smiths news plc

Delivering every year, every day.

Annual Report and Accounts 2022

Welcome to our 2022 Annual Report and Accounts

Since 1792, Smiths News has been delivering the nation's newspapers.

Today we are the market leader in one of the UK's fastest-moving supply chains, using our experience and expertise to deliver a unique service to thousands of communities across the country.

Strong headline results

Adjusted Operating Profit £m

£38.1m

2022	38.1
2021	39.6

Free Cash Flow £m

£48.2m

2022	48.2
2021	24.0

Adjusted EBITDA (Excluding IFRS 16) £m

£40.7m

2022	40.7
2021	42.6

Bank Net Debt £m

£14.2m

2022	14.2
2021	53.2

Adjusted Profit Before Tax £m

£31.1m

2022	31.1
2021	30.9

Adjusted Earnings per Share p

10.8p

2022	10.8
2021	1.8

Statutory Profit Before Tax £m

£27.9m

2022	27.9
2021	30.6

Dividend per Share p

4.15p

2022	4.15
2021	1.65

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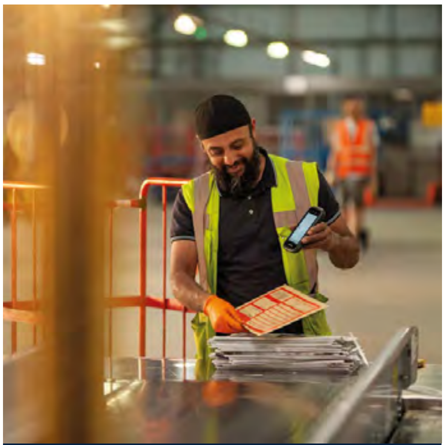
Our Business at a Glance

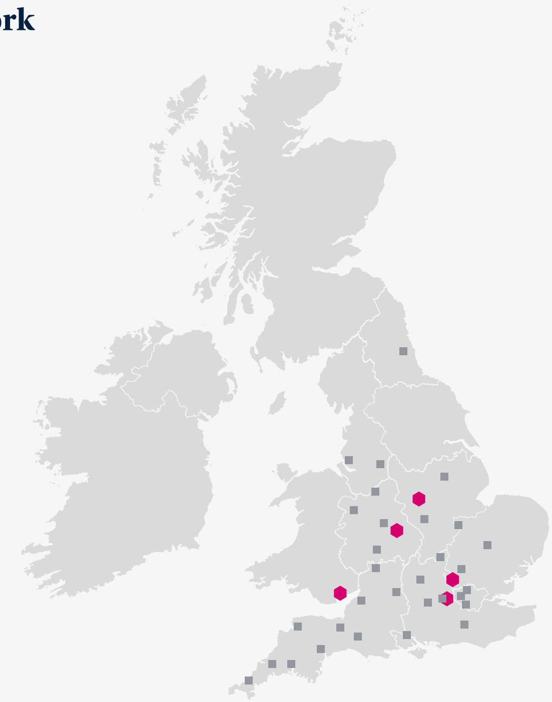


Smiths News plc is the UK's largest newspaper and magazine wholesaler, with 55% market share. Operating seven days a week, we supply approximately 24,000 retailers across England and Wales.

Our business model is founded on excellence and expertise, with competitive advantage derived from a combination of service quality, scale efficiencies and added value. These qualities underpin all our customer relationships, working to become an essential partner in their supply chains and business models, too.

Visit our new website on:
www.corporate.smithsnews.co.uk

Our network



Key
Hub
Spoke

What we do

Every day of the week, we deliver to thousands of communities across the UK, operating in the tightest of timescales, to ensure early morning distribution of the nation's newspapers and magazines. Combining scale, technology and know-how, we offer a comprehensive supply chain solution, with unmatched service to publishers and retailers.

Our market share and geographic coverage provides us with a unique insight into the news industry. We enhance this with complementary services that add value for customers and embed our role in the supply chain.

Our core market of newspapers and magazine distribution is characterised by:

- High-density, time-sensitive deliveries
- A fragmented customer base with wide variability in size and location
- The requirement to manage a complex and fast-moving product range
- Additional services that include returns processing, information management and demand forecasting

This combination of customer and product fragmentation requires an industry specialist, delivering efficiencies and services that other distributors cannot match.

Our hub and spoke network

Holding long-term contracts with all the major UK publishers, we operate in defined territories across England and Wales. With strong coverage of the majority of major conurbations, our network amounts to 55% market share.

Newspapers are served by 36 depots, ranging from large, round-the-clock 'super hubs' to smaller overnight distribution centres. Supplies arrive in the early morning and are picked, packed and delivered within only a few hours. We collect the previous day's unsold newspapers with the daily deliveries. These are then scanned for crediting and sorted for recycling. Publishers receive 'net sales' reports later in the day, allowing for speedy and efficient allocation of supplies and monitoring of demand patterns.

Magazines are packed and processed for delivery at four regional hubs. Supplies arrive during the day and are then shipped to the spoke depots, ready for distribution with that night's newspapers. Unsold magazine copies are collected and processed as soon as new editions come on sale, providing publishers with an immediate overview of sales and demand across the retail network.

More than deliveries

In addition to physical deliveries, we provide services that enhance our role and ensure costs are shared across the supply chain.

Our value add services include:

- Invoicing retailers for supplies and other services
- Forecasting sales and setting supply levels to agreed parameters
- Collecting unsold copies for credit and recycling, including EPoS-based returns for larger scale retailers
- Sales Based Replenishment linked to retailer EPoS systems
- Merchandising, product placement and other in-store and on shelf and promotional services

Embracing change for the good

Operating at the centre of our supply chains, we work with our industry partners to lead improvements to the environment, our marketplace and the communities we serve. In pursuing these goals, we embrace change and technology in ways that facilitate progress and meet the shared ambitions of our stakeholders.

Looking to the longer term, our sustainability programme is focused on those actions by which we can make the most tangible difference. For many years, we have been working to reduce our emissions and lead our supply chain in the adoption of practical solutions that seek to maximise efficiency. More recently, we have increased our efforts, setting challenging goals that guide the decisions we make today.

Safety is as essential to our culture as it is to our operations. We work to minimise risk, seeking to learn from any incidents and encouraging constructive challenge in the goal of continual improvement.

Focused on value

We are focused on delivering value for all our stakeholders.

For our suppliers and customers, we offer a shared route to market that operates to high standards but with low unit-cost. By leveraging our scale, knowledge and unique market insight, we then add services that would be difficult and costly for others to replicate.

For our investors, we are committed to delivering strong returns while meeting the capital needs of the business. With relatively predictable cash flow, we seek to ensure the payment of regular dividends without compromise to prudent financial management or the opportunity to invest in new opportunities for efficiency and growth.

Adjacent businesses

Our core news wholesale operation is enhanced by complementary businesses that leverage our knowledge, expertise and market leadership in the news industry.

DMD

DMD is a specialist supplier of printed and digital media to airlines and travel points in the UK and worldwide.

Instore

Instore works with retailers, suppliers and publishers, providing field-based merchandising and marketing, supply chain auditing and compliance solutions.

Martin Lavell

Martin Lavell is a leading corporate news distributor, supplying newspapers and magazines to corporate and public sector customers for the last 50 years.

A Letter from our Chairman

David Blackwood
Chairman

Underlying *performance* has *exceeded* market expectations

Dear Shareholder

I'm pleased to report that our underlying performance has exceeded market expectations and met the key objectives we had set for the delivery of shareholder value. The goals we have so tirelessly pursued – of service, efficiency, prudent capital management and growing shareholder returns – have underpinned our results, helped in no small part by a combination of advance planning and an adaptive response to tactical opportunities. That this has been achieved against a background of continued economic, social and political disruption speaks to the underlying strengths and characteristics of our business and its people.

> *It's abundantly clear that the people of our business have an exceptional commitment to the Company and its customers, taking pride in the difference they make every day.*

For more information on topics covered in this letter, see the appropriate chapters at the page numbers below.

Adjusted profit before tax of £31.1m is marginally ahead of last year (FY2021: £30.9m) and Adjusted earnings per share of 10.8p is flat on last year (FY2021: 10.8p). Adjusted Operating Profit was £38.1m, down 3.8% (FY2021: £39.6m) and free cash flow was £48.2m (FY2021: £24.0m). Statutory profit before tax from continuing operations was £27.9m, down by 8.8% (FY2021: £30.6m), a consequence of our best estimate provisioning of £4.4m, to cover the expected bad debt from the administration of McColl's Retail Group in May 2022. Bank Net Debt of £14.2m (FY2021: £53.2m) and average net debt of £49.9m (FY2021: £82.6m) confirms the positive transformation in the strength of the Company's balance sheet over the last three years.

In reviewing our performance, it's particularly relevant, this year, to consider the wider social and economic context of our markets and trading. It may seem a long time ago now, but as recently as autumn 2021 we were still emerging from COVID-19 restrictions and indeed had further setbacks to travel and work patterns from the Omicron variant in the winter – all of which had a direct impact on our sales and operations. The war in Ukraine, and particularly its impact on fuel and energy inflation, has added to the uncertainty just at the time we had all hoped for some respite.

Meanwhile, the wider cost of living crisis is squeezing consumer spending and threatening many businesses across the country.

And yet, demand for newspapers and magazines has remained relatively strong, with overall revenue down by only 1.8%, representing an improvement on historic trends, albeit with the first half benefiting from softer year-on-year comparatives. A combination of cover price rises and improved margin mix from the sales of one-shot magazines and stickers has further helped to mitigate the decline in volumes. While the structural decline in sales has certainly not gone away, the central point I believe we should take from our markets over the last two years is that, despite unprecedented pressures, they remain large and relatively predictable — qualities that go to the core of our business model.

Historically, that model has sought to make sustainable savings and efficiencies to offset any reduction in core sales. This year is no exception, but clearly, the impact of inflation has added further pressure to costs, requiring ever closer management, as well as a more adaptive approach to compensating revenue opportunities. In many ways, our success in generating new revenues is one of the most pleasing aspects of this year's performance.

Not only has the sum of these tactical gains made a welcome and ongoing contribution to our profits, their scope has also surfaced a range of latent opportunities to leverage our network and skill sets in the future.

To pursue these, it's vital that we enhance the culture and competencies of the business, acquiring the new skills and fresh perspectives that will be needed. This year, we have begun that process in earnest, working to supplement existing talents and ensure greater diversity, not only in gender and ethnicity, but also in background and commercial mindset. Integrating these talents into our organisation is a priority for the Board and Executive Team.

The refreshed approach to sustainability, which we launched in 2021, is a model we can learn from. At its inception, we rightly set ourselves a broad agenda, seeking to investigate all opportunities for improvement. This year, without compromise to our ambition, we have harnessed the insight and experience of our colleagues and industry partners to focus those goals on objectives that will most positively impact the future of both our business and the supply chains in which we operate. I believe this approach is to be commended, showing a commitment to industry leadership and making a tangible difference, while recognising that we make the most progress by looking out as well as in.

Taking just such a proactive approach is one of the reasons that in October 2022 we renewed three of our major publisher contracts, securing one third of our current newspaper and magazine revenues through to 2029. These agreements are critical to our business model, and though we have a long history of successful renewals founded on deep relationships, we are never complacent, and it is pleasing to have made such a strong start to the anticipated round of contract discussions.

Together with our improved financial strength and ongoing commitment to service and the supply chain, I'm confident that we will make equally constructive progress with other key publishers in due course.

Last year, in my report to shareholders, I reaffirmed the Board's commitment to the payment of regular dividends and the delivery of attractive returns. In December 2021, after carefully considering our trading performance and progress to financial goals, we extended and amended our banking agreements, increasing the annual cap on dividends and distributions from £6.0m to £10m. As a consequence, in May 2022, we announced an interim dividend of 1.4pence per share, up by 180% on the reinstated dividend of 0.5pence per share announced in June 2021. The Board has recommended a further and final dividend of 2.75pence (FY2021: 1.15pence), bringing the total dividend for the year to 4.15pence (FY2021: 1.65pence). Going forward, subject to performance, we remain committed to paying dividends up to the cap, while financing the investment needs of the business.

The Board also remains committed to maintaining a strong balance sheet, using positive free cash flow to meet the needs of all stakeholders. This year, we passed the milestone of reducing Bank Net Debt (ex. IFRS16 leases) to below 1X EBITDA, representing a reduction of over 73% on FY2021. As a consequence, the foundations of our finances are materially stronger, allowing for greater flexibility in our ambitions and investments as we seek to build on the progress of the last three years.

Looking ahead, the inflationary headwinds we anticipated last year have not eased. This remains our most immediate challenge, compounded by the impact of rising prices on consumer confidence. We are, however, well placed to meet the task of containing costs, with a wealth of experience in managing our core operations tightly.

The Board also remains committed to maintaining a strong balance sheet, using positive free cash flow to meet the needs of all stakeholders.

As always, we will pursue every opportunity but be resolute in protecting our service and long-term capability. In parallel, we will continue to seek new revenue from opportunities that dovetail to our current operations and, ideally, add value to our role in the supply chain.

I'm confident that we will succeed. Not least because it's abundantly clear that the people of our business have an exceptional commitment to the Company and its customers, taking pride in the difference they make every day. It is their efforts, in going the extra mile, that has seen us through a uniquely challenging period, embracing change and, ultimately, emerging stronger. I am grateful too for the support of my colleagues on the Board and to our excellent working relationship with CEO Jonathan Bunting and the Executive Team.

In closing this annual review, I'm mindful of the uncertainty that all businesses are facing and conscious that progress should never be taken for granted. Nonetheless, as I reflect on all that's been delivered, and the transformation of our fortunes during my tenure to date, I'm heartened by our prospects and look forward with confidence and conviction.

David Blackwood
Chairman

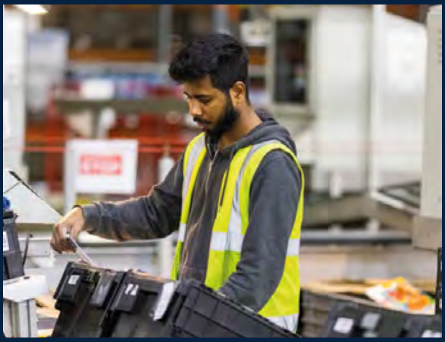
8 November 2022

Strategy and Business Model

Our strategy is founded on being the UK's ***leading news wholesaler***, delivering a comprehensive service to publishers and retailers ***every day of the year***. In addition to physical distribution, we ***add value*** through a range of services that support enhanced margins and increasingly offer ***opportunity*** for ***expansion*** and additional revenue streams. With an ***unwavering commitment*** to our customers, our experience and expertise underpin a ***uniquely efficient*** business model that supplies thousands of communities across the UK.

Driving Forces

The model is powered by parallel drivers that balance the needs of all stakeholders:



Performance drivers

Performance drivers ensure we deliver a high-quality service, distribution efficiencies and added value to our suppliers and customers. Benefiting the supply chain as a whole, they support a positive feedback loop which reinforces our long-term partnerships and helps to renew future contracts.

Value drivers

Value drivers support the underlying trading and financial characteristics of our model. These include our long-term contracts, diversified income streams and predictable cash flows. Managing our value drivers closely provides the necessary confidence to support investment in the other areas of our business model.

Adaptive drivers

Adaptive drivers explore new opportunities that are rooted in our relationships, capabilities and strengths. We have worked hard to introduce a more agile approach that's consistent with our values and which leverages the skills and talents of our people.

With 55% market share, we are the largest player in what is a highly specialised operation. Operating with exclusive area contracts, we have long-term relationships with all of the UK's major publishers, providing a shared route to market which adds further value through the provision of services that are complex and costly for others to replicate.

Read more about our drivers on the ***following page***

Operations and services

As the UK's largest newspaper and magazine wholesaler, we visit approximately 24,000 news outlets every day, delivering their supplies in the tightest of time windows. Holding exclusive area contracts, we have long-term relationships with all of the UK's major publishers, providing a shared route to market that is efficient, reliable and essential to their reaching consumers and communities across the country.

But our business is founded on much more than daily deliveries.

For, in addition to physical distribution, we provide a range of value adding services to both our suppliers and customers. These include: category management, returns processing, waste reduction, invoicing, auditing and merchandising. By removing complexity and cost for customers, we become partners in their operating model and are able to invest with confidence, working with them to improve and adapt to changing circumstances. Our smaller ancillary businesses further leverage our category expertise and customer relationships in adjacent markets.

Although the UK's newspaper and magazine market remains large, they are challenged by the gradual structural decline of sales volumes. This means that to maintain and grow our profitability, we must find a combination of efficiency savings and new revenues that offsets the impact of reduced core sales.

In pursuing this goal, we are aided by the scale of our operation, the relative predictability of our sales and costs and the security afforded by long-term contracts. These underlying characteristics not only allow us to take a long- term perspective on costs and benefits, they also give good visibility of potential fluctuations in our profit and cash flow, allowing us to plan accordingly.

Looking ahead, we are constantly evolving our processes and services to meet customer needs, and indeed we have worked hard to implement a more agile approach and culture. In particular, we are attentive to the potential for new revenue opportunities which dovetail with our core skills and infrastructure.

From a financial perspective, we aim to deliver attractive returns to shareholders, underpinned by strong and relatively predictable cash flows. We take a balanced approach to capital management, paying attractive dividends while working to reduce net debt and investing to meet the needs of the business.

Strategy and Business Model *continued*

Our business model

Our business model is characterised by a compelling combination of outstanding service, scale efficiencies, market expertise and value adding services. It is shaped by the needs of our customers, and tightly aligned to our mission and strategy. In benefiting the supply chain as a whole it supports the delivery of sustainable returns.

Founded on service
The quality of our service is the base from which we build further value. By operating to high standards, we are enjoined with our suppliers and customers, becoming essential partners in their success.

Shaped by customers
Our trading relationships are sustained by our specialist service, scale efficiencies and the removal of complexity for our partners across the supply chain. By working together to explore value adding solutions, we move up the value chain in a way that supports greater returns for all.

Aligned to goals and strategy
Our goals and strategy are fully aligned to the business model. Its performance and value drivers are critical to our core goals, while our adaptive approach to new opportunities helps close the loop between present performance and future objectives.

Performance drivers

1 Outstanding service
News wholesaling operates to uniquely challenging and ultra time-sensitive performance metrics. Using scan-based technology, we measure the entire product journey from arrival at our depots to delivery to the stores of our customers, and the return and recycling of unsold copies. Our focus on service excellence and stretching KPIs ensures that we meet publisher and retailer requirements across the supply chain and, in doing so, minimise waste and rectification costs.

2 Scale of efficiency
By consolidating deliveries in one shared service, our publishers and retailers benefit from a uniquely efficient route to market. We plan routes for maximum efficiency within our delivery time windows, consolidating newspapers and magazine supplies, and collecting unsold copies at the same time as deliveries. Our model is founded on continual efficiency improvement, and we have a strong track record of combining service excellence with efficiency, to deliver regular cost savings that seek to offset the decline in core sales revenues. We also work with supply chain partners to improve their efficiency; examples include EPoS-based returns and sales-based replenishment for retailers and supply forecasting with our publisher partners.

3 Network
Our integrated network is core to the efficiency of operations. We continually evaluate opportunities to configure and consolidate in ways that drive efficiency and service improvements. With long-term contracts and defined geographic territories, we are able to plan ahead with confidence, investing in facilities that keep our network at the leading edge of the industry.

4 Leading technology
Our bespoke IT systems are critical for every aspect of our operations, from the allocation of supplies to the processing of returns and forecasting of product demand for the future. Customer experience is similarly supported, with both online and call centre technology that provides a comprehensive communication, sales and invoicing platform. We are committed to having the best technology to support our publishers and retailers, enabling a sharing of costs across the supply chain.

5 Additional services
Our adjacent services add further value to publishers and retailers, embedding our role in the supply chain. In addition to daily deliveries, we collect and process unsold copies, providing near to real time sales and marketing data. Our unique view across the entire product range is enhanced by intelligent information systems, enabling us to forecast and swiftly respond to variations in demand. Larger retailers benefit from sales-based replenishment services linked to their EPoS data, minimising stock holding in store and responding dynamically to consumer demand.

Value drivers

6 Long term contracts

We have long term contracts with all the UK's national publishers and the majority of regional press in our territories. These provide the high levels of cash flow certainty that support investment, while 'sharing' the route to market in a way that facilitates cost and process efficiencies. Our contracts provide the stability and surety of tenure that facilitate the pursuit of efficiencies and support investment in our network and technology.

7 Predictable revenue streams

Our income is derived from a combination of margin from products sold and delivery service charges, which mitigate the impact of any fluctuations in direct delivery costs. In addition, we receive income from the recycling of unsold copies of magazines.

With wide distribution coverage, our revenues are spread across many publishers and retail customers, and our total market coverage means that while volumes often vary between titles, overall sales are relatively predictable.

8 Positive cash flow

Our business model benefits from positive and relatively predictable cash flow. The turnover of products is swift with minimal stock holding – supplies are received on a sale or return basis, again limiting cash risk. The careful planning of capital expenditure, together with our prudent approach to capital management, ensures the consistent delivery of positive cash flow.

9 Sustainable partnerships

Our commitment to the long-term success of news wholesaling means we have deep and lasting partnerships with our suppliers and customers. We believe in doing the right thing not only for our business but for the supply chain as a whole. By setting high standards, we improve our capability and encourage our partners to do likewise. We believe that by working responsibly together, we are best placed to find solutions to challenges such as reducing our impact on the environment or serving remote rural communities in an efficient way.

10 Agile development

We strive to build incremental revenues and respond swiftly to tactical opportunities in our markets. In doing so, we have worked hard to introduce a more agile approach that's consistent with our values and leverages the skills and talents of our people. Moving from ideation to test, review and adoption (or discard), we are primarily focused on opportunities that are rooted in our relationships, capabilities and strengths.

What makes us different →

Our core strengths

Market leadership

With 55% market share, Smiths News is the market leader in newspaper and magazine wholesaling and the benchmark of quality and innovation in the industry. Our specialised service is backed by technology and added value extras that more generic distributors cannot replicate.

Logistics expertise

We deliver in ultra-time sensitive windows, visiting around 24,000 outlets from small shops to major supermarkets, every day of the week. As a result, our last mile distribution is among the most dependable and far reaching of any UK logistics operation.

Scale efficiency

Our network depots underpin scale efficiencies that are the foundation of shared route to market for all the UK's major publishers. And in providing a category-wide service for both deliveries and returns, we reduce cost and increase efficiency for retailers, too.

Service excellence

The quality of our service is core to our offer. We operate to high standards of accuracy, tracking every step of the process and measuring performance to a granular level that drives continual improvement.

Value add

We offer a total marketing solution that encompasses, among other services: demand forecasting and supply allocation, physical deliveries, returns collection and recycling, invoicing and crediting, merchandising and promotion. These services not only add value to our partners they also enhance our role and discourage disintermediation in the supply chain.

Non-Financial Key Performance Indicators

Non-financial KPIs reflect the core performance measures of Smiths News and its service to customers and industry partners. Additional measures include our attention to workplace safety, engagement and customer satisfaction.

The Board has reviewed the non-financial KPIs, adjusting and increasing the range of measures, to ensure they encompass the primary needs of our stakeholders. Changes for non-financial measures in FY2023 include the adoption of: Required Delivery Time; Health & Safety lost time incidents frequency rate; and our Customer Satisfaction score. Changes for financial measures include the adoption of Average Net Debt (replacing Bank Net Debt) as the most appropriate measurement of the Company's borrowings.

An analysis of the Company's financial and non-financial performance, including discussion and explanations of year-on-year movements, can be found in the various sections of Strategic Report on pages 2 to 57.

Non-financial KPIs

Customer pack accuracy (%)

99.7%

	%
Target	98.0%
FY2022 actual	99.7%
FY2021 actual	99.7%
FY2020 actual	99.3%
FY2019 actual	99.3%

Why do we measure this?
Pack accuracy ensures customer supplies and invoicing are aligned, minimising queries and administrative corrections.

Link to strategic drivers
1 2 3 4 9

Required delivery time (%)

92.4%

	%
Target	90.0%
FY2022 actual	92.4%
FY2021 actual	95.1%
FY2020 actual	96.8%
FY2019 actual	95.8%

Why do we measure this?
Arrival at the scheduled time is a key service measure for customers and publishers, and aligns to our contractual obligations.

Link to strategic drivers
1 2 3 4 6 9

Health and Safety (Lost time incidents per 100k hours) (No.)

0.25

	No.
FY2022 actual	0.25
FY2021 actual	0.32

Why do we measure this?
Lost time incidents frequency rate (per 100,000 hours). We measure 'lost time incidents' as the most comprehensive and accurate capture of reportable occurrences that impact our operation. By measuring these as a percentage of operating hours, we can benchmark to other organisations and allow for growth or contraction of our activities.

Link to strategic drivers
1 3 6 9

Health and Safety RIDDORS (No.)

2

	No.
FY2022 actual	2
FY2021 actual	11
FY2020 actual	7
FY2019 actual	7

Why do we measure this?
We monitor RIDDORS to learn from every major incident, ensuring we take action to reduce the possibility of recurrence.

Link to strategic drivers
1 3 6 9

Returns collections %

97.3%

Target	98.0%
FY2022 actual	97.3%
FY2021 actual	98.4%
FY2020 actual	98.2%
FY2019 actual	98.0%

Why do we measure this?
Daily returns collections ensure that sales data (supplies minus returns) is processed within tight time windows, supporting sales forecasting and accurate invoicing.

Link to strategic drivers
1 2 3 4 5 6 8 9 10

Returns processing accuracy %

99.96%

Target	99.5%
FY2022 actual	99.96%
FY2021 actual	99.9%
FY2020 actual	99.9%
FY2019 actual	99.9%

Why do we measure this?
Unsold copies are credited to customers, so accuracy is vital for credits and invoicing to both retailers and publishers.

Link to strategic drivers
1 2 4 5 6 9 10

Colleague engagement (Net promoter score)

7.0

Target	7.0
FY2022 actual	7.0
FY2021 actual	7.0
FY2020 actual	6.0

Why do we measure this?
Working productively together is central to our values. The engagement of colleagues underpins our performance at every level of the business. From FY2022, we measure an average across all pulse surveys.

Link to strategic drivers
1 5 6 9 10

Customer satisfaction (Net promoter score)

27

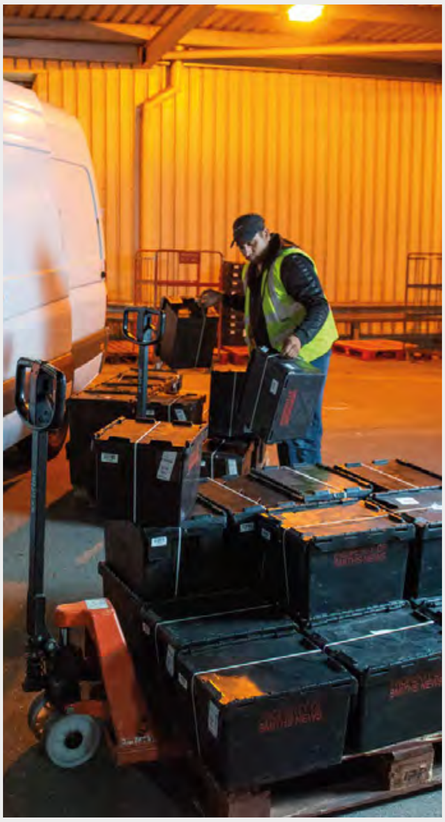
Target	25
FY2022 actual	27
FY2021 actual	28

Why do we measure this?
Surveying a statistically representative selection of 300 customers every month, we track our service performance across a range of factors to ensure quality, accuracy and timeliness of deliveries. The net promoter score is an annual average of the overall headline indicator.

Link to strategic drivers
1 2 3 4 5 6 7 9

Securing sustainable efficiencies will remain an essential element of maintaining our profitability. That our markets are large and their sales patterns relatively predictable helps us to plan accordingly. For many years our approach has been to adjust our operations in line with falling volumes, working across the supply chain to find efficiencies without compromise to service. These foundations of our business model will not change.

➤ Read more in my CEO Review on ***pages 18 and 19***



Financial Key Performance Indicators

Financial KPIs

Total statutory revenue £m

£1,089.6m

Why do we measure this?
Statutory revenue measures the extent to which core sales and other revenues are within our planning assumptions and longer-term strategic forecasts.

Adjusted EBITDA (pre-IFRS16 leases) £m

£40.7m

Why do we measure this?
This measure is based on 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 operating profit* £m

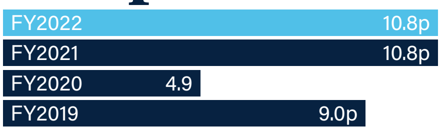
£38.1m

Why do we measure this?
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 will be the key management incentive metric for FY2023.

* From FY2023 onward, this will replace Adjusted EBITDA (excluding IFRS 16) as our primary measure of underlying profit performance.

Earnings per Share p

10.8p



Why do we measure this?
Earnings per share measures the profit per share of the Company and is used by investors when comparing performance to other similar businesses.

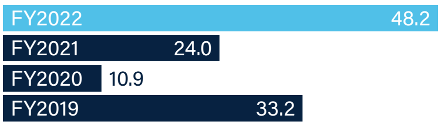
Adjusted earnings per Share p

9.8p

Why do we measure this?
Adjusted earnings per share measures the profit per share of the Company, excluding the same adjusted items as in Adjusted Profit Before Tax.

Free cash flow £m

£48.2m



Why do we measure this?
Free cash flow measures the cash available to the business, which can be used for investments, dividends and the reduction of debt.

Dividend per Share p

4.15p

Why do we measure this?
Dividend per share measures the profit per share of the Company and is used by investors when comparing performance to other similar businesses.

Adjusted profit before tax £m

£31.1m

FY2022	31.1
FY2021	30.9
FY2020	27.9
FY2019	37.6

Why do we measure this?
Adjusted profit before tax measures the profitability of the Company, excluding significant and non-recurring one-off costs, including those not related to the Company's ordinary activities.

Statutory profit before tax £m

£27.9m

FY2022	27.9
FY2021	30.6
FY2020	14.8
FY2019	30.3

Why do we measure this?
Statutory profit before tax measures the absolute profitability of continuing operations after any disposals.

Average Net Debt £m

£49.9m

FY2022	49.9
FY2021	82.6
FY2020	98.6
FY2019	112.0

Why do we measure this?
Average Net Debt impacts the level of interest we pay, and is the measure which most accurately reflects the ongoing borrowing of the Company as it removes the potentially misrepresentative influence of period end variations caused by publisher and retailer payment schedules.

Bank Net Debt £m

£14.2m

FY2022	14.2
FY2021	53.2
FY2020	79.5
FY2019	73.9

Why do we measure this?
Bank Net Debt impacts the level of interest we pay and is a covenant measure of our financing agreements.

