Interim Financial Results

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

Unaudited Interim Financial Results for the 26 weeks ended 29 February 2020

Connect Group is today announcing its Interim Financial Results for the 26 weeks ended 29 February 2020, together with a further update on the impact of the COVID-19 pandemic, and subsequent restrictions imposed by the UK Government (the 'lockdown').

Continuing Adjusted results (1)	**26 weeks to 29 Feb 2020**	**Restated Six months to 28 Feb 2019**(7)	**Change**
Revenue	**£623.1m**	£652.3m	-4.5%
Operating profit	**£19.9m**	£21.6m	-7.9%
Profit before tax	**£16.3m**	£18.6m	-12.4%
Basic earnings per share	**5.4p**	6.1p	-11.5%
Statutory continuing results			
Revenue	**£623.1m**	£652.3m	-4.5%
Operating profit	**£10.3m**	£19.0m	-45.8%
Profit before tax (PBT)	**£6.7m**	£16.0m	-58.1%
Basic earnings per share	**1.8p**	5.3p	-66.0%
Interim dividend per share	**Nil p**	Nil p	-
Free cash flow (continuing and discontinued) (2)	**£9.1m**	£5.8m	56.9%
Bank net debt (5)	**£68.0m**	£77.5m	-12.3%
Net debt (including IFRS16 lease transition) (5)	**£145.7m**	-	-

Note: Following the completion of the strategic review of the Tuffnells business and its subsequent disposal on 2 May 2020, the Tuffnells business is considered to be discontinued for the purpose of these results and its financial performance is excluded from the continuing results in the table above and the prior period restated.

Headlines - H1 results

Group

- Overall performance in line with the Board's expectations
- Year on year performance impacted by one off and non-core items
- Central function efficiencies delivering savings of £1.0m in the period
- Free cash flow of £9.1m reducing Bank Net Debt to £68.0m

Smiths News

- Smiths News delivering sustainable efficiencies of £3.1m, more than offsetting decline in core sale
- Ancillary business, DMD, impacted by loss of BA contract from June 2019

Tuffnells (discontinued operations)

- Sale and Leaseback of eight Tuffnells properties prior to strategic review, with net proceeds of £14.6m
- Strategic review and subsequent disposal of Tuffnells completed on 2 May 2020 (post-period end)

Headlines - Current Operations / COVID-19 Update

- Ongoing operations continue to be profitable and cash generative
- Smiths News maintaining vital service to its retailers and their communities
- Up to 10% of retail customer outlets have closed, predominantly at high volume stores
- Sales further impacted by lockdown restrictions, with newspapers more resilient than magazines
- Substantial mitigating actions taken, but insufficient to offset reduced sales and additional safety costs
- Operations of DMD and InStore are operating with skeleton staff and limited services
- Over 500 employees furloughed across Group Functions, Smiths News, DMD and InStore
- Maintaining liquidity prioritised, prudently no interim dividend will be paid
- As previously communicated the Group cannot quantify with any certainty the impact on full year Adjusted profit before tax

Immediate priorities for the Group

Despite the ongoing uncertainty caused by the COVID-19 Pandemic the Group is clear on its immediate priorities

- Maintaining service and mitigating the impact of the lockdown without damage to long term capability
- Carefully managing the gradual return towards more normal trading patterns as restrictions ease
- Resizing the support functions to deliver central savings following the sale of Tuffnells
- The renewal of our banking facilities at commercially acceptable terms during the autumn of 2020.
- Defining a transparent roadmap to deliver shareholder value

Group Chairman

As confirmed on 15 April 2020 Gary Kennedy will step down from his role as Chairman following today's announcement. The Board would like to thank Gary for his invaluable contribution in steering the Group through a difficult period and his resolute leadership in the recent strategic review of Tuffnells. As announced on 7 May 2020 David Blackwood will assume the role of Chairman with immediate effect.

Jonathan Bunting, Interim Chief Executive Officer, commented:

The Group has made good progress in the delivery of its core objectives in the period, continuing to drive efficiencies in Smiths News while completing the strategic review of the Tuffnells business and its subsequent disposal on 2 May 2020. The removal of the drag on profitability and cash, and the alignment to our core expertise, will strengthen and focus the Group going forward.

The COVID-19 pandemic will clearly have a material impact on the Group's performance in the second half of the year, the quantum of which remains unclear. However, our markets and business model are well placed to recover as lockdown restrictions ease. In the current environment, we are applying that same focus to our vital role in supplying our retailers and their communities across the UK. Colleagues across the Group have been steadfast in their commitment to these goals; their safety and wellbeing, together with that of our customers, remains our top priority at this time.

I would like to thank Gary Kennedy for his unstinting support since my appointment as interim CEO. In what has been a challenging six months, his experience and counsel have been invaluable in assessing and in deciding upon our strategic choices. I'm now looking forward to working with David Blackwood and the Board as we refresh our strategy to deliver value for shareholders, based firmly on our expertise in newspaper and magazine wholesaling.

Notes

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

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

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

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

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

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

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

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

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

(5) Bank net debt - is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases (excluding the adoption of IFRS16 lease accounting standards), as bank covenants are tested under frozen GAAP. Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under leases.

(6) HY2020 - refers to the 26 weeks ended 29 February 2020 and FY2020 refers to the full year ended 29 August 2020. HY2019 refers to the half year ended 28 February 2019 and FY2019 refers to the full year ended 31 August 2019.

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

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

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An audiocast of the presentation for analysts will be made available on the Group's website from 11.00am 13 May 2020 - see the Investor Relations section.

About Connect Group

Connect Group PLC and its core business, Smiths News, is the UK's largest newspaper and magazine wholesaler, with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the major national and regional publishers, delivering to approximately 25,500 customers across England and Wales on a daily basis. The speed of turnaround and density of Smiths News' coverage is critical to one of the world's fastest physical supply chains.

Ancillary businesses include: Dawson Media Direct (DMD) which supplies newspapers, magazines and inflight entertainment to airlines and travel points in the UK; and InStore, which supplies field marketing services to retailers and suppliers across the UK.

OPERATING REVIEW

Group

Overall Group performance in H1 was in line with the Board's expectations.

Adjusted profit before tax of £16.3m (H1 2019: £18.6m) was down by 12.4% after the impacts of a material decline in the market rate for waste paper (£1.0m), a national discount retailer removing the news and magazine category from its stores (£1.0m), the anticipated flow through of the BA contract loss in DMD from June 2019 (£0.8m), and the incremental cost of new IFRS16 lease accounting standards on operating and finance costs(£0.5m).

The core Smiths News business continued to deliver a good performance and the Group made positive progress in its strategic priorities, particularly the strategic review and subsequent disposal of the loss making Tuffnells business. Following the sale, the Group's more focused operations mean it is better placed to deliver shareholder value, trade through the current lockdown and focus on a swifter recovery thereafter**.**

Following the period end, Smiths News has traded throughout the lockdown and continues to run a range of scenarios for the purposes of monitoring and planning. Which of these scenarios materialises in the second half of the financial year will depend on the duration of current restrictions, the arrangement for the lifting of these and any additional measures that may be implemented. Whilst there will inevitably be a material impact on performance in the remainder of the financial year, as previously communicated to the market, the Group cannot quantify with any certainty the impact on full year adjusted profit before tax.

Smiths News

Adjusted operating profit in H1 of £19.9m (H1 2019: £21.6m) reflects the benefit of network and process efficiencies continuing to mitigate the impact of sales declines, which at (-4.5%) remain within our strategic forecast. Sales of newspapers were down by 2.1% and sales of magazines were down by 4.5%.

Sustainable cost saving initiatives of £3.1m continue to deliver efficiencies sufficient to offset the margin impact of the decline in core sales. In the period, these included reviews of network, trunking and contractor arrangements, route consolidation, revisions to packing processes and the introduction of smaller totes which facilitate distribution efficiencies.

While these initiatives will deliver long term benefits their impact in the period was offset by a substantial reduction in the sale price of waste paper (impacting income from recycling of unsold copies) and the decision by a national discount retailer to remove newspapers and magazines from its stores. These factors combined to impact operating profit adversely by £2.0m in the period.

We remain confident that Smiths News can continue to deliver savings sufficient to offset the historically typical annual decline in net margin across its core sales. Progress to this goal will be helped by the disposal of Tuffnells and the removal of its draw on management time. In addition, the reduced and more focused Group will provide an opportunity for further central savings.

In the immediate future, the UK wide lockdown will inevitably have a significant impact on sales and performance in the second half of the year. The Board is, however, confident that Smiths News can continue to operate on a profitable and cash generative basis throughout this period. As and when the lockdown restrictions are lifted, the business will continue its pursuit of service excellence, supply chain efficiencies and central cost reductions, while remaining market leader.

DMD

DMD's sales and operating profit were below last year following the loss of the British Airways contract in June 2019. Despite good progress in introducing a leaner structure, efficiencies have not been sufficient to fully mitigate the loss of sales, with a net year-on-year adverse impact of £1.0m. The COVID-19 pandemic across the Globe also affected airline travel earlier than other sectors of the UK economy, resulting in further softening of demand towards the end of the period. Currently, the operations of DMD is operating with only a skeleton staff and limited services until international lockdown restrictions are eased and air travel returns to more normal patterns.

In light of the reduced performance following contract losses in FY2019 and the limited prospects for recovery in the foreseeable future given the expected prolonged impact of the COVID-19 pandemic on the airline and international travel sector, an impairment to the assets of DMD to the value of £5.7m has been made.

Group central savings

Savings across Group central services amounted to £1.0m in the period. The sale of Tuffnells will deliver immediate annualised savings of circa £4m p.a. from colleagues transferred under TUPE and other central efficiencies. We have also identified opportunities that are expected to deliver in the region of £4m additional annualised savings and we are working to deliver these as soon as practical in the current trading environment. Looking forward, we believe there is further substantial opportunity to restructure and reduce overall support costs in line with the more focused Group operations.

Tuffnells (discontinued operations)

Tuffnells delivered an operating loss in the period of £9.2m (H1 2019: operating loss of £8.7m). The sale of the business for deferred consideration of £15.0m, with the provision by the Group of a £10.5m term loan secured against seven Tuffnells properties was completed on 2 May 2020 after receiving approval by shareholders. This removes the drag on profit and cash from Tuffnells' loss making operations and, strategically, draws a line under the former diversification strategy, allowing the Group to focus on its core expertise of newspaper and magazine wholesaling.

In light of its disposal, the performance of Tuffnells in the period has been recorded as discontinued operations in the accounts.

Refinancing

In light of the more focused Group, the Board expects to enter discussions with a view to renewing, or extending the current term of, its banking facilities which are due to mature on 31 January 2021. A range of options will be explored to ensure an optimal debt structure is put in place, with the aim of completing the refinancing during the autumn of 2020.

Following the disposal of Tuffnells, the Group's principal trading business remains Smiths News, which has a robust track record of profitable and highly cash generative trading. While the Board is mindful of the current uncertainty and volatility in the debt markets as a result of the onset of the COVID-19 pandemic, we anticipate securing a refinancing agreement on commercially acceptable terms and at an adequate level to support debt requirements, which are expected to be lower than our previous facilities.

Capital Management

The underlying financial position of the Group has remained strong throughout the period, with free cash flow of £9.1m, and bank net debt of £68.0m. Our Bank net debt: EBITDA ratio of 2.0x is comfortably within our main leverage covenant ratio of 2.75x (set out within our current banking facilities).

The sale and leaseback of seven Tuffnells freehold and long leasehold properties was completed in the period with net sales proceeds of £14.6m being used to fund Tuffnells' ongoing trading cash outflows during Group ownership and indirectly lower the Group's borrowings.

The Company has a £175m committed bank facility comprising a £50m term facility and a £125m revolving credit facility. Smiths News cash cycle has significant and predictable cash swings within each month of around £40.0m, which utilises the Revolving Credit Facility of £125.0m. Following the disposal of Tuffnells on 2 May 2020 the Company had available £58.8m of undrawn committed borrowing facilities and cash.

In light of the uncertainty caused by the COVID-19 pandemic, the Group's priority is to maintain liquidity and therefore, prudently, no interim dividend will be paid in FY2020.

Group focus and rebrand

The Group is now focused on its expertise in newspaper and magazine wholesaling, delivered through its core business of Smiths News. In order to draw a line under the previous strategy of diversification and to give clarity on its future direction the Board proposes to return the Group to its former name and brand of Smiths News PLC, before the end of October 2020.

Update on measures taken by the Group in response to Lockdown

The COVID-19 pandemic and subsequent UK and international lockdown has significantly impacted the newspaper and magazine supply chain, however, we are taking appropriate and responsible action to maintain service and protect the long-term interests of the Company.

The Group is proud that Smiths News has been able to continue operations, overcoming significant logistical challenges to meet its service KPIs for customers and communities across the UK. Our colleagues have been designated as key workers and we pay tribute to their unstinting commitment to customers, their wider communities and each other.

Performance will nonetheless be impacted by the contraction of the UK economy and further headwinds in the newspaper and magazine market in particular. Approximately 10% of our customers' retail outlets have closed, including high-volume travel point and high street retailers. Consumer demand at retailers which have remained open has also been impacted by social restrictions on movement and consequently reduced number of visits to local stores for regular and impulse purchases.

Prior to the recent announcement on the gradual easing of restrictions and moves to reinvigorate the wider UK economy, combined sales of newspapers and magazines were down by 25% over the period of the lockdown. While there has been some transfer of sales to smaller retailers and an increase in home delivery, this has not been sufficient to compensate for the absence of high-volume outlets at which sales are driven by customer traffic flow. The deferment of the UEFA European Football Championships and the Olympics will further impact sales of stickers and associated publications in H2, although we would expect to see a compensating transfer of these sales to FY2021 which were not otherwise forecasted. It should be noted that due to the revenue mix of Smiths News and the mitigating actions already taken the impact on net margin is considerably lower than a linear flow through of these lost sales.

