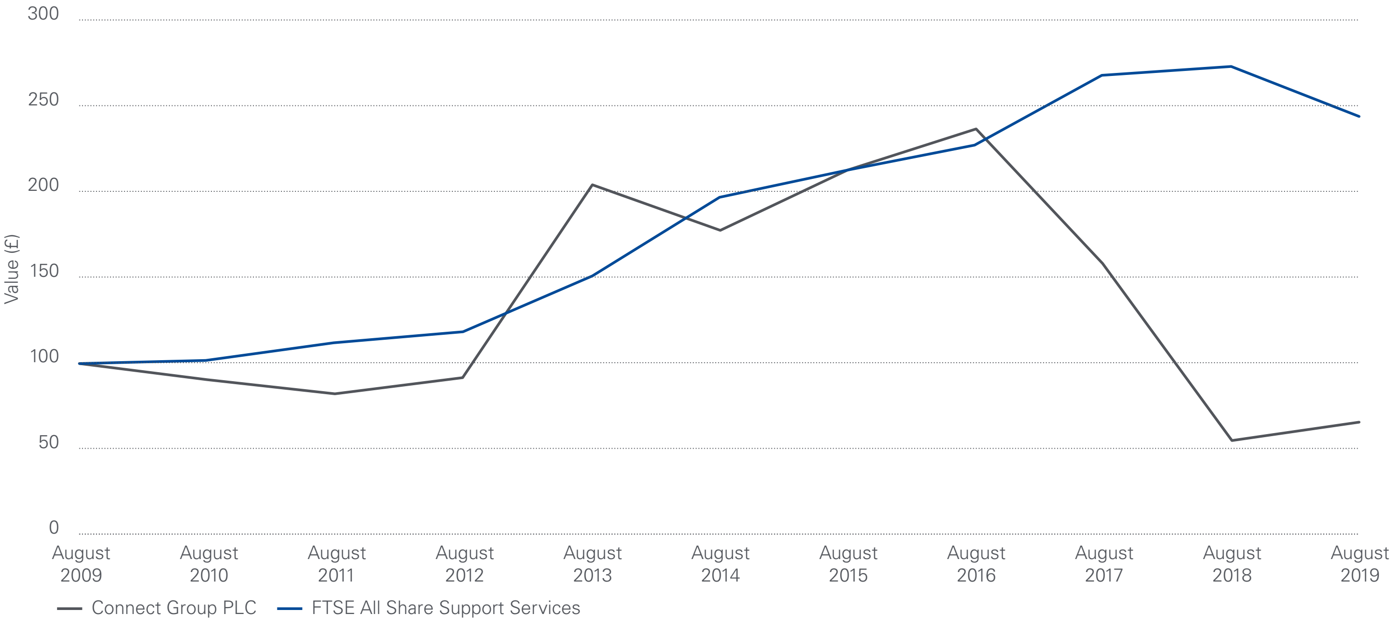
LTIP awards were granted in February 2017 to relevant executive directors at the time subject to performance over a three year performance period FY2017-2019. The awards were subject to equally weighted performance conditions based on adjusted basic EPS achieved in FY2019 and 50% on aggregate operating cash flow. As the performance targets were not achieved, the LTIP awards did not vest and accordingly lapsed in full as demonstrated in the table below:

FY2017-2019 Award	Threshold (20% vesting)	Maximum (100% vesting)	Actual performance	Vesting
FY2019 Adjusted basic EPS	19.5p	23.0p	7.9p	0%
Aggregate Operating cash flow	£163.3m	£204.7m	£122.4m	0%
Total vesting (% of max)				**0%**

Performance graph and table

The graph below shows the Company's Total Shareholder Return (TSR) performance against the TSR of the FTSE Small Cap Index (excl. Investment Trusts) over the past ten years. The FTSE Small Cap Index was chosen because it represents a broad equity market index of which the Company is a constituent and is the benchmark for the Total Shareholder Return performance condition used for the FY2020-2022 LTIP award. The table below the graph sets out the total remuneration for the Chief Executive Officer during each of the last ten financial years.

Total Shareholder Return



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	**FY2019**
Chief Executive Officer total remuneration (£'000)	846	862	1,079	1,311	970	1,095	882	794	539	**537**
Annual bonus payment (% maximum)	100.0%	59.9%	83.1%	67.1%	12.5%	71.3%	38.9%	15.0%	0.0%	**0.0%**
EPP[1] payout (% maximum)	84.1%	79.2%	89.4%	86.8%	55.1%	61.5%	72.0%	72.0%	0.0%	**N/A**
LTIP vesting (% maximum)	0.0%	78.0%	100.0%	100.0%	100.0%	63.5%	0.0%	0.0%	0.0%	**0.0%**

1. Legacy incentive plan based on economic profit. In FY2018, the Committee exercised its discretion in deciding that the final tranche payment would not be considered in FY2019 or FY2020 as permitted by the scheme rules.

GOVERNANCE

Directors' Remuneration Report cont.

Percentage change in directors' remuneration

The table below shows the percentage change in the directors' salary, benefits and annual bonus over the relevant reporting periods noted in the table compared to the average of all UK-based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY2017 – FY2018			**% change FY2018 – FY2019**		
	Base salary	Benefits	Annual bonus	**Base salary**	**Benefits**	**Annual bonus**
Chairman	0.0	0.0	–	**0.0**	**0.0**	**–**
Chief Executive Officer	0.0	(22.8)[1]	(100.0)	**0.0**	**0.0**	**0.0**
Chief Financial Officer[2]	–	–	–	**0.0**	**0.0**	**0.0**
Chief Executive Smiths News	0.0	6.0	(100.0)	**0.0**	**(4.9)**	**0.0**
Non-executive directors[3]	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
UK employees	4.4	8.0	(29.0)	**5.6**	**1.1**	**4.7**

1. The Chief Executive Officer at the time reverted from a company car to a cash allowance during the year, at a much lower beneficial value.
2. No data is available for the Chief Financial Officer in FY2017-FY2018 as this role was filled by an interim position.
3. Non-executive director fees have not increased. However, for the new non-executive director role of Chair of the National Colleague Engagement Forum a supplemental fee of £5,000 per annum was introduced with effect from FY2019.

Chief Executive Officer pay ratio to the workforce

The table below shows the ratio of the Chief Executive Officer's single figure total remuneration to the median (50th percentile), 25th and 75th percentile paid employee, based on the total remuneration of the Group's full-time equivalent UK colleagues.

The employee total remuneration includes wages and salary, taxable benefits, annual bonus, share-based remuneration and other incentive plans and pension benefits. In line with the pay gap regulations, we have shown the pay ratio for FY2018 alongside FY2019.

Year	Methodology	Population	25th percentile	Median	75th percentile
FY2019	Option B	Employee total remuneration	£16,818	£23,750	£28,448
		CEO to employee pay ratio	31.8:1	22.7:1	18.8:1
FY2018		Employee total remuneration	£17,446	£19,884	£30,310
		CEO to employee pay ratio	32.4:1	26.3:1	17.8:1

The Company has calculated the ratios in accordance with the Option B methodology laid out in the pay gap regulations which were deemed the most reasonable and practical approach given the collation of data exercise required for the gender pay gap reporting.

The composition of the two main employing entities within the Group (Smiths News and Tuffnells) includes over 50% of colleagues in front line operational roles. These include warehouse operatives (approximately 1,900) and drivers (approximately 1,000). Pay between the 25th percentile and the median is representative of warehouse operative and supervisor roles, which typically attract pay levels at or close to the National Living Wage. Drivers' salaries typically sit between the median and 75th percentile depending on class of vehicle, 3.5 tonne drivers receiving around the median. The large proportion of operational roles therefore explains both the salaries that sit at the 25th percentile and median and also the proximity of salaries between those two points.