The Company continues to generate good underlying profit and free cash flow, which together with the benefit of one-off cash items has reduced period end net debt to £14.2m (FY2021: £53.2m) and enables dividends of £10m to be proposed for the period.

➤ Read more in the financial review on ***pages 36 to 39***

Stakeholder Engagement

Stakeholder engagement is a priority for the Board.

In its decision-making, it seeks to consider the views of all relevant parties, founded on an understanding of their aspirations and concerns in relation to our policies, performance and strategy.

Engagement with stakeholders is conducted by both the Board and the Executive Team. Outcomes are discussed together, ensuring a common understanding of all stakeholder positions that balances any competing interests and takes account of the various views when making decisions.

Our engagement with stakeholders is focused on, but not limited to, five groupings which are described below. While we appreciate that, strictly speaking, the environment is not a stakeholder in its own right, we believe that, given the increased focus on this area across all traditional stakeholder groups and the focus of Section 172 of the Companies Act 2006, it best explains our engagements and the impact on the decisions taken by the Board, to include the environment as a stand-alone stakeholder. While these represent the mainstream of our activity, the Board is aware that from time to time other stakeholders may have an interest in our activities and will always try to consider the wider impact of the Company's activities. An example of this wider engagement would include our liaison with the Department for Digital, Culture Media & Sport during the COVID-19 pandemic, to ensure that the distribution of newspapers and magazines was identified at the time as being one with key workers.

Key stakeholder engagements and their impacts

The following text sets out a summary of the engagements with our key stakeholders which the Board has undertaken during the year.

Shareholders and Funders

The Company's shareholders include large institutions, as well as individual investors. Over 73% of our issued shares are held by ten shareholders, with 50% held by our largest four. We engage directly with these leading shareholders, holding face-to-face meetings after both the full-year and half-year financial results, as well as ad hoc meetings at their request or in the event of a material development in the business's activities. Our presentations to analysts and lenders are made available on our website, with audiocast recordings of the supporting commentary and questions.

Our banking agreements are held with a syndicate of four lenders. We engage regularly and directly with our relationship partners at these lenders and conduct reviews of our performance, to ensure they are kept abreast of our performance, plans and progress.

Risk

- Macroeconomic uncertainty
- Changes to retailers' commercial model
- Growth & Diversification

What is important

- Financial stability and investment returns
- Long-term sustainability
- Corporate responsibility
- EPS and TSR
- Free cash to support distributions and amortisation payments under our senior financing arrangements

Why are they important

- Stakeholder confidence
- Ongoing investment and financial stability
- Reputation
- Share price growth

How we engage

- Annual Report
- Periodic RNS announcements and published trading statements
- Shareholder engagement on certain resolutions presented to our 2022 AGM
- One-on-one engagement with our largest shareholders, specifically around the Directors' Remuneration Policy and, separately, in considering the merits of different distribution programmes. These one-on-one engagements were supplemented with investor roadshows and ad hoc meetings, with contact made with our largest institutional shareholders, representing approximately 74% of our share capital
- Receipt of corporate broker reports, providing coverage of investor and market sentiment, economic projections and share price performance
- Lender engagement on, and following, the refinancing of the Company's senior financing arrangements in December 2021
- Formal presentations to institutional shareholders, analysts, lenders, and current and prospective retail shareholders. The Smiths News website (*www.smithsnews.co.uk*) is a source of information for all shareholders, including retail investors, and is a central repository of regulatory news and announcements, and where both financial and non-financial reports are published

Impact on decision-making

- Determine shareholder views on different distribution programmes (dividends vs share buy-backs for instance)
- Successful refinancing of the Company's senior finance agreement
- Consultation on Directors' Remuneration Policy pending shareholder vote at our AGM in 2023

Suppliers and customers

We hold contracts with all the national publishers/distributors in the United Kingdom, as well as a significant proportion of regional publishers across our territories. Aside from our daily operational relationships with these parties, we also engage through account managers and director-level reviews and discussions. As a wholesaler providing a shared 'route to market', we discuss and agree improvements to the supply chain that seek to balance the interests of, and benefits to, all parties.

With circa 24,000 customers, we supply the full spectrum of news outlets from large supermarkets to high street retailers and independent stores. The largest multiple retailers account for over 50% of our sales revenue, however all customers are important to ensuring widespread and universal availability across our territories. Independent retailers, for example, are essential to maintaining home news delivery services.
As with publishers, we manage engagement through a combination of account management and director-level reviews. In addition to individual customers, we have strong relationships with the Federation of Independent Retailers (formerly the National Federation of Retail Newsagents), representing independent and smaller retailers.

We also engage circa 700 self-employed distribution contractors who support our operations and deliver daily to our customers.

Risk

- Macroeconomic uncertainty
- Legal & Regulatory compliance
- Changes to retailers' commercial model
- Growth & Diversification
- Sustainability & Climate Change

What is important

- On time, efficient distribution
- On time payment
- Corporate responsibility and ethical trading
- Revenue security
- Sustainability and ESG

Why are they important

- SLA and industry compliance
- Mitigation of financial penalties or redress
- Reputation
- Long-term security of revenue
- Positive community impact and security of contract delivery network

How we engage

- Continued the rollout of the EPoS-based returns system with our grocer customers
- Engaged with customers on proposed delivery service charge increases in light of the inflationary headwinds being faced in the reporting period and mindful of its impact on the sustainability of the news and magazine category
- Engaged with certain publishers on their expectations and requirements for the next publisher contract round (the first contracts of which have now been renewed, representing 35% newspaper and magazine sales revenues), in order to understand potential tender timelines, requirements and expectations
- Engaged with publishers on their own sustainability agenda, providing data on the supply chain's environmental footprint
- Engaged with retailers and publishers on home news delivery, looking to promote the sustainability of this service in the face of a continued decline in the numbers of retailers offering a delivery service
- Engagement with our delivery network partners around ad hoc service issues, network rationalisation and rising fuel prices

Impact on decision-making

- Continued the rollout of the EPoS-based returns system with grocer customers, resulting in enhanced category efficiency
- Consulted with customers on delivery service charge increases and its impact on category sustainability
- Determination of publishers' tender timelines, requirements and expectations for the next contract round (which led to the successful securing in October 2022 of new contracts with Frontline/Seymour and Associated Newspapers through to 2029)
- Support to publishers through the provision of sustainability data on the supply chain's environmental footprint
- Promoted the sustainability of the home news delivery service
- Established a direct-marketing strategy
- Supported rate reviews payable to delivery service partners

National Colleague Engagement Forum

The Board continues to assess its approach to engagement within the workplace, mindful of the UK Corporate Governance Code measures. It remains the Board's view that the dedicated focus of a designated non-executive director (Michael Holt) to workforce engagement is the best means for effective colleague engagement at Smiths News. To this end and building on the lessons of the last two years, this year we have refreshed our National Colleague Engagement Forum, which is a representative group drawn from across the business. This group meets regularly with Michael Holt (the designated non-executive director), who in turn reports issues raised at the Forum to the Board. More details on the nature of the engagements and outcomes can be found in the Corporate Governance Report on page 58.

Key issues discussed and action taken in the year included the introduction of published fair pay principles for colleagues; the commitment and scope of capital expenditure investments to be made across our locations; the merits of and issues arising from the launch of benefits roadshows to colleagues to ensure that, in the current economic climate, colleagues have a good understanding and ability to access all benefits available to them; and the sharing of plans to introduce technology assets at our locations, to help colleagues access literature and relevant information where they may not otherwise have tools to access such information or training resources.

Designated Workforce Engagement Director

The remit of the designated Workforce Engagement Director includes:

- Gathering the opinions of a broad cross section of our workforce
- Seeking to understand the concerns and views of our workforce and articulating these to the Board
- Ensuring that appropriate steps are taken to consider the impact of proposals and developments on our workforce
- Where appropriate and relevant, providing operational and commercial updates and feedback from the Board to our workforce

More generally, the role continues to be a critical link in our communication and feedback chain.

Stakeholder Engagement *continued*

Colleagues

The Company employs over 1,500 colleagues operating from 36 distribution centres throughout England and Wales, as well as central support locations in Swindon, Worcester and Wednesbury. We use a range of engagement mechanisms, including in-house communications, engagement surveys, colleague forums, all-colleague intranet, management conferences, town hall meetings and staff briefings.

In addition to our colleagues, we have outsourced certain service functions to a Shared Service Centre (SSC) comprising circa 160 outsourced colleagues based at two sites in Noida and Pune (India). The SSC provides customer service, technology, SAP master data management and finance back office services. We liaise with, and carefully consider the interest and views of, these support service providers. Colleague engagement, as well as reward and recognition, remain at the centre of maintaining our outsourced colleagues' sense of belonging within the wider business.

Risk

- Acquisition & Retention of labour
- IT infrastructure & Cyber Security
- Growth & Diversification
- Sustainability & Climate Change

What is important

- Job security
- Job satisfaction
- Remuneration and benefits
- Consultative and transparent engagement and processes
- Safe and healthy environment
- Sustainability and ESG

Why are they important

- Workforce satisfaction
- Productivity
- Ability to attract, motivate and retain staff
- Regulatory compliance

How we engage

- Engagement forums:
  - Local and national Colleague Engagement Forum attended by a designated non-executive director (this structure and process was refreshed during FY2022)
  - Management-led specialist Colleague Consultation Forums to provide a platform for formal consultation on employee related matters
  - Remuneration-focused colleague engagement undertaken by the Remuneration Committee chair to discuss policy and director and wider workforce pay
  - Virtual 'Town Hall' meetings hosted by the Executive Team, including video recordings, to ensure that all colleagues can access them at any time of the day, regardless of shift pattern
- Quarterly newsletters ('Our News') in physical and electronic formats
- Pulse quarterly engagement surveys, with outcomes reviewed by the Board, to inform action planning, priorities and impact on future decision-making (see People report on page 30)
- Introduced D&I survey and updated D&I strategy and targeted actions
- Policy and Compliance steering committee, consulting on key policies and regulatory matters which may affect colleagues
- Launched a new intranet (SmithsZone), enabling two-way communication with all colleagues
- Regular Mental Health allies' meetings

Impact on decision-making

- Introduction of fair pay principles, following colleague forum input and views
- Relaunch of Extra Mile colleague-recognition awards, ensuring easier digital access, fairer distribution of awards and simplified processes
- Hardship fund expanded to a more general colleague support fund, not exclusively related to COVID-19 related hardship
- Further training of mental health allies across underrepresented parts of the business
- Launched benefits and payroll roadshows, educating and supporting colleagues
- 'Love to shop' vouchers issued to colleagues not part of formal benefits package, in order to recognise their important contribution to business performance
- Launch of the leadership apprenticeship programme, driven from pulse engagement survey results
- Externally conducted diversity and inclusion audit, identifying key action areas across recruitment, learning and communication

Community

With 55% market share we serve thousands of local communities across the UK, ensuring newspapers and magazines are widely and easily available to all. While our service is sometimes regarded as 'business as usual' at times of crisis or severe weather, its importance and impact on communities comes to the fore.

Smiths News is a critical component and active participant in the news industry community, supporting the sector through its NewstrAID charity. More recently, the Company has been active in helping to address the issues and challenges of homelessness which our distribution colleagues witness on the streets. In 2021, our 'Pass it On' initiative became an independent registered charity, and we continue to be its chief sponsor.

Risk

- Growth & Diversification
- Sustainability & Climate Change

What is important

- Social responsibility
- Community health and wellbeing
- Sustainability and ESG

Why are they important

- 'License to operate'
- Reputation
- Community support
- Regulatory compliance

How we engage

- Ongoing financial and operational support to the charity 'Pass It On' as its anchor sponsor
- Individual/ team support in partnership with external charities to support causes such as the industry charity NewstrAid, through workplace flexibility, publicity and financial support
- Consideration of local businesses when sourcing goods and services.

Impact on decision-making

- Community charity initiatives, including Pass It On supported
- Enhanced local supplier inclusion within procurement tender processes

Environment

As a physical distributor our environmental impact is most significantly influenced by our vehicle emissions. Other key impacts include energy consumption, waste disposal and the recycling of product and packaging.

The Company is conscious that our plans and performance have a direct impact on the environmental footprint efficiency of the supply chain as a whole, meaning our actions have particular relevance to our industry partners. As such, we work closely with our supply chain partners to find alignment and measures that maximise the positive impact of our combined actions.

Risk
- Legal & Regulatory Compliance
- Sustainability & Climate Change

What is important
- Environmental sustainability
- Social responsibility

Why are they important
- Long-term sustainability
- Reputation
- Community support
- Regulatory compliance

How we engage
- Sustainability strategy developed and formation of the Sustainability SteerCo
- Sustainability (incl. TCFD) reporting to the Board as a quarterly agenda item
- Environmental impact assessments – base-line information established
- Engaged with large retail customers, as well as newspaper and magazine publishers, to better understand their sustainability agenda and the role we play in its delivery and to share our sustainability strategy
- Shared and sought feedback on the Company's supplier code, ethical trading policy and Modern Slavery Statement
- During the review period, the Company has commenced a more formal engagement process with ESG rating agencies and investor-led assessment initiatives, to keenly demonstrate progress made in this area and to assist in identifying areas of improvement and opportunities for enhancement

Impact on decision-making
- TCFD report produced
- Sustainability strategy developed, with 'SMART' objectives and measurable KPIs
- All registered suppliers signed up to our Supplier Code and Ethical Trading policies
- Modern Slavery questionnaires issued to suppliers and audit in progress
- Sustainable Procurement Policy published
- Commenced data collection to fully understand news and magazine supply chain footprint

Statement from Michael Holt →

Director for Workforce Engagement

I have been pleased this year to be able to re-connect in person with colleagues after the unique challenges presented by COVID-19. That said, I have also appreciated the ability to engage more widely through the virtual meetings that are common practice in many organisations.

And through those discussions it became apparent that COVID-19 had, rightly at the time, led us to be more focused on addressing immediate challenges. As the pandemic recedes and after reflection on the challenges and opportunities ahead, we have revitalised our Colleague Engagement Forum specifically to ensure more diverse representation of members from across all areas of the business. I have considered colleague feedback on the quarterly employee pulse survey, in order to better understand the drivers and sentiment behind the results and, drawing on input from multiple sources, this has helped shape the discussion when workforce engagement has been on the Board agenda. This rich feedback from colleagues has given the Board a more informed understanding of what's important to our people and how they feel.

As inflationary pressures come to bear, we have had candid discussions around fair pay principles, rewards and benefits, diversity and inclusion, and the expected impact of the economy on our business and workforce. The latter resulting in us converting the previous COVID-19 hardship fund into a more general and ongoing colleague support fund.

I'm confident that our framework for engaging, sharing, listening and providing feedback will continue to be an effective two-way engagement between the Board and our wider workforce. We will continue to build on this relationship with forthcoming issues of attention to include a review of our benefits strategy and our colleague grading structures.

Michael Holt
Non-Executive Director for Workforce Engagement

CEO Review

Jonathan Bunting
Chief Executive Officer

Our *success* is underpinned by *efficiency, knowledge* and *service*

Dear Shareholder

On my appointment three years ago, we set out to strengthen the foundations of Smiths News, removing distractions and building a future that I described in our 2019 report as 'efficient, knowledgeable and service driven.' Despite the unprecedented challenges of the pandemic and the ongoing uncertainty in the UK economy, we have made excellent progress. It is always the case that the road to success is ongoing, but we have now passed the key milestones of our recovery plans and, importantly, we have done so in a way that supports our ability to deliver value in the future.

Our financial performance this year is ahead of expectations, primarily as a result of an absolute focus on limiting the impact of inflation, reducing debt and finding new revenues. It's no coincidence that in 'delivering the numbers' we have drawn on the qualities of efficiency, knowledge and service that I said would be the foundation of our success. But in doing so, we have also been flexible in addressing the ways by which we have historically offset the impacts of declining sales and rising costs. This agile approach has not only helped us through an especially challenging period, it also gives us an indication of the opportunities going forward.

Newspaper and magazine wholesaling will continue to underpin our prosperity for the foreseeable future.

For more information on topics covered in this review, see the appropriate chapters at the page numbers below.

But, of course, our results are about more than metrics; ultimately, they are down to our people and the commitment they show in serving our customers and supply chain partners. And it is this, as much as our financial progress, which gives me confidence that we can maintain the momentum. Together, we have reset our business, and rightly grown in confidence – our objective now is to look ahead, and apply what we have learned to the opportunities in and adjacent to our markets.

Efficiency and costs

Securing sustainable efficiencies will remain an essential element of maintaining our profitability. That our markets are large and their sales patterns relatively predictable helps us to plan accordingly. For many years our approach has been to adjust our operations in line with falling volumes, working across the supply chain to find efficiencies without compromise to service. These foundations of our business model will not change.

Throughout the year, the inflationary pressure on our distribution costs and central overheads has created additional challenge. We expect there to be some carry over into FY2023, and while there is no guarantee that the 'peak' has passed, we believe our plans will be sufficient to mitigate inflation at current forecasts.

Over the last 12 months, we have offset some of the incremental impact through additional revenue generation and this too will continue, giving further confidence that we can maintain a grip on costs that balances short and long-term requirements.

Contract renewals

For over 200 years, publisher partnerships have been the bedrock of our business, and today we have exclusive area contracts across our territories with all the UK's major newspaper and magazine companies. In line with usual practice, we would expect discussions on these agreements to pick up well in advance of their scheduled renewal. The process is to be welcomed, offering an opportunity to align goals and create certainty over the network, service requirements and cash flows.

It was therefore especially pleasing in October 2022 to renew our agreements with Frontline, Seymour and Associated Newspapers, amounting to 35% of our total revenues and over 50% of our magazine share. These are foundational agreements that establish and secure our distribution footprint for the remainder of the decade. In working more closely than ever with our publishers, we are well placed to renew our remaining agreements on mutually beneficial terms.

Widening our horizons

Newspaper and magazine wholesaling will continue to underpin our prosperity for the foreseeable future; however, the longer-term reality is that regardless of our best endeavours, it will not be enough to deliver growth nor will it take full advantage of the assets and competencies we possess. In this respect, our aims these last three years were not limited to re-establishing the focus and prudence that is essential to managing in our markets; they were also to create the headroom that would allow us to adapt and flourish thereafter.

In widening our horizons, I believe we can be mindful of the missteps of the past, without limiting our ambition to explore opportunities that complement, rather than distract from our core operations. The tactical revenue gains and distribution partnership trials this year have shown that there is considerable scope to leverage our skills and assets in near and complementary markets. This is a strategy of adaptation not diversification; it is about being agile and having the confidence of our ability to do more and move up the value chain.

Over the next year, we will more actively consider entering new markets in a way that is controlled and which plays to our strengths. Ideally, we will seek opportunities that enhance our current roles and relationships, moving forward without risk to the progress we have made and which draw on a skill set founded on efficiency, knowledge and service.

I am excited by this ambition and determined that we will make progress in a way that benefits all our stakeholders.

Sustainable futures

All our futures depend also on addressing the challenge of climate change, cooperating with others to make a positive difference to the planet, our people and the communities we serve. Smiths News has always been a responsible business in the broadest sense, but since relaunching our sustainability strategy last year we have surfaced how pivotal our role, at the centre of the supply chain, is to the progress of others.

We have also confirmed that, managed sensibly, progress to greater sustainability is a friend not a foe to efficiency, service and professional partnerships. This helps reinforce our commitment to taking a lead in matters where we can make most tangible difference. And in pursuit of this goal, we will prioritise our focus on those sustainability pillars relating to the environment and people. These are the areas that matter most to our stakeholders and which best align to the particular impacts of and risks to our business.

Culture and people

As the market leader, operating successfully for over two centuries, it's no surprise that Smiths News has a workplace culture which reflects those skills and qualities that have taken us to where we are today. We are proud of this heritage and, when we speak of the need to adapt, it in no way diminishes the contribution and importance of what has been delivered to date. Indeed, it is only by adapting that we have sustained our success for so long.

But it is also fair to say that the need to embrace change is more immediate than in times past. To meet our ambitions of growth, sustainability and continual improvement, we must add new skills and perspectives to those we already possess. That we plan to do this through evolution and enhancement, rather than revolution or reinvention, should not imply any lack of commitment to the end goal.

We have also confirmed that, managed sensibly, progress to greater sustainability is a friend not a foe to efficiency, service and professional partnerships.

As with our sustainability pillars, we will be driven by clear measures and tangible outcomes, in this case focused on diversity, colleague engagement, talent and career enhancement, and ultimately, ensuring Smiths News is a place where people prosper in tandem with the Company's success.

Clear priorities

I believe our priorities are clear. We must maintain our core focus on service and efficiency; the renewal of our remaining contracts will establish the basis for further certainty and network planning; our commitments to evolving our culture and improving sustainability must remain high on the agenda; and we must actively seek ways to leverage our skills and assets in ways that enhance the core and move us up the value chain. These will be the milestones of success on the next stage of our journey. I have every confidence that by working together and with our partners we will reach and surpass them.

Jonathan Bunting
Chief Executive Officer

8 November 2022

Priorities FY2023

Sustaining the core
Our wholesale operation remains the primary driver of revenue and value – we are committed to investing for its future

Controlling costs
We continue to seek efficiencies that mitigate inflation and declining core sales

Renewing contracts
Building on recent agreements, we are well placed to renew our remaining publisher contracts as they become due

Investing in capability
We are committed to investing in our business, ensuring we have the skills and capabilities that are needed for the future

Growing new revenues
From tactical gains to strategic expansion, we are exploring a range of options to leverage our skills and assets in adjacent markets

Maintaining strong returns
We are committed to delivering strong returns to shareholders from a combination of attractive dividends and capital growth

Operating Review

Continued progress driven by focus and flexibility

During the year, we have delivered a strong financial result ahead of market expectations by remaining focused on service and efficiency, while being flexible in our pursuit of our overall goals. In addition to profit performance, our key objectives of material debt reduction, continued cash generation, the restoration of the dividend and the maintenance of service and efficiency have all been met. In achieving these goals, we have demonstrated the continuing strength of our core business model and established a platform for future opportunity.

Historically, Smiths News has sought to offset the margin impact of a relatively predictable decline in core sales by securing sustainable efficiencies across the network. This year, while still pursuing that objective, the bridge to our profitability required us to address additional challenges arising from the COVID-19 pandemic and growing inflationary pressures. In this respect, the early actions we took to address warehouse and driver shortages played a key role in our ability to maintain service with consequent minimisation of waste and rectification costs.

The net impact of inflation was in line with our forecasts for the year, despite the ramifications of the war in Ukraine which added further pressure in the second half. In addition to close cost control, we have benefited from improved sales mix, cover price rises and ongoing network efficiencies. Our performance was also aided by lower interest payments from the significant reduction in average debt and by capitalising on a number of ancillary opportunities.

Having made headway with our strategy to first strengthen the core business, we have increased efforts to explore adjacent markets that can leverage our network, daily deliveries and trading relationships. This year, we have successfully trialled initiatives that include retailer waste collections and partnering in parcel deliveries. These, together with other local actions, have grown our ancillary revenues, making a modest and sustainable contribution to profitability, but also suggesting there are encouraging early opportunities to develop and scale these initiatives.

Together with recent contract renewals, this positions the business well given the current challenges and uncertainty in the wider economy.

As anticipated, our core business has returned to historic sales trends and the relative predictability this entails. Together with recent contract renewals, this positions the business well given the current challenges and uncertainty in the wider economy. Looking ahead, we will continue to focus on containing the impact of inflation, but without damage or compromise to our service and capabilities. We expect the combination of cost control, improved margin and new revenues to continue to mitigate the impact of reduced newspaper and magazine volumes, underpinning another successful year for the business and its stakeholders.

Adoption of new financial metrics

The Board has reviewed the Company's key financial metrics and concluded that the performance of the business would be better monitored by the adoption of revised headline measures. Going forward, the Company will focus on Adjusted Operating Profit as its primary measure of overall financial performance, a measure that continues to be disclosed on the Company's Income Statement.

Financial performance

Adjusted Operating Profit of £38.1m was down by 3.8% (FY2021: £39.6m) from Revenue of £1,089.3m that was down by 1.8%. Adjusted Profit before tax of £31.1m was £0.2m better than last year (FY2021 £30.9m), as the reduction in Adjusted Operating Profit was offset by the benefit of lower interest charges from the reduction in the Company's debt. Free cash flow of £48.2m is up by 100% (FY2021: £24.0m), and includes the expected inflows arising from the return of a pensions cash surplus (£8.1m) and settlement of Tuffnells deferred consideration (£14m). Adjusted EPS of 10.8p was consistent with last year.

The underlying factors in driving this performance were:

- Relatively stronger sales patterns as the restrictions of the pandemic resulted in softer year-on-year comparators in H1, while strong price rises helped sales in H2
- Beneficial margin mix from the continued good performance of higher margin one shots as schools returned and sticker collections and trading cards flourished
- Ancillary revenue gains from new initiatives and improved performance of DMD, Instore and Rascal
- The net impact of sustained inflation on both distribution and other costs, including the national minimum wage
- Lower interest charges from reduced debt and the new financing agreements agreed in December 2021

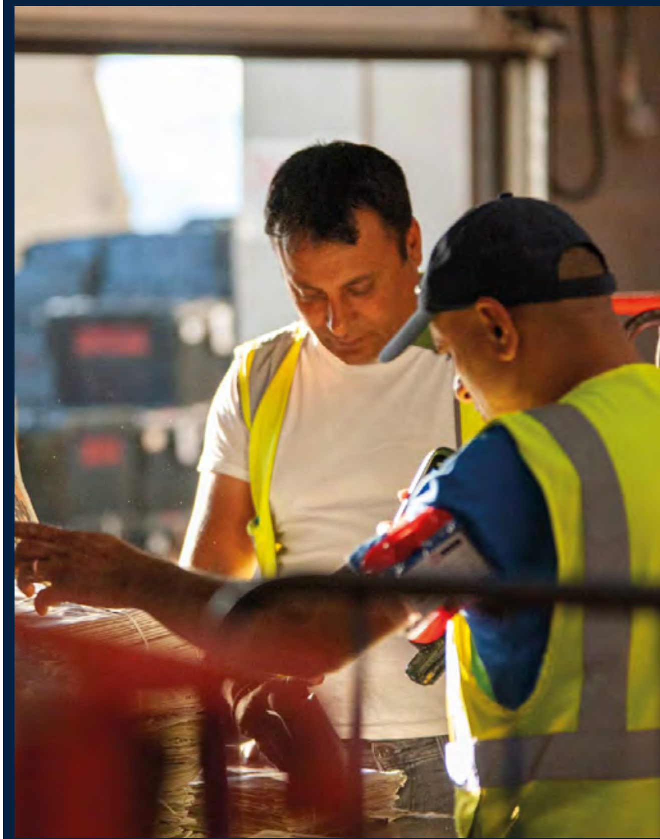
Statutory profit before tax of £27.9m is down by 8.8% (FY2021: £30.6m), impacted by the administration of McColl's Retail Group in May 2022, for which the Company has provisioned a bad debt risk of £4.4m as previously announced.

Sales and markets

The newspaper and magazine market showed resilience this year, with both categories returning a lower year-on-year decline than typical historical trends. Combined sales of newspapers, magazines and one shots were down by 2.3%. This was in part driven by softer comparators from the previous year (particularly in H1), however the sustained growth of one shots in a financial year without a major football tournament was an encouraging development. Strong price rises in the second half reflect the sometimes counter-cyclical nature of the market as publishers compensate for higher production costs – typically these price rises tend to bunch before evening out over time.

Looking ahead, we expect core sales patterns to continue in line with historic trends in FY2023. The impact of the pandemic restrictions has now washed through and it is pleasing to note that the total number of retail customers is broadly flat. The sale of McColl's Retail Group to Morrisons has secured the continued trading of over 90% of its business with Smiths News, and while the administration of the former has required a material provision for bad debt, the ongoing service and availability of supplies to consumers has been protected.

Smiths News wins EIIR National Courier Award



Whenever the nation comes together – be it in crisis or celebration – Smiths News steps up to the mark. And that commitment was recognised this year with a prestigious EIIR National Courier Award, recognising our contribution to the distribution demands that followed the passing of Her Majesty Queen Elizabeth II.

Responding to what was a globally significant event, the teams at Smiths News took pride in playing their part in getting the news to customers and communities across the UK. Immediately following the announcements, we delivered nearly three million extra copies by 9.00am the next morning.

Over the first three days of mourning, working round the clock, we supplied a total of 16.7 million newspapers and supplements to our customers. That's a further five million more than normal. On the day following Her Majesty's funeral, newspaper volumes increased by nearly 70%, with special editions, supplements and commemorative issues.

Across our network, hundreds of unsung heroes made a vital difference at a time of great importance to all our partners, as well as the general public. The award recognised this outstanding performance, which reinforced that we are not only one of the fastest supply chain partners, but also one of the most flexible and responsive. The award is a tribute to everyone in the business.

Operating Review *continued*

The new financial year has started well. Trading to date is in line with expectations, and in October 2022, contracts representing 35% newspaper and magazine sales revenues, were renewed until 2029.

Managing inflationary pressures

Our experience in securing efficiencies, together with the actions we took to address driver shortages, has limited the net impact of inflation to £2.1m in the year, in line with the guidance we gave in the autumn of 2022. This has been achieved through a combination of distribution efficiencies, tight management of ongoing costs and growing ancillary revenues. As expected, there will be some carry over into FY2023 as the key cost pressures on fuel, national minimum wage and energy are annualised. The business is well placed to meet this challenge, and mitigating the impacts of inflation without undermining customer service will remain operational priority in the months ahead.

Ancillary revenues

Our primary focus for the last two years has been to enhance the core newspaper and magazine wholesaling business. Managing through a period of unprecedented disruption, we have worked to maintain service and enhance our capabilities while strengthening the balance sheet and delivering growing returns to shareholders. Against all these goals, we have made good progress. As the pandemic receded and our improvements embedded, we have increased our attention to the potential for ancillary revenues and adjacent opportunities.

During the year, we have taken advantage of smaller tactical initiatives, benefiting revenue by £0.9m from measures such as renting spare depot space, while also trialling opportunities that have greater potential to be replicated across the network. We are currently exploring the logistics and long-term potential returns of two initiatives: the collection of retailer waste; and the expansion of our partnership with a national courier to provide sortation and distribution services at our local depots. Both these opportunities can be developed with limited capital investment and without distraction to our core service.

Our two established ancillary businesses, DMD and Instore, were disproportionately impacted by the COVID-19 pandemic, which brought much international travel to a standstill and reduced the demand for instore merchandising as retailers prioritised social distancing and basic services. This year, we have seen some recovery in both markets and the businesses are once again making a positive if more limited contribution to overall profit. We will continue to support them on the recovery journey, believing they add value to our role in the supply chain and enhance our skills and capabilities to enter adjacent markets.