Thanks to the close cooperation of our supply chain partners we have revised in-bound delivery times to ensure service KPIs for our customers can be met and the need for any re-runs and further additional costs minimised. The physical operation is, however, incurring additional costs from necessary changes to working practices to comply with social distancing guidelines and ensure the health, safety and welfare of our colleagues. There have also been additional costs in customer services following the lockdown in India which temporarily impacted our outsourced service centre operations. While these costs have been mitigated by savings elsewhere the overall cost per copy delivered has risen as a consequence of reduced sales.

In response to the unprecedented events, we are taking responsible measures to reduce non-essential costs without impacting our distribution capability or damaging the long-term interests of the Group. These include changes to routing, the restructure of contractor and staffing arrangements, and the deferment of service improvement and longer-term cost initiatives that can be restarted at a later date. Approximately 500 colleagues in roles not critical to the physical operations have been placed on furlough to date.

The operations of DMD and InStore are operating with only skeleton staff and limited services until trading in those markets returns to more normal patterns - colleagues who have not been redeployed elsewhere have been furloughed. It is not yet clear how the lifting of restrictions will impact the future of these ancillary businesses.

The full impact of the COVID-19 pandemic on the Group will depend on a variety of factors including the length of time the restrictions on social movement are in place and the extent to which further measures are required.

Meanwhile, the Group continues to stress test a range of scenarios that consider the length of current restrictions, the lifting of these and any additional measures which may be necessary, and differing levels of recovery against pre-lockdown volumes over varying time periods.

While it is not possible to quantify the impact of the lockdown on FY2020 full year Adjusted PBT, the Board is of the opinion that Smiths News can continue to trade profitably through this sustained period of disruption and that its markets and business model mean it is relatively well placed to recover as and when restrictions are lifted.

Immediate priorities for the Group

In what remains an uncertain period for trading, the Group has five clear priorities:

1. Managing through the lockdown as successfully as possible - maintaining service while preserving the safety and wellbeing of our colleagues, and seeking to mitigate the financial impact without damage to long term capability

2. Preparing each of our businesses for the easing of the lockdown restrictions and the gradual return to more normal trading patterns. The implications of the Government's exit strategy for the news supply chain are not wholly clear but we expect there to be a need for ongoing safety measures for some time, while high traffic flow retailers such as those in airport and train stations may require more permanent solutions.

3. Resizing the support functions following the sale of Tuffnells and pressing ahead with those actions that can be taken now while scoping those that would be better actioned after the supply chain returns to more normal trading patterns.

4. The renewal of our banking facilities at commercially acceptable terms during the autumn of 2020.

5. Defining our strategy to deliver shareholder value - including clear deliverables for all stakeholders which give confidence to the chosen route and progress made.

Outlook

The COVID-19 pandemic and subsequent restrictions imposed by the UK Government continue to cause significant uncertainty for the Group and will of course adversely impact the Group's performance in the second half of the year.

Smiths News has maintained its service and capability throughout the crisis and we expect sales to gradually improve as the current lockdown restrictions are eased. The business continues to trade on a profitable and cash generative basis, however the timing and pace of any return to previous sales levels remains inherently uncertain.

As previously communicated to the market, it is therefore not possible currently to quantify with any certainty the impact on full year adjusted profit before tax, however, the Group continues to monitor the situation and will update the market as appropriate in due course.

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS - CONTINUING ADJUSTED

£m	26 weeks to Feb 2020	Restated 6 months to Feb 2019	Change
Revenue	**623.1**	**652.3**	**-4.5%**
Adjusted operating profit	**19.9**	**21.6**	-7.9%
Net finance costs	(3.6)	(3.0)	-20.0%
Adjusted profit before tax	**16.3**	**18.6**	**-12.4%**
Taxation	(3.1)	(3.6)	13.9%
Tax rate	*19.0%*	*19.4%*	
Adjusted profit after tax	**13.2**	**15.0**	**-12.0%**

Overall revenue of £623.1m was down by 4.5%, driven by structural decline in newspaper and magazine print sales.

Smiths News' revenue declined by £25.6m, (4.1%) and DMD's revenue fell £3.6m (28.1%), both in line with expectations.

Adjusted operating profit of £19.9m was down by £1.7m (7.9%) on the prior year period. Of this, Smiths News' Adjusted operating profit of £19.4m was down £0.9m (4.4%) and DMD's Adjusted operating profit of £0.5m was down by £0.8m which is the annualising impact of the loss of the British Airways contract in June 2019.

Net finance costs of £3.6m were up by £0.6m (20.0%) on the prior year period. The main variance of £0.9m resulted from the application of the new accounting standard IFRS16 'Leases'. After allowing for this change, the underlying net finance costs fell marginally. The interest cost on borrowings incurred was £2.4m compared to £2.5m in the prior year period.

Adjusted profit before tax of £16.3m was down by 12.4%.

The tax charge for the period of £3.1m was £0.5m down on the prior year period, reflecting an effective tax rate of 19.0% (H1 2019: 19.4%).

Consequently, Adjusted profit after tax of £13.2m was down £1.8m (12.0%) on the prior year period.

EPS AND DIVIDEND

	Continuing Adjusted		Continuing Statutory	
	26 weeks to Feb 2020	Restated 6 months to Feb 2019	**26 weeks to Feb 2020**	Restated 6 months to Feb 2019
Profit after tax (£m)	**13.2**	**15.00**	**4.4**	**13.0**
Basic weighted average number of shares (millions)	**245.9**	**246.2**	**245.9**	**246.2**
Basic EPS (p)	**5.4**	**6.1**	**1.8**	**5.3**
Diluted weighted average number of shares (millions)	**247.1**	**246.6**	**247.1**	**246.6**
Diluted EPS (p)	**5.3**	**6.1**	**1.8**	**5.3**
Dividend per share	**Nil p**	**Nil p**	**Nil p**	**Nil p**

EPS (continued)

On a continuing adjusted basis, profit after tax of £13.2m resulted in a basic EPS of 5.4p, a decrease of 11.5% on the prior year period. Including Adjusted items, a statutory continuing profit after tax of £4.4m was attributable to equity shareholders. This resulted in a basic continuing statutory EPS of 1.8p, a decrease of 3.5p on the prior year period.

The weighted average number of shares decreased by 0.3m to 245.9m.

Dilutive shares increased the basic number of shares at 29 February 2020 by 1.2m to 247.1m. This resulted in a diluted adjusted EPS of 5.3p, a decrease of 13.1% on the prior year period.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 1.2m shares (H1 2019: 0.4m).

The statutory continuing EPS was 1.8p (H1 2019: 5.3p), down 66.0%.

The Board has decided not to pay an interim dividend in FY 2020.

SMITHS NEWS INCOME STATEMENT (includes DMD)

£m	**26 weeks to Feb 2020**	**6 months to Feb 2019**	**Change**
Revenue(7)	**623.1**	652.3	**-4.5%**
Adjusted operating profit	**19.9**	21.6	**-7.9%**
Operating margin	**3.2%**	3.3%	(10bps)

Smiths News' revenue of £613.8m declined 4.5% on the prior year period. Newspaper revenue was down by 2.1% with cover price inflation mitigating volume declines. Magazine revenue was down by 8.5%, with weekly magazines again performing more strongly than monthlies and the period had fewer partwork collector magazines issued. Revenue decline continues in line with our long term projections.

DMD's revenue of £9.3m was down by £3.6m (27.9%) on the prior year period. The reduction reflects the loss of the British Airways contract in June 2019 and a softening of sales in the final month of the period as airport traffic began to decline following the spread of COVID-19.

Smiths News' Adjusted operating profit of £19.9m was £1.7m adverse to the prior year period driven by primarily five factors:

- The impact of ongoing reduction in newspaper and magazine sales on margin of £1.8m has been successfully mitigated by the implementation of compensating network cost savings to the labour and distribution cost base of £2.1m.
- Reduction in waste paper rates by 50% compared to the prior year period resulted in £1.0m less margin.

- A national discount retailer removed the newspaper and magazine category from its stores impacting £1.0m of margin
- DMD Adjusted operating profits fell by £0.8m in the period following the loss of the British Airways contract in June 2019.
- Central cost overheads were reduced by £0.8m from continuation of cost saving initiatives, implementation of shared service model.

These have been the primary factors have maintaining the operating margin in the period at 3.2% (H1 2019: 3.3%).

ADJUSTED ITEMS(1)

£m		26 weeks to Feb 2020	6 months to Feb 2019
Continuing operations			
Network and re-organisation costs	(a)	**(2.3)**	**(1.2)**
Goodwill impairment	(b)	**(5.7)**	**-**
Provision for expected credit losses	(c)	**(0.9)**	
Impairment of investment in joint venture	(d)	**(0.3)**	
Pension	(e)	**(0.4)**	**(1.5)**
IPR settlement income	(f)	**-**	**0.3**
Amortisation of acquired intangibles	(g)	**-**	**(0.2)**
Pass my parcel exit costs	(h)	**-**	**-**
Total before tax		**(9.6)**	**(2.6)**
Taxation		**0.8**	**0.6**
Total after taxation		**(8.8)**	**(2.0)**

Adjusted items on a continuing basis for the period totalled £8.8m after tax, compared to £2.0m (restated) in the prior year period.

Adjusting items are defined in the accounting policies 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:

Continuing operations

a) Network and re-organisation costs: £2.3m (H1 2019: £1.2m)

These are analysed as follows:

- Executive Team redundancies of £0.2m (H1 2019: £0.9m)
- Outsourcing of the shared service centre £1.9m (H1 2019: £nil)
- DMD restructuring £0.2m (H1 2019: £nil)
- Other redundancy and reorganisation costs of £nil (H1 2019: £0.3m)

Executive Team redundancies

Costs of £0.2m have been incurred as a result of the departure of the former CEO in November 2019. In H1 2019 the Group incurred £0.9m relating to the restructure of the Group's previous Executive Team. 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

£1.9m (H1 2019: £nil) of the current year cost relates to the off-shoring of selected technology, customer services and finance functions. This process was communicated to employees in the previous financial year and a provision was created for the impact.

£1.9m comprises £0.5m related to redundancy costs as part of this transition and £1.4m related to set up costs which include the cost of parallel running the previous finance team when the shared service centre was up and running. Further costs of the offshoring are expected to be incurred during the 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 of the parts of the centre which are fully operational are being treated as non-adjusting.

Adjusted Items (continued)

DMD Restructure costs

In June 2019, DMD's biggest contract with British Airways expired. As soon as it became apparent that its contract would not be renewed, 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. Costs of £0.2m (H1 2019: £nil) have been incurred in the current year and in total, costs of £1.4m (FY 2019: £1.2m) have been incurred on redundancies, transferring operations into the Smiths News Slough depot and changing overseas operating models.

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

In H1 2019, £0.4m (current year £nil) was incurred in redundancy and other re-organisation costs to streamline the Smiths News businesses.

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

(b) Goodwill impairment: £5.7m (H1 2019: £nil)

By 29 February 2020, the impact of the COVID-19 pandemic had already impacted trading, triggering an impairment review of DMD. See key accounting judgements for more details in Note 2. As a result, the Goodwill relating to DMD has been written off to £nil incurring a £5.7m impairment charge. For further details of this review see Note 11.

(c) Provision for expected credit losses: £0.9m (H1 2019: £nil)

The COVID-19 pandemic started to impact the DMD business unit during February 2020 which increased the risk of recovery. The following month a number of the key customers of the DMD business unit requested extensions and delayed payment terms which is consistent with the increase in risk. As a consequence, to reflect the Group's underlying risk of collection it has recognised an increased provision resulting in a charge of £0.9m.

(d) Impairment of investment

The impact of the COVID-19 pandemic has triggered a review of the viability of Bluebox Avionics Limited (Bluebox); a joint venture of the Group. As a result the outlook of Bluebox remains uncertain and consequently the investment has been written off incurring a £0.3m impairment charge.

The Group consider the impact of the above to be adjusting given the unprecedented situation and the significant value.

(e) Pensions: £0.4m (H1 2019: £1.5m)

In H1 2019, the Group incurred £1.5m, 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.

In H1 2020, the Group incurred professional costs of £0.4m in rationalising the Groups pension portfolio which was triggered by the buy-in of an insurance backed annuity relating to WH Smith Pension Trust. The impact should streamline the cost of administrating the Group's defined contribution schemes.

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.

Adjusted Items (continued)

(f) IPR settlement income: £nil (H1 2019: £0.3m income)

In H1 2019, the Group received £0.3m of one-off 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.

(g) Amortisation of acquired intangibles: £nil (H1 2019: £0.2m)

The Group incurred amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, of £0.2m in H1 2019, there is no cost in the current year. This is considered an adjusting item as it allows comparison between segments and therefore consistency of results at a consolidated level.