In summary, the Group's organisational shape and nature of operation explains the salaries at each reported percentile and the ratios between total employee remuneration (at median, upper quartile and lower quartile) and Chief Executive Officer total remuneration. Due to the diverse range of roles within the business, pay practice does vary but we believe that the data and ratios are a true reflection of pay within the Group.

In considering the data, it should be noted that the Chief Executive Officer's single figure total remuneration for FY2019 and for FY2018 does not include any annual bonus or LTIP payments and therefore represents a lower level of remuneration compared to historical norms. Based on the directors' pay scenario chart on page 66, and with business performance delivering at target or maximum level of performance the pay for the Chief Executive Officer would be likely to increase at a significantly higher rate than that of the general employee population and so the ratios would be significantly higher. As a consequence, this year's pay ratio reporting does not constitute a normal baseline.

The median of the data for employee total remuneration has increased significantly in FY2019 compared to FY2018. This is primarily due to structural changes in the population reflecting significant investment in increasing driver/warehouse operative pay and bringing a greater number of agency drivers onto contract in the Tuffnells business combined with the impact of National Minimum/Living Wage increases.

Relative importance of spend on pay

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

	FY2019 £m	FY2018 £m	% change
Total employee pay – Continuing Operations	**113.5**	112.6	0.7%
Adjusted Group profit before tax – Continuing Operations	**23.2**	28.4	(18.3)%
Corporation tax paid – Continuing Operations	**2.6**	7.2	(63.9)%
Dividends paid	**nil**	24.1	(100)%

The figures above are principally set out in the Group income statement on page 86 and on pages 104, 108 and 109 in the Notes to the Group Financial Statements. Total employee pay is the total pay for all Group employees. Adjusted Group profit before tax has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance. Corporation tax paid and dividends paid have also been used as a comparison as these together indicate the sustainable after tax and dividends paid position of the Company for reinvestment.

Share plans – awards made during the year

LTIP awards granted in FY2019 (audited)

On 13 December 2018, the following executive directors were granted the FY2019-2021 LTIP awards. As set out in last year's report, the awards to the Chief Executive Officer and Chief Financial Officer were worth 100% of salary at the date of grant, and the award to the Chief Executive Officer of Smiths News was worth 50% of salary at the date of grant, reflecting the scale-back of 50% of the usual award of 100% of base salary:

Executive	Share price at date of grant[1]	Number of nil-cost options subject to award	Face value of award	Percentage of awards released for achieving threshold targets[2]	Performance period
Jos Opdeweegh	36.025p	1,249,132	£450,000	20%	FY2019-2021
Tony Grace		818,875	£295,000		
Jonathan Bunting		404,319	£145,656		

Notes
1. Based on the average closing price for the three dealing days prior to the date of grant, used to calculate the numbers of shares under award.
2. 100% for achieving maximum targets.

Awards are subject to equally weighted performance conditions based on (i) adjusted basic EPS achieved in FY2021 (as defined by IAS33, before Adjusted Items (previously, exceptional or non-recurring items) and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency) and (ii) aggregate cash flow from operations achieved over the three years to FY2021.

The performance conditions applied to the awards were as follows:

Performance period	Adjusted EPS in final year of performance period (FY21)	Aggregate cash flow from operations over three years	Proportion exercisable
Three years ending 31 August 2021	Below 9.8p	£125m	Zero
	9.8p	£125m	20%
	Between 9.8p and 12.3p	Between £125m and £150m	20%-100%
	12.3p or more	£150m or more	100%

Deferred Bonus Plan awards granted in FY2019 (audited)

As there was no bonus payment for FY2018, no deferred Bonus Plan awards were granted during the year.

Sharesave Scheme awards granted in FY2016 (audited)

On 26 June 2019, Tony Grace was granted 59,210 shares at an option price of 30.4p per share (the face value of the award was £18,000).

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

Directors' Remuneration Report cont.

Payments to former Directors

As announced on 6 November 2019, Jos Opdeweegh stepped down from the Board with immediate effect.

In accordance with Jos Opdeweegh's service contract and the Company's directors' remuneration policy, the following has been agreed:

- given that Jos's contractual notice period from the Company is 12 months, the Company has elected to terminate Jos's employment with immediate effect by giving him written notice that it will make a payment in lieu of notice (PILON), representing his gross annual basic salary of £450,000 but excluding (i) any bonus, (ii) any payment in lieu of pension contributions or other benefits and (iii) any payment in respect of any holiday entitlement that, in each case, would otherwise have accrued during the notice period. The payments to Jos will be phased in monthly instalments over 12 months and any payment shall be reduced by the amount in respect of income receivable from alternative employment in accordance with the duty on his part to mitigate loss.
- Jos will not be eligible for an annual bonus for the financial year ending 29 August 2020.
- Jos will not receive any future award under the Company's long-term incentive plan. Any outstanding awards under the Company's long-term incentive plan (including the grant made on 13 December 2018 in respect of an award of up to 1,249,132 shares) will lapse.
- In recognition of the lower value of the payments under the PILON compared to serving 12 months' notice to terminate his employment, together with the forfeiture of the FY2020 bonus opportunity and the FY2020-2022 LTIP award, the Committee intends to apply its discretion not to request Jos to repay the value of the modest relocation allowance of £19,174 which he received on appointment. This covered a one-way business class airfare for Jos and his family, one weeks' accommodation in a serviced apartment and assistance with visa requirements, all related to a move from the USA.

In accordance with the scheme rules, Jos will be eligible to the return of any savings he has made for the purpose of the Company's Save As You Earn Scheme.

As disclosed in last year's Annual Report, Mark Cashmore stepped down from the Board at the end of FY2018, but remained with the business until 28 September 2018 to ensure a smooth transition to the new leadership. Mark 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.

There have been no payments to any other former executive directors.

Employee Benefit Trust

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

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

The number of shares held in the Employee Benefit Trust at 31 August 2019 was 1,188,537 ordinary shares. The accounting treatment is shown in the Group statement of changes in equity on page 185. During the year, the Board resolved (until otherwise agreed) to satisfy all future employee share scheme exercises through the Employee Benefit Trust using market purchased shares and intends to instigate a plan for share purchases to cover likely future commitments.

Dilution of share capital by employee share plans

Awards granted under the Company's Sharesave Scheme have, in the past, been satisfied by the issue of new shares when the options are exercised. The Company monitors the number of shares issued under the Sharesave Scheme and as at 31 August 2019 had issued 3,513,505 new shares within the past ten-year period, representing 1.42% of the issued share capital. This is well within our dilution limit of 10% in any rolling ten-year period in the Sharesave Scheme rules and in line with the guidelines set by the Investment Association.

Executive directors' share interests (audited)

The table below sets out details of outstanding share awards held by executive directors as at 31 August 2019 under the LTIP and DBP (covering deferred annual bonus and legacy EPP awards). Awards under these schemes are structured as nil cost options. In addition, the table sets out awards held by executive directors as at 31 August 2019 pursuant to the Sharesave scheme where participants may buy shares with savings made over a three year period (up to HMRC limits of £500 per month) for a fixed price determined at grant.

	Share awards			
	With performance measures	Without performance measures	Vested but unexercised	Exercised/ Vesting during the year
Jos Opdeweegh	1,249,132	0	0	0
Tony Grace	818,875	59,210	0	0
Jonathan Bunting	883,288	88,995	0	146,726[1]

1. In February 2019, Jonathan Bunting exercised his FY2016 DBP award in respect of 97,649 shares and a dividend equivalent payment of £18,943 which was paid by way of an additional 49,077 shares. Following the deduction of tax, a residual allocation of 77,623 shares was awarded to Jonathan Bunting and has been retained pursuant to the shareholding guidelines (see below).