Contract renewals

In October 2022, we announced the signing of new agreements with Frontline, Seymour and Associated Newspapers. Together these represent circa 35% of current newspaper and magazine revenues, and over 50% of the magazine market through to 2029. Similar discussions with the other major publishers will follow in due course, and we are well placed to reach agreements that will benefit all parties. The securing of long-term contracts help not only to improve the forecasting of future cash flows, it also assists our joint efforts in seeking network efficiency, improved sustainability and future supply chain development.

Net debt

Bank Net Debt of £14.2m represents 0.3 x Adjusted EDITDA, benefiting from one-off receipts of £22.1m, resulting from the pension surplus (£8.1m) and the settlement of Tuffnells deferred consideration (£14.0m), both of which were used to pay down debt under the terms of the Company's banking agreements. Average Net Debt reduced by 40% to £49.9m (FY2021: £82.6m). Looking ahead, we expect to be able to continue paying down debt supported by stable underlying cash flows.

Dividend

In December 2021, the Company favourably extended and amended its current banking agreements, increasing the cap on dividends and distributions from £6m to £10m for each financial year throughout the term of the facilities. Subject to performance and meeting the investment needs of the business, the Board intends to utilise the full extent of these distribution limits for the return of cash to shareholders. Consequently, the Board has proposed a final dividend of 2.75p, making a total dividend for the year of 4.15p (FY2021: 1.65p). The final dividend will be paid on 9 February 2023 to all shareholders who are on the register at the close of business on 13 January 2023; the ex-dividend date will be 12 January 2023.

Outlook

The new financial year has started well. Trading to date is in line with expectations, and in October 2022, contracts representing 35% newspaper and magazine sales revenues, were renewed until 2029. Despite recent economic volatility, inflationary pressures continue to be consistent with planning assumptions, and the combination of sustained margin mix and close cost control give us confidence in maintaining performance in FY2023.

For more information on topics covered in this review see the appropriate chapters at the page numbers below.

- Our People 30
- Sustainability 24
- Operational Review 20
- Financial Review 36

Ancillary businesses add value

Our ancillary businesses add value to Smiths News' core newspaper and magazine wholesaling operations. During the pandemic these operations were more severely impacted by restrictions and changing consumer behaviours. This year their performance has started to recover, although it will take some time for the effects of the last two years to fully recede. We remain committed to supporting these businesses for they are each valued by our industry partners and enhance our core service, with bespoke offers that reach targeted consumers.

IN STORE

Instore, our field marketing service works with retailers, suppliers and publishers, providing a range of solutions for sales promotion, merchandising and supply chain compliance. This year, we have seen a gradual increase in demand for all these services, with sales promotion at the fore of the recovery. We have expanded our scope too, selling health products to gyms and trialling a range of greeting cards for both large and small outlets – both opportunities that use our core network for efficient deliveries supported by Instore's merchandising and sales promotion.

dmd

DMD supplies printed and digital media to airlines and travel points in the UK and worldwide. The severe restrictions on international travel over the last two years resulted in only a minimal service throughout the pandemic and, although the situation has eased in Europe over 2022, there are still ongoing restrictions, particularly in Asia. During FY2022, we have seen a gradual recovery of demand in the UK and are pleased to have renewed our arrangements for airside media wall displays. Longer term, the full recovery of sales and distribution is intrinsically linked to wider geopolitical considerations. Meanwhile, our publishers and airline clients confirm that they continue to value this service which reaches high-value customers through a unique targeted channel.

martin lavell

Martin Lavell supplies business and large organisations with daily newspapers and magazines, specialising in the needs of corporate clients. As with our other ancillary businesses its operations were impacted by the pandemic, with a gradual recovery in demand as restrictions have been lifted. With an offer that combines flexible ordering, easy invoicing, subscriptions and dedicated daily deliveries, Martin Lavell continues to be a leading player in this specialist market, with operations in London and other major cities across the UK.

Sustainability Report

While the overall framework has proved effective, we have evolved and adapted our approach to specific goals when doing so improves the positive impact of our actions.

Risks

1. Macroeconomic uncertainty
2. Acquisition and retention of labour
3. IT infrastructure and cyber security
4. Legal and regulatory compliance
5. Changes to retailers' commercial model
6. Growth and diversification
7. Sustainability and climate change

An impact led approach

As a Company, we have a long-standing commitment to making a positive contribution, recognising and acting on our responsibilities to the environment, our marketplace, our people and the communities we serve. This commitment remains the bedrock of our approach to sustainability, and is consistent with the significant review of our plans and governance framework that was undertaken in FY2021 and which got underway in earnest this year.

As reported last year, in consideration of the characteristics of our business, we aligned our sustainability strategy to a blend of the principles-based approach of the UN Sustainable Development Goals (SDGs) with the structured disclosures-based reporting promoted by the Global Reporting Initiative (GRI).

In adopting this hybrid model, we aimed to set targets that were relevant to our operations and our people, complemented by a structured reporting suite that also considered our impact on the supply chains in which we operate and the communities we serve. We were also mindful that the framework should be compatible with our Company Values, enhancing our service and partnerships with suppliers and customers.

We have made good progress against these goals, learning from the experience of managing the framework in practice. While the overall framework has proved effective, we have evolved and adapted our approach to specific goals when doing so improves the positive impact of our actions.

Our Sustainability Steering Group is now well established under the chairmanship of Paul Baker (CFO) and comprises representatives with relevant skills and experience from across the business. The Board takes an active interest in its activities, receiving quarterly reports which tracks progress against our targets and discusses any concerns or developments as they arise. The Executive Team is charged with delivering the sustainability agenda through a combination of collective and personal objectives which are cascaded throughout the organisation. Where necessary, we employ functional specialists and engage external partners to drive particular objectives: examples, among others, include Health and Safety, People and Environmental Emissions.

Looking outside the organisation, we work with industry partners to find solutions that will have a positive impact not only for our business but also for the broader supply chains in which we operate. As a 'middle-man', this is especially important if our actions are to have meaningful and lasting benefit. Indeed, pursuing this collaborative approach has confirmed that our role and actions are often pivotal to the progress our partners can make and to leveraging their benefits across a wider spectrum.

Our five sustainability pillars

Governance

4

Incorporating formal reporting structures, the ownership and communication of targets, compliance reporting and transparency, and more widely the involvement of all colleagues in the delivery of objectives and commitment to a more sustainable future. Because of its vital importance to all colleagues and partners, we include Health and Safety reporting under this pillar too.

Environment

7

Encompassing our direct impact as measured by carbon emissions, fuel and energy usage, waste and packaging, and recycling. In addition, we look to measure and report on any mitigations and offsets which result from actions and policies of the Company.

People

2

Driven by absolute commitment to the wellbeing and flourishing of colleagues, our actions and measurements include engagement, diversity and inclusion, training and development, gender equality, free speech and human rights.

Community

7

We work to make a positive contribution to the communities we serve, to wider good causes and charitable giving. We seek to provide opportunities for colleagues to be involved and make a contribution to the communities we serve and support.

Responsible partnerships

3 5 6

Embracing responsible partnerships in pursuit of a more sustainable supply chain. Areas for close attention include ethical sourcing, taking a leading role in industry-wide sustainability and data security for our customers, suppliers and colleagues.

Sustainability Report *continued*

Our sustainability strategy was comprehensively refreshed in FY2022

We have made good overall progress in embedding its structures and key principles, establishing a framework for action and measurement that focuses our efforts on those areas to which we can make the most tangible difference (both directly in our operations or across our supply chain) and which reflect the most significant risks to our sustainability and success in the longer term.

Governance

Connected SDGs: 9 17

Our sustainability governance process is now well established, with a clear structure of responsibilities, action planning, reporting and communications cascade that extends from the Board to colleagues at every level and location.

Our high standards of Cooperate Governance are described throughout this Annual Report and, in particular, within the Corporate Governance report on page 58.

In relation to our workplaces, we have determined that ISO45001 accreditation is the most appropriate and stretching measure for our operating locations. Having achieved accreditation in FY2022, we will seek to maintain this standard and enhance performance in line with its ongoing requirements.

Environmental impacts

Connected SDGs: 12 13

Environmental emissions are a priority workstream in our sustainability strategy. They represent the most significant impact that we have on the environment and global warming, and our progress is integral to helping the supply chain as a whole reduce its impact on the environment.

In FY2022, we have made further good progress, ensuring all of our internally generated waste is diverted from landfill, and moving the vast majority of our electricity consumption to renewable sources. Our continual improvement process seeks to optimise delivery route and fuel usage across final mile and trunking services in line with fluctuations in volumes.

Looking ahead, we will be focusing on further fuel efficiency and energy reductions, as well as partnering with our publishers and retailers to find processes that share common measurements and reduce overall supply chain emissions. In this regard, we are working to establish a common reporting suite with our publisher partners, covering Scope 1, 2 and 3 emissions. This will create a cross-industry measurement tool for target setting and improvement that is essential to leveraging the efficiencies of our role in the middle of a shared supply chain.

We will continue to investigate the potential for electric and hybrid vehicles in our company car fleet and potentially for last mile deliveries but, at the present time, we believe we can make greater headway by focusing on improvements to the core delivery vehicles.

People

Connected SDGs: 3 4 5

Our people workstream and, in particular, diversity and inclusion is a priority pillar of our sustainability strategy.

We believe that supporting our people by ensuring an engaging, inclusive and diverse environment is not only vital to the foundations of a sustainable business model, it is equally critical to improving performance and mitigating risks to the long-term success of the Company.

Building on many years of responsible practice we have made further progress in FY2022, moving to quarterly pulse surveys for our all-colleague engagement survey, ensuring it has more regular visibility and speedier response to issues raised. We have also completed a first Diversity and Inclusion recruitment audit, and will be monitoring our position relative to a benchmark of appropriate and relevant peer companies, seeking to maintain an upper quartile performance.

We recognise the need for greater diversity on our management composition and will be taking positive action to address any imbalances over time, and in line with the best interests and needs of the Company and its Stakeholders.

UN Sustainable Development Goals

Community

Connected SDGs: 1 11

We continue to make a positive contribution to our communities through the daily service we provide and more widely through voluntary and charity activity that extends the reach of our impact and involvement.

Our involvement with the industry charity NewstrAID is substantial, partnering with and facilitating their fundraising activities with our network of retailers. We have introduced enhanced volunteering opportunities and continue to be the leading sponsor of Pass It On, a national charity seeking to alleviate the problems of homelessness in the UK, which was originally founded by employees of the business. We have donated £27,000 directly to charities in the year, and will be increasing our indirect contributions though greater levels of volunteering, donations of products and support for those colleagues fundraising for causes they hold to be important to them and their communities.

Responsible partnerships

Connected SDGs: 9 17

Our supplier code, ethical trading policy and modern slavery policies have been reviewed and embedded as part of our refreshed sustainability strategy. We are working to maintain this progress, auditing suppliers to ensure their compliance, and periodically updating our policies to ensure they continue to reflect best practice and changes to legislation.

Developing more sustainable ways of working with our supply chain partners is a workstream that links closely to our prioritised Environmental pillar. The common reporting suite with our publisher partners (see Environment pillar above) will help ensure shared goals, creating the foundation for cross-industry measurement for target setting and improvement. At the retailer-end of the supply chain, we are exploring the opportunity to collect and process general waste for recycling, as well as expanding the scope of smart sales forecasting and replacement systems that help to minimise unsold products and production wastage.

Our recycle service trials →

Smiths News Recycle – making recycling simple

Smiths News Recycle is a new bespoke service for our retail customers that offers an easy and convenient way for them to recycle cardboard and plastic waste. We began trials in Birmingham, serving 250 customers, and after excellent feedback are now expanding to further areas as part of a wider pilot initiative.

Our offering is designed with simplicity at its core – offering retailers a uniquely straightforward and convenient service that fits their busy schedules and priorities and keeps their stockrooms clear for more stockholding!

Here's how it works:

- We supply retailers with bags for general cardboard and plastic waste
- Retailers leave the filled bags for collection with their newspaper and magazine returns
- Retailers can leave waste every day or whenever they choose – there's no need to book a collection
- We collect and process the recycling in line with legislation on waste management
- Retailers pay a simple fixed price per week

Retailers benefit from the ease of processing, with waste taken away securely from their store with no waiting for collections. And from a sustainability perspective they can rest assured the recycling is managed in a professional and environmentally beneficial way.

We are excited about the potential for Smiths News Re-cycle and plan to expand the trials in FY2023. It's a great example of using our network to deliver solutions that help our customers, as well as the environment.

Sustainability Report *continued*

Our priority pillars

In pursuing our strategy, we have remained open to adaptation and challenge as our knowledge grows and we learn lessons from the progress to date.

This year, we have sought to embed all our sustainability pillars and remain committed to their close management and further development as part of a holistic approach to integrating sustainability into our everyday practices.

Without compromise to this goal, we have also undertaken a materiality review of strategy and targets, considering the requirements of TCFD reporting, the nature and impacts of our business model, and the views of our industry partners and other stakeholders. In parallel, we also considered our forward strategy in relation to the reporting requirements of TCFD and those relevant aspects of our business risk matrix. The combined findings of these exercises clarified those areas of our strategy, which will maximise our positive impact and are most critical to the sustainability goals of our industry partners and wider stakeholders.

As a consequence, we have identified two 'priority workstreams' for our future activities, aligning to the **Environment** (specifically, the reduction of emissions, energy utilisation and improved waste management) and our **People** (including the promotion of greater diversity & inclusion and supporting culture).

The environment

As a physical distributor our environmental impact is most significantly influenced by our vehicle emissions. Other significant impacts include energy consumption, waste disposal and recycling of product and packaging.

Our environmental performance has a direct impact on our efficiency and of the supply chain as a whole, meaning our actions have particular importance to our industry partners, influencing their actions and progress, too. We plan to work more closely than ever with our supply chain partners, using common methodology for measurement and developing joint actions to deliver environmental benefits.

Further information and disclosures on our environmental objectives and progress can be found in the Task Force on Climate Related Financial Disclosures (TCFD) report on page 44, which includes our Streamlined Energy & Carbon Reporting disclosures.

Our people

The prioritisation of our People pillar is driven by our wish to drive increased diversity, ensuring our culture reflects the make-up of our workplace, the communities we serve and the needs of the business in future.

We aim to build on our strengths, retaining those qualities which underpin our heritage and core capabilities, while also developing a more adaptive and agile approach to opportunities. To succeed will mean embracing new skills and fresh perspectives, and backing this goal with clear metrics that track our progress. Going forward, we will continue to blend quantitative and qualitative measures in pursuit of this priority.

Further detail and disclosures on our policies and progress relating to people can be found in our Nominations Committee report on page 90, and the People report on page 30 which includes gender composition and gender pay gap reporting.

Energy efficiency actions

We have reduced emissions in several areas and made improvements to reporting to provide more visible and accurate data. In doing so, we have been guided by the Company's sustainability strategy with the support of internal business experts and external consultants.

Some of the energy efficiency actions undertaken during the reporting year were:

- Ensuring all gas and electricity meters are AMRs
- Depot refurbishment projects, including LED lighting, implementing motion sensory lighting, electric panel heating and changing immersion tanks for electric point water heaters
- Ensuring the electricity usage which we have control over is from renewable sources (as at the point of contract renewal in 2021) from our suppliers EON and Opus

People

The Company takes a progressive approach to supporting colleagues in the workplace, making a positive difference to their lives, prospects and wellbeing. In addition to fair remuneration, we aim to offer the opportunity for satisfying careers, encouraging everyone to develop their skills and experience through training and participatory learning.

In support of these goals, we have an extensive people programme, underpinned by clear and well-publicised policies that are founded on principles of proactive colleague engagement, diversity and inclusion, and responsible practice throughout the Company. Furthermore, we have identified the People pillar as one of the two priority focus areas for our sustainability programme.

The Board and Executive Team take an active role in all aspects of our People polices, with regular reviews and discussion. Due consideration is given to the impact on colleagues for all our key initiatives and wider strategy.

A detailed People report on page 30 includes the statutory disclosures of employee headcount, gender composition and pay gap reporting, workplace responsibilities and Human Rights. The report also describes the progress made on our overall people programme in the year.

Marketplace

The Company plays an active role in monitoring and improving supply chain standards, leading the way in the development of best practice and adopting the voluntary codes of the Press Distribution Forum (PDF). In 2022, Smiths News took over the rotating Chair of the Press Distribution Forum.

During 2021, the PDF and its associated service charter returned towards more normal trends, with the volume of complaints returning to more typical levels as the pandemic subsided. Overall, Stage 2 breaches nationally rose from 57 in 2020 to 151 in 2021; however, the number of Stage 2 complaints relating to Smiths News has remained static at 39 for both 2020 and 2021.

In April 2021, the PDF Retailer Charter was relaunched in a digital format, accessed via a new website which provides a quick and easy guidance. The revised Charter includes an updated complaints process, based on a simplified two-stage online model that is more accessible and navigable for retailers. Its relaunch was supported by an extensive publicity campaign to increase retailer awareness.

In addition to the requirements of the Charter, Smiths News continues to apply an automatic service failure payment scheme in cases where the daily news is delivered over two hours late, irrespective of inbound delivery times which are beyond our control. This scheme, which goes beyond the PDF code and our contractual obligations, has been well received by retailers and the trade bodies which represent them. In the latest year of operation, 6,821 payments were made to retailers from approximately 8.7 million deliveries made, representing 0.08% of total delivery instances.

	2022	2021	2020
Specified Injuries	0	0	7
Injuries resulting in over seven days absence from work	2	11	32
Dangerous diseases resulting in over seven days absence from work	0	6	0
Total RIDDORs	2	17	39

Ensuring responsible standards in our supply chain is also a central to our procurement policies. All preferred suppliers must sign up to our supplier code, modern slavery and anti-bribery policies, evidencing how they uphold these. More information can be found on our website at *www.smithsnews.co.uk/investor-zone/corporate-governance/working-responsibly*.

Health and Safety

The Company has a deeply embedded culture of attention to health and safety in the workplace. We work together to promote positive behaviours and encourage proactive reporting (without blame or sanction for doing so) of all incidents, so that lessons can be learned and appropriate action taken. Using qualified Health and Safety practitioners, we review all recorded accidents, near misses and any concerns raised by colleagues in pursuit of continual improvement to our processes and performance. We have a zero exceptions policy to accurately reporting and categorising all incidents, followed up by training and corrective action for all significant events.

The result is that despite an intensely physical operation, often conducted in difficult circumstances, we have a strong record of limiting accidents in the workplace underpinned by a positive and attentive culture that encourages continual improvement.

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

The total of two reportable incidents in FY2022 is a significant reduction on the previous year. We are pleased to report that no specified injuries (representing more serious occurrences) were reported this year. (See table above).

As in previous years, the Company continues to monitor and manage its reporting of incidents and accidents, however minor they may be, with a robust process of investigation (including root cause analysis) before the incident is considered closed.

This year, we recorded 101 incidents (FY2021: 112 incidents), representing 1.68 incidents per 100,000 hours (FY2021: 1.85). This compares favourably to the industry average of 2.8 incidents per 100,000 hours for warehouse locations in the Transportation and Storage sector, as reported by the UK Health and Safety Executive in 2021.

During the year, Smiths News successfully retained accreditation to the new standard ISO 45001 whilst also moving over to BSI from Intertek. Furthermore, a total of 11 key sites across the network also achieved RoSPA (Royal Society for the Prevention of Accidents) Gold awards, including Birmingham, Bristol, Hemel Hempstead, Hornsey, Liverpool, London Travel News, Newcastle, Newport, Nottingham, Southampton and Stockport. In addition, we received an Industry award for our safety efforts, a Fleet Safety award and three nominations for "Inspiring Women in Safety".

The business successfully completed the second full year of our three-year safety plan. A key objective achieved this year was making our integrated Health and Safety management system simpler to operate and more accessible for all. In line with the plan, the HSE-MS will be fully online by January 2023. Further developments in communication and training of safe practices across the Company include an updated compulsory online induction programme which all new starters must complete within a set timeframe.

People Report

As the market leader with over 200 years' experience in our industry, it's no surprise that we are blessed with talented people who have unparalleled experience and expertise. From our nightly distribution centres to our central support services, it's always the human factor which makes the most difference. And underpinning that intangible but essential ingredient of our success is a unique culture, characterised by commitment, collaboration and camaraderie.

Building on our strengths

Every day our teams work round the clock, often in poor weather and challenging circumstances to deliver on time and to the high standards we set. In doing so, they draw on their embedded knowledge and a deep commitment to the customers and communities we serve. It's hard to imagine more testing times than we have seen these last two years, and yet our colleagues have worked tirelessly to minimise disruption, making a real difference in what were often dark and difficult times.

In moving forward, we continue to be guided by our values, which reflect not only how we work together today, but our aspirations for tomorrow.

This year, emerging from the pandemic, we have been able to raise and widen our horizons, holding conversations about the lessons we've learned, and what's now needed for the future. That there are new challenges emerging just reminds us that change is constant. And because of this, the answer to our questions was clear and consistent across the business: we must build on our strengths, retaining those qualities that have served us so well, but enhancing them with new skills to help us to adapt and grow.

Importantly, it's our people who are shaping the change, for together we know that it's as desirable as it is necessary to assimilate change for the better. Indeed, we do this every day in our search for operational efficiencies, technology advances and continual improvements; applying that same focus to our culture is not so different. As the business has come through what have been challenging times, there is now a tangible sense of our people looking ahead to new opportunities.

In moving forward, we continue to be guided by our values, which reflect not only how we work together today, but our aspirations for tomorrow. In many ways there is no better example of how we marry our heritage to a contemporary and outward looking mindset. All of which speaks to our plans for opportunity and growth through and with the people who make it happen. From acquiring new and specialist skills to growing from within, we are pursuing a path of diversity and inclusion in all its forms.

This is what we mean by building on our strength in practice – enhancing our capabilities and culture today, to meet the challenges of tomorrow.

Two-way communication

We work hard to ensure regular, clear and timely communication on matters of importance to our colleagues. This includes, among others, the performance of the business, strategic goals, community relations, changes to policies and any matters of wider interest or context.

This year our colleague engagement survey has moved from a 'one-off' exercise to more regular quarterly pulse surveys supported by local and company-wide briefings to 'give and receive' feedback, sharing information and ideas on the progress and future of the business.

Our new company-wide intranet 'SmithsZone' is a dynamic digital platform, giving colleagues access to business news, useful information and engaging content they can interact with. To complement this online engagement, we produce regular all-colleague newsletters, sharing stories and news (both formal and lighter in tone) that helps to foster a culture that's founded on working together. Quarterly townhall meetings for all colleagues and monthly management briefing sessions are now business as usual. These include regular Q&A sessions that are shaped by the suggestions, concerns and queries of colleagues.

Engagement

Our 'What Matters' colleague engagement survey is the formal mechanism we use for measuring engagement, as well as regularly testing the opinions and concerns of colleagues. It uses a range of industry-recognised performance measures to gauge the overall engagement of colleagues and their alignment to the goals and progress of the business.

We publish results transparently and make action plans to address issues that arise; where we are unable to address emerging concerns or suggestions, we seek to explain the reasons and find practical ways of responding with constructive alternatives. As a result, our engagement scores are improving, and we have clear goals that are founded on feedback and are reactive to the real concerns of colleagues.

This year, in response to colleague feedback and management's wish for a more regular measurement, we have moved from an annual 'single point in time' questionnaires to representative pulse surveys each quarter. The survey measures 14 drivers of performance measuring colleague alignment to the Company's goals and culture across a balanced scorecard of measures. We then use a net promotor score as the overall measure and internally express this on a scale from 1 to 10. In FY2021, the score increased from 6 to 7, a significant improvement reflecting, in part, the camaraderie and commitment of working together through the challenging times of the pandemic, together with the improvements to communication and clearer focus of the business. During FY2022, we have recorded over 120 actions in response to feedback gathered in the surveys and maintained an overall average engagement score of 7.0. We continue to hold employee forums meetings locally and nationally where results and actions are constructively discussed by a representative range of colleagues.

We work hard to ensure regular, clear and timely communication on matters of importance to our colleagues.

People Report *continued*

Our Values are integral to all the decisions we make – they guide the way we work today and underpin our ambition for the future. Most importantly, we seek to ensure that these Values are not a mere 'list on the wall', but rather a living and breathing statement of beliefs that has real meaning for the workplace, as experienced by colleagues every day.

In this respect we are open to enhancing the Values when necessary. During the pandemic, for example, we introduced additional operating principles which prioritised the safety of staff and customers, the protection of service and supply chain capability, and the support of colleagues suffering hardship. These guided the decisions we took and resulted in our maintaining a full and uninterrupted service.

This approach of 'values in practice' is reflective of our hands on and pragmatic culture. And by being so, it helps to ensure our Values stay relevant to the pressures of a dynamic workplace – improving performance today and shaping the solutions of tomorrow.

This approach of 'values in practice' is reflective of our hands on and pragmatic culture.

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

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

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

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

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

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

Talent and development

In support of our colleagues and the business, we offer extensive and flexible training and development for those with the talent and ambition to progress in their careers. We also seek to ensure that all colleagues stay abreast of latest thinking and best practice in areas such as people management and safety. Twice a year, we conduct formal talent and succession reviews to identify talent gaps and opportunities for development across the business. In all of this activity, our overriding aim is to offer satisfying careers with the opportunity to progress for all colleagues who have a commitment to learning and the ambition to succeed.

In practical terms, we blend our online learning portal 'MyLearning' with face-to-face interventions, and supplement generic content with specific and external expertise where needed. Our online learning portal is available to all colleagues and over 5,400 modules were completed in the year. Examples of self-directed learning include Health and Safety, GDPR, Customer Service and Managing Conflicts in the workplace. Training modules and support can also be tailored to specific roles and functions, such as Communications, Human Resources, Commercial or Finance. For example, this year, two senior leaders achieved First Class passes in their Chartered Management Degrees and a further three 'up and coming' colleagues participated in the industry's Ace Empower Programme. And last but not least, we are committed to apprentice level training too, with several colleagues completing modules that prepare them for team leader or other supervisory roles.

Individual learning is supplemented with team development sessions, often drawing on workplace style and personality diagnostics, to support better understanding of each other and promote more effective working.

We take pride in developing skills and promoting people from within the Company. Our talent programme gives tailored support to those individuals with demonstrable potential to progress, accelerating their career trajectory with experience and project opportunities, as well as formal training. More broadly, we seek to ensure the wide communication of all vacancies, encouraging enquiries and applications from all who have an interest. Following the pandemic, we have increased our efforts to publicise internal roles, leading to many more promotions and development roles – overall, 33% of vacancies are filled by internal candidates.

In parallel, we are also conscious of the value of attracting external talent, ensuring new joiners feel at home in culture, enhancing it with new skills and fresh perspectives. To help towards this goal we have, this year, conducted a comprehensive Diversity & Inclusion audit of our recruitment and onboarding processes, partnering with an external specialist to provide objectivity and expertise. Resulting in a clear action plan to enhance our ability and retain a diverse workforce.

We take pride in developing skills and promoting people from within the Company.

Supporting colleagues

For the vast majority of colleagues, work and home life are well balanced, allowing them to contribute their best every day. But we know that at times this balance can be upset by factors such as physical and mental health, financial hardship, family issues or uncertainty over the future. At times like these we try to be there for colleagues, offering additional support and flexibility that can make a substantial difference to their wellbeing.

During the COVID-19 pandemic, we established a colleague support fund and have maintained this since the ending of restrictions, widening its scope so that support is now considered for colleagues in need whatever the reason. In addition, we have launched a financial wellbeing toolkit using a third-party partner that supplements educational resources with financial products, including pay day loans at competitive rates.

People Report *continued*

Promoting good mental health in a sensitive and supportive way is one of our people-related priorities. We now have 40 trained mental health allies across the business and work to actively communicate mental health issues and wellbeing support, encouraging colleagues to confidentially raise concerns or ask for assistance when needed.

To further support the health and wellbeing of colleagues, in FY2021 we introduced a Health Shield plan for those colleagues who wish to participate. The scheme allows participating members to claim up to 100% cash back (subject to limits) for everyday healthcare costs, such as dental, optical and physiotherapy. Colleagues are enrolled for the base service free of charge and can increase their level of cover at moderate and subsidised costs if they so wish, as well as extending cover to immediate family.

In a spirit of continual improvement, we have acted on the lessons from the social disruption of the pandemic. Supporting colleagues in returning to office locations, we have worked to a hybrid model that blends office and home working. In addition, we consider and seek to accommodate requests for additional flexible working or particular arrangements for exceptional needs, subject to meeting the needs of the business.

Diversity and inclusion

Throughout the Company, we operate a zero tolerance approach to discrimination and are committed to promoting diversity in an inclusive working environment. In doing so, we seek to create a workplace culture that embraces people from all backgrounds, experiences and orientations. More formally, our Equality, Diversity and Inclusion Policy articulates these aims.

In promoting diversity, we are guided by a belief that different skill sets, capabilities, backgrounds and experience contribute to a more effective and resilient business. This richness of perspective comes not only from gender and ethnicity, but also from welcoming and respecting the views of colleagues who bring experience drawn from varying ages, careers, social backgrounds and religious beliefs.

In promoting diversity, we are guided by a belief that different skill sets, capabilities, backgrounds and experience contribute to a more effective and resilient business.

Our commitment to diversity and inclusion is extensively communicated and celebrated through our 'Everyone In' programme. This high-profile initiative is visible at every location and includes national initiatives to raise awareness through a calendar of events that are guided by colleague input. The enthusiasm for this programme is tangible, doing much to underscore our aims and wider culture. Examples of cultural celebrations this year include National Inclusion week, Black History month, Pride and Ramadan.

Looking ahead, our goals for diversity and inclusion will link closely to our sustainability strategy, which has identified its People Pillar as a priority focus, with specific emphasis on greater diversity in gender and ethnicity (see the Sustainability report on page 24). Further details on our formal governance of diversity and inclusion can also be found in the Nominations Committee report on page 90.

Workplace responsibility, whistleblowing and human rights

The Company is committed to responsible practice throughout the workplace, striving to ensure a culture that is free from discrimination and harassment in any form. The Board regularly reviews these issues, ensuring the actions and policies described in this report are applied in practice and that this ambition is deeply embedded in the culture of the business.

In support of this, we work to embed a culture and environment in which workplace concerns can be raised and addressed without fear of recrimination; and confidential whistleblowing procedures are well communicated, including a confidential 'speak-up' line. All concerns raised are carefully investigated and any significant matters are brought to the attention of the Audit Committee.

The Company supports the human rights of our colleagues, and our policies are built on a commitment to mutual respect, fairness and integrity.

This approach is integral to our policies and procedures, further supported by training for managers and a zero-tolerance approach to serious breaches. Regular reviews ensure that updates are made in response to business initiatives and legislation; any significant changes are noted and discussed with the Executive Team and the Board. Separately, Health & Safety performance is reviewed regularly by the Board and Executive Team throughout the year.