FREE CASH FLOW

£m	26 weeks to Feb 2020	6 months to Feb 2019
Adjusted Operating profit - continuing	19.9	21.6
Adjusted Operating loss - discontinued	(9.2)	(8.7)
Depreciation & amortisation	10.5	5.1
Adjusted EBITDA	**21.2**	**18.0**
Working capital movement	(2.7)	2.4
Capital expenditure	(5.9)	(2.7)
Net proceeds of sale and leaseback disposals	14.6	-
Lease payments	(9.3)	(1.5)
Net interest paid	(4.4)	(2.6)
Taxation	0.3	(1.2)
Other movements	0.3	0.2
Free cash flow (excluding adjusted items)	**14.1**	**12.6**
Adjusted items	(5.0)	(6.8)
Free cash flow (including adjusted items)	**9.1**	**5.8**
Free cash flow - continuing	5.0	19.4
Free cash flow - discontinued	4.1	(13.6)
Free cash flow	**9.1**	**5.8**

The Group generated free cash flow of £9.1m in the period, an increase of £3.3m or 56.9% on the prior year.

Adjusted EBITDA of £21.2m was up £3.2m caused primarily by the transition to IFRS16 'Leases' accounting the removal of rental charges replaced by an increased depreciation on the right-of-use assets. The working capital movement in the period was a £2.7m outflow.

Capital expenditure of £5.9m is up £3.2m year on year, the focus has been on maintenance rather than growth capex spend. However, first quarter included payments for capital commitments in FY2019 including £2.3m fleet renewal at Tuffnells.

Tuffnells had a net free cash inflow of £4.1m after the net proceeds from the sale and leaseback of eight Tuffnells properties generated £14.6m.

Lease payments have increased by £7.8m to £9.3m. This comprises £8.1m of IFRS 16 lease payments (formerly operating leases) offset by £0.3m decrease in other lease payments (formerly finance leases).

Net interest payable has increased by £1.8m. This comprises £2.0m of IFRS 16 lease interest payments (formerly operating lease rentals) offset by £0.2m of other lower interest payments. Underlying bank interest charges declined as gross bank borrowings fell in the period.

Tax repaid of £0.3m compared to £1.2m paid in the prior year period, is a consequence of the lower profit before tax being generated and the recovery of a tax overpayment in the last financial year.

The total cash impact of adjusted items for the period was £5.0m compared to the prior year period figure of £6.8m. The primary cash payments in the period relate to redundancy costs under the network and re-organisation programme, sale and leaseback transaction fees, pension advisory fees and transition costs from shared service implementation.

NET DEBT AND BANK FACILITIES

£m	As at Feb 2020	As at Feb 2019	As at Aug 2019
Opening net debt	**(73.9)**	**(83.4)**	**(83.4)**
Free cash flow - continuing	5.0	19.4	8.3
Finance lease creditor movement	0.6	1.5	2.8
Pension deficit recovery	(0.7)	(1.2)	(1.6)
Dividend paid	(2.4)	-	-
Other	(0.7)	(0.2)	-
Free cash flow - discontinued	4.1	(13.6)	-
Bank net debt	**(68.0)**	**(77.5)**	**(73.9)**
IFRS16 lease transition	**(77.7)**	**-**	**-**
Closing net debt	**(145.7)**	**(77.5)**	**(73.9)**

Bank net debt (excluding IFRS16 'Leases') at the end of the period was £68.0m compared to £73.9m at August 2019 and £77.5m at February 2019. Debt at the end of the half year was lower than the year end position driven primarily by free cash flow generation at Smiths News.

Pension deficit recovery payment of £0.7m (H1 2019: £1.2m) was in respect of Tuffnells. This was significantly lower than the prior year period as WH Smith Pension Trustees notified Smiths News that deficit repair payments could cease from November 2018 following the completion of the pension buy-in process. Pension deficit repair payments are considered as a non-free cash flow item.

Bank net debt: EBITDA(4) at the end of February 2020 was 2.0x versus 1.9x at August 2019 and 1.95x at February 2019. This remains within our main leverage covenant ratio of 2.75x (covenant testing is based on frozen GAAP in the bank facility agreement).

Tuffnells had a net cash inflow of £6.0m. The net proceeds from the sale and leaseback of eight Tuffnells properties generated £14.6m which offset other cash outflows of £8.6m in the period.

The adoption of the new IFRS16 'Leases' accounting standard has the impact of recognising a right-of-use asset of £73.4m and lease liability of £73.6m at the transition date of 1 September 2019. Closing net debt (including IFRS16 'Leases') is £145.7m at end of February 2020 an increase of £77.7m based on Bank net debt.

GOING CONCERN

The condensed financial interim financial statements have been prepared on a going concern basis.

The Group has a £175m committed bank facility comprising a £50m term facility and a £125m revolving credit facility. Smiths News cash cycle has a significant and predictable cash swings within each month of around £40.0m, which utilises the Revolving Credit Facility of £125.0m. As at 29 February 2020 the Company had £108.4m of undrawn committed borrowing facilities and cash, as at 4 May 2020 the first working day post disposal of Tuffnells this has reduced to £58.8m. The bank facilities expire on 31 January 2021, which is within 12 months of approval of the interim financial statements.

The Group has appointed debt advisors to support them in achieving the most appropriate refinancing arrangement and had entered into preliminary discussions with its existing lenders and was exploring alternative refinancing models earlier in the year, prior to the disposal of Tuffnells. The Directors concluded that the Group was not able to refinance on commercially acceptable terms, and therefore decided to defer the refinancing process until after the disposal of Tuffnells.

The Group therefore does not currently have committed facilities for the next 12 months and would not have sufficient resources to repay the facilities on their maturity date.

The Group has a profitable and highly cash generative trading history through its principal trading business, Smiths News. Whilst COVID-19 has inevitably impacted the business of Smiths News, it remains cash generative and the Directors, having considered realistically possible outcomes, anticipate that the Group will be able to secure the refinancing and at an adequate level to support the debt requirements of the Group.

Whilst the Group anticipates completing the refinancing over the coming months following the disposal of Tuffnells (which represented a financial drag on the Group), there is, however, a risk that the Group may not be able to refinance. This indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

After consideration of the above the Directors have prepared the condensed interim financial statements on a going concern basis. The condensed interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

DISCONTINUED OPERATIONS

On 6 November 2019, the Board announced a strategic review of Tuffnells in order to determine its longer term role and future within the Group.

Following a competitive sales process, on 28 of February 2020 the Board concluded that a sale of the business was the most appropriate strategy to maximise shareholder return. The sales process was sufficiently progressed to conclude that the business would be sold within the next year. The Board therefore concluded that the requirements of IFRS 5 to classify Tuffnells as held for sale and a discontinued operation had been met.

Subsequently on 14 April 2020, a share purchase agreement was signed with Palm Bidco Limited to sell Tuffnells subject to shareholder approval. The principal terms of the sale and purchase agreement were: deferred consideration of £15m payable over 3 years; a term loan of £10.5m provided to the acquirer to facilitate the turnaround of the business (the term loan is secured against seven Tuffnells properties and becomes repayable over 18 to 24 months); and the liabilities relating to the defined pension scheme transfer to Palm Bidco Ltd (See Note 9).

At the General Meeting on 1 May 2020 shareholders approved the sale and completion concluded on 2 May 2020.

TUFFNELLS INCOME STATEMENT

£m	26 weeks to Feb 2020	6 months to Feb 2019	Change
Revenue[7]	**73.7**	80.2	**-8.1%**
Adjusted operating loss	**(9.2)**	(8.7)	**-5.7%**
Operating margin	(12.5%)	(10.8%)	(170bps)

Revenue of £73.7m was down £6.5m (8.1%) on the prior year period. The H1 2019 decline in revenue was driven predominantly by the annualised impact of lower consignment volumes resulting from customer losses suffered in H2 2019.

Although the cost structure had benefited from cost savings from reduced truncking and last mile distribution, the cost base remained insufficiently variable to adjust with sufficient speed to the year on year changes in consignment volumes.

As a consequence, the adjusted operating loss was £9.2m, an increase of £0.5m on H1 2019.

There were no discontinued operations in the prior year period.

STATUTORY CONTINUING & DISCONTINUED RESULTS

£m	26 weeks to Feb 2020	Restated 6 months to Feb 2019	Change
Revenue	**623.1**	**652.3**	**-4.5%**
Operating profit	**10.3**	**19.0**	-45.8%
Net finance costs	(3.6)	(3.0)	-20.0%
Profit before tax	**6.7**	**16.0**	**-58.1%**
Taxation	(2.3)	(3.0)	23.3%
Tax rate	*34.3%*	*18.8%*	
Profit after tax	**4.4**	**13.0**	**-66.2%**
Discontinued operations - loss	**(14.5)**	**(10.2)**	**-42.2%**
Profit/ (loss) attributable to shareholders	**(10.1)**	**2.8**	**N/A**

Statutory continuing profit before tax of £6.7m is lower to prior year period by £9.3m (H1 2019: £16.0m), primarily driven by lower continuing profits of £2.3m and an increase in the Adjusted items charge of £7.0m of which an impairment charge relating to goodwill at DMD of £5.7m (H1 2019: £nil) was the material component.

The effective statutory income tax rate for continuing operations was (34.3%) (H1 2019: 18.8%).

Statutory continuing & discontinued loss after tax of £10.1m is down by £12.9m (H1 2019: £2.8m profit). Statutory continuing & discontinued loss per share of 4.1p is down 5.2p (H1 2019: 1.1p profit).

PRINCIPAL AND EMERGING RISKS

The Group has a clear framework in place to continuously identify and review both the principal and emerging risks to the Group. This includes, amongst others, a detailed assessment of each business and functional teams' principal risks and regular reporting to and robust challenge from both the Executive Team and Audit Committee. The Directors' assessment of the Group's principal risks is aligned to the strategic business planning process.

Specifically, key risks are plotted on risk maps with descriptions, owners, and mitigating actions, reporting against a level of materiality (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.

Risks are still subject to ongoing monitoring and appropriate mitigation.

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

	Principal risks	Change during the year	Potential impact	Mitigating actions and assurance
1.	**Deterioration of the macro economic environment** - The risk of volatility and/or prolonged economic downturn causes a decline in demand for our services including the uncertainty associated with either the COVID-19 pandemic or EU Exit. This impacts current and/or projected business performance above that included in the business planning and review process.	**Increasing**	Reductions in discretionary spending may impact sales of newspapers or magazines. Uncertainty from either the COVID-19 pandemic or the 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. • Business scenario planning for the different evolving social movement restrictions and 'lockdown' exit is underway to address the business risks posed by the COVID-19 pandemic. • The Group continues to be significantly cash generating which supports opportunities for refinancing and investment.
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.	**Reducing**	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.	• 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.	**Failure to refinance on commercially acceptable terms by the time the existing £175m bank facility expires in January 2021.** - The Group does not currently have committed facilities for the next 12 months and would not have sufficient resources to repay the facilities on their maturity date.	**New**	Impact on the Group's ability to continue as a going concern if it cannot refinance by January 2021 on commercially acceptable rates and similar covenant terms over a future agreed loan term. May need to explore alternative financing arrangements or consider disposing of other assets.	• The Group has a profitable and highly cash generative trading history through its principal trading business, Smiths News. Whilst COVID-19 has inevitably impacted the business of Smith News, it remains cash generative. • The Company has appointed debt advisors to support them in achieving the most appropriate refinancing arrangement.

	Risk that the debt capital markets continues to tighten following the COVID-19 pandemic			• The Company will take advantage of any government COVID-19 lending arrangement that becomes available in circumstances where the Group meet relevant criteria.
4.	**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.	**No change**	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.
5.	**Increased labour market constraints and costs** - The risk of legislative changes or interpretation, coupled with the EU Exit and political uncertainty, impacts 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.	**No Change**	In the event of any legal claim as to worker status by consultants, subcontractors or agency workers, the business could be liable for increased 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.
6.	**Failing to meet high health & safety standards** - The risk of an inadequate health & safety framework and insufficiently	**Reducing**	In addition to the danger to staff or the public, the impact of a health and safety failure negatively impacts operations, profitability and/or	• Safety is a key priority of the Group. Health and Safety performance is reviewed by the Board, Audit Committee and Executive Team.

	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.		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.	• A dedicated Health & Safety team executes improvement programmes, undertakes audits and promotes a safety culture. • The Group continues to invest in H&S improvements, including the role of H&S Director and better management reporting. • Within Smiths News the risk is considered to be well managed and the ambition continues to promote consistency in standards and culture. • Dedicated Transport Compliance teams exist specifically focused on transport-related compliance. Improvement programs have been underway exist to ensure continued legal compliance, operational efficiencies and to minimise mistakes. Management information is in place to monitor compliance on an ongoing basis.