Executive directors' shareholdings and shareholding guidelines

The shareholding guideline for executive directors is 200% of salary. Until this level is reached, except for payment of tax arising on the exercise/vesting of awards and other exceptional circumstances, executives will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the application of the Sharesave scheme). The table below sets out the beneficial interests of the executive directors who served during the reporting period in the ordinary shares of the Company, together with the level held against the shareholding guidelines.

Name	Salary	Holding at 31 August 2018	**Holding at 31 August 2019**	Valuation of current holding[1]	% of salary held compared to 200% of salary target shareholding
Jos Opdeweegh	£450,000	0	**535,935**	£194,544	43.2%
Tony Grace	£295,000	0	**100,727**	£36,563	12.4%
Jonathan Bunting	£291,312	370,876	**448,499**	£162,805	55.9%

1. Using share price of 36.3p as at 31 August 2019.

Between 1 September 2019 and 5 November 2019 (the publication date of this report), there has been no other change in the executive directors' shareholdings shown above.

Contracts of employment

Details of the contracts of employment for the executive directors who served during the year are as follows:

Executive	Date of contract	Notice period by Company	Notice period by director
Jonathan Bunting[1]	1 April 2010	12 months	9 months
Jos Opdeweegh	29 July 2018	12 months	12 months
Tony Grace	5 November 2018	12 months	9 months

1. Jonathan Bunting's service contract has not been changed for his new role of Interim Chief Executive Officer.

Non-executive directors

Letters of appointment

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

Non-executive	Date of appointment	Notice period
Gary Kennedy	2 March 2015	3 months
Denise Collis	1 December 2015	3 months
Michael Holt	1 October 2018	3 months
Mark Whiteling	1 September 2017	3 months

Directors' Remuneration Report cont.

Non-executive directors' fees

The fees paid to non-executive directors (excluding the Chairman) comprise a base fee of £40,000, with an additional fee of £10,000 for chairing the Audit or Remuneration Committee, an additional fee of £5,000 for chairing the National Colleague Engagement Forum and an additional fee of £5,000 for the role of Senior Independent Director. Base fees and Committee Chair Fees have remained unchanged since 2015.

As noted elsewhere in this report, the annual fee for Michael Holt has increased temporarily by £205,000 for the intended short-term duration of his tenure as Executive Chairman of Tuffnells.

The following fees were paid to non-executive directors for FY2019 and FY2018 (audited):

	Year	Base fee £000	Additional fees £000	Benefits[1] £000	Total fees £000
Gary Kennedy[2]	**FY2019**	**140**		**12**	**152**
	FY2018	140	–	11	151
Denise Collis	**FY2019**	**40**	**10**	**2**	**52**
	FY2018	40	10	2	52
Mark Whiteling[4]	**FY2019**	**40**	**15**	**2**	**60**
	FY2018	40	13	4	57
Michael Holt[3]	**FY2019**	**40**	**1**	**3**	**44**
	FY2018	–	–	–	–

1. The benefits disclosed relate to the reimbursement of travel and accommodation expenses incurred in attending Board meetings at the Company's premises around the UK. The grossed-up value has been disclosed and the tax arising is settled by the Company.
2. Gary Kennedy is paid a single fee which includes chairmanship of the Nominations Committee.
3. Michael Holt joined the Board on 1 October 2018 and is Chair of the National Colleague Engagement Forum.
4. Mark Whiteling succeeded Andrew Brent as Senior Independent Director on 23 January 2018 and received an additional £5,000 per year pro-rated for FY2018 for this additional role.

Non-executive directors' shareholdings (audited)

The beneficial interests of the non-executive directors who served during the reporting period are set out below:

	31 August 2019	31 August 2018
Gary Kennedy	**60,000**	60,000
Denise Collis	**48,846**	48,846
Mark Whiteling	**80,000**	80,000
Michael Holt	**0**	N/A

There has been no change in the non-executive directors' shareholdings shown above between 1 September 2019 and 5 November 2019.

Implementation of the Remuneration Policy in FY2020

Executive directors

Salaries

For the duration of his appointment, the Interim Chief Executive Officer will receive an annualised salary supplement of £158,688 in addition to his base salary of £291,312, resulting in a total annualised salary of £450,000, the same as his predecessor. The Chief Financial Officer's salary is unchanged at £295,000.

The next salary review will be on 1 September 2020 as noted in the directors' remuneration policy, in order to align with the Company's financial year end.

Pension

The pension for Jonathan Bunting in his role as Chief Executive of Smiths News was 20% of salary. This has been reduced to 15% of total salary from 5 November 2019 for the duration of his appointment as Interim Chief Executive Officer, being the same percentage pension contribution as his predecessor and the Chief Financial Officer. As noted earlier in this report, the monetary value of pension contributions will be frozen at FY2019 contribution levels. In the event that the Interim Chief Executive Officer is appointed permanently into the role of Chief Executive Officer of the Group, his pension contribution would reduce to the rate applied to the majority of the workforce, currently 4% of base salary.

Bonus

Bonus opportunity will remain at 100% of base salary. For the Interim Chief Executive Officer this will be based on the actual base salary plus salary supplement received over the course of the year. 70% of the bonus will be based on a range of Group Adjusted PBT targets and 30% of the bonus will be based on individual objectives linked to strategy and leadership.

50% of the maximum bonus will be paid out for both the financial and personal objectives for on-target performance. The Committee will apply discretion as to whether any payment should be made on the individual element of the bonus in the event that the Group financial targets are not met. In doing so, the Committee will ensure that the overall profitability of the Group remains a key factor in its decision making. Consistent with last year, there will be a requirement for a minimum individual performance rating to be achieved before the Group financial performance element may be paid.

The performance targets are considered commercially sensitive so will not be disclosed in advance. However, there will be full disclosure of the targets that were set, the performance against them and the bonus payable, in next year's Annual Report.

LTIP

LTIP awards are expected to be granted within 42 days following publication of the Company's preliminary financial results for FY2019 covering the performance period FY2020-2022.

The LTIP grant levels for the FY2020-2022 award for the Interim Chief Executive Officer will be 100% of base salary. This will be calculated based on two months base salary plus ten months of combined base salary and salary supplement. In the absence of knowing an exact end date for the Interim Chief Executive Officer's role (although it is reasonably prudent to assume that it will continue for the majority of FY2020), and given that the award will be made shortly (unlike the bonus award which will be considered after the end of the financial year), the Remuneration Committee has determined that this was the most straightforward approach to take. In addition, the LTIP grant for the Chief Financial Officer will be 100% of base salary. However, for both the Interim Chief Executive Officer and the Chief Financial Officer, the Committee has determined that the LTIP award will be based on either 30p a share or the actual share price at the date of grant, whichever is the higher.

The LTIP award will be subject to stretching EPS and TSR performance conditions. The performance conditions are set out below:

Measure	Weighting	Threshold (20% vests)	Maximum (100% vests)
Adjusted basic EPS in final year of performance period	50%	10.0p	13.0p
Relative TSR versus the companies comprising the FTSE Small Cap index as at the date of grant	50%	Median	Upper quartile

The Committee has reviewed the LTIP performance measures and its alignment to the business strategy and shareholders' interests. After careful consideration, the Committee has replaced the cumulative cash flow measure with a relative total shareholder return performance metric, comparing the Company's stock market performance (share price plus dividends) against the companies comprising the FTSE Small Cap Index. The Committee wishes to add an element of TSR to provide a more direct incentive to management to improve the Company's share price and dividend performance vs peers in a sustainable and long-term manner and ensure common alignment with the long-term interests of our shareholders. The TSR element will account for 50% of an award, with the remaining 50% being based on Adjusted basic EPS performance measured over three years to FY2022. EPS will still provide a strong focus on our long-term financial performance. Although cash flow has been removed as a performance measure for the LTIP, there is a strong cash flow discipline throughout the management team and the Board remains particularly mindful of the views of some of our shareholders and intends to therefore maintain a deep level of oversight of ongoing cash flow.