The Company supports the human rights of our colleagues and our policies are built on a commitment to mutual respect, fairness and integrity. These principles are reflected in both our values and People policies and, more broadly, to the ways in which we work together. Proper and flexible consideration is given to people with disabilities and, should employees develop a disability while working for the Company, every effort is made to continue their employment and provide retraining for alternative roles if required.

In relation to our markets, we have policies for ethical trading standards and a commitment to combatting modern slavery, which we expect our commercial partners to adhere to. We remain vigilant in our efforts to combat modern slavery and human trafficking, regularly reviewing the effectiveness of our procedures in the areas we consider to be of greatest risk, including: employee recruitment; contractor appointment and management; procurement and outsourcing. Furthermore, we seek to raise awareness of anti-slavery and human trafficking through communication of our policies and guidelines. The Company's Anti-Slavery and Human Trafficking Statement (September 2022) is available online at *www.smithsnews.co.uk*.

Gender composition and pay gap reporting

The Company actively supports gender equality in the workplace and is committed to improving the balance of gender composition over time. More broadly, we strive for a workplace environment that provides fair reward for all and ensures each and every colleague has access to personal development opportunities with the appropriate support to progress their career.

The gender composition as at 27 August 2022, and the equivalent table for the prior year can be seen in the table below.

Gender composition at 27 August 2022	Male		Female		
	No.	%	No.	%	Total
All Employees	923	60%	616	40%	**1,539**
Board of Directors	5	83%	1	17%	**6**
Executive Team	6	67%	3	33%	**9**
Executive Team and other Senior Managers	16	76%	5	24%	**19**

Gender composition at 28 August 2021	Male		Female		
	No.	%	No.	%	Total
All Employees	991	62%	612	38%	**1,603**
Board of Directors	5	83%	1	17%	**6**
Executive Team	7	78%	2	22%	**9**
Executive Team and other Senior Managers	16	76%	5	24%	**21**

The Company's overall gender pay gap as reported in the year* was an arithmetic mean average of 14.3% (FY2021: 12.8%). The median distribution average of 4.04% (FY2021: 3.96%) is significantly lower than the UK's National Median Gender Pay Gap average at 15.5%.

This data was communicated in an open and transparent way to colleagues and other stakeholders, including publication on the relevant Government websites. A detailed report is available to view and download on the Company's website at: *www.smithsnews.co.uk*.

The Company will update its gender pay gap report in due course, in line with the required reporting timetable – details will be published on the Company's website at *www.smithsnews.co.uk/investor-zone/*.

* Calculated on the defined snapshot date of 5 April 2021 and published before 4 April 2022 as required by Government reporting rules.

Financial Review

Paul Baker
Chief Financial Officer

These financial ***results*** confirm the continued ***success*** of the Company

Overview

The Company continues to generate good underlying profit and free cash flow, which together with the benefit of one-off cash items has reduced period end net debt to £14.2m (FY2021: £53.2m) and enables dividends of £10m to be proposed for the period.

Revenue was down 1.8% at £1,089.3m, a better performance than the historic trend of 3-5%, buoyed by improved one shot and magazine sales, both of which benefited profitability through stronger margin mix. The impact of inflation was managed in line with guidance given during the period, with the net impact of £2.1m largely flowing to adjusted operating profit which was down £1.5m at £38.1m.

Adjusted profit before tax, however, increased by £0.2m to £31.1m, due to a £1.7m reduction in interest charges, a consequence of lower average net debt. Adjusted EPS was stable at 10.8p, the same as FY2021.

Cash flow and net debt both benefited from the return of the pension surplus (£8.1m) and the settlement of Tuffnells deferred consideration (£14m), as well as £26.1m of underlying cash generation.

On a statutory basis, operating profit decreased by £3.4m to £32.4m (FY2021: £35.8m). The reduction was driven by the write-down of £4.4m debt following the administration of McColl's Retail Group, partially offset by lower other adjusting items.

Statutory profit after tax of £23.4m was £2.9m lower than FY2021 (£26.3m), reflecting the above factors and a higher effective rate of tax, the prior period having benefited from the use of Tuffnells losses. As a result, statutory EPS reduced by 0.9p to 9.3p (FY2021: 10.2p).

A final dividend of 2.75p (£6.7m) has been proposed, taking the full period FY2022 dividend to 4.15p or £10m (FY2021: £4m), an increase of £6m.

These financial results confirm the continuing success of the Company in meeting its stated goals of maintaining the broad profitability and cash flows of its core operation, materially reducing net debt and meeting the needs of all stakeholders. Looking ahead, this strengthened financial position will allow for greater flexibility in our delivery of further value for shareholders.

Table A: Continuing adjusted results

£m	2022	2021	Change
Revenue	**1089.3**	1,109.6	-1.8%
EBITDA (ex. IFRS 16)*	**40.7**	42.6	-4.5%
EBITDA	**48.6**	50.3	-3.4%
Operating profit	**38.1**	**39.6**	**-3.8%**
Net finance costs	**(7.0)**	(8.7)	19.5%
Profit before tax	**31.1**	**30.9**	**0.6%**
Taxation	**(5.4)**	(4.6)	-17.4%
Effective tax rate	**17.4%**	14.9%	-16.8%
Profit after tax	**25.7**	**26.3**	**-2.3%**

* The Company gave guidance and set incentive targets using Adjusted EBITDA (ex IFRS16) during FY2022. From FY2023, Adjusted operating profit will be used.

Table B: Statutory results

Continuing operations £m	2022	2021	Change
Revenue	**1089.3**	1,109.6	-1.8%
Operating profit	**32.4**	**35.8**	**-9.5%**
Net finance costs	**(4.5)**	(5.2)	13.5%
Profit before tax	**27.9**	**30.6**	**-8.8%**
Taxation	**(4.5)**	(4.3)	-4.7%
Effective tax rate	**16.1%**	14.1%	-14.2%
Profit after tax	**23.4**	**26.3**	**-11.0%**
Discontinued operations £m			
Loss for the period from Discontinued Operations	**-**	(0.1)	
Profit/(loss) attributable to equity shareholders	**23.4**	**26.2**	**-10.7%**

Continuing adjusted results (Table A)

Revenue of £1,089.3m (FY2021: £1,109.6m) was down 1.8% on the prior period, a better performance compared to the pre-COVID-19 (2015-2020) trend of c3%-5%. Underpinning this performance was the success of one shot releases (+43% increase in revenue period on period), with particularly strong showings of Premier League football and Pokémon trading cards. Daily newspapers (-2%), weekly (-3%) and monthly (-2%) magazines also performed better than historic trends, offset by lower revenue from Sunday newspapers (-9%).

Daily newspapers, unlike the Sundays, benefited from cover price increases in the second half of the period. Magazines recovered further against a comparative still impacted by COVID-19 and were also helped by increased summer travel.

DMD also benefited from increased travel. Revenue of £4.2m was a 27% increase on FY2021 (£3.3m), and there was positive news towards the end of the period, with additional newspaper and magazine supply to Emirates and Thai Airways who increased volumes on flights and in lounges.

At a profit level, continuing adjusted operating profit of £38.1m was a decrease of £1.5m (-3.8%) on the prior period (FY2021: £39.6m), with inflationary pressures having an impact on the delivery and warehouse cost base.

The decrease can be attributed to the net impact of:

- Inflationary pressures (net impact £2.1m) affecting delivery and warehouse processing costs, with increases to agency usage and contractor rates offset by cost savings and higher rates for sale of waste paper
- The benefit of product mix moving towards magazines and one shots on wholesale margin (£1.4m)
- The benefit of ancillary revenue streams (£0.9m), including leasing of spare warehouse space and improvement in performance of Rascal joint venture

Table C: Earnings per share

£m	Continuing 2022	Adjusted 2021	Continuing 2022	Statutory 2021
Earnings attributable to ordinary shareholders (£m)	**25.7**	26.3	**23.4**	26.3
Basic weighted average number of shares (millions)	**238.5**	243.5	**238.5**	243.5
Basic earnings per share	**10.8p**	10.8p	**9.8p**	10.8p
Diluted weighted number of shares (millions)	**252.0**	254.8	**252.0**	254.8
Effective tax rate	**10.2p**	10.2p	**9.3p**	10.2p

Table D: Dividend

£m	2022	2021
Dividend per share (paid and proposed)	**4.15p**	1.65p
Dividend per share (recognised)	**2.55p**	0.50p

- Net impact of other items in depot costs and overheads (£1.7m), including strategic planning support costs, an increase to the accrual for unused annual leave, redundancy provisions, increased depot repair costs and the impact of inflation on the dilapidations provision. Utility costs were flat period on period, with fixed price contracts in place until 2024

Net finance charges of £7.0m (FY2021: £8.7m) were lower than the prior period by £1.7m due to lower bank interest charges (£1.5m) and lower loan arrangement fee amortisation (£0.2m).

Adjusted profit before tax was £31.1m, up 0.6% on last period. Taxation of £5.4m indicates a higher effective tax rate of 17.4% compared to the prior period (FY2021: 14.9%), the prior period having benefited from the use of Tuffnells losses.

Statutory results (Table B)

Statutory continuing profit before tax of £27.9m was a £2.7m decrease on the prior period (FY2021: £30.6m). The decrease was driven by the £2.9m of additional adjusting items which included the £4.4m McColl's write-down.

The effective statutory income tax rate for the Continuing Operations was 16.1% (FY2021: 14.1%), the prior period having benefited from the use of Tuffnells losses.

The Company has net liabilities of £32.0m on its balance sheet (FY2021: £57.7). The period on period reduction of £35.7m was driven by £23.4m of statutory profit, the £10m net pension credit in other comprehensive income, offset by £6.1m of dividends. Net liabilities have arisen largely as the result of impairments relating to the Tuffnells business prior to its sale in May 2020.

The Company-entity balance sheet continues to have distributable reserves of £118.7m (FY2021: £124.9m) to allow for future dividend payments.

Earnings per share (Table C)

Earnings attributable to shareholders on a continuing adjusted basis of £25.7m resulted in an adjusted EPS of 10.8p, the same as FY2021. The impact of lower profit as described above was offset by a lower basic weighted average number of shares.

Statutory continuing earnings per share is down 0.9p to 9.3p (FY2021: 10.2p per share), the result of a £2.9m lower profit, also offset by a higher diluted weighted number of shares.

The fully diluted weighted number of shares was 252.0m (FY2021: 254.8m). Fully diluted shares include a 13.5m diluted share adjustment for employee incentive schemes (FY2021: 11.3m) due to purchases made during the period.

Dividend (Table D)

The Board is proposing a final dividend of 2.75p, taking the full period dividend to 4.15p (FY2021: 1.65p). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 24 January 2023 and has not been included as a liability in these accounts. The dividend recommendation represents the maximum permissible sum that can be paid under the distribution cap limits within our banking arrangements (£10m per annum) and is based on the forecast number of shares in issue at the record date. The proposed dividend, if approved, will be paid on 9 February 2023 to shareholders on the register at close of business on 13 January 2022. The ex-dividend date will be 12 January 2022.

Financial Review *continued*

Adjusted items (Table E)

Adjusted items before tax of £3.2m (cost) relating to Continuing Operations were a £2.9m increase from the prior period (FY2021: 0.3m cost). The major contributing factors to the increased cost were the impairment of receivables (£4.4m increased cost) which was offset by £1m lower finance income. Impairment of receivables is a provision resulting from McColl's going into administration in May 2022.

Adjusted items are defined in the accounting policies in Note 1 of the Group Financial Statements and present a further measure of our performance. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team. Alternative Performance Measures (APMs) should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The tables below and commentary provide a summary of the adjusting items impacting Continuing Operations. Full details of these and those impacting discontinued items can be found in Note 4 of the Group Financial Statements.

Adjusted items from Continuing Operations before tax was a cost of £3.2m (FY2021: £0.3m cost).

During the period, the Company provided for £4.4m impairment loss on receivables as a result of McColl's going into administration. This represents 80% of the total receivable of £5.5m due from McColl's at the point of administration and is in line with the administrator's estimated expected payment to unsecured creditors.

Table E: Adjusted items

£m	2022	2021
Impairment of receivables	(4.4)	–
Pensions	(1.8)	(1.0)
Transformation programme planning costs	(0.9)	(1.1)
Asset impairment reversal/(impairment)	1.2	(1.6)
Network and re-organisation costs	0.2	0.1
Share of profits from joint ventures	–	(0.3)
Other	–	0.1
Total before tax and interest	**(5.7)**	**(3.8)**
Finance income – unwind of deferred consideration	2.5	3.5
Total before tax	(3.2)	(0.3)
Taxation	0.9	0.3
Total after taxation	**(2.3)**	–

Having reviewed the nature of the bad debt, the treatment in the past of material items, and the relevance to users of the future predictability of the performance of the business, the £4.4m provision is presented as an adjusting item, within the Company's existing alternative performance measure.

Pension costs in the current and prior periods related to the buy-out of the Company's defined benefit pension scheme, as discussed further below.

During the period, the Company incurred professional fees in relation to transformation programme planning of £0.9m (FY2021: £1.1m).

An asset impairment reversal of £1.2m was recognised in the period (FY2021: impairment cost £1.6m) in respect of the joint venture investment in Rascal Solutions Limited ("Rascal"). An impairment was booked in prior period driven by increased market competition and increased risk of contract non-renewal. The business proved to be resilient having secured significant contract extensions during the period resulting in a reversal of impairment.

Network and re-organisation costs were a credit of £0.2m (FY2021: £0.1m), owing to an overprovision of costs in the prior periods.

In the prior period, Rascal fully impaired an intangible asset in its annual accounts because it is considered to no longer have future economic value. The net book value of this asset was £0.6m, of which 50% (£0.3m) of the write off is attributed to Smiths News.

A finance income credit of £2.5m (FY2021: £3.5m) arose on unwind of the discount on the Tuffnells deferred consideration.

The tax credit on continuing adjusted items was £0.9 (FY2021: £0.3m).

Adjusted items before tax for Discontinued Operations -£0.1m (FY2021: £0.2m) related to residual costs on the disposed Tuffnells business and, in the prior period, a VAT refund.

Free cash flow (Table F)

Free cash flow generation remains one of the Company's key strengths. Free cash flow includes lease payments, Adjusted items, interest and tax.

The Company generated £48.2m of free cash flow, which was £24.2m higher than FY2021 (£24.0), due to the £8.1m receipt of pension surplus and £14m deferred consideration received from Tuffnells and lower levels of cash adjusting items.

The decrease in working capital in the period was £0.6m (FY2021: increase £1.0m). Working capital is affected by the billing cycles of both publishers and retailers, and leads to intra-month working capital movements of up to £40m. Those cycles were largely consistent at the FY2022 and FY2021 period end cut-off points, resulting in only a £0.6m movement.

With management focused on inflationary pressures in the first half of the period, cash spent on capital programmes in the period reduced by £0.5m to £1.9m (FY2021: £2.4m). In the last quarter of FY2022, the depot refurbishment programme has regained momentum with £1.3m of orders and capital creditors on the balance sheet at period end.

Lease payments increased to £6.4m (FY2021: £5.9m) due to lease renewals and rent reviews completed during the period.

Net interest and fees of £8.0m (FY2021: £9.5m) has decreased by £1.5m, due to the lower levels of net debt. Both the current and the prior period included the payment of arrangement fees in relation to the Company's refinancing of its banking facilities (FY2022: £2.9m, FY2021: £2.8m).

Cash tax outflow of £5.3m was a £1.0m decrease on the prior period (FY2021: £6.3m outflow), as the write-down of McColl's reduced the final quarter payment.

The wind-up of the Company's defined benefit pension scheme (detailed further below) resulted in the receipt of £8.1m in respect of the pension surplus in December 2021.

Table F: Free cash flow

£m	2022	2021
Operating profit continuing (including Adjusted items)	**32.4**	**35.8**
Adjusting items	**5.7**	3.8
Depreciation and amortisation	**10.5**	10.7
Adjusted EBITDA	**48.6**	50.3
Working capital movements	**(0.6)**	1.0
Capital expenditure	**(1.9)**	(2.4)
Lease payments	**(6.4)**	(5.9)
Net interest and fees	**(8.0)**	(9.5)
Taxation	**(5.3)**	(6.3)
Other	**1.2**	0.8
Free cash flow (excluding adjusted items)	**27.6**	**28.0**
Adjusted items (cash effect) – return of pension surplus	**8.1**	–
Adjusted items (cash effect) – receipt of deferred consideration	**14.0**	–
Adjusted items (cash effect) – Other	**(1.5)**	(4.0)
Continuing Free cash flow	**48.2**	**24.0**

Table G: Net Debt

£m	2022	2021
Opening Bank Net Debt	**(53.2)**	**(79.7)**
Continuing Operations Free cash flow	**48.2**	24.0
Discontinued Operations Free cash flow	**(0.5)**	(0.4)
Free cash flow	**47.7**	**23.6**
Other movement	**–**	–
Dividend paid	**(6.1)**	(1.2)
Purchase of own shares for employee share schemes	**(2.6)**	(2.6)
Discontinued Operations – Tuffnells working capital loan	**–**	6.7
Bank Net Debt	**(14.2)**	**(53.2)**

FY2022 cash flow also benefited from the receipt of £14m of deferred consideration from Tuffnells, comprising the first instalment in November 2021 (£6.5m) and the final settlement of £7.5m in April 2022.

The total net cash impact of other adjusted items was a £1.5m outflow (FY2021: £4.0m outflow). This comprised: £1.3m (FY2021: £1.2m) of Transformation programme planning costs and £0.2m (FY 2022: £0.6m) of Pension related costs. The prior period included £2.2m of network and reorganisation costs (FY2022: £nil).

A reconciliation of free cash flow to the net movement in cash and cash equivalents is given in the Glossary.

Net Debt (Table G)

Bank net debt closed the period at £14.2m compared to £53.2m in August 2021, a decrease of £39m.

The reduction in net debt was driven by free cash flow from Continuing Operations of £48.2m as described above. These inflows were offset by the payment of the FY2021 final dividend of £2.8m in February 2022, the FY2022 interim dividend of £3.3m and a £2.6m purchase of own shares.

The Company's bank net debt/ EBITDA ratio decreased to 0.3x (H1 2022: 0.9x, FY2021: 1.2x). The period end fell just before major publisher payments of c.£25m were made, which benefited reported bank net debt. Bank Net Debt rose to £34.5m on 31 August 2022 after the period end (£69.3m on 1 September 2021).

The publisher payments are part of the Company's normal working capital cash flow cycle which generates a routine and predictable cash swing of up to £40m within each period.

Our average daily bank net debt during FY2022 was £49.9m (FY2021: 82.6m), a decrease of 39.5% for the full period. Since the settlement of the Tuffnells deferred consideration (£7.5m), in April 2022, average net debt has been £36.7m (FY2021: £75.3m).

Discontinued items cash flow in the current and prior period relates to insurance settlements for incidents which occurred during the Company's ownership of Tuffnells prior to 2 May 2020.

The bank net debt to EBITDA covenant of 0.3x is comfortably within our main leverage covenant ratio of 2.0x (reducing to 1.75x in February 2023), and we remain well within all our other bank covenant tests at period end.

A reconciliation of bank net debt (which excludes the IFRS16 lease creditor and unamortised arrangement fees) to the balance sheet is provided in the Glossary.

Going concern

Having considered the Company's banking facility, the ongoing inflationary pressures within the macro economy and the funding requirements of the Company, the directors are confident that headroom under our bank facility remains adequate, future covenant tests can be met, and there is a reasonable expectation that the business can meet its liabilities as they fall due for a period of greater than 12 months (being an assessment period of 16 months) from the date of approval of the Group Financial Statements. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements and no material uncertainty has been identified.

Pension schemes

In December 2021, the Company received the sum of £8.1m in respect of the net cash surplus held by the Trustee from the finalisation of the buy-out of the defined benefit liabilities in the News Section of the WH Smiths Pension Scheme. As agreed with the Trustee of the Scheme, the return of surplus preceded the formal winding up steps of the News Section – the winding up of the News Section being formally completed on 25 February 2022 through the purchase of insurance run-off cover and the payment of taxes owed to HMRC, which were settled by the Trustee.

As part of the wind up, £1.3m was paid to an escrow account for the Trustee to purchase indemnity insurance and to cover future claims from members owed amounts following the Lloyds ruling in November 2020, and £0.2m was paid for insurance run-off cover. The Company incurred £0.4m (FY2021: £0.6m) in pension administrative expenses and other professional fees as a result of the winding up process.

Paul Baker
Chief Financial Officer

8 November 2022

Principal and Emerging Risks

The Audit Committee assists the Board in the discharge of its duties regarding the Company's maintenance of proper systems of risk management. Assurance over the effectiveness of these systems is provided through regular management reporting to the Audit Committee.

Risk control model

The Company manages risk by operating a three lines of defence risk and control model.

Board/Audit Committee

Executive Team (ET)

1st line of defence

Management controls

The first line of defence consists of operational management implementing and maintaining effective risk identification, reporting, management and internal control systems.

2nd line of defence

Compliance and support functions

The second line of defence consists of the subject matter experts who, in addition to supporting operational management in their own specialist areas, also maintain their own risk registers.

The second line also includes the Executive Team who regularly review strategic risks.

3rd line of defence

Internal Audit

Internal Audit provides independent and objective assurance on the robustness of the risk management framework and the effectiveness of internal controls.

Risk management process

Risk identification → **Risk assessment** → **Risk response** → **Risk monitoring and reporting**

The risk management process mirrors the Company's operating structure, with each functional area being responsible for the ongoing communication and feedback of their existing and emerging risks. This process comprises the identification, assessment and effective mitigation of their risks, as well as continuous monitoring for changes.

Principal and emerging risks

The Company has a clear framework in place to continuously identify and review both the principal and emerging risks it faces. This includes, amongst others, a detailed assessment of 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 these 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 Company'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 business, its markets, the changing regulatory landscape, the Company's future strategic direction and ambition, as well as the growing climate-related risk environment. The directors have carried out a robust assessment of the Group's emerging and principal risks, including those that could threaten its business model, future performance, solvency or liquidity. Following those assessments, three emerging risks have been elevated to principal risks in our risk register. They are: (i) changes to our retail customers' commercial model; (ii) execution risk in implementing our growth and diversification ambitions; and (iii) sustainability and climate-related change environment.

Risks are still subject to ongoing monitoring and appropriate mitigation.

The table on the next pages detail 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 and potential impact	Mitigations	Strategic link/Change
Macro-economic uncertainty		
Deterioration in the macro-economic environment results in supply side cost inflation. The Company is presented with cost challenges in a number of areas which are being driven by increased competition in the distribution labour market and rises in fuel and utility prices. These cost increases present a risk when they cannot be fully mitigated through increased prices or other productivity gains. This results in deterioration in the level of profitability in both the short and medium term, and impacts on the Company's ability to execute its strategies, including level of debt and liquidity objectives.	• 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 • Weekly cost monitoring enables oversight and action on a timely basis • Predictable level of volume decline within the core business enables cost optimisation planning • Use of fixed term contracts as a hedge against rapidly rising prices, e.g. energy costs • The Company continues to be significantly cash generating to support its strategic priorities	**Strategic Link:** Cost and efficiencies, Operations **Change:** Increasing
Acquisition and retention of labour		
Due to the current competition in the distribution labour market, the Company is facing an increased risk of being unable to recruit and retain warehouse colleagues and support staff. The same pressures are also being felt in sourcing and retaining delivery sub-contractors, as well as filling in-house roles within our central support functions. A failure to maintain an appropriate level of resourcing could result in increased costs, employee disengagement and/or loss of management focus and underpins the ability to address the strategic priorities and to deliver the forecast performance.	• We seek to offer market competitive terms to ensure talent remains engaged • We offer long-term contracts with our sub-contracted delivery partners • We use a variety of platforms to recruit employees and contractors • The level of vacancies across warehouse and delivery contractors are monitored daily • We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Company's culture and core values • Retention plans are reviewed to address key risk areas, and attrition across the business is regularly monitored • Regular surveys are undertaken to monitor the engagement of colleagues	**Strategic Link:** People first, Culture and values, Costs and efficiencies **Change:** Stable
IT infrastructure and cyber security		
To meet the needs of our stakeholders, our IT infrastructure needs to be flexible, reliable and secure. Secure infrastructure prevents external cyber-attack, insider threat or supplier breach could cause service interruption and/or the loss of company and customer data. Cyber incidents could lead to major adverse customer, financial, reputational and regulatory impacts. Flexible and reliable IT infrastructure means the Company is able to meet its strategic goals and react quickly to changing events. The lack of this could lead to the Company being unable to execute its strategic goals.	• Defined, risked-based approach to the information security roadmap and technology strategy which is aligned to the strategic plans • Regular tracking of key programmes against spend targets and delivery dates • The Company assesses cyber risk on a day-to-day basis, using proactive and reactive information security controls to mitigate common threats • Dedicated information security investments and access to third-party cyber security specialists • The Company encourages a cyber-aware culture by undertaking exercises, such as computer-based training and more regular communications about specific cyber threats • We continue to pursue Cyber Essentials and Cyber Essential Plus accreditations	**Strategic Link:** Technology **Change:** Stable

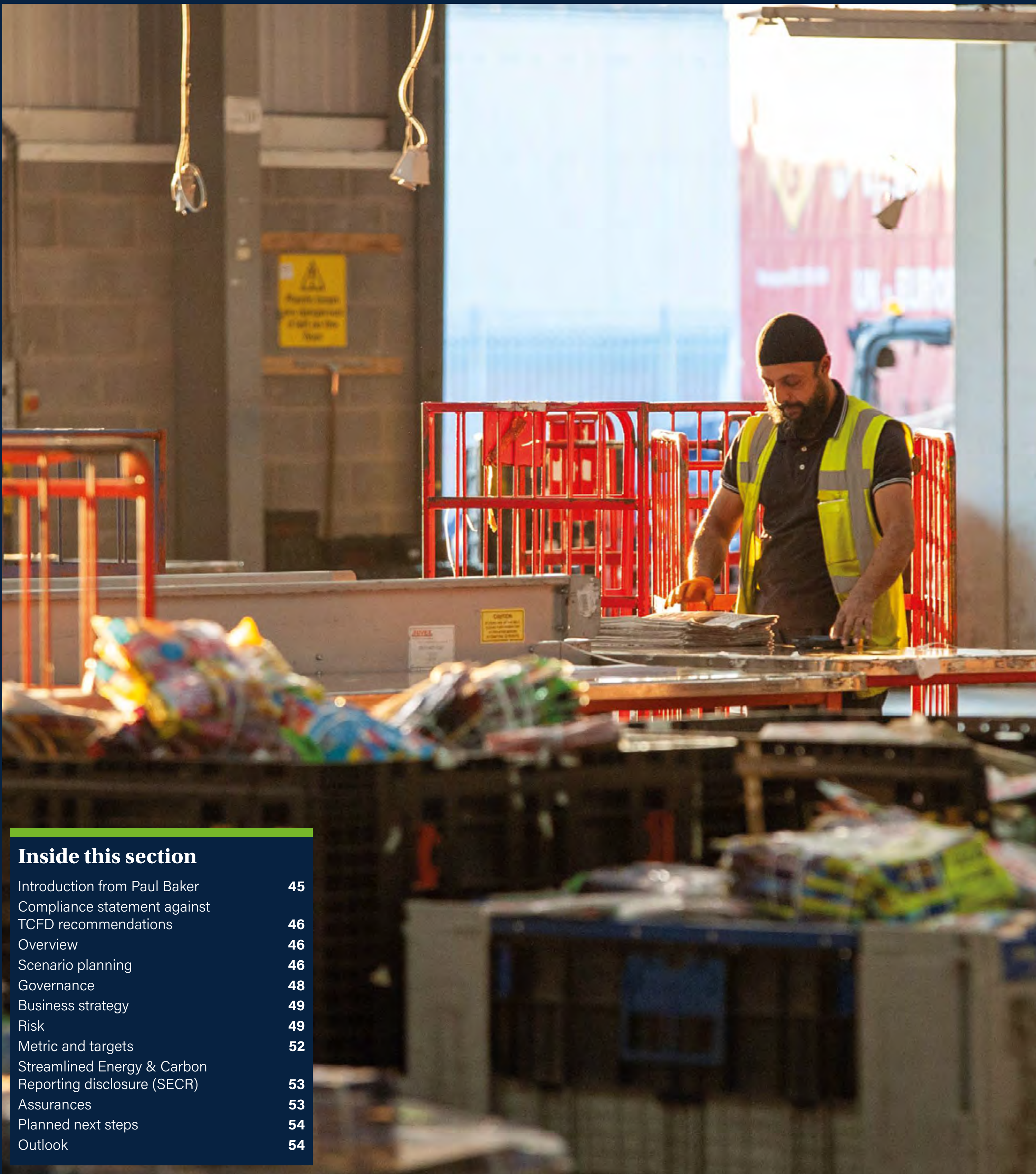
Principal and Emerging Risks *continued*

Principal risks and potential impact	Mitigations	Strategic link/Change
Legal and regulatory compliance		
The Company is required to be compliant with all applicable laws and regulations. Failure to adhere to these could result in financial penalties and/or reputational damage. Key areas of legal and regulatory compliance include: • GDPR • Health and Safety • Tax compliance • Environmental legislation • Employment law	• Changes in laws and regulations are monitored, with policies and procedures being updated as required • Business-wide mandatory training programmes for higher-risk regulatory areas • External experts are used where applicable • All major policies are reviewed by the Board or Audit Committee on an annual basis • Operational auditing and monitoring systems for higher risk areas	**Strategic Link:** Technology, Sustainability, Operations **Change:** Stable
Changes to retailers' commercial model		
Our largest retailers (e.g. grocers and symbol group members) remain under significant pressure to maximise sales and profitability by channel within their retail stores and at associated sale outlets, such as at petrol forecourt stores. This could result at any time in a category review of the newspaper and magazine channel, leading to a significant reduction in newspapers' and/or magazines' selling space instore, in favour of other higher margin products and/or the delisting of all/particular titles of newspapers and/or magazines. A reduction in sales space and/or full delisting of newspapers and/or magazines by our largest retailers could materially reduce the Company's revenue, profitability and cash flow.	• Our EPoS-based returns (EBR) solution has been introduced instore with our largest retailers, improving staff efficiency in managing the magazine category, thereby reducing cost to the retailer • Longer-term potential to extend EBR to newspapers in order to broaden efficiency-benefits to retailers • Form stronger partnerships with emerging retailers to stock magazines and newspapers	**Strategic Link:** Cost and efficiencies **Change:** New
Growth and diversification		
A successful growth and diversification strategy is essential to the long-term success of the Company. At the same time, maintaining the Company's outstanding and sector-leading standards of service in newspaper and magazine wholesaling is paramount to help fund growth and diversification opportunities and support publisher contract renewals, each of which deliver shareholder value. Implementing new business growth opportunities without detrimentally impacting the Company's core newspaper and magazine wholesaling carries an execution risk to both the new initiative and ensuring the Company remains able to deliver sector-leading support to publisher clients.	• Strong project management and governance in place to sign-off growth initiatives and oversee their implementation • A Growth Delivery Operations Steering Committee has been established to monitor the impact of new business opportunities on core operations • Pilots and trials of new business opportunities have been deployed to assess both the potential economic benefit of such opportunity and its likely impact on maintaining the Company's outstanding and sector-leading standards of service in newspaper and magazine wholesaling • Executive Team balanced scorecard of key performance indicators ensures sub-optimal performance is tracked and monitored on a regular basis and allows appropriate interventions to be made	**Strategic Link:** Cost and efficiencies **Change:** New

Principal risks and potential impact	Mitigations	Strategic link/Change
Sustainability and climate change		
Climate change is a widely acknowledged global emergency. In the UK, government and regulatory changes in response to a drive to 'net zero' carbon emissions and increasingly stringent air quality targets for UK towns and cities could make it more difficult and costly for the Company to undertake newspaper and magazine wholesaling activities within the UK or particular towns and cities. In addition to these transitional risks associated with moving to a low carbon future, there are also a range of ongoing physical risks. These include an increase in the frequency of extreme weather events which may result in power outages, disruption to our service operations and/or impact our ability to serve our customers in an efficient and cost-effective manner. In common with all major organisations, there is a risk of reputational damage and/or loss of revenue if the Company fails to meet stakeholder expectations for action on climate change.	• Sustainability Steering Committee established (chaired by the Chief Financial Officer) to coordinate the Company's action on climate change • Emissions and air quality targets in UK towns and cities are monitored by a central team in the Operations function which ensures the Company can fulfil its obligations to customers and remain compliant with legal requirements • Operational sites are reviewed for their resilience to extreme weather events, such as floodings, with upgrades and interventions made where these are cost-effective. Depots are relocated to new sites (e.g. during lease break windows) where this represents a better option than adapting an existing location • Working with suppliers to ensure they share the Company's vision to act on climate change	**Strategic Link:** Cost and efficiencies, Operations, Sustainability **Change:** New

The risk management process mirrors the Company's operating structure...