Responsibility Statement

We confirm that to the best of our knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report includes a true and fair review of the information required by DTR 4.2.7R, being an indication of important events during the first 26 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year; and
- the interim management report includes a true and fair review of the information required by DTR 4.2.8R, being disclosure of related parties' transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Jonathan Bunting Interim Chief Executive Officer 12 May 2020	Tony Grace Chief Financial Officer 12 May 2020

Connect Group PLC

Condensed Consolidated Income Statement (Unaudited)
For the 26 weeks to 29 February 2020

£m	Note	26 weeks to Feb 2020			*Restated 6 months to Feb 2019			*Restated 12 months to Aug 2019		
		Adjusted	**Adjusted items (note 4)**	**Total**	Adjusted	Adjusted items (note 4)	Total	Adjusted	Adjusted items (note 4)	Total
Continuing operations										
Revenue	3	**623.1**	**-**	**623.1**	652.3	-	652.3	1,303.5	-	1,303.5
Cost of Sales		**(581.7)**	**-**	**(581.7)**	(610.4)	-	(610.4)	(1,217.5)	(0.1)	(1,217.6)
Gross profit/(loss)		**41.4**	**-**	**41.4**	41.9	-	41.9	86.0	(0.1)	85.9
Administrative expenses		**(21.7)**	**(9.6)**	**(31.3)**	(20.6)	(2.6)	(23.2)	(42.9)	(7.2)	(50.1)
Income from joint ventures		**0.2**	**-**	**0.2**	0.3	-	0.3	0.5	-	0.5

Operating profit	3	**19.9**	**(9.6)**	**10.3**	21.6	(2.6)	19.0	43.6	(7.3)	36.3
Net finance costs		**(3.6)**	**-**	**(3.6)**	(3.0)	-	(3.0)	(6.0)	-	(6.0)
Profit before tax	3	**16.3**	**(9.6)**	**6.7**	18.6	(2.6)	16.0	37.6	(7.3)	30.3
Income tax (expense)/credit	6	**(3.1)**	**0.8**	**(2.3)**	(3.6)	0.6	(3.0)	(9.3)	0.9	(8.4)
Profit/(loss) for the period from continuing operations		**13.2**	**(8.8)**	**4.4**	15.0	(2.0)	13.0	28.3	(6.4)	21.9
Discontinued operations										
Loss for the period from discontinued operations	9	**(8.4)**	**(6.1)**	**(14.5)**	(7.0)	(3.2)	(10.2)	(8.5)	(44.9)	(53.4)
Profit/ (loss) attributable to equity shareholders continuing and discontinued operations		**4.8**	**(12.4)**	**(10.1)**	8.0	(5.2)	2.8	19.8	(51.3)	(31.5)

Earnings per share from continuing operations										
Basic	8	5.4		1.8	6.1		5.3	11.5		9.0
Diluted	8	5.3		1.8	6.1		5.3	11.5		9.0
Earnings per share total										
Basic	8	2.0		(4.1)	3.2		1.2	8.0		(12.9)
Diluted	8	1.9		(4.1)	3.2		1.1	7.9		(12.9)
Equity dividends per share	7			-				-		1.0

**The results have been restated to remove the impact of discontinued operations see note 9 for more information.*

Connect Group PLC

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 26 weeks to 29 February 2020

£m	**Note**	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019
Continuing				
Items that will not be reclassified to the Group Income Statement:				
Remeasurements of retirement benefit schemes	5	0.2	4.3	2.7
Tax relating to components of other comprehensive income that will not be reclassified		(0.1)	(0.7)	0.6
		0.1	3.6	3.3
Items that may be reclassified to the Group Income Statement:				
Currency translation differences		0.1	(0.2)	0.1
Tax relating to components of other comprehensive income		-	-	-
		0.1	(0.2)	0.1
Other comprehensive income for the period - continuing		**0.2**	**3.4**	**3.4**
Profit for the period - continuing		4.4	13.0	21.9
Total comprehensive income/(loss) for the period - continuing		**4.6**	**16.4**	**25.3**
Other comprehensive income/(loss) for the period discontinued		-	0.1	(0.6)
Loss for the year - discontinued		(14.5)	(10.2)	(53.4)
Total comprehensive Loss for the period - discontinued		**(14.5)**	(10.1)	**(54.0)**
Total comprehensive (loss)/income for the period attributable to shareholders:		**(9.9)**	**6.3**	**(28.7)**

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

Connect Group PLC

Condensed Consolidated Balance Sheet (Unaudited)
As at 29 February 2020

£m	Note	As at Feb 2020	As at Feb 2019	As at Aug 2019
Non-current assets				
Intangible assets	11	5.2	47.1	10.1
Property, plant and equipment		8.6	19.4	10.9
Right of use assets	13	33.4	-	-
Interest in joint venture and associate		5.1	5.2	5.3
Deferred tax assets		1.0	-	5.2
		53.3	**71.7**	**31.5**
Current assets				
Inventories		16.9	16.5	16.2
Trade and other receivables		119.4	127.3	124.2
Cash and bank deposits	12	37.1	25.6	24.0
Current tax asset		-	0.1	-
Assets classified as held for sale	9	69.7	16.7	16.8
		243.1	**186.2**	**181.2**
Total assets		**296.4**	**257.9**	**212.7**
Current liabilities				
Trade and other payables		(164.7)	(178.9)	(173.7)
Current tax liabilities		(0.1)	(0.2)	-
Lease Liabilities[1]		(5.6)	(3.0)	(2.2)
Bank overdrafts and other borrowings	12	(93.5)	(50.2)	(46.1)
Provisions	14	(3.5)	(5.9)	(7.3)
Retirement benefits obligation	5	-	(0.4)	(0.4)
Liabilities classified as held for sale		(83.8)	-	-
		(351.2)	**(238.6)**	**(229.7)**
Non-current liabilities				
Bank loans and other borrowings	12	-	(49.1)	(49.3)
Retirement benefit obligation	5	-	(1.6)	(2.5)
Deferred tax liabilities		-	(2.8)	(0.3)
Non-current provisions	14	(2.6)	(4.1)	(1.2)
Lease Liabilities[1]	13	(28.4)	(0.9)	-
Other non-current liabilities		-	(0.5)	(4.0)
		(31.0)	**(59.0)**	**(57.3)**
Total liabilities		**(382.2)**	**(297.6)**	**(287.0)**
Total net liabilities		**(85.8)**	**(39.7)**	**(74.3)**
Equity				
Called up share capital	16	12.4	12.4	12.4
Share premium account	16	60.5	60.5	60.5
Other reserves		(282.4)	(281.7)	(281.5)
Retained earnings		123.7	169.1	134.3
Total shareholders' equity		**(85.8)**	**(39.7)**	**(74.3)**

1. *The Group has applied IFRS 16 using the cumulative catch up approach as a result the Obligation under finance leases has been replaced with Lease liabilities which is wider in scope see Note 2 for details.*

Connect Group PLC

Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the 26 weeks to 29 February 2020

£m	Note	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total equity

Balance at 31 August 2018	**12.4**	**60.5**	**(282.0)**	**163.2**	**(45.9)**
Loss for the period	-	-	-	2.8	2.8
Currency translation differences	-	-	(0.2)	-	(0.2)
Actuarial gain on defined benefit pension scheme	-	-	-	4.4	4.4
Tax relating to components of other comprehensive income	-	-	-	(0.7)	(0.7)
Total comprehensive income for the period	-	-	**(0.2)**	**6.5**	**6.3**
Dividends paid	-	-	-	-	-
Employee share schemes	-	-	0.5	(0.6)	(0.1)
Recognition of share based payments	-	-	-	-	-
Balance at 28 February 2019	**12.4**	**60.5**	**(281.7)**	**169.1**	**(39.7)**
Loss for the period	-	-	-	(34.3)	(34.3)
Currency translation differences	-	-	0.3	-	0.3
Impact of IFRIC 14 on defined benefit pension scheme	-	-	-	(0.8)	(0.8)
Total comprehensive loss for the period	**-**	**-**	**0.3**	**(35.1)**	**(34.8)**
Employee share schemes	**-**	**-**	**(0.1)**	**0.2**	**0.1**
Recognition of share based payments	**-**	**-**	**-**	**0.1**	**0.1**
Balance at 31 August 2019	**12.4**	**60.5**	**(281.5)**	**134.3**	**(74.3)**
IFRS 16 transition adjustment[1]	-	-	-	1.4	1.4
Restated Balance at 31 August 2019	**12.4**	**60.5**	**(281.5)**	**135.7**	**(72.9)**
Loss for the period	-	-	-	(10.1)	(10.1)
Currency translation differences	-	-	-	-	-
Remeasurements of retirement benefit schemes	-	-	-	0.5	0.5
Tax relating to components of other comprehensive income	-	-	-	(0.4)	(0.4)
Total comprehensive loss for the period	**-**	**-**	**-**	**(10.0)**	**(10.0)**
Dividends paid	-	-	-	(2.4)	(2.4)
Employee share schemes	-	-	(0.9)	-	(0.9)
Recognition of share based payments	-	-	-	0.4	0.4
Balance at 29 February 2020	**12.4**	**60.5**	**(282.4)**	**123.7**	**(85.8)**

1. The Group has applied IFRS 16 using the cumulative catch up approach as a result the Obligation under finance leases has been replaced with Lease liabilities which is wider in scope see Note 2 for details.

Connect Group PLC

Condensed Consolidated Group Cash Flow Statement (Unaudited)
For the 26 weeks to 29 February 2020

£m	**Note**	**26 weeks to Feb 2020**	**6 months to Feb 2019**	**12 months to Aug 2019**
Net cash from operating activities	10	**13.2**	**11.5**	**23.0**
Investing activities				
Dividends from associates		0.1	0.1	0.1
Purchase of property, plant and equipment		(3.4)	(1.9)	(7.4)
Purchase of intangible assets		(2.5)	(0.8)	(1.2)
Net proceeds on sale of property, plant and equipment		14.6	-	0.5
Net cash received/(used) in investing activities		**8.8**	**(2.6)**	**(8.0)**
Financing activities				
Interest paid		(4.4)	(2.6)	(5.1)
Dividends paid		(2.4)	-	-
Repayments of leases		(9.3)	(1.5)	(2.8)
Purchase of share for employee benefit trust		(0.7)	-	-
Net (decrease)/increase in short term borrowings		8.0	(2.0)	(8.0)
Net cash used in financing activities		**(8.8)**	**(6.1)**	**(15.9)**
Net increase/(decrease) in cash and cash equivalents		**13.2**	**2.8**	**(0.9)**
Effect of foreign exchange rate changes		-	(0.1)	0.1
		13.2	**2.7**	**(0.8)**
Opening net cash and cash equivalents		7.9	8.7	8.7

Closing net cash and cash equivalents	**21.1**	**11.4**	**7.9**

Closing net cash and cash equivalents incudes £37.1m (H1 2019: £25.6m) of cash offset by £16.0m (H1 2019: £14.2m) of overdraft see note 12 for further information.

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.1m (H1 2019: £12.0m outflow) and £12.5m was received in respect of investing activities (H1 2019: £1.3m used). There were £11.4m (H1 2019: £0.7m) cash outflows associated with financing activities attributable to Discontinued Operations.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements
For the 26 weeks to 29 February 2020

1 Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those described in the Annual Report and Accounts 2019. The financial period represents the 26 weeks ended 29 February 2020 (prior financial period 6 months ended 28 February 2019, prior financial year ended 31 August 2019).

These condensed consolidated interim financial statements for the current period and prior financial periods do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the prior financial year has been filed with the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006 issued by BDO LLP. The auditors review opinion on the 26 week period ended 29 February 2020 is on page 51.

Discontinued operations

On 28 February 2020, the Board concluded the Tuffnells division had met the criteria as being held for sale and should be classified as a discontinued operation in accordance with International Financial Reporting Standards (IFRS) 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement and the assets and liabilities of these operations are presented separately in the Group balance sheet.

The facts that supported this judgement were as follows:

- the Tuffnells business was actively being marketed;
- Tuffnells was considered held for immediate sale;
- a sale was considered to be highly probable;
- as a result of receiving several competitive offers for Tuffnells, the Board concluded that a disposal of Tuffnells was the option that would offer the best opportunity to maximise Shareholder value; and
- a proposed timeline for the sale was within the current financial year.

This is considered a key judgement and the conclusion reached by the Directors was based on the weight of facts surrounding each criteria, for further details see note 9.

1 Basis of Preparation (continued)

Going Concern

The condensed financial interim financial statements have been prepared on a going concern basis.

The Group has a £175m committed bank facility comprising a £50m term facility and a £125m revolving credit facility. Smiths News cash cycle has a significant and predictable cash swings within each month of around £40.0m, which utilises the Revolving Credit Facility of £125.0m. As at 29 February 2020 the Company had £108.4m of undrawn committed borrowing facilities and cash, as at 4 May 2020 the first working day post disposal of Tuffnells this has reduced to £58.8m. The bank facilities expire on 31 January 2021, which is within 12 months of approval of the interim financial statements.

The Group has appointed debt advisors to support them in achieving the most appropriate refinancing arrangement and had entered into preliminary discussions with its existing lenders and was exploring alternative refinancing models earlier in the year, prior to the disposal of Tuffnells. The Directors concluded that the Group was not able to refinance on commercially acceptable terms, and therefore decided to defer the refinancing process until after the disposal of Tuffnells.

The Group therefore does not currently have committed facilities for the next 12 months and would not have sufficient resources to repay the facilities on their maturity date.

The Group has a profitable and highly cash generative trading history through its principal trading business, Smiths News. Whilst COVID-19 has inevitably impacted the business of Smiths News, it remains cash generative and the Directors, having considered realistically possible outcomes, anticipate that the Group will be able to secure the refinancing and at an adequate level to support the debt requirements of the Group.

Whilst the Group anticipates completing the refinancing over the coming months following the disposal of Tuffnells (which represented a financial drag on the Group), there is, however, a risk that the Group may not be able to refinance. This indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

After consideration of the above the Directors have prepared the condensed interim financial statements on a going concern basis. The condensed interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

The Directors continue to monitor the impact of COVID-19 on the continuing business and have stress tested the impact of a range of scenarios including a sustained and worsening reduction in sales. There have been no scenarios identified which would give rise to breach of covenants at the next measurement period date of 31 August 2020, which would trigger an earlier repayment of the facilities. Should, however, the downturn become worse and more prolonged than what is considered to be a worst case scenario, the Directors have identified a number of mitigating factors including further asset disposals, further cost reductions, alternative financing arrangements (including invoice financing), as well as exploring strategic options for the continuing Group.

2 Accounting policies

Adoption of new IFRSs

The Group adopted the following accounting standards on 1 September 2019:

IFRS 16 'Leases' requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. The effect of this for the Group has been to recognise a right-of-use asset of £73.8m and lease liability of £74.0m at the transition date of 1 September 2019.