The EPS range represents significant growth (c.32%-71% above the FY2019 outturn), is ahead of analyst consensus EPS at the time of writing and ahead of the range set for last year's LTIP awards.

Directors' Remuneration Report cont.

Non-executive directors

Non-executive directors' fees in FY2020

There will be no change to the standard non-executive director base fee and Committee Chair fees in FY2020. For the duration of his time in role (which is expected to be only of a short-term nature), Michael Holt will receive an additional fee on top of his current non-executive directors' fees, of £205,000 per annum. He will not receive any benefits or performance related pay.

Consideration by the directors of matters relating to Directors' Remuneration

Remuneration Committee

Gary Kennedy is non-executive chairman of the Board and was deemed independent on appointment. All other members of the Committee are independent non-executive directors. Michael Holt joined the Board and became a member of the Committee on 1 October 2018. As referred to in the Corporate Governance report, in light of Michael Holt taking on the temporary role of Executive Chairman of Tuffnells, Michael Holt will step down from the Committee for the duration of this temporary role.

In addition to the formal number of Committee meetings set out below, members regularly engaged throughout the year in considering various other matters that arose under the remit of the Committee.

	Meetings attended	Possible meetings
Denise Collis	6	6
Gary Kennedy	6	6
Mark Whiteling	6	6
Michael Holt[1]	5	5

1. Michael Holt joined the Board on 1 October 2018 and attended all Committee meetings occurring after that date.

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

During the year, the Committee was supported in its work by its appointed external advisers, Korn Ferry, who were paid fees of £77,860 (plus VAT). Korn Ferry has no connection with the Company or the directors. Based on its experience of working with the advisers the Committee is satisfied that the advice received from Korn Ferry has been, and continues to be, objective and independent. Korn Ferry provides no other services to the Company that could potentially lead to a conflict of interest with the independent advice to the Committee.

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

Jos Opdeweegh (former Chief Executive Officer), Stuart Marriner (Company Secretary & General Counsel) and the Head of Reward also attended Committee meetings in the year but were not present when their own performance or remuneration was discussed.

Shareholder vote

At the 2017 and the 2019 Annual General Meetings, shareholders were asked to approve the remuneration policy and FY2018 Directors' Remuneration report respectively. The votes received were:

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Total votes cast	Votes withheld
To approve the Remuneration Policy – the 2017 AGM	165,987,901	94.21%	10,203,503	5.79%	176,191,404	1,832,869
To approve the Directors' Remuneration report for the year ended 31 August 2018 – the 2019 AGM	144,131,838	99.71%	424,137	0.29%	144,555,975	2,029,008

Approval

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

Denise Collis
Remuneration Committee Chair
5 November 2019

Directors' Report – Other Statutory Disclosures

Directors' report

This Annual Report and the Group Financial Statements include the Directors' Report and the audited financial statements of Connect Group PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 August 2019. The information required to be disclosed in the Directors' Report is provided in the following sections of the Annual Report, which are incorporated into this Directors' Report by reference:

- Strategic Report on pages 2 to 31;
- Corporate Governance report on pages 36 to 43;
- Audit Committee report on pages 44 to 50;
- Nominations Committee report on pages 51 to 53;
- Directors' Remuneration report on pages 54 to 74;
- this section, Other statutory disclosures;
- Directors' Responsibilities statement on page 79; and
- Notes to the Group Financial Statements as detailed in this section.

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

Non-financial information statement

The Company has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the Strategic Report as follows:

- The business model on page 6;
- Information on environmental, employee, social, human rights, anti-corruption and anti-bribery matters (non-financial matters), including the relevant policies, due diligence process implemented in pursuance of the policies and outcomes of those policies, on pages 28 to 31;
- Principal and emerging risks identified in relation to non-financial matters, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed, on pages 22 to 25;
- All Key Performance Indicators (KPIs), including those in relation to non-financial matters, are on page 11; and
- The Financial Review, which includes where appropriate, references to, and additional explanations of, amounts included in the Group Financial Statements on pages 16 to 21.

Subsidiaries and branches

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 34 to the Group Financial Statements.

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 six 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 rents 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.

Profit attributable to shareholders and dividends

The statutory loss for the financial year, after taxation, from the Continuing Operations was £31.5m (FY2018: £38.1m). There were no discontinued operations in the year (FY2018: loss of £8.9m). In aggregate, the statutory loss for the financial year, after taxation, from both the Continuing Operations and Discontinued Operations was £31.5m (FY2018: £47.0m).

In light of the Group's performance, the Board has decided to recommend a final dividend of 1.0p. Accordingly, the total dividend for the year ended 31 August 2019 was 1.0p per ordinary share (FY2018: 3.1p).

UK referendum (Brexit)

Following the outcome of the UK referendum on 23 June 2016 to leave the EU, there remain a number of uncertainties regarding how the exit will be achieved and what arrangements may be put in place as a result. The Group has established a Brexit steering committee which meets on a regular basis to discuss the key impacts of the Brexit decision and reports to the Executive Team. We continue to seek ways to mitigate potential risks and, in the meantime, we believe that the direct impact of Brexit to the Group will be muted but the indirect impact on general consumer confidence and market uncertainty to have greater significance across each of our businesses. We will continue to monitor the risks and uncertainties arising from Brexit within the Group's existing risk management and control process as outlined on page 22.

Directors' Report – Other Statutory Disclosures cont.

Share capital

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

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

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

Voting rights and restrictions on transfer of shares

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

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

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

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

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

Shares held by the Employee Benefit Trust

The Trustee of the Smiths News Employee Benefit Trust holds ordinary shares of the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair. The Trustee waives its right to vote and to dividends on the shares that it holds. Further details on the Trust can be found in the Directors' Remuneration report on page 54.

Purchase of own shares

At the Annual General Meeting held on 31 January 2019, authority was given for the Company to purchase, in the market, up to 24,765,920 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during FY2019. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2020 to renew the authority for a further year.

Issue of new ordinary shares
The Board has resolved, until otherwise agreed, to satisfy all future employee share scheme exercises through the Employee Benefit Trust (further details on the Employee Benefit Trust and market purchases are set out in Directors' Remuneration report on page 70). Accordingly, during the year ended 31 August 2019, no ordinary shares in the Company were issued.

Any newly issued ordinary shares rank pari passu with those previously in issue. The Articles provide that the Board may, subject to the prior approval of the Company's shareholders, exercise all the powers of the Company to allot relevant securities including new ordinary shares.

Interests in voting rights
As at 31 August 2019, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following notifiable interests in its issued share capital:

Holder	% of voting rights
Aberforth Partners LLP	13.1
Fidelity International Limited	10.0
Silchester International Investors LLP	9.9
FORUM Family Office Value Fund	8.0
Ameriprise Financial, Inc.	4.8
Hargreave Hale Limited	3.8
FORUM Smallcap Fund	3.0

In the period 1 September 2019 to 5 November 2019 the Company was notified (on 11 September 2019) that Fidelity International Limited had reduced its relevant shareholding interest to 9.9%. On 16 October 2019, the Company was informed that FORUM Smallcap Fund had increased its relevant shareholding to 4.09%.