Task Force on Climate-Related Financial Disclosures (TCFD)



Inside this section

It gives me pleasure as Chairman of our Sustainability Committee to present this, the first of our Task Force on Climate-related Financial Disclosures (TCFD) reports.

FY2021 represented the start of our journey in this area and saw us commence development of our sustainability approach, with this year seeing us take significant strides to develop our sustainability strategy and commence with its implementation, including the processes and systems to enable TCFD reporting. One of our sustainability pillars relates to the environment in which we operate, with key areas of focus being emissions, waste and energy, each of which link closely to TCFD.

... we are still making strides and have set ourselves realistic targets which we believe we will be able to achieve on our path to net zero.

We believe that we have made a credible start with our TCFD report, but acknowledge that we still do not have the analytical tools to fully understand the impact of different global warming scenarios on all aspects of our business. We are, however, taking steps to address this shortcoming, and as a lean business, have sourced external expertise to assist us in this regard. That said, we are still making strides and have set ourselves realistic targets which we believe we will be able to achieve on our path to net zero. We have engaged with our customers and suppliers in a spirit of mutual cooperation, to both understand our respective positions and to identify areas where we can assist one another to achieve our goals. We remain aware of the growing risk of climate change to our business, but are also focused on the positive steps we have taken which saw us launch our recycling collection service offering to our independent retailers, which not only assists our customers with their recycling requirements but increases the utilisation of our fleet and has the potential to deliver financial benefits to our business.

I assure you that our Board, CEO, Executive Team and all our colleagues throughout the business are committed to achieving our goals and to do our part towards alleviating this climate emergency, and we will continue to build from our current position.

Paul Baker
CFO and Chairman of Sustainability Steering Committee

8 November 2022

Task Force on Climate-Related Financial Disclosures (TCFD) *continued*

Compliance statement against TCFD recommendations

At the time of publication, the Company has made climate-related financial disclosures which we believe are consistent with the TCFD recommended disclosures (as per the four TCFD recommendations and the 11 recommended disclosures of the report entitled "Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the TCFD) covering governance (all recommended disclosures). In respect of the strategy recommendations (all disclosures), we have partially met the requirements, with further work underway to refine the basis of our assumptions used in scenario planning and to develop an analytical model to more accurately identify the impact of risks and opportunities on business, strategy and financial planning, including the timelines of such impact. Once we have more fully understood the impacts, we will undertake a further exercise to revisit our business strategy and financial planning to build additional business resilience as necessary. The disclosures in respect of the risk management recommendations ((a) and (b) in particular) have partially met the requirements, with further information required in respect of the impact of identified climate-related risks in relation to our business, as well as our risk management strategies. Finally, in respect of metrics and targets (all disclosures), while we have determined and disclosed both metrics and targets, we have not yet adopted scientific-based targets and, therefore, these will be developed within the course of FY2023.

A summary appendix of our compliance against the TCFD recommendations is set out at the end of this TCFD report on page 54.

Our TCFD Process

Process

Governance	Strategy	Risk
• Sustainability Committee • Ongoing review of processes and controls • Executive Team • Board oversight (quarterly reviews)	• Considered performance of the business, its markets & the changing regulatory landscape • Sustainability strategy • New business opportunities	• Undertook risk assessment • Determined physical and transitional risks & opportunities, including impact & likelihood • Considered mitigations

Outcomes

Sustainability Committee /Board Reports	Sustainability Strategy	Elevate to principal risks / current opportunity

Overview

The Task Force on Climate-related Financial Disclosures (TCFD) published recommendations for climate-related financial disclosures which would provide a consistent and comparable record of information for use by companies, investors and other stakeholders to enable informed financial decisions. Smiths News has adopted the recommendations of the TCFD and recognises that climate change presents both risks and opportunities to our business. This, our first TCFD report, provides a progress update against the TCFD framework across each of the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets, as well as providing a summary of the strength and resilience of our strategy and business model taking into account climate scenarios.

...further work is underway to refine the basis of our assumptions used in scenario planning and to develop an analytical model to more accurately identify the impact of risks and opportunities on business, strategy and financial planning, including the timelines of such impact.

Scenario planning

We have chosen three climate scenarios (as set out below) to assess our risks and resilience of our mitigating actions. We chose these scenarios because they include the requirement to assess our resilience under different scenarios, including a 2°C or lower scenario, and are modelled across a 30-year time period which is aligned to the Paris Agreement and net zero 2050 targets. These three scenarios are also aligned with the International Energy Agency (IEA). We have assumed that a disruptive transition is most likely, meaning that physical risks will be present but will be limited. Irreversible climate changes (changes in sea levels, etc.) are seen as long-term risks under a worst-case scenario. It should be noted that we currently have limited data and analytical capabilities, and have reached our scenario planning assumption and assessment based on management opinion and what we believe the impact on our business may likely be. When considering these events, we have taken into consideration the likely physical impact on our business and any merits of adjusting our strategy because of this expected impact.

Metrics & Targets
(incl. Scope 1 & 2 emissions)
- Emissions
- Waste
- Energy usage

Metrics & Targets – updated monthly

Environmental Targets
- **Energy –** where practical, gas to be sourced from alternative sources by 2030, while developing further ongoing energy reduction initiatives, including, where practical, new warehouse locations to be net carbon neutral and current sites to be net carbon neutral by 2030
- **Waste –** understand if opportunities for further waste segregation exist, while encouraging retailers to recycle through Smiths News Recycle
- **Emissions –** Review of Science Based Target setting and achieving SBTi, while monitoring fuel costs with a view to establishing optimum time for conversion to advanced renewal diesel, and continuing review of 'Final Mile' delivery to further optimise routes and minimise mileage

The three different scenarios (taking into account the different levels of global warming, transition pathways and the incremental impact this will have on our business) have been considered and are reflected in risks which have been identified and which are set out further in this report. We have engaged a third-party expert (EcoAct) to assist us with the development of science-based targets on our journey to net zero and, as part of this process, they will work with us to re-evaluate and quantify our Scope 3 emissions, and to develop a tool which will enable us to model our carbon reduction scenarios and provide a feasibility check on targets, so as to inform our strategy.

When considering our obligations to report in line with TCFD requirements, and the FCA Listing Rules (LR9.8.6DG), we have applied the concept of materiality to our judgement, aware that we are required to provide sufficient detail to enable readers to assess our business' exposure and approach to addressing climate-related issues. We believe that, considering both the degree of exposure of our business, as well as the mitigations through our sustainability strategy, the level of detail included in our disclosures is adequate.

Smooth Transition

<2°C

Early implementation of societal actions and policy towards a low-carbon economy, resulting in the limitation of global warming in line with the aspirational Paris 1.5°C increase.

We would expect higher transitional risks and limited physical risks.

Disruptive Transition

<2°C

Piecemeal global actions and divergent policy implementation which stalling, delays and/or scaling-back of initiatives coupled with compensatory measures to address late implementation.

We would expect the highest level of transitional risks and increased physical risks.

No mitigation/ Business as usual

>3°C

Failure to implement change and policies to address global warming.

We would expect limited transitional risks but a high degree of physical risk.

Our materiality measure applied to climate-related risks is the same as applied to all our sustainability risks, being an XY axis rating based on the importance to stakeholders on one axis and the impact on the business on the other. Our sustainability risks are kept under review by our Sustainability Steering Committee, as well as through our risk management system. In this regard, please see the risk section on page 42.

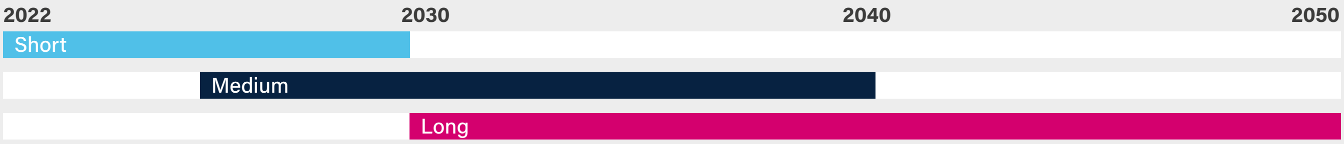
We anticipate that climate-related risk may have a financial impact on our business through an increase in the costs of doing business (possible increases in tariffs, cost of assets to facilitate distribution in low emission city-zones and rising energy costs), reduced income as consumer patterns may change to lower environmental impact alternatives (e.g. digital copies) and/or a possible impact on our asset values. As part of our financial planning process and our 'Going Concern' modelling, we have considered three mitigation scenarios to the identified risks to our operating model, specifically associated with the various pressures (regulation, public and stakeholder opinion, and costing) which we envisage will be increasingly brought to bear on our distribution model and the associated emissions arising from increased climate-related regulation and awareness. Scenario modelling has included three interventions, being an increase in charges for distribution to inner city delivery points, reoptimising of routes to limit the number of vehicles accessing city centres and the utilisation of electric vehicles. Over the next 12 to 18 months, we will look to further develop this modelling and seek to develop a number of programmes to review future options.

See overleaf for our scenarios.

Task Force on Climate-Related Financial Disclosures (TCFD) *continued*

Scenarios

We have used a time horizon of the current period (2022) until 2050, as set out below:



- **Short-term** risks have been determined based on assumptions that the impact has already begun to materialise or is expected to do so within a one to ten-year horizon. These are risks, the impact of which we are better placed to assess at this time, and in respect of which we have detailed plans to assist us to meet our stated targets as set out further in this report (e.g. waste and emissions reductions);
- **Medium-term** risks are those which we have identified but the impact of which are still not clearly measurable. These risks are partially addressed through our current plans and determined targets and metrics; and
- **Long-term** risks are those in respect of which we are uncertain as to the projected impacts and believe that, given the inherent unknown quality thereof (particularly as to likelihood and impact), while some of our action plans do mitigate against future impact they are largely aspirational as to plans, targets and metrics.

Governance

The Board has overall responsibility for the strategy, objectives and financial management of the business and, within this remit, the Board has oversight of our sustainability strategy, as well as the climate-related risks and opportunities, energy consumption, waste management and emissions associated with our business. The Board is assisted by the Audit Committee in the discharge of its duties regarding the maintenance of proper systems of risk management and, in this regard, receives regular management reports. Climate-related risks are included in the risk management approach and have been identified and included within our risk management framework; and have recently been elevated from an emerging risk to a principal risk facing the Company – please see page 40 for further details. We have an established risk management process which includes the identification of both risks and opportunities. The risk management process mirrors the Company's operating structure, with each functional area being responsible for the ongoing communication and feedback of their existing and emerging risks. This process comprises the identification, assessment and effective mitigation of their functional risks, as well as continuous monitoring for forthcoming changes and/or regulatory updates on the horizon.

The Company manages risk by operating a 'three lines of defence' risk and control model. More information in this regard is available in the Principal Risks section on page 42.

A Sustainability Steering Committee has been established under the chairmanship of the Chief Financial Officer and operates within approved terms of reference from the Board and the Executive Team, and has representatives from across the business, including operations, procurement, finance, governance, communications and human resources (please see the Sustainability report on page 24 for a detailed structure of the Committee and its workings). The Committee meets monthly and submits regular structured reports to both the Executive Team and the Board on at least a quarterly basis, in particular reporting progress made against goals and targets. As part of our sustainability strategy, we have identified a number of goals which have been arranged into five pillars, one of which encompasses the environment. Goals within the environmental pillar of our sustainability strategy includes a commitment to renewable energy and reduction of emissions.

TCFD Governance structure

The Board

(Standing agenda item per quarter)

- Overall responsibility
- Oversees Sustainability Strategy
- Challenges and monitors metrics and targets

Audit Committee	Remuneration Committee
(Standing risk agenda item) • Oversees risk management process (including climate-related risks) • Oversees financial statements, including non-financial disclosures	**(Considered annually)** • Alignment of remuneration policies and incentives*

Executive Management Team

(Periodic review)

- Responsibility for implementation of Sustainability Strategy

Sustainability Steering Committee

(Monthly)

- Delegated responsibility for development of our Sustainability Strategy, including its ongoing refinement
- Setting and monitoring of targets and metrics
- Communication strategy (internal and external)
- Reporting

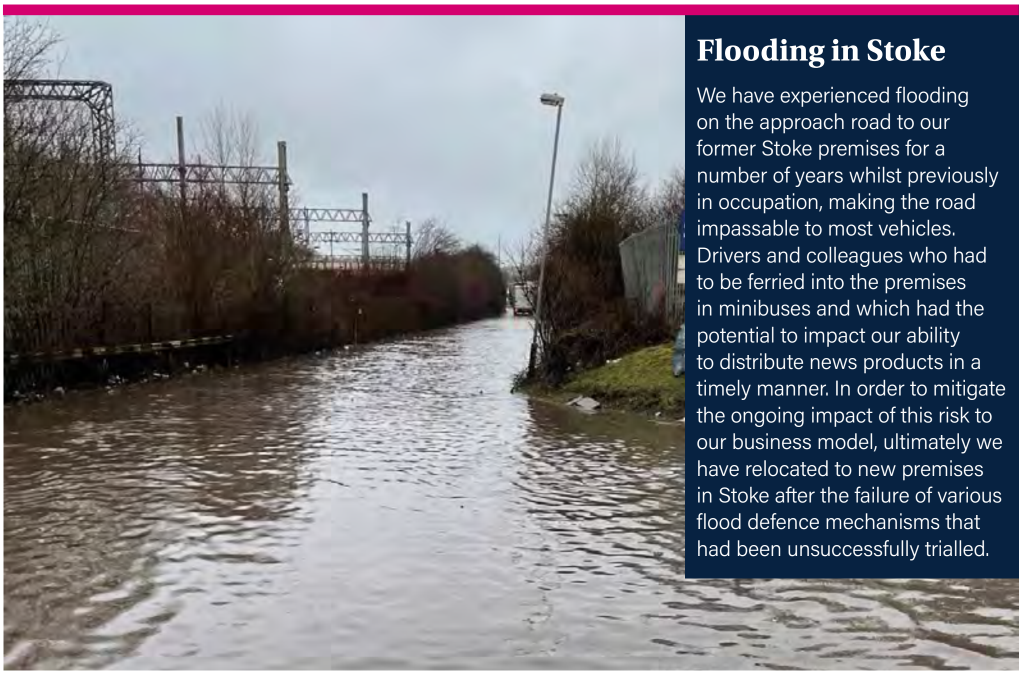
* ESG metrics are included within the personal objectives of the executive directors and which therefore impact bonus payments. The Directors' Remuneration Policy (being presented to shareholders at the 2023 AGM) makes explicit reference for the inclusion of ESG metrics as an executive performance measure within the LTIP scheme.

Business strategy

We recognise that climate change poses both physical and transitional risks to our business and current strategy. Physical risks are associated with an increase in the frequency and severity of weather events, such as flooding, heatwaves, extreme cold snaps, drought, wildfires and the like. We also recognise the potential social and economic impacts of climate migration and famine. Transitional risks include the economic impact of climate change, growing regulatory requirements and technology changes, for which we acknowledge the need to adapt and refine our strategy. The reputational risk to our business of failing to adequately meet the changing social expectations relating to climate change are also considered.

The Board has considered the impact of climate-related risks and opportunities on the performance of our business, markets, the changing regulatory landscape and the Company's future strategic direction and ambition, as well as the financial impact thereof. After carrying out a robust assessment of the climate-related risks, we have determined that, for our business, we have moved from an emerging risk environment to one where these risks have now been reassessed as principal risks given their likely increasing impact and foreseeability, presenting a risk environment which could impact our business model, future performance, solvency or liquidity. We will continue to monitor these risks and assess the appropriateness of our mitigation actions.

Strategically, the business remains resilient and the identified short- and medium-term climate-related risks are largely being managed and mitigated through the implementation of our Sustainability Strategy. We continue to monitor climate-related risks, understand the residual risks through ongoing reviews of our processes, systems and controls, and build our business resilience to put us in a position to respond to climate changes in a way that has the least impact on our business.



Flooding in Stoke

We have experienced flooding on the approach road to our former Stoke premises for a number of years whilst previously in occupation, making the road impassable to most vehicles. Drivers and colleagues who had to be ferried into the premises in minibuses and which had the potential to impact our ability to distribute news products in a timely manner. In order to mitigate the ongoing impact of this risk to our business model, ultimately we have relocated to new premises in Stoke after the failure of various flood defence mechanisms that had been unsuccessfully trialled.

Risk

The Company identifies risk and opportunities, including those associated with climate risk, through a bottom-up/top-down approach, which includes a combination of processes encompassing a review of processes and procedures, analysis of trends, engagement with key stakeholders, benchmarking with peers, brainstorming, comparison against standard risk checklists, 'cause and effect' analysis and the robust maintenance of our developed risk management framework and registers.

Risks are plotted on risk maps with descriptions, owners and mitigating actions, reporting against a level of materiality (principally relating to impact and likelihood which are the measures used to prioritise our risks) consistent with its size. These risk maps are reviewed and challenged by the Executive Team and Audit Committee and reconciled against the Company'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, and ensure that we are aware of future changes in regulatory or best practice requirements.

As part of our overall risk review, climate-related risks and opportunities have been considered and identified. A dedicated climate risk register is in place and is monitored by the operational team's leadership. Climate change-related risks were initially identified at the beginning of FY2022 as an emerging risk but, following recent events and subsequent review, for FY2023 the decision has been made to elevate these and include climate change-related risks as a new principal risk on the overall Company risk framework and register. While we believe that the mitigation actions, including the monitoring and actions being taken pursuant to our Sustainability Strategy, currently reduce the risk to an acceptable level, we understand that climate-related risks can change quickly and thus believe that this risk is now one of the principal risks that the Company is facing.

Working through the heatwave – a thanks to staff

After working our way through some of the hottest days on record, I want to thank my operational teams, and all of our colleagues for the commitment and resilience you have shown in these unprecedented and uncomfortable conditions.

The temperatures really began to climb during such a busy time, so I am incredibly grateful that – despite the heat – you have been able to support the business in delivering its usual fantastic service, as well as looking out for each other. Our core values were clearly on display throughout, despite the intense heat – and that was really heartening to see.

Lucy Robertson
Smiths News
Operations Director

Task Force on Climate-Related Financial Disclosures (TCFD) *continued*

To enable the business to assess and manage our climate change risks and opportunities, we need to be able to fully understand the impact of our business on the environment. To this end, we have developed metrics and targets for our waste, emissions and energy consumption priorities. We have assessed the timeline over which we expect the impact to materialise and categorised them as short, medium or long term as follows:

- **Short term -** impact has already begun to materialise or will do so within a two to eight-year horizon
- **Medium term -** identified but the impact of which is still not clearly measurable
- **Long term -** we are uncertain as to the impacts and believe they are largely aspirational as to plans and targets

Description & causes	Consequences	Mitigation and response
Physical Risk: Increase in extreme weather events		
Current likelihood: Possible 10% to 30% chance // Time Estimate: Short		
Description Increased frequency of extreme weather events, such as flooding or more extreme heat days. This can create dry ground conditions, increasing the risk of a product fire at our depots or flooding, inhibiting or delaying people and vehicle access to our locations **Causes** An increase in the frequency of extreme weather events is believed to be driven by human activities, such as the burning of fossil fuels causing long-term shifts in temperatures and weather patterns, commonly referred to as climate change	Service interruptions to our depots, data centres and offices prevent the Company from serving its customers Increased investment required to make our depots more resilient to the effects of an increase in extreme weather events Increased costs arising from replacing equipment and repairing depot infrastructure where mitigation measures have only been partially successful or unsuccessful Increase in temperatures leading to more energy consumption (greater use of air conditioning in depots, data centres and offices) and increased costs to ensure safe operational environment	**Controls and mitigations:** Review of depot network and relocation where deemed necessary **Risk Response – post mitigation:** Mitigate
Transitional Risk: Impact of extension of low emission zones across major UK local authorities		
Current likelihood: Possible 10% to 30% chance // Time Estimate: Medium		
Description Emissions and air quality targets introduced in UK towns and cities, e.g. ULEZ in London **Causes** Local Authority Legislation	Increased distribution costs for final mile delivery results in higher operational costs for the Company Longer term, the capital costs of using electric vehicles would require the Company's distribution model to be reassessed Supply to some customers may also prove economically or operationally unviable, reducing our revenue and profitability	**Controls and mitigations:** Monitored by our operational teams and reported to the Sustainability Steering Committee Adaptation of our distribution model through consolidation of last mile delivery routes to minimise higher operational costs Technology developments (and EV mileage range) may improve economics and operational utilisation of electric vehicles Employees with a company car are now required to transition to hybrid or electric vehicles when their current fixed loan period expires, supporting use in clean air zones **Risk Response – post mitigation:** Accept

Impact severity key
- Severe
- Moderate
- Mild

We have considered the risk of carbon pricing and any reliance on offsets to enable us to meet net zero status. We have a 2050 net zero ambition, but currently do not have the necessary analytical tools to enable us to undertake accurate scenario planning nor to fully understand the impact of climate change, our ability to implement changes to reduce our emissions or to what extent we may or may not need to rely on carbon credits to achieve our net zero status. This remains work in progress (see the scenario planning section above), and we will therefore keep this risk under review and adjust accordingly.

Opportunities – We have already identified a recycling growth opportunity for our business with the launch of a low-cost daily recycling collection service, to help our independent customers in the West Midlands and North West to manage soft plastic and bulky cardboard packaging left over from trips to the cash-and-carry or stock deliveries. We collect, sort and arrange the safe and secure recycling of this product.

Description & causes	Consequences	Mitigation and response
Physical Risk: Decreasing paper supply and/or increasing raw material prices of paper (Severe)		
Current likelihood: Unlikely <10% chance // Time Estimate: Long		
Description Availability of paper supply to publishers and printers impact physical copy availability and risk sharply increasing cover prices, presenting pressure on consumer purchasing decisions **Causes** Deforestation causing natural resource depletion. Disruption to paper supply chain through environmental lobby actions	Due to restrictions on the supply of newsprint, publishers reduce the quantity of physical copies available for distribution to retailers and consumers and/or lead to reduction in range of titles available. This in turn reduces the Company's revenue and profitability, as fixed costs of final distribution cannot altogether be mitigated by reducing volumes	**Controls and mitigations:** Monitor of paper supply chain availability and costings through our procurement function Quarterly update to the Sustainability Steering Committee of any significant changes **Risk Response – post mitigation:** Accept
Transitional Risk: Increase in temperatures impacting operational efficiency/costs (Moderate)		
Current likelihood: Possible 10% to 30% chance // Time Estimate: Short		
Description Increase in temperatures, leading to more energy consumption to ensure a safe operational environment **Causes** Increase in temperature	Need to allow core breaks for day shift colleagues and/or provide additional cooling through air conditioning/fans	**Controls and mitigations:** Preparation and monitoring, to ensure cooling equipment hired and deployed during critical periods **Risk Response – post mitigation:** Accept
Physical Risk: Decreasing fuel availability and/or increasing fuel prices (Severe)		
Current likelihood: Possible 10% to 30% chance // Time Estimate: Medium		
Description Availability of diesel and/or petrol decreases, thereby sharply increasing prices **Causes** Increased competition for scarce resources as sources of supply close or cannot be accessed due to international trade sanctions	Increase in operational costs (including payments to delivery contractors), to reflect higher fuel costs impacting Company profitability Fuel shortages could prevent deliveries being made to customers, impacting contractual KPIs with publishers, damaging the Company's reputation and relationships	**Controls and mitigations:** Fuel availability and price trends are monitored by our operational teams and strategies developed to counter threats and maximise opportunities **Risk Response – post mitigation:** Accept

Task Force on Climate-Related Financial Disclosures (TCFD) *continued*

Metric and targets

As the identified risks are reviewed and updated, our metrics and targets will also be revisited with any additional metrics, and associated targets, added as and when necessary. While we recognise a flooding risk, we are not an 'asset heavy' business but will keep the risk of flooding to assets under review.

Where we started	Target	Metrics	Progress	FY2023
Energy Consumptions				
While we believed 100% of our electricity was sourced from renewable sources, we have now sought to obtain certificates to evidence this per location We currently do not utilise 'green gas', and this is being investigated	Where practical, our gas and electricity to be sourced from renewable and / or more environmentally beneficial sources by 2025 (electricity) and 2030 (gas)	Gas and electricity purchased	• Electricity supplies sourced from renewable / green sources certified except for Newport depot • Options being developed for the transition to carbon neutral using offsets or green gas supply	• Where practical, move to alternative gas supplies by 2030 • Develop further ongoing energy reduction initiatives • Where practical, new warehouse locations to be net carbon neutral and current sites to be net carbon neutral by 2030
Waste				
Our internally generated waste is recycled or reused	100% of our generated waste to be recycled and / or reused	Diversion from landfill	• 100% of all generated waste is recycled and / or reused	• Compositional analysis – understand if opportunities for further waste segregation exist. Encourage retailers to recycle through Smiths News Recycle
Emissions				
Our fleet is primarily outsourced through self-employed delivery contractors for final mile operations, with a small in-house HGV fleet servicing airports and key travel points. This fleet is primarily diesel	Optimise transport operations (Company fleet) to reduce emissions and reduce annual distribution mileage	Scope 1 and 2 emissions (see next page)	• Assessment of renewable fuel type for company HGV fleet complete, decision to progress postponed due to significant cost increases • Final Mile distribution optimisation projects reducing mileage and emissions • Ongoing trial Electric Vans in Stoke depot	• Review of Science Based Target setting and achieving SBTi • Monitor fuel costs, to establish appropriate time to convert to advanced renewable diesel • Continue delivery 'Final Mile' reviews, to further optimise routes and minimise mileage
	Optimise our company car fleet – renewing at end of lease over the next four years to electric or hybrid vehicles		• Company car policy review policy complete – only allow PHEV or EV cars • New car orders placed for 4 PHEV and 6 BEV – 25% of total fleet	• Create target for overall fleet tCO_2e • Continue with conversion to PHEV / BEV car fleet

Streamlined Energy & Carbon Reporting disclosure (SECR)

As a large, quoted company incorporated in the UK, Smiths News is required to report its global and UK energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The data detailed in this table represents emissions and energy use for which Smiths News is responsible, including energy used in our offices and depots, and fuel used in company owned or operated vehicles. To calculate our emissions, we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard along with the UK Government GHG Conversion Factors for Company Reporting 2022. Any estimates included in our totals are derived from actual data which have been extrapolated to cover the full reporting year.

Assurances

The SECR data set out above has been externally assured by EcoAct (see Appendix 2 on page 55).

September 2021 – August 2022

September 2020 – August 2021	2022 (UK & offshore)	2021 (UK & offshore)	2020** (UK & offshore)
Emissions from the combustion of fuel or the operation of any facility, including fugitive emissions from refrigerants use/tCO_2e – Scope 1 emissions	**1,536.4**	983.7	1,446
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location based) / tCO_2e – Scope 2 emissions	**915.8**	1,005	1,184
Total gross emissions / tCO_2e	**2,452.1**	1,988	2,630
tCO_2e per £million turnover	**2.3**	1.8	2.26
tCO_2e per FTE	**1.5**	1.2	1.46
Energy consumption used to calculate above emissions /kWh	**11,702,058***	9,680,529	10,803,390
Estimated emissions from the mileage covered by our outsourced delivery drivers (tCO_2e) – Scope 3 emissions***	**9,697.4**	10,333.4	11,255.0

* 'Total energy consumption used to calculate emissions in kWh' has been restated for the comparison year. Following clarified guidance from BEIS, regarding the conversion from litres of fuel used in vehicles to kWh, calculations have been updated to apply the Net CV value by fuel type as opposed to the Gross CV value.

** Continuing operations excludes Tuffnells which was sold in May 2020.

*** Scope 3 emissions have been calculated in alignment with the GHG Protocol Corporate Value Chain Standard, an internationally recognised best-practice standard for calculating emissions resulting from value chain activities.

Our total overall emissions amounted to 12,149.6 tCO_2e, which is a year-on-year decrease of 172.6 tCO_2e. Set out below is a summary explanation of our emissions reporting:

Scope	Definitions
Scope 1 movement	Company car mileage has risen by 495k miles due to the effect the pandemic had on reduced travel in the previous year. Hence, as a result of the business' activities returning to 'normal' following the relaxation of pandemic restrictions in FY2022, our emissions have actually increased versus the previous year but returning to be broadly in line with the pre-pandemic levels
	Gas consumption has reduced by 262,350 tCO_2e due to depots being taken off gas supplies and the increased use of electricity
	Diesel purchased has grown by 182k litres due to the additional use of our own fleet to accommodate for self-employed contractor shortages in FY2022
Scope 2 movement	Electricity has slightly grown in consumption due to depots using less gas and using more electricity in equipment, such as electric point water heaters and electric panel heating. To counteract this LED lighting and motion sensors, lighting has been installed together with motion sensors lighting to limit use
Scope 3 movement	Contractor vehicle mileage has decreased by 584k km due to reduction in the number of final mile routes within the operation and from improved route optimisation
	Trunking mileage has decreased by 19k km due to a reduction in lanes / trips
	We have seen a decline in grey fleet / business mileage by due to the rise in the use of virtual meetings
Other important factors	100% renewable electricity in all depots except one (Newport depot)
	100% landfill diverted

Task Force on Climate-Related Financial Disclosures (TCFD) *continued*

Planned next steps

We have further activity planned over the coming year to further enhance our alignment with the TCFD recommendations, including:

- The development of our analytical tools and methodologies to enable further scenario analysis of both physical and transition climate risks and opportunities, and in this regard will be using the services of external consultants, EcoAct;
- Review of major strategic plans to ensure they remain resilient to the identified climate risks and opportunities;
- Further analysis of the financial impacts of climate change;
- Development of science-based targets for monitoring emissions and the further consideration of appropriate metrics and targets to measure future performance; and
- To seek external assurance of our application of the TCFD recommendations, to ensure our strategy is robust and aligned to our business purpose.