Practical expedients

The Group has taken advantage of the practical expedients:

- to grandfather previous conclusions (under IAS 17) on which contracts contain leases;
- to apply the cumulative catch up approach rather than full retrospective application; and
- to measure the right of use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date.
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 September 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group's IBR used to discount the liability on transition was between 5.1% and 5.4% based on age and security. A reconciliation of the previous disclosed commitments is as follows:

	£m
Operating lease commitments disclosed as at 31 August 2019	79.3
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(11.1)
(Less): short-term leases not recognised as a liability	(1.7)
(Less): low-value leases not recognised as a liability	(0.9)
Extension options reasonably certain to be exercised	8.4
Total Lease commitments recognised on 1 September 2019	74.0

The effect of the accounting policy changes on 1 September 2019 can be summarised as follows:

	£m
Right-of-use assets	73.8
Change in total assets	**73.8**
Trade and other payables	0.4
Lease liabilities - current	(15.8)
Other non-current liabilities	1.2
Lease liabilities - non-current	(58.2)
Change in total liabilities	**(72.4)**
Change in total equity	**1.4**

2 Accounting Policies (continued)

Leases

As explained above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change above. Leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership, were classified as finance leases.

Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables.

Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

The Group leases various offices, distribution depots, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 20 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leased assets may not be used as security for borrowing purposes.

From 1 September 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date ;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

2 Accounting Policies (continued)

Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Modifications

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

2 Accounting Policies (continued)

Sale and leaseback

When the Group enter into a sale and leaseback transaction, a sale is considered to have taken place when control of the underlying asset is passed to the purchaser. The indicators of control are below:

1. The entity has a right to payment
2. The customer has legal title
3. The customer has physical possession
4. The customer has significant risks and rewards of ownership
5. The customer has accepted the asset.

On the transfer of control the Group recognise the sale and recognise a right of use asset based on the portion of the previous carrying amount of the asset the relates to the right of use asset retained by the Group. A lease liability is recognised consistent with how all other lease liabilities are recognised. A gain or loss is recognised in relation to the rights transferred to the buyer/ lessor.

The following items are in addition to the key accounting judgements and estimates noted in the Company's Annual Report and Accounts 2019:

Key accounting judgements

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate); and
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

2 Accounting Policies (continued)

Sale and leaseback Tuffnells properties

The Group entered into several sale and leaseback transactions in relation to the Tuffnells Property Portfolio, for further information see note 9. On all transactions a sale was considered to have occurred as control of all properties had transferred to the purchaser based on the following:

- The Group has no option to repurchase the properties;
- The title of the land and property passed to purchaser; and
- The Group received payment for all of the properties sold and lease backed.
- The majority of the risks and rewards relating to the properties had transferred to the purchaser

Key accounting estimates

Valuation of Tuffnells

As the Tuffnells business unit was considered held for sale at 29 February 2020 the Group have taken the following to estimate the fair value including:

1. The rate to use to discount the deferred consideration,
2. The forecast cash outflows in relation to the repayment of the business unit's overdraft and ultimate write down of the intercompany loan.

For more information see note 9.

COVID-19 Pandemic

By 29 February 2020 the results of the Dawson Media Direct (DMD) business were beginning to be impacted. Flights from China to the USA were restricted on 2 February 2020, by 29 February 2020 air travel had significantly fallen and further restrictions were expected to be announced. As a result of the decline in air travel sales had started to decline and by the end of March the expected air travel restrictions were imposed throughout Europe, its primary market, for this reason the COVID-19 pandemic is considered to be an adjusting event to the Dawson Media Direct (DMD) business as it was already beginning in to be impacted by 29 February 2020.

DMD - Estimated impairment of goodwill

As the results of the COVID-19 pandemic the results were beginning to be impacted and there was an expectation that this would worsen an impairment review was performed on the business. The outlook of the DMD business is particularly sensitive to easing of the restrictions on travel and future prospects of the airline and travel industry. For information on estimates taken see note 12.

Provision for expected credit losses Dawson Media Direct (DMD)

As the COVID-19 pandemic was predicted to have a significant effect on the airline travel industry; of which the Group's DMD business unit had a balance outstanding of £2.0m to related customers. It was considered that the risk of default had increased significantly by the balance sheet date because of the travel restrictions would have on the ability for the customers to pay. A £1.0m provision for credit losses was considered to be required against this balance; £0.9m of this balance is due to the increased risk resulting from COVID-19 and for this reason it is included within adjusting items in Note 4.

2 Accounting Policies (continued)

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 50, are important when assessing the underlying financial and operating performance of the Group and its segments. The APMs do not have standardised meaning prescribed by IFRS and therefore may not be directly comparable to similar measures presented by other companies.

3 Segmental Analysis of Results

In accordance with IFRS 8 'Operating Segments', 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.

These operating segments are:

Smiths News

Smiths News segment consists of the following:

Smiths News Core

The UK market leading distributor of newspapers and magazines to approximately 24,000 retailers across England and Wales.

Dawson Media Direct (DMD)

Supplies newspapers, magazines and inflight entertainment to airlines and travel points in the UK.

Instore

Supplies field marketing services to retailers and suppliers across the UK.

Other businesses

A number ancillary business which are adjacent to Smiths News.

Smiths News Core is considered the only reportable segment of the above given the size of the other they are consolidated into one operating segment.

Tuffnells

A leading provider of next day B2B delivery of mixed and irregular freight consignments.

As explained in Note 9, Tuffnells was considered to be a discontinued operation in the current financial year. The division is presented as a discontinued operation and is included below where necessary for the purpose of reconciliation.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

3 Segmental Analysis of Results (continued)

The following is an analysis of the Group's revenue and results, since the discontinuation of the Tuffnells division there is now only 1 continuing reportable segment:

	Revenue			Operating profit		
£m	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019	**26 weeks to Feb 2020**	6 months to Feb 2019 (restated)	12 months to Aug 2019
Continuing operations - adjusted	**623.1**	**652.3**	**1,303.5**	**19.9**	21.6	43.6
Revenue Discontinued operations - adjusted	73.7	80.2	164.4			
Revenue - Continuing and discontinued operations - adjusted	**696.8**	**732.5**	**1,467.9**			
Continuing operations -Total Adjusted items				(9.6)	(2.6)	(7.3)
Total Continuing operations after Adjusted items				**10.3**	**19.0**	**36.3**
Net finance expense				(3.6)	(3.0)	(6.0)
Profit before taxation - Continuing operations				6.7	16.0	30.3
Loss before taxation - Discontinued operations				**(12.9)**	**(12.7)**	(67.9)
(Loss)/profit before taxation - Continuing operations and Discontinued operations				**(6.2)**	**3.3**	**(37.6)**

Geographical analysis

	Revenue by destination			Non-current assets by location of operation		
£m	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019
United Kingdom	617.3	645.6	1,290.3	**53.3**	**71.7**	31.5
Spain	0.2	0.3	0.5	-	-	-
France	0.9	0.7	1.2	-	-	-
Germany	1.2	1.5	2.9	-	-	-
Netherlands	1.7	2.1	4.1	-	-	-
Rest of World	1.8	2.1	4.3	-	-	-
Continuing operations	**623.1**	**652.3**	**1,303.3**	**53.3**	**71.7**	**31.5**
Discontinued operations	73.7	80.2	164.6	**-**	-	-

Total continuing and discontinued operations	**696.8**	**732.5**	**1,467.9**	**53.3**	**71.7**	**31.5**

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.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

4 Adjusted Items

£m		26 weeks to Feb 2020	6 months to Feb 2019	12 months to Aug 2019
Continuing operations				
Network and re-organisation costs	(a)	**(2.3)**	**(1.2)**	(5.9)
Goodwill impairment	(b)	**(5.7)**	**-**	-
Provision for expected credit losses	(c)	**(0.9)**		
Impairment of investment in joint venture	(d)	**(0.3)**		
Pension	(e)	**(0.4)**	**(1.5)**	(2.0)
IPR settlement income	(f)	**-**	**0.3**	0.5
Amortisation of acquired intangibles	(g)	**-**	**(0.2)**	(0.2)
Pass my parcel exit costs	(h)	**-**	**-**	0.3
Total before tax		**(9.6)**	(2.6)	**(7.3)**
Taxation		**0.8**	**0.6**	0.9
Total after taxation		**(8.8)**	**(2.0)**	**(6.4)**
Discontinued operations				
Strategic review	(i)	(0.5)	-	-
Tuffnells assets	(j)	(0.6)	**-**	(45.5)
Sale and leaseback	(k)	(1.0)	**(0.5)**	(0.7)
Network and re-organisation costs	(l)	(0.5)	**(0.1)**	(0.5)
Brierley Hill insurance claim	(m)	-	**(0.1)**	(0.2)
NMW regulatory compliance	(n)	-	**0.1**	0.2
Pension	(o)	-	**-**	(0.2)
Amortisation of acquired intangibles	(p)	-	**(3.3)**	(6.6)
Total before tax		**(2.6)**	**(3.9)**	**(53.5)**
Taxation	(j)	**(3.5)**	**0.8**	8.6
Total after taxation		**(6.1)**	**(3.1)**	**(44.9)**
Continuing and discontinued operations				
Total before tax		**(12.2)**	**(6.5)**	**(60.8)**
Taxation		**(2.7)**	**1.4**	**9.9**
Total after taxation		**(14.9)**	**(5.1)**	**(50.9)**

Adjusted items on a continuing basis for the period totalled £8.8m after tax for the period, compared to £2.0m (restated) in the prior year.

Adjusting items are defined in the accounting policies in the glossary. In the Directors' opinion, the impact of removing these items from the adjusted profit gives the true underlying performance of the Group and these comprise:

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

4 Adjusted Items (continued)

Continuing operations

a) Network and re-organisation costs: £2.3m (H1 2019: £1.2m)

These are analysed as follows:

- Executive Team redundancies of £0.2m (H1 2019: £0.9m)

- Outsourcing of the shared service centre £1.9m (H1 2019: £nil)
- DMD restructuring £0.2m (H1 2019: £nil)
- Other redundancy and reorganisation costs of £nil (H1 2019: £0.3m)

Executive Team redundancies

Costs of £0.2m have been incurred as a result of the departure of the former CEO in November 2019. In H1 2019 the Group incurred £0.9m relating to the restructure of the Group's previous Executive Team. 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

£1.9m (H1 2019: £nil) of the current year cost relates to the off-shoring of selected technology, customer services and finance functions. This process was communicated to employees in the previous financial year and a provision was created for the impact.

£1.9m comprises £0.5m related to redundancy costs as part of this transition and £1.4m related to set up costs which include the cost of parallel running the previous finance team when the shared service centre was up and running. Further costs of the offshoring are expected to be incurred during the 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 of the parts of the centre which are fully operational are being treated as non-adjusting.

DMD Restructure costs

In June 2019, DMD's biggest contract with British Airways expired. As soon as it became apparent that its contract would not be renewed, 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. Costs of £0.2m (H1 2019: £nil) have been incurred in the current year and in total, costs of £1.4m (FY 2019: £1.2m) have been incurred on redundancies, transferring operations into the Smiths News Slough depot and changing overseas operating models.

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

In H1 2019, £0.4m (current year £nil) was incurred in redundancy and other re-organisation costs to streamline the Smiths News businesses.

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

4 Adjusted Items (continued)

(b) Goodwill impairment: £5.7m (H1 2019: £nil)
By 29 February 2020, the impact of the COVID-19 pandemic had already impacted trading, triggering an impairment review of DMD. See key accounting judgements for more details in Note 2. As a result, the Goodwill relating to DMD has been written off to £nil incurring a £5.7m impairment charge. For further details of this review see Note 11.

(c) Provision for expected credit losses: £0.9m (H1 2019: £nil)

The COVID-19 pandemic started to impact the DMD business unit during February 2020 which increased the risk of recovery. The following month a number of the key customers of the DMD business unit requested extensions and delayed payment terms which is consistent with the increase in risk. As a consequence, to reflect the Group's underlying risk of collection it has recognised an increased provision resulting in a charge of £0.9m.

(d) Impairment of investment

The impact of the COVID-19 pandemic has triggered a review of the viability of Bluebox Avionics Limited (Bluebox); a joint venture of the Group. As a result the outlook of Bluebox remains uncertain and the investment has been written off incurring a £0.3m impairment charge.

The Group consider the impact of the above to be adjusting given the unprecedented situation and the significant value.

(e) Pensions: £0.4m (H1 2019: £1.5m)
In H1 2019, the Group incurred £1.5m, 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.

In H1 2020, the Group incurred professional costs of £0.4m in rationalising the Groups pension portfolio which was triggered by the buy-in of an insurance backed annuity relating to WH Smith Pension Trust. The impact should streamline the cost of administrating the Group's defined contribution schemes.

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.

(f) IPR settlement income: £nil (H1 2019: £0.3m income)

In H1 2019, the Group received £0.3m of one-off 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.

(g) Amortisation of acquired intangibles: £nil (H1 2019: £0.2m)

The Group incurred amortisation of continuing intangibles for acquisitions, for which there is no associated cash cost, of £0.2m in H1 2019, there is no cost in the current year. This is considered an adjusting item as it allows comparison between segments and therefore consistency of results at a consolidated level.

4 Adjusted Items (continued)

(h) Pass My Parcel (PMP) exit costs: £nil (H1 2019: £nil)

The viability of the PMP proposition was reviewed in May 2018 and as a consequence management decided to terminate the contracts in relation to PMP and close the business unit. The business had a number of onerous contracts that had not been fully terminated by 31 August 2018. As a result; at 31 August 2018 a provision of £1.4m was held to cover the costs being incurred to close those remaining onerous contracts. By 31 August 2019, all residual contracts had been terminated and the remaining provision of £0.3m, not being required, was released. There were no costs or releases in either the current year or in H1 2019.