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

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

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

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover – the relevant scheme rules stating that as a result of a change of control event (or other corporate action) the proportion of the award which may vest shall be limited (unless the Board determines otherwise) to a pro rata proportion on the basis of the number of whole months which have elapsed from the first day of the performance period to the date of the corporate action, as compared to the number of whole months within the performance period; any remainder of the award thereby lapsing.

Directors
The directors who served during the year are set out on page 36 with the exception of (i) Michael Holt who joined the Board on 1 October 2018, (ii) Tony Grace who, having joined the Group on an interim basis in June 2018, was appointed to the Board following a successful induction on 5 November 2018, and (iii) Jos Opdeweegh, who served throughout the year as Chief Executive Officer but who, on 5 November 2019, stepped down as a director and Chief Executive Officer and was replaced by Jonathan Bunting as Interim Chief Executive Officer.

The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation and the Company's Articles.

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

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Directors' Remuneration report on pages 69, 71 and 72.

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

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

Directors' Report – Other Statutory Disclosures cont.

Directors' conflicts of interest

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

Employees

Details of the Group's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the Corporate Responsibility report on pages 28 to 31.

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are set out in the Corporate Responsibility report on pages 28 and 29.

Political donations

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (FY2018: £nil).

Bribery Act 2010

The Group has an established anti-bribery policy in place designed to manage risks relating to bribery and corruption. Guidance and training is provided to colleagues through an online webinar presentation, along with support from the Group's Legal team on how to manage these risks. Suppliers and contractors are made aware of the anti-bribery policy, through our Supplier Code and appropriate contractual arrangements. Anti-bribery and corruption is kept regularly under review to ensure that the steps in place are sufficiently robust to prevent bribery and corruption.

Health & safety

We are committed to providing a safe place for our colleagues to work and for visitors and contractors to our sites. Policies applicable to the safety and well-being of our colleagues are reviewed on an ongoing basis to ensure that the approach to training, risk assessments, safe systems of working and accident management are appropriate. An ongoing audit programme assesses Health & Safety risks on a regular basis and ensures that robust control measures are in place to limit these risks. Further details are set out in the Corporate Responsibility report on pages 28 to 31.

Financial instruments

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

Disclosure of information to auditor

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

Auditor

Resolutions to appoint BDO LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2020 Annual General Meeting.

Annual General Meeting

The 2020 Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Friday 31 January 2020 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes to the proposed resolutions to be considered at the meeting, in the booklet which accompanies this report.

Approved by the Board and signed on its behalf by:

Stuart Marriner
Company Secretary & General Counsel
5 November 2019

Directors' Responsibilities

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business; and
- prepare a directors' report, a strategic report and directors' Remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for ensuring that the Annual Report and the financial statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board on 5 November 2019 and signed on its behalf by:

Jonathan Bunting
Interim Chief Executive Officer
5 November 2019

Tony Grace
Chief Financial Officer
5 November 2019

Independent Auditor's Report to the members of Connect Group PLC

Opinion

We have audited the financial statements of Connect Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 August 2019 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheet, the Group and Parent Company Statements of Changes in Equity, the Group Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Generally Accepted Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework. (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill, intangibles and other assets in the Tuffnells cash generating unit ("CGU") and carrying value of investments in subsidiaries in the Parent company

Key Audit Matter	How we addressed the Key Audit Matter in the audit
Management is required to test goodwill within each CGU annually for impairment. In respect of the Tuffnells CGU, as a result of current trading performance, additional time taken to turn the business around and the economic outlook management determined an impairment to the CGU of £45.5m based on value in use. This resulted in full impairment of goodwill (£6.0m) and intangibles (£26.9m) as well as part impairment of property, plant and equipment ("PPE") (£12.6m). The remaining amount of the impairment totalling £1.7m was not recorded on the basis that the fair value less costs to sell supported the carrying value of the remaining assets. No other assets were determined by management as requiring impairment. There is an inherent uncertainty involved in forecasting and discounting future cash flows and therefore constitutes a key judgement. As per Note 1(e) management consider these to be a key accounting estimates. Notes 13 and 14 provide additional detail of the impairments recorded against Goodwill, intangibles and PPE. The impairment charges have been recorded as adjusting items as detailed in Note 4. The impairment recognised also impacted the carrying value of the investment held by the Parent Company in its subsidiary, which in turn held the investment in Tuffnells. Further indicators of impairment were identified in the Parent company investment due to the distribution of a £240m dividend by the subsidiary in the year, this and the Tuffnells impairment resulted in a £108.6m impairment being recorded (see Parent company balance and Note 3 for more details).	We have obtained an understanding of the Group's budgeting and forecasting process as well as the impairment review process. The audit team have engaged with our internal valuations team to audit the underlying assumptions and inputs in the impairment models. This comprised an assessment of the appropriateness of the discount rate used and assessment of the underlying mechanics of the model. Furthermore, the audit team evaluated the accuracy of Management's historical forecasting, challenged the revenue and margin and other cash flows assumptions based on our knowledge of the business, contractual revenue streams and the economic outlook. In respect of the Tuffnells CGU we scrutinised and tested the remaining amount of the impairment totalling £1.7m which was not recorded, through assessment of the fair value of assets. The impact of the impairment to the Tuffnells CGU was also factored into the assessment of the carrying value of the Parent company's investment in its subsidiary. Finally we have assessed the adequacy of the financial statement disclosures in Note 13. in respect of the Group financial statements and in Note 3 of the Parent company financial statements relating to this Key Audit Matter.

Independent Auditor's Report to the members of Connect Group PLC cont.

The adoption of IFRS 15 Revenue from Contracts with Customers

Key audit matter	How we addressed the key audit matter in the audit
The Group was required to adopt IFRS 15 Revenue from Contracts with Customers in the current year. This standard introduced the concept of highly probable in assessing outcomes and performance obligations and the five-step model framework in respect of revenue recognition. Management completed a review of the impact of IFRS 15 and as set out in Note 36 concluded that there was no material impact on the financial statements with the exception of balance sheet reclassification (see Note 36). The new standard has applied the fully retrospective approach restating the comparative periods in respect of returns reserve asset and accrual. There was no further impact identified by management of adopting IFRS 15. Judgements at arriving at this conclusion included: • Interpretation of contract terms; • Consideration of agent v principal; to ensure that the Group is able to continue to recognise revenue as principal; and • Assessment of revenue recognition based on performance obligations being achieved.	We assessed the Group's processes and controls in respect of the adoption which included considering completeness of areas for adoption. We selected a sample of revenue key contracts with customers and for each one we: • Reviewed the contractual terms and met with contract managers to understand the terms of the contract, compliance with the contract, and the potential implication revenue recognition; • We assessed each against the IFRS 15 criteria and compared this with Management's assessment in respect of performance obligations; and • We audited the disclosures prepared in the financial statements to confirm that they are consistent with our interpretation of IFRS 15. In addition we have audited management's assessment that Smiths News is the principal in the transaction and therefore should continue to recognise revenue as principal, in line with previous years.

Presentation of Adjusting Items as a non-GAAP measure on the face of the income statement

Key audit matter	How we addressed the key audit matter in the audit
The Group presents a non-GAAP measure of Adjusted profit before tax on the face of the income statement. This is after adjusting for certain items which the directors consider to be significant in nature and do not relate to the underlying trading activity of the Group. This measure requires judgement. There is a risk that amounts are incorrectly classified as adjusting and the disclosures included in Note 4 are not sufficiently detailed or transparent to fully understand the adjusting items and that the non-GAAP measure is misleading.	The adjusting items for the year has been sceptically reviewed to ensure that the adjusting items meet the Groups accounting policy for inclusion. Further procedures carried out for each adjusting items included: • Auditing a sample to supporting documentation; and • Examining disclosures of adjusting items to confirm they are sufficiently transparent and address the guidance issued by the FRC and ESMA.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements to be £1.1m and for the Parent Company to be £0.8m. Performance materiality was calculated based on 65% of our materiality. This level of performance materiality was selected to reflect the risks apparent in our first year of audit.