Outlook

The Company is well positioned to consider the impact of climate-related risks on the Company's business model (and any associated costs in meeting these) together with our Sustainability Strategy, and believes that we have a solid platform for the Company to meet these challenges.

Appendix 1

Recommendations and disclosures	Confirmations
Governance: Disclose the organisation's governance around climate-related risks and opportunities	
a) Describe the board's oversight of climate-related risks and opportunities	Disclosed in full and requirements met
b) Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed in full and requirements met
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Partial disclosure – risks and opportunities identified but data for accurate analysis, analytical models and review of time periods and scenarios require further enhancement
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Partial disclosure – analysis of impact of risks and opportunities on our business, strategy and financial planning is based on assumptions which require further analysis and the development of a suitable model
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Partial disclosure – more comprehensive modelling will be required to determine magnitude of risks, adequacy of responses and overall business resilience
Risk Management: Disclose how the organisation identifies, assesses and manages climate-related risks	
a) Describe the organisation's processes for identifying and assessing climate-related risks	Partial disclosure – more information is required to quantify and explain what medium and serious risk means in terms of impact / relation to remainder of business
b) Describe the organisation's processes for managing climate-related risks	Partial disclosure – further details to be provided regarding the mitigation, transfer or acceptance of the identified risks
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Disclosure in full and requirements met
Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Partial disclosure – more comprehensive modelling will be required to determine magnitude of risks, adequacy of responses and overall business resilience with the development of scientific-based targets underway
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Partial disclosure – Scope 1 & 2 emissions have been disclosed, with related risks requiring some additional modelling as set out in TCFD report Estimated Scope 3 emissions are disclosed but require further validation
c) Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets	Partial disclosure – more comprehensive modelling will be required to determine magnitude of risks, adequacy of responses and overall business resilience, with the development of scientific-based targets underway

Cross reference
TCFD report and the Corporate Governance report on page 58
TCFD report and the Corporate Governance report on page 58
TCFD report and the Corporate Governance report on page 58
TCFD report and the Strategic report on pages 2 to 57
TCFD report and the Strategic report on pages 2 to 57
TCFD report and the Principal Risks section on page 42
TCFD report and the Sustainability report on page 24
TCFD report and the Principal Risks section on page 42
TCFD report and the Sustainability report on page 24
TCFD report and the Sustainability report on page 24
TCFD report and the Sustainability report on page 24

Appendix 2

About EcoAct

Your climate experts.
Your partners for positive change.

EcoAct, an Atos company, is an international sustainability consultancy and project developer with **300+ employees** in offices across **Canada**, **France**, **Germany**, **Italy**, **Kenya**, **Spain**, **United Kingdom**, **and USA**.

- Extensive experience in emissions reduction and sustainability projects for some of the world's leading brands.
- Widest range of best-in-class solutions in carbon, energy and sustainability.
- Dedicated Nature and Technology Based Solutions Unit and experienced project developers.
- In-house Marketing & Communication experts guiding brands worldwide in delivering effective climate change communication.
- Climate Innovation & Knowledge Centre working to accelerate the transition to a net-zero economy.

1 | © EcoAct

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an atos company

Viability Statement

1. How the Group assesses its prospects

The Company's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 57. The financial position of the Company, its cash flows and liquidity are highlighted in the Financial Review on page 36.

The Company manages its financing by structuring core borrowings and the availability of debt facilities for drawdown. The Company's prospects are assessed primarily through its business planning process. This includes an annual review which considers profitability, the Company's cash flows, committed funding and liquidity positions, and forecast future funding requirements over the assessment period of three years. The most recent review was approved in September 2022, and it is part of the Board's role to consider the appropriateness of any key assumptions, taking into account the external environment, current inflationary pressures in the economy and business strategy.

2. The assessment period

The directors have determined that a period of three years to August 2025 is an appropriate assessment period over which to provide its viability statement. This period is consistent with that used for the Company's corporate planning process as detailed above, and reflects the directors' best estimate of the future prospects of the business, including the nature and potential impact of the principal risks that face the business.

The Board noted in considering the appropriate assessment period that the Company's new banking facilities are due to also expire in August 2025 and that this period also includes the majority of the publisher contract renewals, the first of which is due in July 2024.

The Board also considered whether there are specific foreseeable events relating to the principal risks and climate change that could occur beyond the three-year period that should be taken into account when setting the three-year assessment period and concluded there were none.

In the Board's assessment of viability, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required (see also Note 18 of the Group Financial Statements on page 163).

3. Assessment of viability

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

1. Impact of inflationary pressures in the economy;
2. Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period;
3. Retention of major publisher contracts within Smiths News at rates which maintain acceptable margins – 95% of future revenues are currently contracted to at least 2024;
4. No major changes in working capital profile; and
5. No significant acquisitions or disposals in the assessment period.

In making this statement, the directors have carried out a robust assessment of the Company's emerging and principal risks, including those that could threaten its business model, future performance, solvency or liquidity, and also considered the impacts of climate change. Consideration has been given to the Company's ability to renegotiate the publisher contracts expiring during the assessment period, and no evidence exists to suggest these contracts will not be successfully renegotiated.

Similarly, the Company has considered its ability to renew its banking facilities when due and believes this will be successfully completed.

The considerations included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the Board considered the conclusions from its regular review of risk management and internal control systems (as described on page 82).

To make the assessment of viability, 'stress' scenarios have been tested over and above those in the Board's business plans, based upon a number of the Company's principal and emerging risks and uncertainties (as documented on page 44). The scenarios were overlaid into the business plan to quantify the potential impact of one or more of these crystallising over the assessment period. Whilst each of the principal risks on page 44 has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the business plan. These are shown in the table opposite.

As noted above, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required.

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

In each of the stress scenarios 1-5, the Company would be able to continue operating within its existing debt covenants and liquidity headroom. Scenario 6 required such an extreme set of factors in unison that it is considered to be a remote likelihood and, therefore, does not represent a realistic threat to the viability of the Company but, rather, illustrates the factors that would result in a covenant or liquidity breach.

The directors considered mitigating factors that could be deployed to counter the negative effects of the crystallisation of each of these risks. The main actions that could be taken in such circumstances include reducing any non-essential capital expenditure and operating expenditure on projects, working capital management to smooth debt peaks (including supply chain finance arrangements), cancelling discretionary annual bonus payments, identifying other cost savings, as well as reducing or not paying dividends.

4. Viability statement

In light of the scenario modelling noted above, the directors are confident that headroom under the existing bank facility remains adequate and future covenant tests can be met. This is based on the Board's approved three-year business plan after allowing for a range of reasonable worst case downside sensitivity scenarios.

As noted above, in making this viability statement the directors have also considered an alternative view by applying a reverse stress test to the Company's financial models. A reverse stress test is where scenarios are considered that lead to a breach of either the total available facility or one or more of the covenants. The directors consider that the risk of the combination of events leading to such breaches combined with the Company not being able to enact mitigating actions is remote.

Taking into account the Company's current position and principal risks and emerging risks, the directors confirm that they have a reasonable expectation that the Company will remain viable over the period of assessment to August 2025.

Scenario modelled	Link to principal risks
Scenario 1: Changes to a retailer's commercial model	
The business plan assumes all major retailers will continue to stock their current newspaper and magazine range over the assessment period. We have modelled a scenario that reflects one or more grocers removing their magazine offering.	**Risk 1**: Macro-economic uncertainty and **Risk 5:** Changes to retailers' commercial model: deterioration in the macro-economic environment and the risk of a reduction in sales space and/or full delisting of newspapers and/or magazines by our largest retailers.
Scenario 2: Growth and diversification strategy is not executed successfully	
The business plan assumes profit from strategic growth and diversification activities within the next three years. We have modelled a scenario in which only 50% of these targets are met.	**Risk 1:** Macro-economic uncertainty and **Risk 6:** Growth and diversification: deterioration in the macro-economic environment impacts the Company's ability to execute new business growth opportunities.
Scenario 3: Forecast savings targets are not met	
The business plan assumes both operational and overhead savings throughout the period in Smiths News. We have assumed 33% of these improvements are not achieved.	**Risk 1:** Macro-economic uncertainty, **Risk 2:** Acquisition and retention of labour and **Risk 6:** Growth and diversification: the risk that inflationary cost increases, the absence of managerial talent and resources used for new business growth opportunities detrimentally affect the execution of planned cost reduction.
Scenario 4: Increased number of congestion charge zones or low emission zones	
The business plan assumes that new congestion charge zones are implemented at their historic frequency and impact. We have modelled an accelerated frequency and increased area coverage for new zones.	**Risk 7:** Sustainability and climate change: the risk that increasingly stringent air quality targets make it more costly for the Company to undertake newspaper and magazine wholesaling activities.
Scenario 5: Partial conversion to electric fleet	
The business plan assumes that low emission / exclusion zones for petrol and diesel electric vehicles are implemented at their historic frequency and impact. We have modelled that all existing congestion zones become 24-hour exclusion zones, covering a larger area and that on affected routes deliveries are made by electric vehicles.	**Risk 7:** Sustainability and climate change: the risk that increasingly stringent air quality targets make it more costly for the Company to undertake newspaper and magazine wholesaling activities.
Scenario 6: Reverse stress test – revenue loss, margin erosion and cost inflation in combination to create either a headroom liquidity or covenant breach	
This combines an extreme series of factors in unison to illustrate what would result in a covenant or liquidity breach of the bank facility headroom.	**Multiple risks:** A combination of risks, also including those relating to Cyber Security and Legal and Regulatory Compliance, both of which are inherently uncertain in value.

5. Going concern

The Company meets its day-to-day working capital requirements through its bank facilities of £79.5m, with an outstanding term of 34 months to 31 August 2025. The terms of the facility agreement include: an amortisation schedule of £6m in the first year (2022) and £10m per annum thereafter for the repayment of the term loan and a reduction in the RCF of £5m per year after the first year. The Company's forecasts, taking into account the Board's future expectations of the Company's performance, indicate that there is sufficient headroom within these bank facilities and the Company will be able to continue to operate within the covenants attaching to the new bank facilities.

Considering the principal and emerging risks discussed in this report, the directors have a reasonable expectation that the Company can meet its liabilities as they fall due for a period greater than 12 months (being an assessment period of 22 months) from the date of approval of the Group Financial Statements. Thus, the Company will continue to adopt the going concern basis in preparing its consolidated financial statements which are shown on pages 132 to 181.

Responsible governance shapes our performance

Board attendance

The following tables show the attendance of directors at Board and Committee meetings held during the year, the independent status, gender, tenure on the Board and a snapshot of the skills and expertise of the Board as a whole.

	Scheduled Board meetings	Special Board meetings	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	**11**	**1**	**4**	**2**	**4**
David Blackwood	11	1	–	2	4
Denise Collis	11	1	4	2	4
Michael Holt	11	1	4	2	4
Mark Whiteling	11	1	4	2	4
Jonathan Bunting	11	1	–	–	–
Paul Baker	10 (of 10)	N/A	–	–	–
Tony Grace (retired December 2021)	4 (of 4)	1	–	–	–

Composition, Attendance and Evaluation

Board of directors

As reported in the 2021 Annual Report, Tony Grace, former-Chief Financial Officer, retired on 31 December 2021 and was succeeded by Paul Baker, who was appointed Chief Financial Officer and a director of the Board on 4 October 2021.

Balance of Board

Members by gender

Tenure

Governance

Governance is embedded in our business. We adopt a holistic approach, incorporating structures and systems that make up a comprehensive and robust framework.

Introduction

David Blackwood
Chairman

A *transparent* approach with clear *leadership*

Chairman's statement on corporate governance

As I look back on the progress we have achieved in FY2022 against our financial and strategic imperatives, together with the effectiveness of our leadership in promoting the Company's long-term sustainable success, I am reminded that measuring ourselves against our corporate governance imperatives is equally important. This year was the third in our external board assessment cycle, and I am pleased to report that the evaluation process undertaken by CGI (Corporate Governance Institute) provided a result which indicated that the Board is continuing to function effectively. We have taken on board recommendations flowing from this assessment and continue to make appropriate improvements, based on both these recommendations and those emanating from our previous internal reviews. As it is also that point in the governance cycle where we put the Directors' Remuneration Policy to a shareholders' vote at the 2023 AGM, this year we have undertaken one-to-one engagements with our largest shareholders to better understand their expectations in this regard. More information around the Directors' Remuneration Policy is available in the Directors' Remuneration report on page 94 onwards.

As I look back on the progress we have achieved in FY2022 against our financial and strategic imperatives, together with the effectiveness of our leadership in promoting the Company's long-term sustainable success, I am reminded that measuring ourselves against our corporate governance imperatives is equally important.

While we are encouraged to believe that the COVID-19 pandemic is firmly behind us now, we enter another period of potential economic uncertainty which is bringing its own challenges to all stakeholders, with volatility in the energy market and a challenging inflationary and labour market, resulting in affordability concerns, as well as an increased focus on the 'climate emergency' and the risk of energy disruption. Once again, we have renewed our commitment to support our colleagues and customers at this particularly challenging time. Our stakeholder engagements are alive to the current economic headwinds and feedback is carefully considered, and balanced, when arriving at decisions. We are encouraged with the outcome of such engagements which have led to the introduction of 'fair pay principles' for our colleagues, as well as the conversion of our historic COVID-19 hardship fund into a wider and more-general 'colleague support fund.'

This year also saw us review our colleague engagement mechanism and conclude that the appointment of a designated non-executive director remains the optimal model for promoting colleague engagement within our business, although we have taken the opportunity in this review to refresh our National Colleague Engagement Forum, in order to ensure the right mix of colleagues and that Michael Holt, who is our designated non-executive director who attends the meetings, can maximise engagement.

Aware of the economic pressures being brought to bear in the logistics sector and the impact on category sustainability for newspapers and magazines, we undertook a customer consultation process around delivery service charge increases and customer satisfaction during the year. Across all our stakeholders, we remain committed to both the requirements and spirit of s172 of the Companies Act 2006 and to the promotion of the long-term sustainable success of the Company – for more detail on our other engagements, I would refer you to our s172 statement in the Corporate Governance report on page 58 which focus on the significant engagements in the year where demonstrable outcomes can be shared.

Two key areas which have been at the forefront of our deliberations this year have been diversity and inclusion (D&I) and sustainability, more specifically the requirement that we report in terms of the Task Force on Climate-Related Financial Disclosures (TCFD). We have progressed our D&I agenda well and have accelerated the target date for the proposed appointment of a second female board member to FY2023, and we are confident that an announcement will follow in short order now that we have identified the balance of skills, experience and expertise which would best complement the Board's current composition. We have also completed a wider D&I audit and identified key action areas across recruitment, learning and development, and communications, the details of which are set out in my introduction to the Nominations Committee report on page 90. Following on from the 2022 Annual General Meeting (AGM), I engaged with two of our largest shareholders who had raised Board diversity as a future voting issue for them and believe that the acceleration of our D&I plan will address their concerns.

I am pleased to report that our sustainability strategy is now implemented but, as this is a long journey rather than a finite process, we continue to refine and review the path we take to achieving our ultimate goal of net zero status. We have learnt much from the process we have followed in preparing our first TCFD report and, where we have not been able to fully report against the recommended disclosures, we have commenced with actions to access the necessary expertise and analytical models to do so. That said, I do believe we have made a good start in understanding the impact of climate change on our business and the mitigations necessary to ensure the future viability of our business, and to identify our commitment to addressing the 'climate emergency.'

We continue to exercise oversight over the breadth of policies, processes and controls that make up our wider governance framework, while ensuring that we provide effective leadership and direction. On behalf of the Board, I am particularly pleased that we have continued to maintain a sector-leading track record in health and safety this year, with our ongoing activities recognised through securing 13 RoSPA awards in the year (including 11 at the highest 'gold' standard) and, separately, retaining our ISO 45001 certification for H&S management.

Ensuring that our Company culture and values are integrated across our business, and are demonstrated by the way in which we all conduct ourselves and execute our decision-making, remains important to us all. In support of this position, this year we have moved from merely re-stating our values to enhanced disclosure in this report by attempting to demonstrate how the Board measures compliance with our stated values. This year has also seen the enhancement of our cyber security systems and controls, with good progress being made to secure 'Cyber Essentials' accreditation through the National Cyber Security Centre, and we remain committed to seeking 'Cyber Essentials Plus' accreditation in FY2023. More details in this regard are available in the Audit Committee report (see page 80).

This has been a good year for our business, but we remain alive to the threat of an economic downturn and the impact it may have not only on our business but on our people. We remain well-positioned to continue to deliver shareholder value in a sustainable manner and in the best interests of all our stakeholders. While online engagements and virtual AGMs are probably here to stay in one form or another, I do welcome the return of the traditional AGM and encourage all shareholders to attend and vote.

> ***Having established a focused sustainability project team in the year, I'm particularly pleased to be able to present our sustainability strategy, with measurable deliverables and planned activities identified for the short and medium term, demonstrating our commitment to responsible governance, society and the environment.***

In closing, I would like to express a note of appreciation to my fellow Board members for their continued commitment to the success of the Company, and on behalf of myself and the Board, our collective appreciation to Jonathan (CEO) and Paul (CFO), as well as the Executive Team and all our colleagues for another year of strong operational and financial performance.

David Blackwood
Chairman

3 November 2021

Governance Framework

We adopt a holistic approach to governance, incorporating processes, structures and systems that make up a comprehensive and robust governance framework, ensuring that governance is at the heart of our decision-making and appropriately embedded throughout our business. This framework underpins our business activities and supports informed, transparent and accountable decision-making.

Key:
- Focused strategy
- Sustainable future
- Operational excellence

Focused strategy

Vision, Mission, Strategy & Planning:
Strategy and business model

Board and Committees:
Board Committees | Smiths News PLC

Reporting, Monitoring & Evaluation:
Reports and presentations

Sustainable future

Culture & Values:
Values | Smiths News PLC

Stakeholder Engagement:
Shareholder centre
Listening to our People
Stakeholder Engagement on pages 14 to 17

Health & Safety:
Health & Safety
People Report on pages 30 to 35
Audit Committee Report on page 80

Business Continuity

Operational excellence

Management & Rewards:
People Report on pages 30 to 35

Terms of Reference & Delegations:
Board Committees | Smiths News PLC

Risk & Audit:
Principal and Emerging Risks on pages 40 to 43

Evaluation & Succession Planning:
Nominations Committee Report on pages 90 to 93

Policies & Procurement:
Available on our intranet

Training & Support:
Developing our People

Budget & Financial Management
Financial Statements on pages 124 to 184

Adherence to Legislation, Regulation & Compliance:
Regulatory News

Knowledge & Records
Privacy and data management

IT Governance & Security
Audit Committee Report on pages 80 to 89

Key:
Information found online
Information within the report

Leadership and Oversight
Our leadership structures are supported by our governance framework, to ensure oversight, integrity and control in all our business dealings and enabling effective and responsive decision-making, based on understanding and the need to consider the impact of our decision-making on all our stakeholders.

The Chairman has overall responsibility for the management and operation of the Board, which in turn oversees the Company's strategy and operational and financial performance, and manages business requirements through a formal schedule of reserved matters for its decision-making.

A nominated **Senior Independent Director (SID)** provides additional support to the Chairman in the delivery of the Company's objectives.

For more information on the composition, roles and responsibilities of the Board and the division of responsibilities between the Chair / CEO, as well as to access the internet links referred to above, please refer to our website (*Corporate Governance – Smiths News*) or, if you are reading this electronically, please click on the relevant links.

Regular reports are submitted to the Board and its Committees, and detailed agenda planners are approved annually in advance, and revised monthly, to ensure that all compliance, regulatory and operational matters are adequately and timeously addressed by relevant stakeholders. This process ensures that the Board has full knowledge and oversight of the Company's impact on the economy, environment, society, suppliers and customers, and our people, and ensures that it is able to review and direct the effectiveness and outcomes of these processes.

The **Chief Executive Officer** leads our business and oversees daily operations and the Company's objectives. The CEO is ably assisted by the **Executive Team** that focuses on the development and implementation of strategy, financial and operational performance, risk management, commercial developments, talent review and succession planning, sustainability and organisational development.

Committees – Remuneration, Audit, Nominations, Approvals and Disclosure.

Senior Leadership Team and **functional experts** who each provide support, guidance and diligence in the Company's business dealings and oversee day-to-day operational, commercial and functional activity.

Sub-committees/steering committees which report into the Executive Team and, in turn, to the Board and its Committees.

Our Steering Committees function on a formal basis, comprising cross-functional membership, having a chairman, terms of reference and appropriate governance standards and record keeping. Examples of these sub-committees include the Business Development & Growth Committee, Operations Executive and People Executive Committees, Investment Committee, Policy Steering Group, Sustainability Steering Group and various colleague engagement forums and groups. In addition, we have one-off project teams which function in a similar structured manner but which are established to deal with one-off or short-term projects, such as IT migration (e.g. to Microsoft Office365 or direct marketing).

Roles and responsibilities

The Board

Remuneration Committee
- determines directors' and senior management remuneration strategy and policy
- oversees the implementation of our Remuneration Policy
- reviews workforce remuneration, related policies and the alignment of incentives and rewards with culture

*See **pages 94 to 118***

Audit Committee
- promotes governance and our risk management framework
- ensures the accuracy of our financial reporting
- monitors the internal and external auditors

*See **pages 80 to 89***

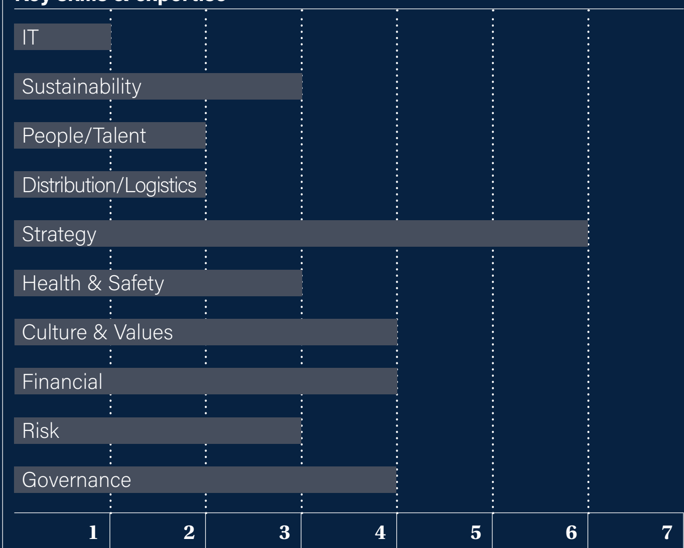
Nominations Committee
- makes recommendation to the Board for executive and non-executive appointments and succession planning
- promotes employee engagement and diversity

*See **pages 90 to 93***

Disclosure Committee
- monitors and oversees the Company's compliance with the Market Abuse Regulations and the considerations of inside information procedures and disclosures

Approvals Committee
- responsible for approving delegated Board matters

Key skills & expertise



Board of Directors

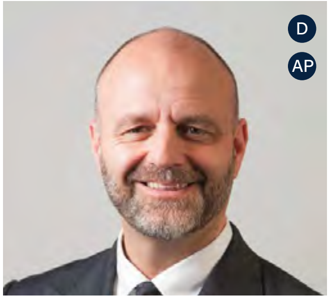
David Blackwood (63)

Chairman
Year of appointment: 2020
Gender: Male
Ethnic Origin: White
Citizenship: British
Disability: None

David has extensive business and listed company experience, notably in Finance, Audit and Risk. David uses his experience and knowledge to lead the Board in reviewing and approving management's plans for the development of the Company's strategy and operational and financial performance. As Chair of the Nominations Committee, David is also responsible for leading the assessment of the capabilities and skills of the executive and non-executive leadership, and for longer-term succession planning. David has been a non-executive director of Dignity plc (June 2020), Scapa Group plc (April 2021) and The Go-Ahead Group plc (October 2022) where, in respect of Dignity and Scapa he served as chair of the audit committee and as a member of the Go-Ahead audit Committee and, otherwise in each case, as Senior Independent Director and as a member of the nomination and remuneration committees. He was formerly Chief Financial Officer of Synthomer plc, stepping down in 2015, prior to which he held a number of senior roles within Imperial Chemical Industries plc (ICI). David has also previously served as a member of the Cabinet Office Audit and Risk Committee and on the Board for Actuarial Standards. He is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and a Fellow of the Association of Corporate Treasurers (ACT).

Other current appointments

- Esken limited (previously Stobart Group PLC), chair of audit committee and senior independent director



Jonathan Bunting (50)

Chief Executive Officer
Year of appointment: 2010
Gender: Male
Ethnic Origin: White
Citizenship: British
Disability: None

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

Jonathan joined WH Smith News in 1994. He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001. In April 2014, Jonathan became Managing Director of the Connect News & Media division and, subsequently, Chief Operating Officer in September 2017, a position which spanned wider group business interests held at the time, together with Smiths News. Following his appointment as Interim Chief Executive Officer on 5 November 2019, this appointment was confirmed on 15 June 2020.

Other current appointments

- None

Paul Baker (53)

Chief Financial Officer
Year of appointment: 2021
Gender: Male
Ethnic Origin: White
Citizenship: British
Disability: None

Paul is a highly experienced senior executive, with extensive and relevant financial and business transformation experience, most recently as Integration Director at Compass Group plc. Prior to that, he held various regional and divisional Finance Director roles within each of Compass Group (2013 to 2021), Iglo Group/Birds Eye Limited (2011 to 2013) and Cadbury Schweppes PLC (1997 to 2010).

Other current appointments

- None

Mark Whiteling (59)

Senior independent non-executive director
Year of appointment: 2017
Gender: Male
Ethnic Origin: White
Citizenship: British
Disability: None

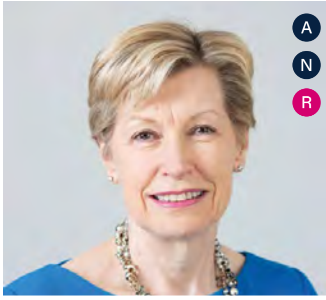
Mark has gained extensive finance and operational experience at a senior level within a number of diverse businesses. He brings recent and relevant financial expertise required to lead the Audit Committee.

Mark was most recently the Chief Financial Officer of Interserve PLC and has previously been the Deputy Chief Executive Officer and Chief Financial Officer of Premier Farnell plc. He was a non-executive director of Future plc until December 2014 and the Senior Independent Director of Hogg Robinson Group PLC until July 2018, in both cases acting as chair of the respective audit committees, as well as serving on their nomination and remuneration committees. In addition, Mark has been Chairman and non-executive director of Xpediator PLC from September 2021 until March 2022 and member of its remuneration committee.

Other current appointments

- Board of Trustees of the European Association of Cardio-Thoracic Surgery (EACTS), Honorary Treasurer on the EACTS Council

Company Secretary & General Counsel



Denise Collis (65)

Independent non-executive director
Year of appointment: 2015
Gender: Female
Ethnic Origin: White
Citizenship: British
Disability: None

Denise holds a wealth of business experience with a particular focus on people and talent management, development, retention and reward. She therefore has the relevant knowledge and experience required to lead the Remuneration Committee, a position she has also held with SThree PLC (since September 2016) and EMIS Group PLC (since October 2021).

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

Other current appointments
- SThree PLC, senior independent non-executive director and chair of remuneration committee
- British Heart Foundation, chair of remuneration and people committee and member of nomination committee
- EMIS Group PLC independent non-executive director and chair of remuneration committee

Michael Holt (61)

Independent non-executive director and designated Colleague Engagement NED
Year of appointment: 2018
Gender: Male
Ethnic Origin: White
Citizenship: British
Disability: None

Michael possesses relevant commercial and operational experience gained within the logistics and distribution industries. With his detailed understanding of the distribution sector and its opportunities and challenges, Michael provides an independent voice and commercial sounding board in the development and execution of the Company's strategy and business ambitions.

Michael is currently Executive Chairman of Tuffnells Parcels Express and plays an active role in the supervision and management of its business. He was formerly Chief Operating Officer of FedEx Express, Europe until the end of September 2018 and held a number of other senior executive roles with FedEx Corporation since 2006. Prior to that, Michael held senior executive roles at a number of leading logistics organisations, including ANC Group, where he was instrumental in leading the turnaround of the business from a position of loss-making to industry-leading margins and strong profit recovery prior to its successful sale to FedEx in 2006.

Other current appointments
- Tuffnells Parcels Express Limited, Executive Chairman

Committee Key

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- D Disclosure Committee
- AP Approvals Committee

- Chair
- Member

Stuart Marriner

Stuart supports and attends the Board as Company Secretary and General Counsel.

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

Gender and ethnic diversity

The Board has taken note of the recent publication by the Financial Conduct Authority (FCA) of the policy statement regarding changes to the Listing Rules (LR 9.8.6R(9)), encouraging enhanced disclosures in relation to gender and ethnic diversity at Board level for financial years starting on or after 1 April 2022. While this is therefore not yet applicable to the Company for this reporting period, two of the Company's largest shareholders had each raised Board diversity as a future voting concern for them. Hence, the Board is very mindful of this future requirement, as well as possible sectoral experience and expertise gaps in the Board's composition vis-a-vis future strategic opportunities and initiatives, and has already initiated an external search process to identify suitable candidates that may be open to joining the Board during FY2023. Further details are set out in the Nominations Committee report on pages 90 to 93.

Corporate Governance Report

In accordance with the provisions set out in the 2018 edition of the UK Corporate Governance Code (the Code), at the time of his appointment to the Board as Chairman, David Blackwood was independent. The Board considers that all non-executive directors are independent. The Board has formal procedures for the declaration, review and authorisation of conflicts of interest of Board members. Conflicts are considered and, where appropriate, authorised by the Board on an annual basis. In addition, directors are requested to declare any conflicts at the start of all Board meetings. The Board was satisfied that none of the directors had any conflict of interest during the year which could not be authorised by the Board. For details of current situational conflicts notified by the directors, please see the Other Statutory Disclosures report on page 119.