Discontinued operations

(i) Strategic review: £0.5m (H1 2019: £nil)

On 6 November 2019, the Board announced a strategic review of Tuffnells in order to determine its longer term role and prospects within the Group.

During the review period, alongside actions to improve the efficiency of operations, the Board undertook a careful review of the prospects for Tuffnells' turnaround within the Group's ownership as well as its potential impact on the Group. The review involved evaluating a number of options in order to maximise value for Shareholders, including:

- continuing to support the continuing Tuffnells turnaround under the Group's ownership;
- the potential for and consequences of closing the business; and
- a possible disposal to a third party.

The costs incurred as a result of this review to date was £0.5m (H1 2019 £nil).

The Board subsequently concluded that a sale to a third party would generate the most value for shareholders and expect to incur further costs of this review and in relation to the disposal of the business in the current financial year. For further information on the sale see Note 9.

These costs are considered adjusting due to their significant value and to aid comparability between years to show the underlying performance of the Tuffnells business unit.

(j) Tuffnells assets: £0.6m (H1 2019: £nil)

Impairments of Tuffnells assets of £0.6m (H1 2019: £nil) were recognised by the Group in the current financial year against property plant and equipment.

The bids received for Tuffnells indicated that the net book value of the Tuffnells was above its fair value less costs to sell, therefore indicating an impairment was required. Accordingly, impairments totalling £0.6m were recognised to reflect the updated value of the business. For more information see the Note 9.

Due to the sale process, it was considered that the deferred tax asset recognised on impairments was no longer recoverable and an amount of £3.5m was released creating an additional tax charge.

During the prior financial year, management reviewed the carrying value of the Tuffnells business unit and concluded that an impairment charge of £45.5m was required. This comprised £6.0m Goodwill, £26.4m acquired intangibles, £0.4m other intangibles and £12.7m property, plant and equipment.

The impairment of Goodwill in the prior year had no tax impact, the impairment of acquired intangibles 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 was recognised in the prior year 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.

4 Adjusted Items (continued)

(k) Sale and leaseback: £1.0m (H1 2019: £0.5m)

In January 2019, the Group took the decision to enter into a sale and leaseback arrangement for the "Tuffnells property portfolio" and recognised the assets as held for sale. See note 9 for further details. The Group disposed of 8 of the properties in the portfolio during the period. However, as a result of the Tuffnells strategic review, the Board took the decision to pause the process on the sale and leaseback until the outcome of the strategic review was certain.

As a result of the above the following were incurred:

£m		26 weeks to Feb 2020	6 months to Feb 2019
Sale & leaseback			
Profit on disposal	**(i)**	**1.5**	**-**
Rectification costs	**(ii)**	**(0.6)**	**-**
Abortive transaction costs	**(iii)**	**-**	**(0.5)**
Impairment	**(iv)**	**(1.9)**	**-**
Total		**(1.0)**	(0.5)

(i) Profit on loss on disposal

In line with IFRS 16, a profit of £1.5m (H1 2019 £nil) has been recognised.

(ii) Rectification costs

As part of the terms of the disposal the Group agreed to undertake rectification works to the disposed of properties within 2 years. A provision totalling £0.6m has been recognised in relation to this obligation.

(iii) Abortive transaction costs

In the prior period H1 2019, the Group incurred £0.5m of costs relating to the sale and leaseback the Tuffnells property portfolio. However, due to the market conditions and outlook at the time, the proposals received did not meet the Board's expectations in respect of value, economic return and timings. As a consequence the process was stopped and the abortive costs written off. The process was then restarted and completed this financial year.

(iv) Impairment

In November 2019, the remaining unsold properties were valued at the lower of fair value less costs to sell or historic cost. On one property the bids received did not support the cost and as a result an impairment charge of £1.9m has been recognised when the assets were classified back into property plant and equipment.

Given the magnitude of the sale and leaseback and one-off nature is considered to be an adjusting item.

4 Adjusted Items (continued)

(l) Network and re-organisation costs: £0.5m (H1 2019: £0.1m)

These are analysed as follows:

- Executive Team redundancies of £0.4m (H1 2019: £nil)
- Network reorganisation costs of £0.1m (H1 2019: £0.1m)

Executive Team redundancies

Costs of £0.4m (H1 2019: nil) have been incurred as a result of the restructure of the Tuffnells executive team as part of the strategic review. These costs are considered to be adjusting given the size. As the business is expected to be disposed of these costs are not expected to reoccur.

Network Reorganisation

Costs of £0.1m (H1 2019: nil) have been incurred as a result of the closure of the North London depot. The depot closure was identified as a cost saving measure from the strategic review; the depot closure enables greater flexibility with minimal impacts on the businesses Tuffnells executive team as part of the strategic review. These costs are considered to be adjusting given the size.

(m) Brierley Hill insurance claim: £nil (H1 2019: £0.1m)

In H1 2019, the Group incurred £0.1m of insurance settlement costs in relation to a fatality at its Brierley Hill depot that occurred in January 2016. The Group had previously recognised the cost of the fine and legal costs in relation to this - see note 16. Given the magnitude, one-off nature and to ensure consistent treatment with previously reported costs it is considered to be an adjusting item.

(n) National Minimum Wage regulatory compliance: £nil (H1 2019: £0.1m)

In H1 2019, the Group released £0.1m of the provision held in respect of potential National Minimum Wage regulatory compliance fines. A provision amounting to £1.3m had been made in the 2018 financial statements. Of this balance £0.5m related specifically to the estimated fine. This was classified as adjusting in H2 2018. The provision release of £0.1m in H1 2019 was based on correspondence with HMRC at the time. A further £0.1m was released in H2 2019 following the conclusion of the review by HMRC. This was recognised as an adjusting item to be consistent with prior periods and due to its one-off nature and magnitude.

(o) Pensions: £nil (H1 2019: £nil)

A charge of £nil was recognised in relation to pensions in the current and prior half year. In H2 2019 £0.1m in relation to equalisation of Guaranteed Minimum Payments (GMP) of the Tuffnells Parcel Express pension scheme. This is considered to be an Adjusting item as it was due to a one off change in the interpretation of the law relating to previously recognised cost, this is considered out of control of management and the charge relates to service in prior periods and therefore is considered an Adjusting item.

(p) Amortisation of acquired intangibles £nil (H1 2019: £3.3m)

A charge of £nil (H1 2019: £3.3m) 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.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

5 Retirement Benefit Obligation

Defined benefit pension schemes

In the period the Group operated two defined benefit schemes, the WH Smith Pension Trust (the 'Pension Trust') and the Tuffnells Parcels Express Pension Scheme, the latter of which is now outside the Group due to the sale of Tuffnells to Palm Bidco Limited.

The amounts recognised in the balance sheet are as follows:

£m	As at Feb 2020	As at Feb 2019	As at Aug 2019
Present value of defined benefit obligation	(462.4)	(424.9)	(483.6)
Fair value of assets	484.2	439.4	504.7
Net surplus	**21.8**	**14.5**	**21.1**
Amounts not recognised due to asset limit	(23.7)	(16.5)	(24.0)
Transferred to liabilities held for sale	1.9	-	-
Pension liability	**-**	**(2.0)**	**(2.9)**

The primary defined benefit pension scheme (the Smiths News Section of the WH Smith Pension Trust) has an IAS 19 surplus of £23.7m at 29 February 2020 (H1 2019: £16.5m surplus) which the Group does not recognise in the accounts as the investment policy adopted means that the amount available on a reduction of future contributions is expected to be £nil (FY 2019: £nil). The valuation of the defined benefit schemes for the IAS 19 (revised) disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

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 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.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

5 Retirement Benefit Obligation (continued)

Tuffnells Parcels Express scheme

The triennial actuarial valuation of the Tuffnells Parcels Express scheme as at 1 April 2016 was a scheme deficit of £5.3m. Deficit recovery contributions to the scheme have been agreed at £0.5m per annum. The £1.9m of pension liabilities at the period end relates entirely to the Tuffnells Parcels Express scheme and has been reclassified to liabilities held for sale.

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

% p.a.	26 weeks to Feb 2020	6 months to Feb 2019	12 months to Aug 2019
Discount rate	1.70%	2.65%	1.75%
Inflation assumptions - CPI	1.95%	2.20%	2.20%
Inflation assumptions - RPI	2.95%	3.20%	3.20%

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 2018	**592.7**	**(440.4)**	**(159.6)**	**(7.3)**
Interest cost	7.4	(5.5)	(2.0)	(0.1)
Administrative costs	(0.1)	-	-	(0.1)
Total amount recognised in income statement	**7.3**	**(5.5)**	**(2.0)**	**(0.2)**
Return on plan assets excluding amounts included in net interest	(151.4)	-	139.9	(11.5)
Actuarial gains on scheme liabilities	-	-	5.1	5.1
Change in surplus not recognised	-	10.7	-	10.7
Amount recognised in other comprehensive income	**(151.4)**	**10.7**	**145.0**	**4.3**
Employer contributions	1.1	-	-	1.1
Benefit payments	(10.3)	10.3	-	-
Amounts included in cash flow statement	**(9.2)**	**10.3**	**-**	**1.1**
At 28 February 2019	**439.4**	**(424.9)**	**(16.6)**	**(2.1)**
Interest cost	7.5	(5.5)	(2.1)	(0.1)
Past service cost/(credit)	-	(0.1)	-	(0.1)
Administration expenses	(0.4)	-	-	(0.4)
Total amount recognised in income statement	**7.1**	**(5.6)**	**(2.1)**	**(0.6)**
Return on plan assets excluding amounts included in net interest	68.5	-	(134.7)	(66.2)
Actuarial gains on scheme liabilities	-	(66.6)	(5.2)	(71.8)
Change in surplus not recognised	-	2.7	134.5	137.2
Amount recognised in other comprehensive income	**68.5**	**(63.9)**	**(5.4)**	**(0.8)**
Employer contributions	0.5	-	-	0.5
Benefit payments	(10.8)	10.8	-	-
Amounts included in cash flow statement	**(10.3)**	**10.8**	**-**	**0.5**
At 31 August 2019	**504.7**	**(483.6)**	**(24.0)**	**(2.9)**

5 Retirement Benefit Obligation (continued)

£m	Fair value of scheme assets	Defined benefit obligation	Surplus not recognised	Total
At 31 August 2019	**504.7**	**(483.6)**	**(24.0)**	**(2.9)**
Interest cost	4.3	(4.1)	(0.2)	-
Administrative expenses	(0.2)	-	-	(0.2)
Total amount recognised in income statement	**4.1**	**(4.1)**	**(0.2)**	**(0.2)**
Return on plan assets excluding amounts included in net interest	(15.0)	-	-	(15.0)
Actuarial gains on scheme liabilities	-	15.0	-	15.0
Change in surplus not recognised	-	-	0.5	0.5
Amount recognised in other comprehensive income	**(15.0)**	**15.0**	**0.5**	**0.5**
Employer contributions	0.7	-	-	0.7
Benefit payments	(10.4)	10.4	-	-
Amounts included in cash flow statement	**(9.7)**	**10.4**	**-**	**0.7**
Amounts transferred to liabilities held for sale	**(10.3)**	**12.2**	**-**	**1.9**
At 29 February 2020	**473.8**	**(450.1)**	**(23.7)**	**-**
Included within Current liabilities				**-**
Included within Non-current liabilities				**-**

6 Income Tax Expense

The income tax charge for the 26 weeks ended 29 February 2020 is calculated based upon the effective tax rates expected to apply to the Group for the full year. The rate of tax on adjusted profits before from continuing operations is 19.0% (H1 2019: 19.2%). The rate of tax on adjusted profits (on both continuing and discontinued operations) is 19.0% (H1 2019: 19.2%).

7 Dividends

Proposed dividends for the period	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019	**26 weeks to Feb 2020**	6 months to Feb 2019	12 months to Aug 2019
	Per share	Per share	Per share	**£m**	£m	£m
Final dividend	**-**	1.0p	1.0p	**-**	**-**	2.4
Interim dividend	**-**	-	-	**-**	**-**	-
	-	**1.0p**	1.0p	**-**	**-**	2.4

Recognised dividends for the period						
	Per share	Per share	Per share	£m	£m	£m
Final dividend - prior year	**1.0**	-	-	**2.4**	-	-
Interim dividend - current year	**-**	-	-	**-**	-	-
	1.0	-	-	**2.4**	-	-

During the six month period to 29 February 2020, the final dividend for the year ended 31 August 2019 of 1.0 pence (Feb 2019: nil) per ordinary share was paid to shareholders. The Directors have not proposed an interim dividend in respect of the period ended 29 February 2020 (Feb 2019: nil per ordinary share).