The materiality we applied in respect of the Group financial statements equates to 5% of profit before adjusting items and tax. Parent Company materiality was set at 1% of total assets due to it principally holding investments in subsidiaries only, and capped at 75% of Group materiality.

We consider the use of 5% of Adjusted profit to be the most appropriate performance measure as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders. Adjusting items are detailed in Note 4 to the Group financial statements.

We set component materiality between £0.6m and £0.9m based on the overall size and respective risk of each component.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £42,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group operates through a number of legal entities, which form reporting components, the reporting components are consistent with the segmental analysis as disclosed in Note 2 to the financial statements. All significant components were subject to full scope audits with the exception of certain overseas entities which were subject to desktop review procedures. All audits and desktop review procedures were completed by BDO LLP.

The audit procedures were carried out over 98% of Group revenue, profit before adjusting items and total assets.

The Group audit team set component materiality levels as detailed above with work on all components being performed by the BDO LLP under the direction and supervision of the Group engagement partner.

We also gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules and tax legislation.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries with management and enquiries of internal legal counsel. There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent Auditor's Report to the members of Connect Group PLC cont.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the 2016 UK Corporate Governance – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the 2016 UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the 2016 UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed on 15 March 2019 to audit the financial statements for the year ending 31 August 2019 and subject to annual re-election at the Parent Company's AGM, subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ending 31 August 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Sophia Michael (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
5 November 2019

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

Group Income Statement for the year ended 31 August 2019

£m	Note	2019 Adjusted*	2019 Adjusted items	2019 Total	2018*1 Adjusted*	2018*1 Adjusted items	2018*1 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 132. 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.

FINANCIAL STATEMENTS

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

£m	Note	2019	2018
Continuing			
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)
Equity			
Called up share capital	28(1)	**12.4**	12.4
Share premium account	28(3)	**60.5**	60.5
Demerger reserve	29(1)	**(280.1)**	(280.1)
Own shares reserve	29(2)	**(1.7)**	(2.1)
Translation reserve	29(3)	**0.3**	0.2
Retained earnings	30	**134.3**	163.2
Total shareholders' deficit		**(74.3)**	(45.9)

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

The accounts were approved by the Board of Directors and authorised for issue on 5 November 2019 and were signed on its behalf by:

Jonathan Bunting
Interim Chief Executive Officer

Tony Grace
Chief Financial Officer

Registered number – 05195191

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 and 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 accounts are prepared on the historical cost basis with the exception of certain financial instruments and are presented in Pound Sterling and rounded to £0.1m, except where otherwise indicated.

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

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

(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) Alternative performance measures

The Company uses a number of Alternative Performance Measures (APMs) in addition to those reported in accordance with IFRS. The directors believe that the APMs, listed in the glossary on page 132, 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 assumptions 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 are:

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 (CGUs) 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).

Notes to the Accounts cont.

1. Accounting policies cont.

(5) Estimates and judgements cont.

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, and 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 this is based on the best estimates. Notes 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.

Adjusted Items

Adjusted 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 on pages 132 and 133.

Based on the nature of the transactions the Group had Adjusted Items totalling £60.8m (2018: £63.9m) and a breakdown is included within Note 4.

Onerous contracts

This judgement relates to the year ended 31 August 2018. Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is 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 one 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.

1. **Accounting policies** cont.

(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 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 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) is 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.

Notes to the Accounts cont.

1. Accounting policies cont.

(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.

1. **Accounting policies** cont.

(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 and 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.

Notes to the Accounts cont.

1. Accounting policies cont.

(21) Treasury cont.

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 its 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.

1. **Accounting policies** cont.

(26) Changes in accounting policies cont.

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 and £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 six 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 the overall result for the period.

Notes to the Accounts cont.

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 considers 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:

£m	Revenue 2019	Revenue 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 Adjusted Items, £2.7m of operating profit.

2. Segmental analysis cont.

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

	Revenue by destination		Non-current assets by location of operation	
£m	**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.

Notes to the Accounts cont.

3. Operating profit/(loss)

The Group's results are analysed as follows:

£m	Note	2019 Adjusted	2019 Adjusted items	2019 Total	Restated* 2018 Adjusted	Restated* 2018 Adjusted items	Restated* 2018 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 Continuing	2019 Discontinued	2019 Total	2018 Continuing	2018 Discontinued	2018 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	Note	2019	2018
Continuing operations			
Network and re-organisation costs	(1)	**(6.4)**	(3.1)
Property	(2)	**–**	0.7
Sale and leaseback costs	(3)	**(0.7)**	–
Amortisation of acquired intangibles	(4)	**(6.8)**	(7.1)
Pension	(5)	**(2.2)**	–
Brierley Hill insurance claim	(6)	**(0.2)**	–
Impairment of Tuffnells assets	(7)	**(45.5)**	(46.1)
Pass My Parcel exit costs	(8)	**0.3**	(6.7)
Impairment of Jack's Beans	(9)	**–**	(1.1)
NMW regulatory compliance	(10)	**0.2**	(0.5)
IPR settlement income	(11)	**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	(12)	**–**	(10.5)
Re-organisation costs	(13)	**–**	(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).

Adjusted Items are defined in the accounting policies in Note 1 and in the glossary on page 132, in the directors' opinion the impact of removing these items from the Adjusted profit give the true underlying performance of the Group and comprises:

(1) 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 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 (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 offshored central function is considered a one off. The running costs once the centre is fully operational will be treated as non-adjusting.

Notes to the Accounts cont.

4. Adjusted Items cont.

(1) Network and re-organisation costs cont.

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 re-organisation programmes are considered Adjusted 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.

(2) 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.

(3) 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 Adjusted item.

(4) 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 Adjusted item as it allows comparison between segments and, therefore, consistency in the performance of the Group at a consolidated level.

(5) 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 Adjusted 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 Adjusted item.

(6) 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 Adjusted item.

4. Adjusted Items cont.

(7) 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 Notes 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.

(8) 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.

(9) 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 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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 re-organisation costs on the basis the Books business was discontinued.

Notes to the Accounts cont.

5. Staff costs and employees

(1) Staff costs

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

£m	Note	2019	2018
Continuing			
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.

(2) 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

FINANCIAL STATEMENTS

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 does 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.

6. Retirement benefit obligation cont.

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

Notes to the Accounts cont.

6. Retirement benefit obligation cont.

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.

6. Retirement benefit obligation cont.

Inflation assumptions cont.

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, 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 (Note 32).

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.

Notes to the Accounts cont.

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

	2019			2018		
£m	**Adjusted**	**Adjusted Items**	**Total**	Adjusted	Adjusted Items	Total
Continuing operations						
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 Notes 4 and 13 for details relating to the impairments.

8. Income tax expense cont.

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	2019	2018
Continuing operations		
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 Per share	2018 Per share	2019 £m	2018 £m
Paid and proposed dividends for the year				
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).

Notes to the Accounts cont.

10. Earnings per share

	2019			2018		
	Earnings £m	**Weighted average number of shares million**	**Pence per share**	Earnings £m	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**247.7**			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 of 12 freehold and three 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 six 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 expects 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 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:

	12 months to Aug 2019			12 months to Aug 2018		
£m	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.

Notes to the Accounts cont.

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:

£m	2018
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.

£m	2018
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.