Board evaluation

FY2022 saw the external board evaluation process take place in keeping with the three-year externally facilitated evaluation cycle. The evaluation process was undertaken by the Chartered Governance Institute (CGI) following a selection process overseen by the Board and which included the consideration of four different service-providers. The Board concluded that CGI was best able to deliver an effective evaluation process given the depth of their knowledge and experience, while also taking into consideration service delivery, cost effectiveness, availability and the requirement that the Company should not have a prior relationship with the same reviewer for more than six years.

The evaluation process agreed with CGI included a confidential, structured one-on-one interview with each of the six directors and the Company Secretary, centred on the quality of seven aspects of the Board's performance as follows:

- Board and Committee Roles and Responsibilities
- Oversight
- Board and Committee Meetings
- Support for the Board and Committees
- Board Composition
- Working Together
- Outcome and Achievements

Overall, the Company achieved a "Very Good" result, with an average score of 83% across all areas (based on directors' individual perceptions of the Board's effectiveness), acknowledging that the Board is operating effectively and in accordance with good corporate governance principles. A small number of recommendations were made where changes could assist the Board's effectiveness and oversight of management, and these have since been endorsed by the Board, including continued focus on 'stretch' performance by executives, enhanced Board oversight of our associated businesses and a refresh of the Board's risk appetite approach.

In addition to addressing the outcomes of this year's external evaluation process, the Board has also focused on the identified key takeaways from the 2021 internal Board evaluation review process, and we are pleased to report that we have made progress to address those previous actions and recommendations, including enhancing and improving our colleague engagement mandate through the National Colleague Engagement Forum (please see page 15), strengthening the relationship between management and the external advisor to the Remuneration Committee, fostering an environment where minority groups can progress and flourish within our business (please see the Nominations Committee report on page 90), and developing and implementing the Company's Sustainability programme and its regular reporting to the Board as a standing quarterly agenda item.

The CGI subscribes to the Code of Practice for board reviewers and was able to demonstrate that it complied with the principles of competence and capacity, independence and integrity, and ensured that the terms of engagement were clearly and unequivocally agreed in writing prior to the commencement of the review process. The CGI was given the opportunity to review the public statement made by the Company in relation to the Board evaluation process prior to publication. For further details, please see Code of Practice for Board Reviewers at *https://www.cgi.org.uk/assets/files/pdfs/Publications/code-of-practice.pdf.*

Director appointments and training

The Board has an agreed director appointment and induction programme which includes a comprehensive and up-to-date Directors' Toolkit, which is supplemented with one-to-one meetings and on-site visits to some of the Company's locations, as appropriate. No director is appointed or nominated by a stakeholder, with all directors being identified through, and appointed following, an extensive external search agency process. Selection decisions are based on merit and the Board strives to ensure that recruitment activities are fair, transparent and non-discriminatory. The Board understands the importance of succession planning which is an objective process based on merit and the assessed skills, experience and needs of the business and Board at the time, while seeking to promote and uphold our policies, including that on equality, diversity and inclusion across multiple criteria. Please see the Nominations Committee report on page 90.

All directors are subject to annual re-election by shareholders at Annual General Meetings, where letters of appointment for each non-executive director are available for inspection. Set out in the Notice of Annual General Meeting for 2023 is information on the skills and experience of each director seeking re-election.

Directors share developments and regulatory updates within their areas of expertise with fellow Board members, who also receive briefings across areas of the Company's business from both management and external experts as and when necessary. A quarterly newsletter containing a summary of current topical issues is circulated and individual directors are encouraged to raise any specific training needs. Focus areas in FY2022 included diversity (generally, but also with in-depth gender and ethnicity considerations), sustainability (generally, as well as framework developments, action planning and TCFD reporting), stakeholder engagement (employee engagement and representation, as well as shareholder trends and expectations), annual reporting expectations and AGM considerations, policy development, culture, modern slavery compliance and Companies House developments.

The Company Secretary and General Counsel is responsible for the timely and complete distribution of information to the Board and all directors have direct access to the Company Secretary for advice, including independent professional advice, where appropriate, at the Company's expense.

Culture and values

Quick	Creative	Trusted	Open	Friendly	Fair
Make informed decisions and act quickly. Be agile in the way we work together and deliver for our customers.	Be imaginative, curious and adventurous. Develop inspirational ideas and innovative solutions.	Safe, reliable and responsible. Take pride in our work and do the right thing for each other and our customers.	Share your thoughts freely and stay open to new ideas. Listen to others, be positive and engage in communications.	Have fun and be helpful. Enjoy working together to deliver a great performance.	Be inclusive, honest and respectful to everyone, whatever their role or experience.

The Board supports and promotes our culture and values, which are integral to our decision-making, and which are evident in the way in which we interact with one another. The Board is responsible for overseeing how our culture and values are integrated into our business, so that everyone is treated with respect and that our values are brought to life in the way we work together. Culture is, by definition, intangible, and thus the Board believes that the best way to measure whether our values-based culture is instilled throughout the Company is by listening to the organisation and making use of a number of measurement tools to validate and corroborate information in support of this process.

How the Board oversees and monitors culture

Listening and understanding

The Board looks to understand what is important to our stakeholders based on balanced and actual views and priorities (rather than perceptions), so as to gain a more informed position and to better understand the extent to which our values are truly embedded within the business and what we do. The Board understands there is no substitute for 'walking the shopfloor,' to ensure it has a real understanding of the culture at different levels of the business and is able to intervene before cultural problems take hold. Board meetings are held at locations across our business and directors periodically visit our operational sites not only as an opportunity to find out what is going on but also to demonstrate the importance and presence of the Board.

This process also assists in determining the effectiveness of our policies and procedures, to gain a more informed perspective of colleague issues and concerns, to assess the outcomes of proactive and remedial activities and to ensure insight into the priorities of our stakeholders in general.

Business and stakeholder views are sought through both physical engagements and the receipt of reports and discussions throughout the year. There have also been direct one-to-one engagements with both our largest shareholders during the reporting period (in order to gauge their expectations and opinions on a number of matters), as well as with publishers and customers (in order to better understand their views on service performance and category sustainability) – see Stakeholder Engagement on pages 14 to 17.

The Board challenges and supports management in the institutionalisation of our values across the business and holds management accountable for the way in which the Company conducts business and engages with, and reports, to stakeholders. These engagements and outcomes are detailed in Stakeholder Engagement on pages 14 to 17.

Business dealings and activities

- **Management oversight** – The Board ensures that functions within the business are both empowered and resourced appropriately to support our values. Through the receipt of regular reports to the Board and management (e.g. Health & Safety, People updates, internal audit, whistleblowing, operational and financial performance, risk, etc) we seek to understand behaviour throughout the Company and to challenge these behaviours if they fall short of expected values. These reports include an assessment of potential or actual impact on our stakeholders, as well as including any concerns about wrongdoing or breaches of law or policy. Please refer also to our Audit Committee report on page 80.
- **Policies & Procedures** – Our values and culture are supported by a number of policies and procedures, as well as by our Code of Conduct, Anti-Bribery policy, Conflicts of Interest and Whistleblowing policies. During FY2022, we launched an e-learning module for all colleagues in order to promote and encourage a better understanding of the Company's culture, our working environment and the relationship between the Company and our colleagues. This module explores the different kinds of company culture and considers how the workplace environment can play a pivotal role in the success of the Company. It also details how best to create, develop and transform company culture to suit the changing needs of the business. In addition, we have compulsory training modules for identified colleagues on a wide range of topics, including anti-bribery and corruption, money laundering prevention, competition law, data protection and information security. These modules are provided through our external learning and development partner and are accredited by the CPD Certification Service, which is an independent accreditation service compatible with global CPD principles. Our Procurement policies (which reference our Modern Slavery Statement) make clear our expectations for our supply chain network with regard to business practices and what our suppliers and customers can reciprocally expect from us in the way that we interact with them. Customer complaints are reviewed and followed up, with potentially serious matters being brought to the attention of the Board.
- **Talent and Performance Management Systems** – We have a culture and value lens in our performance management system, comprising a dedicated area of assessment which challenges colleagues to consider company values and how their actions align with those values. We respect our colleagues and understand that the Company's culture resides in our people and their actions, thus the attitude of our colleagues is a good indicator of our culture and engagement. Through a variety of processes, we seek to measure and report on our human capital including, amongst others, employee engagement and satisfaction, retention rates, total workforce and our investment in their training and development, as well as ongoing measurement and impact of gender pay gaps, adoption of share incentive schemes, executive pay, and workforce composition and demographics. In this way, we seek to overlay results from our employee engagement pulse surveys with other data points to build a more informed picture. We have fair and transparent pay practices and report and consult in this area regularly. Please see the People report on page 30 and the Directors' Remuneration report on page 94).
- **Risk management and Internal Audit processes** – We are aware that it is necessary to remain vigilant in all our business dealings and, as a result, we maintain strict financial discipline and risk management processes throughout what we do. We do not tolerate breaches of our rules or procedures, nor do we encourage short-cuts to be taken. Our Internal Audit function is both independent and accountable and communicates any concerns about the values and culture to the Board.
- **Strategy development** – As we look at our strategy (see page 6) and growth opportunities, we have also considered the impact of any such opportunities on our stated values. We see culture and the upholding of our values as intrinsic to how our business is managed today and tomorrow, and thus the Board seeks assurances that our operations and strategic priorities are aligned with our values and that our business model and practices remain compatible with our values.

Corporate Governance Report *continued*

We strive to ensure our values become part of our daily interactions, highlighted through the following illustrations of activity:

- Town Hall meetings, reinforcing our values and culture
- Line managers reinforcing culture and values
- Mental health ally support networks
- Extra mile recognition awards for colleagues displaying exceptional performance
- Colleague hardship/support fund
- 'Love to Shop' vouchers for colleagues as recognition of their important part in contributing to our business performance
- Publication of our volunteering policy
- Continued collection of charitable donations from colleagues through our payroll processes
- Improved access to our intranet and the cascade of information relevant to colleagues (SmithsZone)
- Continued financial and operational support for the Pass-it-On charity
- Talent development, appraisals and reward processes
- Colleague engagement forums.

Further information on our values can be found in the People report on page 30.

Whistleblowing	**Reports received in FY2022**	**Reports investigated and closed**	**Outstanding investigations**
We recognise that matters or behaviours may go awry from time to time within any business. When they do, we have a robust procedure to allow such matters to be raised confidentially and without fear of reprisal. These are then independently investigated and followed-up. The Audit Committee receives regular reports in this regard and the Chairperson will additionally raise any concern at the Board.	5	5	0

Board activities in FY2022	**Supporting our values**	**Addressing principal risks**
Governance		
• Participated in external Board, Committee and director evaluations • Reviewed directors' conflicts of interest • Reviewed terms of reference of Board Committees, reserved and delegated matters • Reviewed various policies, including the prevention of modern slavery, anti-bribery & fraud and the Company's Competition Policy manual • Approved the interim financial results and the annual report and accounts • Received reports from the Company's advisers, including its corporate brokers • Monitored engagement with stakeholders, including responses to our 2022 AGM and voting outcomes • Review of our vision statement and strategy • Received updates on the impact to stakeholders of operational and strategic matters • Reviewed the external evaluation of the Board and its Committees • Received and reviewed whistleblowing reports and activities		• Macroeconomic Uncertainty • Legal & Regulatory Compliance • Growth & Diversification • Sustainability & Climate Change
Finance		
• Agreed new terms to our Senior Finance Agreement • Approved our tax strategy • Approved and monitored budgets and business plans • Considered the declaration of dividends and the merits of other forms of distribution • Considered and approved our trading statements, half-year and full-year reports • Reviewed financing structures and external financing arrangements • Oversaw financial performance, legal and regulatory matters • Revisited and revised policies • Considered mitigations to the current inflationary environment		• Macroeconomic Uncertainty • Legal & Regulatory Compliance • Growth & Diversification

Board activities in FY2022	Supporting our values	Addressing principal risks
Business review, performance and strategy		
• Approved and monitored progress against management's key business imperatives • Considered business growth and development opportunities • Considered and approved our capital allocation strategy • Considered and approved our sustainability strategy, implementation and action planning and TCFD reporting • Reviewed performance and reward • Reviewed business continuity plans • Considered planning for publisher contract renewals in 2024-2026		• Macroeconomic Uncertainty • Acquisition & Retention of labour • Legal & Regulatory Compliance • Growth & Diversification • Sustainability & Climate Change
Audit, internal controls and risk		
• Reviewed business-wide risks, risk appetite and mitigating actions, including an in-depth credit risk review of our customers and category sustainability • Received reports from the Audit Committee chairperson • Ongoing assessment of the effectiveness of internal controls and processes • Monitored health and safety strategy and activity through monthly Board reports • Monitored cyber security & data protection compliance • Ongoing monitoring of the transition to the internal audit model • Approved the going concern statement and assessment of viability, valuation of investments and principal and emerging risks • Reviewed performance of the statutory auditor and received and considered recommendation for their appointment and fees		• Macroeconomic Uncertainty • IT Infrastructure & Cyber Security • Legal & Regulatory Compliance • Changes to retailers' commercial model
People		
• Received regular updates from the Remuneration Committee on remuneration and performance • Considered and approved various employee share awards (SAYE, LTIP and deferred bonus) • Reviewed Directors' Remuneration Policy and undertook consultation with key stakeholders • Received pension fund updates • Reviewed employee engagement and employee satisfaction survey results • Supported equality, diversity and inclusion (introduced as standing board agenda item) • Received reports on colleague engagement forums • Recruited a new Chief Financial Officer to replace our retiring CFO		• Acquisition & Retention of labour • IT Infrastructure & Cyber Security • Legal & Regulatory Compliance

Key

Quick Creative Trusted Open Friendly Fair

Corporate Governance Report *continued*

Creating sustainable value with our stakeholders (S172 of the Companies Act 2006)

Every director continues to be aware of their primary duty to act in good faith and in a way which is likely to promote the success of the Company and to the benefit of its members as a whole. In conducting its business, the Board remains mindful of the need to ensure the long-term sustainable success of the Company and to generate value for shareholders, while contributing to wider society. The Board recognises the responsibilities it has to all its stakeholders and, to this end, remains committed to both the intent and spirit of s172 of the Companies Act 2006. In considering the issues and factors identified as significant, the Board has determined that those relating to strategy, transformation, restructuring, corporate development and capital allocation require consideration. However, it also reviews other areas which may equally be considered priorities by key stakeholder groups and will include these in its deliberations and decision-making processes from time to time. Separately, it seeks to consider all positions, balancing competing interests in a fair and transparent manner, in the best interests of the Company as a whole. The Board understands that such conflicts may exist between the long-term and short-term good of the Company, between shareholders and colleagues or even between groups of shareholders with different investment agendas, etc.

The Board uses a number of ways to determine relevant issues which may arise from our key stakeholders, including the receipt of reports, expert opinions and extensive stakeholder engagement. The Board continues to keep engagement mechanisms under review, to ensure they remain relevant and deliver the desired outcomes and, to this end, the National Colleague Engagement Forum was refreshed in the year, to ensure the right mix of colleagues and that the designated non-executive director who attends the meetings can maximise engagement with our workforce. The Board continues to assess its approach to engagement within the workplace, and remains of the view that the dedicated focus of a designated non-executive director (Michael Holt) is the best means for effective colleague engagement at Smiths News. In the role of designated workforce engagement director, Michael Holt is responsible for ensuring that he meets regularly with the National Colleague Engagement Forum (and any other agreed representatives) so as to understand colleague issues and concerns and to provide an opportunity for two-way sharing of information, in order to foster an understanding of the business across all levels. Michael is also tasked with providing regular formal and informal feedback to the Board.

We have set out in our Stakeholder Engagement/Section 172 report (please see page 14) the key stakeholders to our business, what is important to them and how their opinion impacts our strategic decisions and long-term success, how we have engaged with them and what the outcome was of those engagements.

Compliance with the UK Corporate Governance Code

This section of the Annual Report, together with the Audit Committee report on page 80, the Nominations Committee report on page 90 and the Directors' Remuneration report on page 94, describes how the Company has applied the main principles contained within the 2018 edition of the UK Corporate Governance Code (the Code). The Company confirms that, throughout the 52-week period ended 27 August 2022, it has complied with the principles and provisions of the Code.

The following table is a demonstration of our compliance with the Code during FY2022, which includes cross-references to other parts of the Annual Report (where relevant) to assist readers with reviewing our compliance during the reporting period.

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

Compliance with Principle/Provision disclosure

1. Board Leadership and Company Purpose

A. Board Leadership

A description of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management are set out in this Corporate Governance report. Each year, the Board conducts a thorough evaluation of its (and each individual director's) performance in the year, with an externally facilitated evaluation being carried out every three years. The output of each such review highlights the merits and effectiveness of the Board and each director in the last 12 months and identifies learnings, reflections and action areas to be taken forward in order to promote the long-term sustainable success of the Company.

B. Company Purpose

The Company's purpose, business model and strategy is set out within the Strategic Report and reflects the latest views of the Board following a strategic and business planning session held in July 2022. Our Values and Culture are aligned with our strategy, are periodically reviewed and are extensively promoted throughout the business and form an intrinsic part of how we operate. Further details are explained within our People report on page 30.

C. Objectives and Controls

The Company's objectives and KPIs are set out within the Strategic Report. The Board receives regular updates across a broad range of internal KPIs and performance metrics. The Company has a clear framework in place to continuously identify and review the risks to the business as explained further within our principal risks report on page 42. We have an extensive control framework, which includes a system of internal control, including risk management and a process for reviewing its effectiveness. A detailed report on the control framework is set out in the Audit Committee report on page 80.

D. Engagement

An overview of how the Company engages with its stakeholders is set out within the Stakeholder Engagement section of the Annual Report. In order to facilitate engagement with investors, following the announcement of the Company's full year and interim results, formal presentations are made to institutional shareholders by the Chief Executive Officer and Chief Financial Officer covering a range of key issues affecting the Company's performance and process. The presentations are available to view on the Company's website. In order to reach out to our increasing retail investor base, we continue to present to investors and prospective investors on retail investor platforms and, as part of such engagement measures, invite investors and prospective investors to participate in a Q&A sessions with the Chief Executive Officer and Chief Financial Officer.

Separately, the Chief Executive Officer and Chief Financial Officer report latest shareholder views to the Board at each Board meeting and following any meetings held with our largest shareholders, whilst independent feedback from shareholders is further provided to the Board by the Company's advisers and brokers on a periodic basis.

Similarly, such information is also shared with colleagues through, inter alia, 'Town Hall' meetings hosted by the Executive Team, on our intranet and via a cascade of 'key messages' as part of the Company's colleague engagement forums, which facilitate the views of colleagues from across the business which are reported to the Board.

In addition, during the year as part of our investor relations activity, meetings were held with our largest institutional shareholders and financial analysts to discuss (inter alia) business performance, strategy, diversification and process, including their views on the merits of share buy-backs, dividends, the Company's refinancing concluded in the reporting period and on the Company's diversification metrics and ambitions. Further, as part of an informed investor consultation process, investor views were also canvassed regarding the proposed Directors' Remuneration Policy to be presented for shareholder vote at our 2023 AGM.

Following an extended period of Government restrictions on large gatherings, the Annual General Meeting returned to a physical meeting in January 2022 and provided further opportunity for investors to engage directly with the Board and, for those unable to attend, to ask questions outside of the meeting via our Investor Relations email inbox.

Finally, other key stakeholders interests have been represented and consulted in relation to financial performance, governance, strategy and process through ad hoc presentations made by the Chief Executive Officer and/or Chief Financial Officer to the Company's lenders, customers and with our colleagues – see section 5 below for further details.

Corporate Governance Report *continued*

Compliance with Principle/Provision disclosure

1. Board Leadership and Company Purpose continued

E. Workforce

On a regular and ongoing basis, the Company's employee policies and manager guidelines are revisited (and updated, where required), to ensure that they are fully aligned with any strategic and/or regulatory changes. A regulatory and policy steering committee is in place to ensure that cross-functional representation is included in the review of all such policies and that the Company's values are best reflected in support of the Company's long-term sustainable success. As part of this process, the Board itself reviews various key policies, to ensure an appropriate 'tone from the top' message is communicated to all colleagues, including in respect of policies for the prevention of modern slavery, anti-bribery & fraud and competition law.

Further, to encourage colleagues to raise any matters of concern which may arise from time to time, the Company operates a confidential 'speak up' whistleblowing line and has separately approved both an 'Open Door' and Whistleblowing Policy which seeks to raise awareness amongst colleagues and encourages a culture of appropriately calling-out any concerns that they may have.

1. Business Model and Risk

The Company's business model and principal risks are set out in more detail in the Strategic Report on pages 2 to 57. The Sustainability Report provides greater detail on the sustainability of the Company's business model and how its governance, metrics and focus areas agreed from time to time contribute to the delivery of our strategy.

2. Cultural Alignment

The Board continues to regularly monitor the ongoing implementation and effectiveness of the Company's stated Culture and Values. Focus in the year has continued to build on a culture of inclusion, through our continued promotion and recognition of our Values and our ongoing diversity and inclusion agenda. Our EveryoneIn colleague working group continues to represent the diversity of our business and to drive initiatives and activities to both educate and raise awareness. This year we have had a targeted calendar of activity, celebrating a whole range of nationally recognised events – such as Pride, Mental Health Awareness Week, International Women's Day and a wide variety of religious celebrations. Our EveryoneIn group are actively working to set up 'network groups' for underrepresented colleagues across our business, and they have conducted a programme of focus groups and spoken to a representation of colleagues to gain insight and feedback as to what is important to them. We have also been keen to ensure that our focus is driven by feedback both internally and by external benchmarking, therefore in November 2021, we launched our first D&I Engagement survey, which gave us rich insight and data to shape activities. In June 2022, we launched an external audit of all our full recruitment processes to further identify improvements on how we attract a diverse workforce.

We continue to focus on developing our communication strategy and ensuring that our communications are received and accessed by colleagues. The virtual approach we adopted during COVID-19 restrictions continues to be a great way to share key messages across all our colleagues. We continue to develop these in terms of format, timing and content as we receive feedback from our colleagues. This year has also seen us introduce new communication channels, with our Senior Leadership conferences that we hold face-to-face every eight months and the rollout of our new Company Intranet.

Our 'What Matters' engagement survey continues to support us in understanding how our values are demonstrated across the organisation and how much we are embedding our desired culture. This year, we have moved from an annual survey to a quarterly 'pulse' survey. This continuous measurement approach has enabled the business to understand how colleagues are feeling throughout the year, rather than relying on a single point in time. Colleagues have responded positively to this modernised approach, with an increase in both participation levels and overall engagement score. The Board plays an active role in reviewing these results and determining the appropriate action plans and priorities. The engagement survey results drive our focus across the people team and the business and help to inform future decision-making – further details of which are set out in our People report on page 30.

We undertake workforce planning; performance, talent and succession initiatives; and learning and development programmes with goal setting remaining a strong driver for the business, measuring what we are expected to deliver as a team and how well colleagues understand how the work they carry out supports the goal of their team. Our approach to workforce remuneration is set out in more detail within our Directors' Remuneration Report on page 94. Management regularly receives whistleblowing and employee relations reports on deviations in stakeholder behaviours, taking corrective action where required.

Compliance with Principle/Provision disclosure

1. Board Leadership and Company Purpose continued

3. Shareholder Engagement

We recognise the importance of communicating with our shareholders. Each of the Chairman, the Senior Independent Director and/or Committee chairs seek to engage with our largest shareholders and make themselves available during the year to attend meetings with major shareholders, either remotely or in person as circumstances allow.

During the year, the Chairman, Senior Independent Director and/or Company Secretary engaged with some of our largest shareholders, to discuss matters of governance, strategy, diversification and process, including their views on the merits of share buy-backs, dividends, the Company's refinancing concluded in the reporting period and on the Company's diversification metrics and ambitions. Further, as part of an informed investor consultation process, investor views were also canvassed by the Remuneration Committee chair regarding the proposed Directors' Remuneration Policy to be presented for shareholder vote at our 2023 Annual General Meeting.

As outlined above, the Board receive regular investor relations reports, which include up-to-date statistics and dashboard reports from management, advisers and brokers.

4. Votes Against Proposed Resolutions

There were no significant dissenting votes registered against any of the resolutions put to the 2022 Annual General Meeting.

5. Stakeholder Engagement – Workforce

The Board has continued to review the way it engages with all stakeholders, including undertaking and considering a stakeholder impact assessment in respect of Board decisions which may have a potential material impact on stakeholders. This enables the Board to consider such matters and the potential impact of such decisions on affected stakeholders and ensures the implementation of an effective process to fully adhere to the provisions of section 172 of the Companies Act 2006.

In engaging with the workforce, the Board makes use of a number of chosen methods in order to better understand the views of the workforce as set out below. These methods each supplement the primary mechanism taken by the Board to promote workforce engagement through the appointment of a designated non-executive director (Michael Holt) who informally updates the Board following attendance at the National Colleague Engagement Forum, thereby giving the Board direct access to the important views and voice of our frontline and corporate centre colleagues. Key issues discussed and action taken in the year included the introduction of published fair pay principles for colleagues; the commitment and scope of capital expenditure investments to be made across our locations; the merits of and issues arising from the launch of benefits roadshows to colleagues to ensure that, in the current economic climate, colleagues have a good understanding and ability to access all benefits available to them; and the sharing of plans to introduce technology assets at our locations to help colleagues access literature and relevant information where they may not otherwise have tools to access such information or training resources.

These additional workforce engagement methods include:

- the Company's local and regional employee engagement forums which take place on a monthly or quarterly basis respectively, the output of which is directed to the National Colleague Engagement Forum;
- the continued support of specialist Colleague Consultation Forums, representing a standing team of 12 colleagues from across the business and trained by ACAS, to provide a platform for formal consultation in discussions around significant business change or material changes proposed in relation to employee benefits etc. Key areas of consultation in the year included the introduction of a redundancy policy alongside the removal of the historic two-tier redundancy pay approach in favour of the implementation of a single approach to enhanced redundancy payments for all colleagues;
- quarterly virtual 'Town Hall' meetings hosted by the Executive Team, targeting two-way communication with all colleagues; and
- newsworthy items and updates on the newly launched Company-wide intranet 'SmithsZone' which is more accessible to colleagues than the previous version 'The Angle', and/or published in the Company's quarterly newsletters ('Our News') available to all colleagues, either as paper copies or digitally.

Following the lifting of COVID-19 restrictions, site visits by our Executive Team and Board members have been far easier, with a combination of night visits, informal walk arounds and joining local colleague forum and team meetings.

An overview of how the Company engages with all stakeholders is also set out within the Stakeholder Engagement section of the Annual Report and an overview of how stakeholder views are taken into consideration in Board discussions and decision-making is set out in the Board activities table.

Corporate Governance Report *continued*

Compliance with Principle/Provision disclosure

1. Board Leadership and Company Purpose continued

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

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

No new situational conflicts of interest were notified to the Company in the reporting period and, where a business conflict arose in relation to a particular area of Board discussion, the conflicted director recused himself from the matter and complied with the terms of the Company's conflicts of interest guidance. For details of current situational conflicts notified by the directors, please see the Other Statutory Disclosures on page 119.

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

2. Division of Responsibilities

F. Chairman
The responsibilities of the Chairman are set out in this Corporate Governance statement and are set out in writing and agreed by the Board.

G. Division of Responsibilities
A statement of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management is set out in this Corporate Governance statement and are set out in writing and agreed by the Board.

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

I. Functioning of the Board
Board meetings are structured to enable the Board to discharge its duties and to promote the success of the Company; this is achieved by way of an annual agenda planner which is reviewed and updated at each Board meeting and the timely distribution of supporting papers in preparation for meetings, with a sufficient level of detail and supplementary information for the Board to take decisions.

The Board receives regular updates on matters such as strategy; financial, operational and management reporting; health and safety; investor relations; and IT security and corporate governance, in addition to ad hoc matters for consideration, such as material transactions or strategic items.

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

9. Independence of Chairman
David Blackwood was independent on appointment in May 2020.

The division of responsibilities between the Chairman and Chief Executive Officer are set in this Corporate Governance statement and are set out in writing and agreed by the Board.

10. Independence of Non-Executive Directors
During FY2022, all non-executive directors were, and continue to be, independent.

11. Board Independence
During FY2022, all three of the non-executive directors (excluding the Chairman) were considered to be independent and, therefore, at least half of the Board were independent non-executive directors.

Compliance with Principle/Provision disclosure

2. Division of Responsibilities continued

12. Senior Independent Director
Mark Whiteling became Senior Independent Director on 23 January 2018.

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

13. Performance of Executive Directors
The Remuneration Committee receives regular updates and reports from management on the achievement of objectives and regularly challenge management on its performance.

The Chairman held five meetings during the reporting period with the non-executive directors, without the executives being present.

14. Role Responsibilities
The responsibilities of the Chairman, Chief Executive Officer, Senior Independent Director and the Terms of Reference for each of the Committees are set out in writing and agreed by the Board.

The Board held 11 scheduled meetings during the year as set out in the directors' attendance table of this report on page 58.

15. External Commitments
The Board is satisfied that the external commitments of the Chairman and the non-executive directors do not conflict with their duties and commitments to the Company. Any new commitments require the prior approval of the Chairman (or, in the case of the Chairman, of the Senior Independent Director in conjunction with the Chief Executive Officer) and are disclosed to the Board.

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

3. Composition, Succession and Evaluation

J. Board Appointments
A description of the work of the Nominations Committee is set out in the Nominations Committee report on page 90. The Committee receives an annual update on succession planning for the Board and senior management.

In May 2021, Tony Grace (former Chief Financial Officer) indicated his desire to step down from the Board and to retire by the end of the 2021 calendar year. Having considered the merits and opportunities of internal candidates as part of succession planning, the Board concluded that an external search process would be undertaken which ultimately concluded in the appointment of Paul Baker in August 2021 (with a joining date of 4 October 2021). Russell Reynolds Associates was engaged to assist in the search process. Russell Reynolds Associates has no connection with the Company or the directors and selection decisions were based on merit and recruitment activities were fair and non-discriminatory.

As part of the Nominations Committee's work in the reporting period, it was mindful that two of the Company's largest shareholders had each raised Board diversity as a future voting concern for them, not least in part to the changing regulatory landscape on gender and ethnic diversity under LR 9.8.6R(9) of the FCA's Listing Rule regime. As a result of this and mindful of sectoral experience and expertise gaps in the Board's composition vis-à-vis strategic growth initiatives, the Board has initiated an external search process to identify suitable candidates that may be open to joining the Board during FY2023. Further details are set out in the Nominations Committee report on page 90.

K. Board Membership
A description of the work of the Nominations Committee is set out in the Nominations Committee report on page 90.

L. Board Evaluation
A performance review of the Board, its Committees, the Chair and individual directors is carried out annually, and an externally facilitated evaluation is carried out every three years, with 2022 being the three-year anniversary of the external process.