8 Earnings per share

	26 weeks to Feb 2020			6 months to Feb 2019			12 months to Aug 2019		
	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share	Earnings (£m)	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**247.4**			247.6			247.7	
Shares held by the ESOP (weighted)		**(1.5)**			(1.4)			(1.3)	
		245.9			**246.2**			**246.4**	
Basic earnings per share (EPS)									
Continuing									
Adjusted earnings attributable to ordinary shareholders	**13.2**	**245.9**	**5.4**	15.0	246.2	6.1	28.3	246.4	11.5
Adjusted items	**(8.8)**			(2.0)			(6.4)		
Earnings attributable to ordinary shareholders	**4.4**	**245.9**	**1.8**	**13.0**	246.2	**5.3**	**21.9**	246.4	**9.0**
Discontinued									
Adjusted Losses attributable to ordinary shareholders	**(8.4)**	**245.9**	**(3.4)**	**(7.1)**	246.2	**(2.8)**	**(8.5)**	246.4	**(3.5)**
Adjusted items	**(6.1)**			**(3.1)**			**(44.9)**		
Losses attributable to ordinary shareholders	**(14.5)**	**245.9**	**(5.9)**	**(10.2)**	246.2	**(4.1)**	**(53.4)**	246.4	**(21.7)**
Total - continuing and discontinued operations									
Adjusted earnings attributable to ordinary shareholders	**4.8**	**245.9**	**2.0**	7.9	246.2	3.2	19.8	246.4	8.0
Adjusted items	**(14.9)**			(5.1)			(51.3)		
(Losses)/Earnings attributable to ordinary	**(10.1)**	**245.9**	**(4.1)**	**2.8**	246.2	**1.2**	**(31.5)**	246.4	**(12.9)**

shareholders									
Diluted earnings per share (EPS)									
Effect of dilutive securities		1.2			0.4			0.7	
Continuing									
Diluted adjusted EPS	**13.2**	**247.1**	**5.3**	15.0	246.6	6.1	28.3	247.1	11.5
Diluted EPS	**4.4**	**247.1**	**1.8**	13.0	246.6	5.3	(6.4)	247.1	9.0
Discontinued									
Diluted adjusted EPS	**(8.4)**	**247.1**	**(3.4)**	(7.0)	246.6	(2.9)	(8.5)	247.1	(3.5)
Diluted EPS	**(14.5)**	**247.1**	**(5.9)**	(10.2)	246.6	(4.1)	(53.4)	247.1	(21.7)
Total - continuing and discontinued operations									
Diluted adjusted EPS	**4.8**	**247.1**	**1.9**	8.0	246.6	3.2	19.8	247.1	7.9
Diluted EPS	**(10.1)**	**247.1**	**(4.1)**	**2.8**	246.6	**1.1**	**(31.5)**	247.1	**(12.9)**

8 Earnings per share (continued)

Dilutive shares increased the basic number of shares at February 2020 by 1.2m to 247.1m (Feb 2019: 246.6m) and resulted in a diluted adjusted EPS of 3.2p, a decrease of 1.7p or 40.7% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 1.2m dilutive shares (Feb 2019: 0.4m). There is no further dilutive effect from deferred consideration in the period.

9 Discontinued operations and assets held for sale

Discontinued operations

Tuffnells strategic review

On 6 November 2019, the Board announced a strategic review of Tuffnells in order to determine its longer term role and future within the Group.

The review involved evaluating a number of options in order to assess which would be most likely to maximise value for Shareholders including:

- support the turnaround of the Tuffnells business under the Group's ownership;
- the potential for and consequences of closing the business; and
- a possible disposal to a third party.

A competitive sales process was entered concurrently with continuing to support the turnaround. On 12 February 2020 the Group received several bids, the Board considered a number of these represented a good economic return for the business continued to pursue a sale.

On 28 February 2020, the Board concluded that a sale of the business was the most appropriate strategy to maximise shareholder return committing to this strategy and concluded that the sale process was progressed enough to conclude that the business would be sold within the next year. The Board therefore concluded that the requirements of IFRS 5 to classify Tuffnells as held for sale and a discontinued operation had been met.

Subsequently, on 14 April 2020, a share purchase agreement was signed with Palm Bidco Limited to sell Tuffnells subject to shareholder approval. At the Company's General Meeting held on 1 May 2020 shareholders approved the sale and completion concluded on 2 May 2020.

The key terms of the share purchase agreement are as follows:

Unsecured consideration payable by Palm Bidco Limited to the Group of £15.0m in cash, payable in three tranches as follows:

- £6.5m on the date 18 months following Completion;
- £4.25m on or prior to the date 27 months following Completion; and
- £4.25m on or prior to the date 36 months following Completion.

The Group have discounted the consideration at 30% and will recognise £7.1m on Completion.

Tuffnells being cash free debt free on Completion which represented the Group repaying the Tuffnells overdraft and writing off the intercompany loan at completion.

The Group has agreed to make available a loan facility secured against selected properties. The total facility available is £10.5m and includes a 10% coupon, on Completion £6.5m will be drawn immediately with a further the ability to draw £1.0m a month for on the later of 1 September 2020 and the date falling four months after Completion. £5.0m is repayable 18 months from Completion and all other balances are due for repayments on the second anniversary after Completion being 1 May 2022.

For the 26 weeks to 29 February 2020

9 Discontinued operations and assets held for sale (continued)

Discontinued operations (continued)

The Group have agreed to repay £1.0m of lease creditors prior to Completion and will take on the Tuffnells insurance liability which is estimated to be £2.5m on Completion.

The Group have recognised costs of disposal as incurred; the total costs of disposal are estimated at £2.8m.

Accounting impact

The fair value less cost to sell was negative £14.1m based on the bids received. Included within this calculation were the discounted deferred consideration and the forecast future cash trading losses of Tuffnells.

The net liabilities of Tuffnells were £13.5m at 29 February 2020; when compared to the fair value less costs to sell, this indicated impairment and a charge of £0.6m was recognised against property plant and equipment.

Tuffnells strategic review

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

£m	**26 weeks to Feb 2020**			6 months to Feb 2019			12 months to Aug 2019		
	Adjusted	**Adjusted items**	**Total**	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Revenue	**73.7**	**-**	**73.7**	80.2	0.0	80.2	164.4	-	164.4
Cost of sales	**(78.0)**	**-**	**(78.0)**	(85.8)	(0.5)	(86.3)	(168.6)	(1.0)	(169.6)
Gross profit	**(4.3)**	**-**	**(4.3)**	**(5.6)**	**(0.5)**	**(6.1)**	**(4.2)**	**(1.0)**	**(5.2)**
Administrative expenses	**(4.9)**	**(2.6)**	**(7.5)**	(3.1)	(3.4)	(6.5)	(9.9)	(52.5)	(62.4)
Operating loss	**(9.2)**	**(2.6)**	**(11.8)**	**(8.7)**	**(3.9)**	**(12.6)**	**(14.1)**	**(53.5)**	**(67.6)**
Finance costs	**(1.1)**	**-**	**(1.1)**	(0.1)	0.0	(0.1)	(0.3)	0.0	(0.3)
Loss before tax	**(10.3)**	**(2.6)**	**(12.9)**	**(8.8)**	**(3.9)**	**(12.7)**	**(14.4)**	**(53.5)**	**(67.9)**
Income tax expense	**1.9**	**(3.5)**	**(1.6)**	1.7	0.8	2.5	5.9	8.6	14.5
Loss from discontinued operations	**(8.4)**	**(6.1)**	**(14.5)**	**(7.1)**	**(3.1)**	**(10.2)**	**(8.5)**	**(44.9)**	**(53.4)**

9 Discontinued operations and assets held for sale (continued)

Discontinued operations (continued)

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.1m (H1 2019: £12.0m outflow) and £12.5m was received in respect of investing activities (H1 2019: £1.3m used). There were £11.4m (H1 2019: £0.7m) cash outflows associated with financing activities attributable to Discontinued Operations.

Assets held for sale

Tuffnells Properties held for sale

In January 2019 the Group took the decision to enter into a sale and leaseback arrangement for the Tuffnells freehold and long leasehold property portfolio and related assets with a net book value of £16.7m. These were reclassified as assets held for sale in January 2019 as they were considered to meet the definition.

During the year 8 of the properties were sold and leased back for a net consideration £14.6m, with lease commitments of £1.0m per annum.

The total impact of this disposal was to recognise £1.5m gain on disposal.

As a result of the sale of the final two properties on 7 November 2019, an impairment review was performed on the remaining properties as the bids received indicated that the one property was held at cost in excess of its fair value less cost to sell. As a result of this review, an impairment of £1.9m was recognised on this property.

Following the strategic review and conclusion of Tuffnells being held for sale on 29 February 2020, the remaining properties were considered to form part of the Tuffnells disposal Group and subsequently transferred from assets held for sale.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

9 Discontinued operations and assets held for sale (continued)

Assets held for sale (continued)

Held for sale

At 29 February 2020, the Tuffnells business unit was held for sale and included all its assets and liabilities. On 28 February 2019, the assets held for sale were the Tuffnells properties. The assets and liabilities held for sale were as follows:

£m	Period ending 29 February 2020	Period ending 28 February 2019	Year ending 31 August 2019
Assets			
Property, plant and equipment	12.3	16.7	-
Right of use assets	36.8	-	-
Inventories	0.6	-	-
Trade and other receivables	20.0	-	-
Total assets held for sale	**69.7**	**16.7**	**-**
Liabilities			
Trade and other payables	(22.2)	-	-
Lease Liabilities	(45.1)	-	-
Bank overdrafts and other borrowings	(10.1)	-	-
Provisions	(4.5)	-	-
Retirement benefits obligation	(1.9)	-	-
Total liabilities held for sale	**(83.8)**	**-**	**-**

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 netbook 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.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

10 Net Cash Inflow from Operating Activities

£m	26 weeks to Feb 2020	6 months to Feb 2019	12 months to Aug 2019
Continuing statutory operating profit	10.3	19.0	36.3
Discontinued operating loss	(11.8)	(12.6)	(67.6)
Operating (loss)/profit	**(1.5)**	**6.4**	(31.3)
(Gain)/Losses on disposal of property, plant and equipment	(1.5)	0.1	0.2
Impairment of Goodwill	5.7	-	-
Impairment of investments	0.3	-	-
Impairment of assets	2.6	-	45.5
Share of profits of jointly controlled entities	(0.2)	(0.3)	(0.4)
Pension funding	(0.7)	(1.2)	(1.2)
Depreciation of property, plant and equipment	1.4	3.8	6.9
Depreciation of ROU assets	8.0	-	-
Amortisation of intangible assets	1.1	4.8	9.2

Share based payments	0.2	0.2	0.2
(Increase)/Decrease in inventories	(1.3)	(3.2)	(2.8)
(Increase)/Decrease in receivables	(15.0)	2.1	5.3
Increase/(Decrease) in payables	13.2	4.4	(2.9)
Non cash pension and admin costs	0.2	0.1	0.4
Net income tax receipt/paid	0.3	(1.2)	(2.6)
Increase/(Decrease) in provisions	0.4	(4.5)	(3.5)
Net cash inflow from operating activities	**13.2**	**11.5**	**23.0**

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.1m (H1 2019: £12.0m outflow) and £12.5m was received in respect of investing activities (H1 2019: £1.3m used). There were £11.4m (H1 2019: £0.7m) cash outflows associated with financing activities attributable to Discontinued Operations.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

11 Intangible Assets

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

Tuffnells

The Group performed impairment testing in relation to the Tuffnells business unit as at 31 August 2019. This resulted in a value in use being determined for the Tuffnells business of negative £0.6m. As a consequence an impairment charge of £45.5m was booked at 31 August 2019. £32.8m of the impairment charge was against intangibles and was split between Goodwill £6.0m, acquired intangibles £26.4m and computer software £0.4m. The remainder of the impairment charge, of £12.7m was booked against property, plant and equipment. Details of the assumptions and sensitivities of this assessment are also included within the Company's Group PLC Annual Report and Accounts 2019.

DMD

The COVID-19 pandemic and the effects that had started to be seen on the airline industry by 29 February 2020 were considered an impairment indicator and a full impairment review has been performed on the Goodwill and other assets relating to this business unit. This is underlined by the difficult decision subsequently taken to suspend operations in the DMD business unit, until restrictions are relaxed.

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:

	DMD	
	H1 2020	FY 2019
Average plan revenue growth	2.0%	2.5%*1
Post tax discount rate	20.0%	10.5%
Pre-tax discount rate	37.8%	19.9%
Long term growth rate	0.0%	0.0%

* Return of 80% of the market followed by 2% growth

*1 Average growth of revenue relates to years FY2021-FY2023

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:

- No significant impact on trading as a result of the EU Exit or other political change;
- Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period.
- Return of the airline industry within 13 months of the date of publication and a return of contracts to 80% in the industries activity

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

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

11 Intangible Assets (continued)

Sensitivity to changes in key assumptions

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

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

DMD

The DMD CGU has a recoverable amount of £0.2m, this results in the full value of Goodwill being impaired any further deterioration of any of the above assumptions would have no impact on the value of Goodwill. A more optimistic outlook on the airline industry would result in a lower impairment given the current uncertainty this is not considered a reasonable scenario.