£m	Goodwill 2019	Goodwill 2018	Goodwill On acquisition	Acquired intangibles 2019	Acquired intangibles 2018	Acquired intangibles On acquisition	Total 2019	Total 2018	Total 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

Notes to the Accounts cont.

13. Intangible assets cont.

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 CGUs classified within continuing operations.

Tuffnells

The continued deterioration of performance which was due, in part, 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 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)

13. Intangible assets cont.

Other Intangibles

Tuffnells Parcels Express

The value in use calculation performed for the Tuffnells business unit no longer supports the intangible assets relating to this business unit, see overleaf 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

	Land & buildings					
£m	Freehold properties	Long-term leasehold	Short-term leasehold	Fixtures and fittings	Equipment and 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).

Notes to the Accounts cont.

14. Property, plant and equipment cont.

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.

FINANCIAL STATEMENTS

17. Trade and other receivables cont.

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:

	2019			2018[1]		
£m	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	Gross carrying amount	Bad debt provision	Net carrying amount
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.

Notes to the Accounts cont.

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 ongoing 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%).

19. Cash and borrowings cont.

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	1 September 2018	Financing cash flows	New finance leases	Other changes	31 August 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	1 September 2017	Financing cash flows	New finance leases	Other changes	31 August 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 and 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 ratio is stated on this basis.

Notes to the Accounts cont.

20. Financial instruments cont.

Liquidity risk

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

As at 31 August 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% 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.

20. Financial instruments cont.

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

	2019		2018	
£m	**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 three 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.

Notes to the Accounts cont.

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 taxes 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 & 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 has approved a 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:

	2019			2018		
£m	**Land and buildings**	**Equipment and vehicles**	**Total**	Land and buildings	Equipment and vehicles	Total
Continuing						
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).

Notes to the Accounts cont.

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

(1) 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

(2) 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.

FINANCIAL STATEMENTS

28. Share capital cont.

(3) 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

(1) 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.

(2) 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.

(3) Hedging and 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**

FINANCIAL STATEMENTS

Notes to the Accounts cont.

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 (p)
At 31 August 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 August 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 August 2019	5,118,165	45.42	4,338,942	126.7	9,880,351	–	645,150	–
Exercisable at 31 August 2019	**16,312**	**110.3**	**152,209**	**159.8**	**–**	**–**	**–**	**–**
Exercisable at 31 August 2018	253,052	128.4	2,753,725	134.3	–	–	–	–

31. Share-based payments cont.

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

Notes to the Accounts cont.

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 six 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

Information concerning directors' remuneration, interest in shares and share options are included in the Directors' Remuneration report in the Annual Report. 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%

Notes to the Accounts cont.

34. Subsidiary and associated undertakings cont.

Company name/(number)	Share Class	Group %	Address
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 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 August 2018	Trade and other receivables £m	Trade and other payables £m	Net assets £m
Balance without IFRS 15 adjustment	**81.7**	**(127.6)**	**(45.9)**
IFRS 15 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 Items	No direct equivalent	N/A	Note 4	Are items of income or expense that are excluded in arriving at Adjusted operating profit. This enhances users understanding of the Group's performance as it aids the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures.
Adjusted operating profit	Operating profit*	Adjusted Items	Income statement/ Note 4	Adjusted operating profit is defined as operating profit from continuing operations, excluding the impact of Adjusted 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 Adjusted 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 Adjusted Items (defined above).
Adjusted EBITDA	Operating profit*	Depreciation and amortisation Adjusted Items	Page 20	This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and Adjusted 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.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
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.

Company Balance Sheet as at 31 August 2019

£m	Note	2019	2018
Fixed assets			
Investments in subsidiary undertakings	3	**373.2**	481.8
		373.2	481.8
Current assets			
Cash and bank deposits		**2.2**	–
		2.2	–
Creditors: amounts falling due within one year	4	**(171.0)**	(408.8)
Net assets		**204.4**	73.0
Capital and reserves			
Called up share capital	5(1)	**12.4**	12.4
Share premium account	5(3)	**60.5**	60.5
Retained earnings	6	**131.5**	0.1
Total shareholders' funds		**204.4**	73.0

The profit for the year was £131.4m.

These accounts were approved by the directors on 5 November 2019.

Signed on behalf of the Board of Directors

Jonathan Bunting
Interim Chief Executive Officer

Tony Grace
Chief Financial Officer

Registered number – 05195191

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

£m	Note	Share capital	Share premium	Retained earnings	Total
Balance at 31 August 2017		**12.4**	**60.5**	**62.4**	**135.3**
Loss for the year		–	–	(38.2)	(38.2)
Dividend paid		–	–	(24.1)	(24.1)
Balance at 31 August 2018		**12.4**	**60.5**	**0.1**	**73.0**
Profit for the year		–	–	131.4	131.4
Balance at 31 August 2019		**12.4**	**60.5**	**131.5**	**204.4**

Notes to the Company Balance Sheet

1. Accounting policies

(1) Accounting convention

The separate financial statements of "the Company" are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of section 408 of the Companies Act 2006 not to present a profit and loss account and related notes.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 10(d), 10(f), 39(c) and 134 -136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of options, and how the fair value of goods and services received was determined); and
- IFRS 7, 'Financial Instruments: Disclosures'

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted, are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries, and associates are stated at cost less, where appropriate, provisions for impairment.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

Estimated impairment of investments

The Company tests for impairment upon triggers, in accordance with the accounting policy. The carrying amounts of cash-generating units (CGUs) have been determined based on value in use calculations. These calculations require the use of estimates (Note 13) of the Group financial statements.

An impairment charge of £108.6m (2018: £38.2m) arose on the investment in Smiths News Holding Limited during the course of the 2019 year, resulting in the investment being written down to its recoverable amount, after taking into account the intercompany balances. Note 13 of the Group financial statements includes details of managements assumptions; the impact of changing these estimates are discussed in Note 3.

(2) Investment in subsidiary undertakings

Investment in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

(3) Financial liabilities and equities

Trade payables are measured at amortised cost.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

(4) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was a profit of £131.4m (2018: £38.2m). There were no other recognised gains or losses. The dividend paid in the year is £nil (2018: £24.1m) (refer to Note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2019	2018
Net book value:		
At 1 September	481.8	520.0
Impairment	(108.6)	(38.2)
At 31 August	373.2	481.8

The carrying amount of the investment has been reduced to its recoverable amount through recognition of an impairment loss. An impairment of £108.6m (2018: £38.2m) has been recognised against the cost of investments.

Since the prior year a dividend of £240.0m was made from Smiths News Holdings Limited (the Company's immediate subsidiary). The difference between the net book value, size of the dividend received from the immediate subsidiary, the determination of the outlook in Tuffnells Parcel Express Limited and Dawson Media Direct Limited (DMD) indirect subsidiaries of the Company triggered an impairment review. The impairment review resulted in an impairment charge of £108.6m being made.

The Company indirectly owns three cash generating units: Smiths News Trading Limited (Smiths News), Dawson Media Direct Group (DMD) and Tuffnells Parcel Express Limited (Tuffnells).

Each cash-generating unit was independently valued using value in use calculations, the Company 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 key assumptions taken in performing these calculations for DMD and Tuffnells are disclosed in Note 13 of the Group's Accounts, the assumptions taken for Smiths News are included in the table below.

	Smiths News	
	2019	2018
Average plan revenue decline	3.8%	6.1%
Post tax discount rate	10.5%	9.5%
Pre tax discount rate	21.7%	9.8%
Long-term (decline)/growth rate	(3.0%)	0.0%

After a value was allocated to each business unit that the Company holds an adjustment to the value was made for the Group's net liability position to calculate the value of the Group. This was then compared with the value of the investment held by the Company and the difference was booked as an impairment.

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 table below sets out the impact of a reasonably possible change in the assumptions.

	Plan scenario	Change	Impact on value in use
Long-term growth rate	(3%) to 2%	-/+1% to 0.5%	28.5/(24.3)
Discount rate	10.5% to 11.5%	-/+1%	15.0/(13.0)
Reduction in the forecast future profits			(54.8)

The total cumulative impairment recognised against the investment is £289.7m (FY18: £181.1m). Further information about subsidiaries and joint ventures is provided in Note 34 to the Group financial statements.

4. Creditors: amounts falling due within one year

£m	2019	2018
Amounts owed to Group companies	(171.0)	(408.8)

Amounts owed to Group companies are repayable on demand, unsecured, non-interest bearing and settled in cash.

Notes to the Company Balance Sheet cont.

5. Share capital

(1) Share capital

£m	2019	2018
Issued and fully paid ordinary shares of 5p each		
At 1 September	**12.4**	12.4
Shares issued in the year	**–**	–
At 31 August	**12.4**	12.4

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

During the year to 31 August 2018,125 ordinary 5p shares were issued to satisfy share scheme exercises.

(2) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2018	247.7
Issued in the year	–
At 31 August 2019	**247.7**

(3) Share premium

£m	2019	2018
Balance at 1 September	**60.5**	60.5
Shares issued in the year	**–**	–
Balance at 31 August	**60.5**	60.5

6. Reserves

£m	2019 Retained earnings
Balance at 1 September	**0.1**
Profit for the year	**131.4**
Dividend paid	**–**
Balance at 31 August	**131.5**

7. Directors’ emoluments and employees

The Company employed three (2018: three) non-executive directors. Smiths News Trading Limited, an indirect subsidiary, pays all remuneration without recharge for all directors and the amounts are disclosed within the Directors’ Remuneration report in the Group’s Annual Report.

Shareholder Information

Company Secretary and registered office
Stuart Marriner, Connect Group PLC, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH.

Telephone 0845 128 8888.

Shareholder enquiries may be submitted to cosec@connectgroupplc.com

General shareholder enquiries – registrar
Enquiries relating to shareholders, such as the transfer of shares, change of name or address, lost share certificates or dividend cheques, should be referred to the Company's registrar Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0371 384 2771[1] or from outside the UK +44 (0) 121 415 7565). A textphone facility for shareholders with hearing difficulties is available by telephoning 0371 384 2255[1].

In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Proxy Form).

1. Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Company website
Connect Group PLC Annual Reports and results announcements are available online at www.connectgroupplc.com. The investor section of our website provides a wide range of information about the Company including Annual Reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing Annual General Meeting information and other useful shareholder information.

Annual Report and Financial Statements
This Annual Report and Financial Statements is published on our website and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report and Financial Statements have been notified of its availability on the website.

Annual General Meeting
The 2020 Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Friday 31 January 2020 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form that they are sent and present it at the registration desk on arrival at the Annual General Meeting.

The voting results of the 2020 Annual General Meeting will be accessible at www.connectgroupplc.com shortly after the meeting.

A paper copy of the Annual Report and Financial Statements can be obtained by writing to the Company Secretary at the address listed above or you can e-mail your request to investor.relations@connectgroupplc.com.

Proxy Form
Shareholders unable to attend the Annual General Meeting should complete a Proxy Form. To be effective, it must be completed and lodged with the Company's registrars, Equiniti, by not later than 11.30am on Wednesday 29 January 2020.

Electronic proxy voting
You may, if you wish, register the appointment of a proxy for the Annual General Meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Proxy Form to hand when you log on as it contains information which will be required. CREST members may appoint a proxy electronically via the Company's Registrars, Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on Wednesday 29 January 2020.

Dividends
A final dividend of 1.0p per share has been proposed and, subject to approval at the Annual General Meeting, will be paid on 13 February 2020 to all shareholders on the register on 17 January 2020. Dividends can be paid by BACS directly into a UK bank account, with the tax voucher being sent to the shareholder's address.

A dividend mandate form is available from Equiniti or at www.shareview.co.uk

Financial calendar

Financial year end	31 August 2019
Results announced	6 November 2019
Annual Report published	16 December 2019
Final dividend ex-dividend date	16 January 2020
Final dividend record date	17 January 2020
Annual General Meeting	31 January 2020
Final dividend payment date	13 February 2020
Half-year end	29 February 2020
Interim results announced	13 May 2020
Financial year end	29 August 2020
Results announced	4 November 2020

For the dates of events in the second half of the financial calendar, please check the Connect Group PLC website at www.connectgroupplc.com nearer the relevant time for further details, and to ensure that no changes have been made.

Shareholder Inform

Share dealing service
The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing, you may call 03456 037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

ShareGIFT
If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to shareholders ('boiler room' scams)
In recent years, like other companies, we have become aware of a small number of investors who have received unsolicited calls or correspondence, in some cases purporting to have been issued by us, concerning investment matters. These typically make claims of highly profitable opportunities in UK or US investments which turn out to be worthless or simply do not exist. These approaches are usually made by unauthorised companies and individuals and are commonly known as 'boiler room' scams. Investors are advised to be wary of any unsolicited advice or offers to buy shares. If it sounds too good to be true, it often is.

See the Financial Conduct Authority website www.fca.org.uk/consumers/scams for more detailed information about this or similar activity.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

UK Capital Gains Tax (CGT)
Rights Issue 17 December 2014

Shareholders who acquired shares

For the purposes of calculating any chargeable gains or losses, any ordinary shares you acquired as a result of the Rights Issue (at a price of 102p each) are treated as being acquired at the same time as your original holding of ordinary shares and the subscription cost added to the base cost of your original holding.

Shareholders who sold or renounced their rights or who allowed their rights to lapse

If you sold any or all of your rights to subscribe for the ordinary shares provisionally allotted to you, or if you allowed your rights to lapse and received a cash payment in respect of them, if the proceeds were 'small' as compared with the market value (on the date of sale or lapse) of your existing holding of ordinary shares in respect of which the rights arose, you will not generally be treated as making a disposal for CGT purposes. Instead, the proceeds received should be deducted from the base cost of your existing holding of ordinary shares. HMRC current practice is to regard a sum as 'small' for these purposes where either: (i) the proceeds do not exceed 5% of the market value (at the date of sale or lapse) of the ordinary shares in respect of which the rights arose; or (ii) the sum received is £3,000 or less, regardless of whether the 5% test is satisfied.

If the proceeds you received were not 'small' the sale is treated as a disposal and, in order to calculate any chargeable gains or losses, you need to apportion the original base cost of your existing holding of ordinary shares between the sale proceeds and your existing holding of ordinary shares in the ratio of the sale proceeds divided by the sale proceeds plus the market value of your existing holding of ordinary shares (on the date of sale or lapse). Further guidance can be found on the HMRC website www.gov.uk/capital-gains-tax-share-reorganisation-takeover-or-merger.

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of 213/81p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of 226/67p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original tax base cost of your old WH Smith PLC ordinary shares of 555/9p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of 213/81p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 213/81p is calculated by multiplying the original base cost of your ordinary shares of 555/9p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

FINANCIAL STATEMENTS

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of 555/9p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 555/9p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If your shares result from a holding of old WH Smith PLC shares acquired on or before 31 March 1982, the tax base cost to be used in order to calculate any chargeable gains or losses arising on the disposal of shares is the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of 226/67p	61.62p	50.92p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

Cautionary statement

This Annual Report 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 and statements other than statements of historical fact, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. 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.

The information contained within this Annual Report is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this Annual Report, this inside information is now considered to be in the public domain.

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