Summary

There are no material acquired intangible assets the breakdown of acquired intangibles and goodwill is as follows:

	Goodwill				Acquired Intangibles				Total			
£m	**On acquisition**	**H1 2020**	H1 2019	FY 2019	On acquisition	**H1 2020**	H1 2019	FY 2019	On acquisition	**H1 2020**	H1 2019	FY 2019
DMD	5.7	**-**	**5.7**	5.7	2.6	**-**	**-**	**-**	8.3	**-**	5.7	5.7
Smiths News	-	**-**	**-**	-	0.3	**-**	**-**	**-**	0.3	**-**	-	-
Tuffnells	52.1	**-**	**6.0**	-	58.1	**-**	**29.8**	**-**	110.2	**-**	35.8	-
Total	**57.8**	**-**	**11.7**	**5.7**	**61.0**	**-**	**29.8**	**-**	**118.8**	**-**	**41.5**	**5.7**
Other intangibles										**5.2**	5.6	4.4
Total Intangible assets										**5.2**	**47.1**	**10.1**

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

12 Cash and Borrowings

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

£m	**Sterling**	**Euro**	**USD**	**Other**	**Total 29 Feb 2020**	**At 28 Feb 2019**	**At 31 Aug 2019**
Cash and bank deposits	36.0	0.7	0.4	0.1	37.1	25.6	24.0
Overdrafts	(16.0)	-	-	-	(16.0)	(14.2)	(16.1)
Revolving credit facility	(28.0)	-	-	-	(28.0)	(36.0)	(30.0)
Term loan - disclosed within current liabilities	(49.5)	-	-	-	(49.5)	-	-
Term loan - disclosed within non-current liabilities	-	-	-	-	-	(49.1)	(49.3)
Total borrowings - continuing	(93.5)	-	-	-	(93.5)	(99.3)	(95.4)
Overdrafts - discontinued	(10.1)	-	-	-	(10.1)	-	-
Total overdraft and borrowings	(103.6)	-	-	-	(103.6)	(99.3)	(95.4)
Net borrowings	**(67.6)**	0.7	0.4	0.1	**(66.6)**	**(73.7)**	**(71.4)**
Total borrowings							
Amount due for settlement within 12 months	(103.6)	-	-	-	(103.6)	(50.2)	(46.1)
Amount due for settlement after 12 months	-	-	-	-	-	(49.1)	(49.3)
	(103.6)	**-**	**-**	**-**	**(103.6)**	**(99.3)**	**(95.4)**

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

In October 2017, the Group agreed bank facilities of £175m with a syndicate of six banks with a term which runs until January 2021. The facility comprises of a term loan of £50m with no amortisation and a revolving credit facility (RCF) for £125m. The £103.6m due for settlement within 12 months relates to the RCF, overdrafts and term loan, the right of offset is included within the Group's facility agreement and the net balance outstanding is £66.6m.

At 29 February 2020, the Group had £108.4m (28 February 2019: £89.9m) of undrawn committed borrowing and cash facilities in respect of which all conditions precedent had been met.

Analysis of net debt

	As at	**As at**	**As at**

£m	Feb 2020	Feb 2019	Aug 2019
Cash and bank deposits	37.1	25.6	24.0
Overdrafts	(16.0)	(14.2)	(16.1)
Cash and cash equivalents	21.1	11.4	7.9
Overdrafts - included within liabilities held for sale	(10.1)	-	-
Current borrowings	(77.5)	(36.0)	(30.0)
Non-current borrowings	-	(49.1)	(49.3)
Net borrowings	**(66.6)**	**(73.7)**	**(71.4)**
Lease liabilities*	(79.1)	(3.8)	(2.5)
Net debt	**(145.7)**	**(77.5)**	**(73.9)**

*The Group has applied the cumulative catch-up approach on transition to IFRS 16; as a result the finance lease liabilities have been replaced with lease liabilities (see Note 2). The Group's banking covenants are on a frozen GAAP basis. Bank Net Debt is net borrowings of £66.6m and finance lease liabilities of £1.4m to calculate Bank Net Debt of £68.0m (H1 2019: £77.5m).

The movement in net debt in the period includes £0.2m loan fee amortisation.

Connect Group PLC

Notes to the Condensed Unaudited Interim Financial Statements (continued)
For the 26 weeks to 29 February 2020

13 Leases

Amounts recognised in the Right-of-use assets

The balance sheet shows the following amounts relating to leases:

£m	Equipment & vehicles	Land & Buildings	Total
Cost:			
At 31 August 2019	-	-	-
Transition adjustment	21.9	51.9	73.8
Additions	0.4	5.3	5.7
Disposals	(0.1)	(1.2)	(1.3)
Classified as held for sale	(20.7)	(21.0)	(41.7)
At 29 February 2020	1.5	35.0	36.5
Accumulated depreciation:			
At 31 August 2019	-	-	-
Depreciation charge	(3.9)	(4.1)	(8.0)
Disposals	-	-	-
Impairments	-	-	-
Classified as held for sale	3.7	1.2	4.9
At 29 February 2020	(0.2)	(2.9)	(3.1)
Net book value at 29 February 2020	1.3	32.1	33.4

Amounts recognised in the income statement

£m	26 weeks to Feb 2020	6 months to Feb 2019	12 months to Aug 2019
Continuing operations			
Interest expense (included in finance cost)	0.9	-	-
Expense relating to short-term and low value leases (included in cost of sales and administrative expenses)	3.2	-	-
Discontinued operations			
Interest expense (included in finance cost)	1.1	-	-
Expense relating to short-term and low value leases (included in cost of sales and administrative expenses)	1.9	-	-

Amounts recognised in liabilities

£m	At 29 Feb 2020	At 28 Feb 2019	At 31 Aug 2019
Lease Liabilities			
Current	**(5.6)**	(3.0)	(2.2)
Non-current	**(28.4)**	(0.9)	(0.3)
Continuing operations	**(34.0)**	**(3.9)**	**(2.5)**
Discontinued operations	**(45.2)**	**-**	**-**
Total	**(79.2)**	**(3.9)**	**(2.5)**

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 September 2019, please refer to note 2.

14 Provisions

£m	Reorganisation provisions	Insurance and legal provision	Property provisions	Total
At 1 September 2019	(3.6)	(2.3)	(5.4)	(11.3)
Additions	-	(1.2)	(1.1)	**(2.3)**
Utilised in period	1.5	0.4	0.2	**2.1**
Released	-	0.4	-	**0.4**
Unwinding of discount utilisation	-	-	(0.1)	**(0.1)**
Transferred to liabilities held for sale	0.1	2.4	2.6	**5.1**
At 29 February 2020	**(2.0)**	**(0.3)**	**(3.8)**	**(6.1)**

£m	Feb 2020	Feb 2019	Aug 2019
Included within current liabilities	**(3.5)**	**(5.9)**	(7.3)
Included within non-current liabilities	**(2.6)**	**(4.1)**	(4.0)
Total	**(6.1)**	**(10.0)**	(11.3)

Reorganisation provisions is primarily in relation to redundancy costs that were accrued in the prior year as part of the Group's strategy to offshore its shared service centres, the transition had been announced prior to the year end.

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

15 Contingent Liabilities

The Group has a potential liability that could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC in 2006, any such contingent liability, which becomes an actual liability, will be apportioned between Connect Group PLC and WH Smith PLC in the ratio 35:65 (the actual liability of Connect Group PLC in any 12 month period is limited to £5m). The Group's share of such liability has an estimated future cumulative gross rental commitment at 29 February 2020 of £0.6m (31 August 2019: £0.8m).

16 Share Capital

(a) Share capital

£m	Feb 2020	Feb 2019	Aug 2019
Issued and fully paid ordinary shares of 5p each			
Opening balance at 1 September	12.4	12.4	12.4

Closing balance	12.4	12.4	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2019	247.7
At 29 February 2020	247.7

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

(c) Share premium

£m	Feb 2020	Feb 2019	Aug 2019
Opening balance at 1 September	60.5	60.5	60.5
Closing balance	**60.5**	**60.5**	**60.5**

17 Related Party Transactions

No related party transactions had a material impact on the financial performance in the period or financial position of the Group at 29 February 2020. There have been no material changes to or material transactions with related parties as disclosed in Note 33 of the Annual Report and Accounts for the year ended 31 August 2019.

Subsequent to the period end, following the sale of Tuffnells on 2 May 2020, Michael Holt, a current non-executive director of the Group and Executive Chairman of Tuffnells, is expected to continue to have an active role in the supervision or management of Tuffnells. Further, in addition to a service agreement with Palm Bidco Limited, providing for a salary and cash bonus entitlement, it is anticipated that Mr Holt will receive an entitlement, at nominal cost, to 5% of the equity in Palm Bidco Limited. Certain other members of senior management of the Tuffnells business are also expected to receive equity in the Purchaser by way of incentivisation for their future contributions aggregating to 25% of the equity in Palm Bidco Limited (in addition to the anticipated equity entitlement of Mr Holt).

Mr Holt declared this personal interest in the sale of Tuffnells to the Board in line with his statutory duties under the Companies Act and his obligations under the Company's Articles of Association. Following such declaration, the Board determined that, whilst Mr Holt would continue to have responsibility for the contents of this document and participate in discussions to ensure he is aware of his obligations and duties with regards the same, Mr Holt had and will remain subject to a conflict of interest in respect of the sale. In light of this, Mr Holt has not participated in the Board's decision to approve the sale or recommendation that shareholders vote in favour of it.

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2019 Annual Report. There have been no other material changes to the arrangements between the Group and key management personnel in the period.

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

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

	Feb 2020	Feb 2019	Aug 2019
Net increase/(decrease) in cash and cash equivalents	**13.2**	**2.7**	(0.8)
Dividend paid	**2.4**	**-**	-
Decrease/(Increase) in borrowings	**(8.0)**	**2.0**	8.0
Adjustment for pension funding	**0.7**	**1.2**	1.2
Net outflow on purchase of shares for EBT	**0.7**	**-**	**-**
Other	**0.1**	**(0.1)**	(0.1)
Total free cash flow	**9.1**	**5.8**	**8.3**
Discontinued free cash flow	**4.1**	**(13.6)**	(17.5)
Continuing free cash flow	**5.0**	**19.4**	**25.8**

19 Subsequent events

Disposal of Tuffnells

On 14 April 2020, a share purchase agreement was signed with Palm Bidco Limited to sell Tuffnells subject to shareholder approval. At the General Meeting on 1 May 2020 shareholders approved the sale and completion concluded on 2 May 2020. For more information see note 9.

The cash outflow from the Tuffnells business increased by £2.0m between the balance sheet date (29 February 2020) and completion of the sale. This additional outflow is as a direct result of the COVID-19 pandemic. Whilst this additional cash outflow does impact the total fair value of the business less costs to sell, it is considered a non adjusting event as the scale of the impact was not fully known at the balance sheet date with the UK not going into full lockdown until 23 March 2020. The Group are currently calculating the estimated profit or loss on disposal of the business.

COVID-19 Pandemic impacts

Smiths News Core

The Coronavirus pandemic and subsequent UK and international lockdown has significantly impacted the newspaper and magazine supply chain, with uncertain but material consequences for the Group's full year performance.

The Group is proud that Smiths News has been able to continue operations overcoming significant operational challenges to serve communities across the UK. Our colleagues have been designated as key workers and we pay tribute to their unstinting commitment to customers, their wider communities and each other.

Performance will nonetheless be impacted by the contraction of the UK economy and the newspaper and magazine market in particular. At its greatest, approximately 10% of our customers' retail outlets closed, including high-volume travel point and high street retailers. Consumer demand at retailers whose outlets remained open has also been impacted by social restrictions on movement and consequently reduced visits to local stores for regular and impulse purchases.

The physical operation is incurring additional costs from necessary changes to working practices to comply with social distancing guidelines and ensure the health, safety and welfare of our colleagues. There have also been additional costs in customer services following the heightened lockdown in India which impacted our outsourced service centre operations. Further, the deferment of the UEFA European Championship and the Olympics is expected to impact sales of stickers and albums in H2; as these are not annual events, we can expect a compensatory boost to sales in 2021

In response to the unprecedented events, we are taking responsible measures to reduce non-essential costs without impacting our distribution capability or damaging the long-term interests of the Group. These include changes to routing, the restructure of contractor and staffing arrangements, and the deferment of service improvement and longer-term cost initiatives that can be restarted at a later date. Approximately 500 colleagues in roles not critical to the physical operations have been placed on furlough to date.

DMD and Instore

The Group has taken the decision to temporarily close the operations and furlough all but a skeleton level of staff at both the Group's DMD business (which supplies global airlines and travel points) and the Group's InStore field marketing business.

Overall the exact financial effects cannot be quantified at this point in time.

Connect Group PLC

Glossary - Alternative performance measures

Introduction

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

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

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

Purpose

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

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

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

Connect Group PLC

Glossary - Alternative performance measures (continued)

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income Statement				
Adjusted Items	No direct equivalent	N/A	Note 4	Are items of income or expense that are excluded in arriving at Adjusted operating profit. This enhances users understanding of the Group's performance as it aids the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures,
Adjusted operating profit	Operating profit*	Adjusted items	Income statement/ Note 4	Adjusted operating profit is defined as operating profit from continuing operations, excluding the impact of adjusting items (defined above). This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted profit before tax	Profit before tax (PBT)	Adjusted items	Income statement/ Note 4	Adjusted profit before tax is defined as profit before tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted profit after tax	Profit after tax (PAT)	Adjusted items	Income statement/ Note 4	Adjusted profit after tax is defined as profit after tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted EBITDA	Operating profit*	Depreciation and amortisation Adjusted items	Page 11	This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and adjusting items. This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted earnings per share	Earnings per share	Adjusted items	Note 8	Adjusted earnings per share is defined as continuing adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.
Cash flow Statement				
Free cash flow	Cash generated from operating activities	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments	Note 20	Free cash flow is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchases and cash flows relating to pension deficit repair. This measure reflects the cash available to shareholders.
Free cash flow (excluding adjusting items)	Cash generated from operating activities	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments Adjusted items	Note 20	Free cash flow (excluding Adjusted items) is Free cash flow adding back Adjusted cash costs.
Balance Sheet				
Bank 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 as defined by IAS 17.
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.

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

Connect Group PLC

INDEPENDENT REVIEW REPORT TO CONNECT GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 February 2020 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Group Cash Flow Statement and the related notes to the Consolidated Unaudited Interim Financial Statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements, which indicates the current financing facilities expire in January 2021 and a refinance or extension is yet to be agreed. As stated in note 1, these events or conditions, along with other matters as set out in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 February 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

BDO LLP
Chartered Accountants
London, UK
12 May 2020

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

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