The external evaluation was undertaken by the Chartered Governance Institute (CGI) and addressed the quality of each of seven aspects of the Board's performance through an interview process, ultimately resulting in a report to the Board incorporating a small number of recommendations where changes may assist the Board's effectiveness and oversight of management. This report was presented to the Board in July 2022 and action points agreed in order to promote good corporate governance principles and achieve ongoing continuous improvement processes. Following its review, the Board has concluded that both it and its Committees continue to operate effectively and in accordance with good corporate governance principles.

After the period-end, each individual director's performance was also assessed by their peers. One-to-one discussions were held between the Chairman and each director to discuss their contribution and performance during the year along with any training needs. A meeting of the non-executive directors was led by the Senior Independent Director, in which the performance of the Chairman was discussed.

Corporate Governance Report *continued*

Compliance with Principle/Provision disclosure

3. Composition, Succession and Evaluation continued

17. Nominations Committee
The Board has established a Nominations Committee and its terms of reference are available on the Company's website. A description of the work of the Committee is set in the Nominations Committee report, including its approach to succession and diversity.

Membership of the Nominations Committee is set out in the Nominations Committee report on page 90.

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

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

19. Chair Tenure
David Blackwood was appointed in May 2020 following a rigorous and competitive process undertaken with an external recruitment agency.

The Nominations Committee receives an annual update on succession planning for the board and senior management.

20. Recruitment Agencies
External recruitment agencies are generally used for the appointment of executive and non-executive directors.

21. Board Evaluation
A performance review of the Board, its Committees, the Chair and individual directors is carried out annually and an externally facilitated evaluation is carried out every three years. As set out in Section L above, this year an external evaluation has been undertaken by the Chartered Governance Institute (CGI). The CGI has no connection with the Company or the directors.

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

23. Work of Nominations Committee
A description of the work of the Nominations Committee is set out in the Nominations Committee report on page 90. See section L above for details of the Board evaluation process and the People report for details of the Company's policy on diversity and inclusion, its objectives and linkage to strategy and relevant diversity data metrics.

Compliance with Principle/Provision disclosure

4. Audit, Risk and Internal Control

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

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

The fair, balanced and understandable assessment is set out in the Financial Review on page 36.

O. Risk and Internal Control
The Board confirms that there is a process for identifying, evaluating and managing the risks we face. A description of the work of the Audit Committee is set out in the Audit Committee report on page 80.

24. Audit Committee
The Board has established an Audit Committee and the membership is set out in the director biographies.

The Chairman is not a member of the Committee.

25. Role and Responsibility of Audit Committee
The terms of reference for the Audit Committee are available from the Company's website. A description of the role and responsibility of the Audit Committee is set out in the Audit Committee report on page 80.

26. Work of Audit Committee
A description of the work of the Audit Committee is set out in the Audit Committee report on page 80.

27. Fair, Balance and Understandable Assessment
The Board is responsible for the preparation and approval of this Annual Report and Group Financial Statements and considers them, taken as a whole, to be fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Company's position, prospects and performance, business model and strategy.

The fair, balanced and understandable assessment is set out in the Financial Review on page 36.

28. Principal and Emerging Risks
The principal risks assessment is set out on page 42. Emerging risks are identified as part of the Company's risk management framework, further details of which are set out in the Audit Committee report on page 80.

29. Effectiveness of Risk Management and Internal Controls
A description of the work of the Audit Committee in relation to monitoring the effectiveness of risk management and internal control is set out on page 84.

30. Going Concern Assessment
The Going Concern Statement is included within the Financial Review on page 39.

31. Viability Assessment
The Viability Statement is included within the Financial Review on page 56.

Corporate Governance Report *continued*

Compliance with Principle/Provision disclosure

5. Remuneration

P. Policies
Each year, the Remuneration Committee analyses executive remuneration, to ensure that it continues to be aligned to, inter alia, the Company's values, culture and strategy, and that it also promotes the long-term sustainable success of the Company and without rewarding failure.

Q. Transparency
Through the Remuneration Committee, there is a transparent process to determine remuneration, taking into account the need to ensure there are no conflicts of interests. No director is involved in deciding their own remuneration outcome. This is set out further in the Directors' Remuneration report on page 94.

R. Discretion
The Remuneration Committee has absolute discretion to consider individual performance, financial performance and prospects of the Company and any wider context issues, in each case when determining remuneration outcomes. This discretion is reinforced by plan rules which include best practice discretionary override where appropriate or necessary. The use of discretion is set out further in the Directors' Remuneration report on page 94.

32. Independence
The Remuneration Committee and its membership is set out in the director biographies. The Chairman of the Company, who was independent upon appointment, is a member of the Committee but does not chair it.

The Remuneration Committee Chair has extensive previous remuneration committee experience, having acted as Chief People Officer of major corporates during her executive career and having served as Remuneration Committee chair for the Company since her appointment in December 2015, together with holding a number of other relevant external appointments.

33. Terms of Reference
The Remuneration Committee's terms of reference restate the Committee's responsibility for determining and approving the remuneration framework for the Chairman, executive directors, senior management team (the Executive Team) and Company Secretary. It further includes review of remuneration and incentives of the entire workforce, in each case taking into account the values, culture and strategy of the Company.

The terms of reference for the Remuneration Committee are available from the Company's website. A description of the role and responsibility of the Remuneration Committee is set out in the Directors' Remuneration Report on page 94.

34. Fees
Non-executive director fee levels are periodically revisited, to ensure they are not out of line with the market. The fees paid in the reporting period are set out further in the Directors' Remuneration report on page 94.

35. Consultants
The Company engages the services of a remuneration consultant. The consultant regularly advises the Remuneration Committee and has a direct line of reporting to the Committee and its Chair.

36. Policies
The Remuneration Policy approved by shareholders at the 2020 AGM (and the revised policy being presented for shareholder approval at the 2023 AGM with only minimal changes of substance) focuses on the alignment of shareholder and management interests, and includes a 200% of salary shareholding requirement for all executive directors.

Further, the policy provides that LTIP grant levels adhere with a five-year total vesting and holding period three-year performance period + two-year holding), which has been adopted from FY2018 awards.

Separately, a two-year post-cessation of employment shareholding requirement (excluding self-purchased shares) continues to apply for executive directors.

The revised Remuneration Policy and the implementation of the current policy in the reporting period are set out further in the Directors' Remuneration Report on page 94.

37. Recovery and Withholding
The Remuneration Policy provides for Committee discretion specifying that formulaic outcomes can be overridden if an outcome does not reflect underlying Company performance, investor expectations or employee reward outcome. The scheme rules of the Company's share incentive plans explicitly make this clear and include best practice malus/clawback provisions.

Compliance with Principle/Provision disclosure

5. Remuneration continued

38. Pensions

Only base pay is pensionable.

The Company's pension contribution for each of the Chief Executive Officer and Chief Financial Officer is 5% of salary, which is the maximum rate available to the majority of the workforce.

39. Notice Periods

Executive directors have a notice period of 12 months and do not include any provisions for pre-determined compensation on early termination.

40. Principles

These principles have been adopted and considered by the Remuneration Committee when determining the Directors' Remuneration Policy and its implementation within the reporting period. Further details are set out in the Directors' Remuneration report on page 94.

41. Description of the Work

A description of the work of the Remuneration Committee is set out in the Directors' Remuneration report on page 94.

The Directors' Remuneration report sets out further details of the application of the Remuneration Policy in the reporting period and the levels of engagement undertaken with each of the workforce and shareholders in presenting the revised Directors' Remuneration Policy to the 2023 AGM for shareholder approval.

Approval

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

David Blackwood
Chairman

8 November 2022

Audit Committee Report

Mark Whiteling
Audit Committee Chair

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

Membership & Composition	Attendance
Mark Whiteling (Chairman of Audit Committee & Senior Independent Director)	4/4
Denise Collis (Independent non-executive director)	4/4
Michael Holt (Independent non-executive director)	4/4

Meets the 2018 UK Corporate Governance Code requirement that the majority of members are independent non-executive directors.

The Committee met four times during the year and all Committee members attended each of the meetings. At the invitation of the Committee, the Company Chairman and certain executive directors attended the meetings from time to time.

Chairman's introduction
On behalf of the Board I am pleased to, once again, present the Audit Committee report which explains the Committee's activities and contribution to the general oversight of the Company's internal controls, risk management, our corporate governance framework, and financial reporting and assurance of the Annual Report and Group Financial Statements for the reporting period.

Reviewing our risks
In the light of our ongoing strategy to look at possible growth and diversification opportunities which complement our core business activities and competences, we have determined that a new principal risk should be added to our risk register, specifically around the execution risks associated with the implementation of these opportunities that are being carefully explored. The challenging macro-economic position, as well as the insolvency of a large retailer (McColls) in the reporting period, has required a detailed review of the trading and credit terms extended to our customers, to ensure that these remain appropriate now and for the future, as well as a detailed review of the impact of that retailer's insolvency on the Group Financial Statements and the alternative performance measures included in this Annual Report. This review and our experience in the reporting period has also led to the inclusion of a new principal risk related to a change to our retailers' commercial model. Furthermore, remaining ever conscious of the growing climate-related risk environment, we have determined that an emerging risk associated with sustainability and climate change should be elevated from our emerging risk register to a principal risk. Coupled to this, we have extensively reviewed the proposed disclosures and assurances necessary to meet the reporting requirements of the Taskforce on Climate-related Financial Disclosures (TCFD), with this being our first year in which a climate consideration section has been included within this Annual Report.

Improving cyber security
During the reporting period, the Committee is pleased with the good progress made in enhancing our cyber security credentials.

Our journey to achieving 'Cyber Essentials' accreditation through the National Cyber Security Centre has proved a worthwhile exercise and, with the benefits seen here, we remain committed to continuing the focus on cyber security, as the Company seeks 'Cyber Essentials Plus' accreditation in FY2023. Our progress has resulted in a number of positive changes in our IT landscape and has driven a shift in culture and security awareness across the business which is particularly pleasing.

H&S excellence and internal controls
We have continued to maintain a sector-leading track record in health and safety, with our ongoing activities recognised through retaining our ISO 45001 certification for H&S management and, separately, securing 13 RoSPA awards in the year (including 11 at the highest 'gold' standard).

The Committee has also continued to monitor and review our internal controls framework and the output of Internal Audit's activities in the year and, overall, the Committee is pleased that our robust controls and systems have ensured regulatory compliance and financial control and discipline in the reporting period.

External audit and administration
Once again, I am pleased to report that we remain satisfied with BDO's audit processes, with both their interim review and period-end audit progressing well this year. The Committee can confirm that through ongoing monitoring and review the independence and objectivity of the external auditor has been ensured.

The Committee has undertaken an annual review of its terms of reference in accordance with which it has acted at all times during the year.

Further information on the Committee can be found here, as well as in the Corporate Governance report on page 58.

Mark Whiteling
Audit Committee Chairman

8 November 2022

Membership

During the year, Michael Holt, Denise Collis and I were all members of the Committee. All members of the Committee who served during the year were independent non-executive directors. David Blackwood, as Company Chairman, was not a member of the Committee but did attend Committee meetings by invitation only, and has attended each Committee meeting.

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

Corporate governance

As part of its overall responsibility for the strategic direction and management of the Company, the Board undertakes an annual review of its risk appetite and risks and opportunities, the outputs of which are considered when conducting the annual business planning, budgeting and strategy reviews.

The Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper systems of risk management and internal control. The Internal Audit function assists in maintaining adequate financial controls by reviewing the design and operational effectiveness of core financial processes and all controls as part of the internal audit plan approved by the Committee annually and refreshed at regular intervals in the reporting period. Internal Audit presents its findings to the Executive Team, and all internal audits have an executive sponsor assigned.

The terms of reference address all matters set out in Disclosure and Transparency Rule 7.1 and the 2018 edition of the Code, and are reviewed annually by the Committee and referred to the Board for approval.

If there is a disagreement with the Board and/or the Executive Team on any of the Committee's responsibilities that cannot be resolved, the Committee retains the right to report the issue to shareholders as part of its report on the Committee's activities. There are no such matters to report to shareholders at this time.

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

Evaluation of the Committee

During the year, an external evaluation of the effectiveness of the Committee was conducted. Further details can be found in the Corporate Governance report on page 58.

How the Committee operates

The Committee met four times during the year as part of our schedule to consider matters planned around the financial calendar. All Committee members were in attendance at each of the meetings. For further details on attendance, please refer to the Corporate Governance report on page 58. At the invitation of the Committee, representatives of the external auditors (BDO LLP) attended meetings, together with representatives of the Company, including the Company Chairman, executive directors, internal auditors and certain other members of the Executive Team whom, from time to time, presented reports specific to their areas of responsibility.

Roles & Responsibilities

Includes –

- Monitoring the integrity of the financial statements of the Company, including its Annual and Interim Reports, trading statements, preliminary and interim financial results announcements and reviewing significant financial reporting issues and judgements which they contain;
- Keeping under review the adequacy and effectiveness of the Company's internal financial and non-financial controls, including monitoring and reviewing the effectiveness of the Internal Audit function;
- Reviewing the Company's assurance and risk management framework and providing oversight and input into the Company's risk strategy, appetite and risk management mitigations;
- Reviewing the content of the Annual Report and the Group Financial Statements and advising the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance and prospects, together with its business model and strategy;
- Reviewing and recommending the adoption of the going concern basis of accounting in preparing the financial statements of the Company and assessing its prospects and viability;
- Reviewing the regulatory compliance framework and the systems and controls for the prevention of fraud and corruption, tax evasion, modern slavery and bribery;
- Ensuring the Company maintains suitable arrangements for colleagues, customers, contractors and other external parties to raise matters of concern in confidence (whistleblowing);
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- Assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- Reviewing and approving the policy on the engagement of the external auditor to supply non-audit services; and
- Reporting to the Board on how it has discharged its responsibilities.

For more details, please see Audit Committee (or a hard copy is available from the Company Secretary on request).

Audit Committee Report *continued*

As Chair, I regularly engage with the external auditor and with the Head of Internal Audit & Risk, both ahead of Committee meetings and also as part of a regular dialogue we have on issues relevant to the Committee, in each case in order to ensure that each of their independent views, opinions and comments are reflected within the Committee's deliberations and dealings. Separately, the Committee also seeks to collectively meet regularly with both the external auditor and separately with the Head of Internal Audit & Risk without the executives being present. In the year, the Committee met twice with representatives from BDO without management present and held one separate private meeting with the Head of Internal Audit & Risk. No material issues came to light in these discussions but the Committee nonetheless welcomed the opportunity to discuss any issues in a candid and constructive light.

Towards the end of the financial year, the Head of Internal Audit & Risk left the business for an opportunity outside of the Company. As a result, the Committee oversaw the appointment of a new Head of Internal Audit & Risk. Despite this change, completion of the FY2022 Internal Audit work plan remained unimpacted and the Committee continued to maintain strong oversight and confidence in the delivery and successful conclusion of the FY2022 Internal Audit work plan.

We believe that the activities of the Committee during the reporting period have enabled the non-executive directors to gain a good understanding of the Company's strategic priorities, the risks and challenges we face, as well as the adequacy and timeliness of appropriate actions being taken to address them. This has assisted the Committee in its review of the Annual Report and Accounts, including the effectiveness of the Company's system of internal control and risk management (see below).

Risk management and internal control framework

While the Board retains ultimate responsibility for risk management and the internal control framework, the Committee is responsible for reviewing the robustness and effectiveness of the Company's risk management and internal control systems. The Internal Audit function is a key element in supporting the Committee to discharge this duty and following a review of Internal Audit's effectiveness in January 2021 (which was subsequently endorsed in July 2021) (see the Internal Audit section below), the Committee is pleased with the decision made in the prior year to transition to a new in-house model of resourcing for the Internal Audit function, which successfully took place without incident or hindrance at the start of FY2022.

A critical element of the Company's risk management review is the determination of the extent to which the Company is willing to 'accept' a level of net risk as part of the cost of delivering against its strategy. To this end, the Board's individual and collective risk appetite is periodically reviewed, taking into account changes in the business and the external environment, as well as emerging trends and developing risks. Our risk appetite differs across the respective principal and emerging risks, with a lower acceptance appetite (seeking to reduce the risk profile and mitigating its impact where possible) for high impact/high likelihood risks and with a higher acceptance level (potentially accepting the risk, with limited impact mitigation) for low impact/low likelihood risks. For further details, please see the Principal and Emerging Risks on page 42.

In line with usual procedures, a refresh of the Company's principal and emerging risks was carried out at the half and full year, taking into account the continuing environment of considerable change and transformation within both the UK and across our business, the increasing relevance of climate-related risks and, more recently, the impact (both in relation to growing inflationary pressures in the macro-economy and its impact on our service performance and strategic planning programmes) of the well-publicised sector challenges in relation to driver recruitment and warehouse resourcing. This review and our experience in the reporting period has, in particular, led to the inclusion of a new principal risk related to a change to our retailers' commercial model and a separate sustainability climate-related risk to supplement our TCFD reporting (see page 44). This broad review was conducted through discussion with a cross-section of the Executive Team and senior management and the non-executive directors, who were each asked to consider the key risks (in place and emerging) and the challenges facing the business (by reference to the existing principal risks); the current management activities and controls that help address these risks; and future actions that may be taken to further mitigate the risks (where appropriate). Following this review, there remains a general alignment around the nature of risks, the risk ownership, the direction of travel, any mitigation actions to reduce the gross risk, and acceptance of remaining net risk.

The Committee's review of the risk management and internal controls in the year included:

- a review of both the risk profile, our collective appetite to risk and the internal control framework, reviewing the processes for identifying, evaluating and managing the principal business risks (together with the emerging risks) that we face, including those that would threaten the Company's business model, future performance, solvency or liquidity;
- the consideration of updates from the business covering current and anticipated risks, together with corresponding mitigating actions. These included issues such as people-management and remote working patterns, operational depot processes, procure to pay, payroll services, cyber security, climate-related risk events, and the impact of the current inflationary pressures and recruitment challenges within the sub-contracted delivery driver market;
- a review of operational controls, processes and systems, together with robust BCP planning to mitigate a range of service interruption scenarios;
- a review of the Company's new banking facilities signed in December 2021 and the impact this had on the Company's distribution rights, going concern and viability assessments; and
- a review of the mitigations and controls in place to protect the business and the continued oversight of the effectiveness of our cyber-risk management plans.

The Company's risk management and internal control system is designed, however, only to manage or mitigate risk, rather than to eliminate it entirely, as taking on manageable net risk is an inherent part of undertaking the Company's commercial activities and can only provide reasonable (and not absolute) assurance against material misstatement or loss.

We believe that we have been able to respond quickly and efficiently to the ever-evolving risk environment that we regularly face head on and have deployed effective risk management processes across the Company. Accordingly, the Board is satisfied that it has carried out a robust assessment of the principal and emerging risks that we face (together with the Board's risk appetite) as required by the 2018 edition of the Code. Further details of our risk management framework, along with our evaluation of the principal risks and how they are being monitored are set out in the Strategic Report on pages 2 to 57.

IT systems and cyber security

During the year, we enhanced our Information Technology systems and controls, not least through the deployment of Microsoft Office365 to all users, introducing multi-factor authentication processes to enhance the security of our internal and external systems and provide a robust and fit for purpose solution going forwards. In the field of information technology and security, the Company undertakes a regular security assurance programme, testing controls, identifying weaknesses and prioritising remediation activities where necessary. This includes periodic best practice specialist security testing by a leading third-party provider and regular system scanning to identify security weaknesses. Issues are assessed for risk and are comprehensively managed as part of the Company's risk management programme. The Audit Committee is presented with a detailed Information Security Report every six months by the IT Director and Head of Information Security, which includes recommendations for further reinforcements, and a roadmap for further risk reduction. As a demonstration of our commitment to tackling cyber security, we continue to pursue Cyber Essentials accreditation from the National Cyber Security Centre (NCSC) and intend to supplement this with Cyber Essentials Plus accreditation in Q2 FY2023.

Whistleblowing, bribery and fraud

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

During the year, the Committee received quarterly reports on incidences of whistleblowing, suspected fraud, tax evasion, data breaches, bribery, modern slavery or other malpractices reported across the business. A small number of incidences arose in the reporting period, but no such instances were considered to be of significance to the Company. The Committee continues to welcome this increased risk management framework which aids and improves the identification of, and mitigating actions to prevent and report, incidences of suspected fraud, tax evasion, data breaches, bribery, modern slavery or other forms of malpractice. See the Corporate Governance report on page 58 for further details.

Internal audit function

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

Following the reintroduction of the internally resourced model (as opposed to the previous outsourced model) for Internal Audit at the start of FY2022, we are pleased to report that the transition progressed well, with an effectiveness review of the Internal Audit function in the year supporting our initial decision to make the change and identifying the tangible benefits to the business of having made this decision. This decision was based on an assessment that the internal model was best able to meet the needs of the business and to deliver an internal audit function which remains at the heart of the risk management framework and ongoing control environment. This change has, in the Committee's view, resulted in better control and assurance across the business and, despite the transition process and the loss of the Head of Internal Audit & Risk towards the end of the financial year, we have successfully been able to achieve our FY2022 internal audit plan, resulting in the Committee being satisfied that an effective review of the control framework and governance processes has taken place across the selected areas of our business.

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

- the scope, resource and planned activities of Internal Audit and the adequacy of audit coverage;
- Internal Audit's strategy, work plans and status reports against planned activity and business incidents reports;
- a summary of the reports on the results of individual audit reviews, significant findings, management action plans, and timeliness of resolution; and
- the performance of the Internal Audit function which was undertaken through a formal review process, which included the views and experiences of not only the Audit Committee members but also a cross section of peers from across the business who have engaged with the Internal Audit team during the year. The review has indicated that, overall, the insourced model is working well, with some areas identified for further development in FY2023.

Committee's activities during the year

The Committee has a yearly agenda planner, which ensures that it is able to fully discharge its roles and responsibilities, whilst maintaining sufficient time for discussion of ad hoc items that arise throughout the reporting period.

Audit Committee Report *continued*

What the Committee did during FY2022	
Financial reporting	• Reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to, and the content of, the Group Financial Statements for the reporting period (including likely key accounting judgements and approach) • Approved the financial results' press releases and the Annual Report and Accounts • Approved the Group's viability and going concern assessment and subsequent disclosures and statements • Considered the impact of retailer insolvency and reviewed the credit and trading terms extended to our customers • Considered our response to a further request for information from the FRC's Corporate Reporting Review team in relation to the FY2020 Annual Report and Financial Statements and concluded such matter with the FRC, which resulted in increased disclosures of the key assumptions made in our impairment review performed for the parent company's investment in its subsidiary, including references to terminal growth rate, the basis on which assumptions are quantified, and the sensitivities of the carrying value of investments to changes in such assumptions • Considered the FRC's positive comments on the Company's impairment reporting in its 2021 Annual Report
External audit review	• Reviewed the external auditor's report on the Company's full year and half year financial statements • Reviewed the external auditor's assessment of its objectivity and independence, including a review of, and prior approval of, non-audit services (and associated fees) provided by the external auditor as part of its performance review • Reviewed management representation letters related to the Company's full year and half year financial statements • Reviewed recommendations to executive management set out in the external auditor's management reports • Reviewed the external auditor's audit plan, scope and strategy • Approved the external auditor's fees
Risk management & Controls	• Conducted an annual assessment of risk and internal control, including a robust assessment of principal and emerging risks • Received information security and Data Protection reports • Received information on climate-related risks and reviewed TCFD reporting • Received whistleblowing reports • Reviewed findings and recommendations from Internal Audit reports • Received risk and internal control reports • Reviewed and approved the Internal Audit plan
Other/ad hoc	• Reviewed the effectiveness of the Internal Audit model and structure and the results of the evaluation of the Internal Audit function • Reviewed various legal reports and compliance and risk updates • Received updates on tax and insurance • Reviewed policies – treasury, anti-bribery, non-audit work, recruitment of external auditors, parent company guarantees etc • Conducted an annual review of the Committee's terms of reference, evaluation and review of its composition • Considered the resignation of the Head of Internal Audit & Risk and appointed a new Head of Audit & Risk • Conducted private meetings between the non-executive directors, Head of Internal Audit & Risk and the external auditor • Continued to keep under advisement the outcome of the UK Government's proposals regarding its review of the audit market, known as "Restoring Trust in Audit and Corporate Governance", as well as other changes within the auditing environment

Fair, balanced and understandable

During the year, the Committee reviewed and considered reports from the external auditor and the Chief Financial Officer on matters of significance in relation to, and the content of, the financial statements for both the 52-week period to 27 August 2022 and the half year to 26 February 2022 to ensure that, in each case, they included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position, performance and prospects, as well as the Company's business model and strategy. This review included but was not limited to:

- a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgements made in preparing the financial statements;
- a review by senior management of the Annual Report, to ensure that the information presented was accurate and that the narrative was consistent with the fact pattern; and
- monthly Board meetings where the management accounts and KPIs were reviewed, to ensure that the financial, operational and commercial performance was appropriately assessed, reported and understood.

The views of the external auditor on this matter were also considered by the Committee. Having completed its assessment, the Committee reported to the Board that it was able to make the corresponding confirmation that this Annual Report is fair, balanced and understandable.

Significant Financial Statement reporting issues

The significant issues and key judgements considered by the Committee in relation to the FY2022 Group Financial Statements are set out below. In light of these significant issues and key judgements included below, the Committee has considered whether each of these areas is a key judgement or estimate and, therefore, whether it should be disclosed within Note 1(e) to the Group Financial Statements. It was concluded that the matters included within Note 1(e) reflect the key judgements and estimations.

Significant matters and key judgements

Area	Matter considered	Outcome
Going concern and viability	The Committee reviewed and challenged executive management's assessment of forecast cash flows over the relevant assessment periods, which were 16 months for going concern and 34 months for viability. The Committee considered the sensitivities within trading and expenditure plans, including a reverse stress test and five reasonable worse case downside scenarios which were linked to the principal and emerging risks as detailed on page 42. The Committee further reviewed the assumptions relating to material events occurring before the end of the assessment period, notably the renewal of publisher contracts and the extent and renewal of the Company's debt financing facilities in August 2025.	The Committee concluded that the assumptions used in the assessments and the periods of assessment, were appropriate. In reviewing the Group's reverse stress tests, the Committee challenged executive management as to the likelihood of any such scenario occurring, to assess whether it was reasonable to assume that the likelihood of any such scenario was remote. Factors that were considered included the current trading performance of the business compared with the base case, the extent of revenue and Operating Profit decline that could impact the going concern of the Company and current expectations as to the severity of any inflationary impacts on cash flows. The Committee further concluded that appropriate consideration had been made of principal and emerging risks through the inclusion of the five downside risk scenarios and reverse stress test. The Committee noted the current level of average and peak debt, the Company's debt financing facilities and the factors set out above to help it conclude that the application of the going concern basis for the preparation of the Group Financial Statements continues to be appropriate and, therefore, agreed the Group Financial Statements should be prepared on a going concern basis and recommended the approval of the viability statement. This disclosure in respect of going concern is set out in Note 1 to the Group Financial Statements on page 137.
IFRS15 – Principal vs. Agent	The Committee considered the appropriateness of accounting for revenue from the wholesale of newspaper and magazines as principal, rather than as an agent.	The Committee was satisfied that appropriate consideration had been made of the following factors which influence determination of principal/agent: • primary responsibility for fulfilling the promise to provide newspapers and magazines is with Smiths News who are responsible for the timing of delivery, bearing risk of loss or damage and dealing with retailer complaints. • Smiths News also bears inventory risk, noting the customer has a right of return. • Smiths News has the discretion to establish prices with retailers including wholesale discounts.

Audit Committee Report *continued*

Significant matters and key judgements

Area	Matter considered	Outcome
Revenue recognition – existence	The Committee considered management's judgement relating to the existence of revenue from sales of newspapers and magazines and from carriage fees, which is recognised when the titles are delivered to the retailer.	Revenue from the delivery of newspapers and magazines and from carriage fees are recognised when the titles are delivered to the retailer, as there is no unfulfilled obligation that could affect the retailer's acceptance of the products and the risks of obsolescence and loss have been transferred to the retailer. The Committee concluded that the accounting treatment remained appropriate.
Carrying value of investment held by Smiths News plc in its subsidiary	The Committee considered management's conclusion that no change should be made to the carrying value of the investment held by the Company in its subsidiary, despite the following indicators of impairment/reversal of impairment: • increase in the risk free rate (impairment); • the Company's market capitalisation being below the investment carrying value (impairment); and • lower net liability position (reversal).	The Committee received detailed reports from executive management outlining valuation methodology, the basis for key assumptions (e.g. discount rate and terminal growth rate), the key drivers for cash flow forecasts and the sensitivity of the assumptions used. The impairment model is highly sensitive to key estimates and judgements. The key assumptions in the value in use calculations are the rates of revenue decline, level of cost mitigation to maintain margins, terminal growth rates and the risk-adjusted post-tax discount rate. After careful deliberation and challenge, the Committee was satisfied that these assumptions and the disclosure of sensitivities were appropriate. In its deliberations, the Committee further acknowledged that, while indicators of impairment and reversal existed, there had been no significant change to the value of the Company or its market since the prior year. The Committee agreed with management's conclusion that no change to the carrying value of the investment should be made.
Alternative Performance Measures (APMs) and Adjusted Items	The Committee closely monitored management's interpretation and definition of APMs, with focus on Adjusted Items. The Committee continues to review and challenge the classification of Adjusted Items in line with the Company's defined policy. The Committee also ensures sufficient involvement from external auditors in challenging management to ensure an appropriate level of judgement is exercised in their assessment. The Committee considered the appropriateness of the measure of Adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as such. The Committee also considered the presentation of APMs in the Annual Report and Accounts in the context of the requirement that they are fair, balanced and understandable.	The Committee was satisfied that the presentation of APMs and Adjusted profits provides a reasonable view of the underlying performance of the Company, and that there was transparent and consistent disclosure of the items shown separately as Adjusted items. In particular, following rigorous review with management and advisers, the Committee concluded that the impact of McColls administration should be treated as an adjusting item for the purposes of recording the treatment of the £4.4m provision made in the Group Financial Statements, both in adherence to the Company's adjusting items policy and in order to provide a meaningful comparison of APMs. The definition of APMs can be found in the Glossary on page 176. The accounting policy on Adjusting items is set out in Note 1 to the Group Financial Statements on page 137.

Significant matters and key judgements

Area	Matter considered	Outcome
Retirement benefit obligation	The Committee reviewed the accounting treatment of the buy-out and winding up of the news section of the WH Smith Pension Trust scheme in the year.	The Committee was satisfied with the treatment of the "buy-out" and winding up of the scheme.
Property provision	The Committee reviewed the property provisions as at period end and the appropriateness of the additions, utilisation and releases made in the year.	The Committee agreed that the property provision held was appropriately recognised and measured, and that releases were consistent with the manner in which the original provisions had been made. The Committee considered that the provisions have been discounted to present value using an appropriate discount rate, and this discount will be unwound over the life of the leases. A negotiation settlement rate was also used as seen in the market. The provisions cover the period to 2036; however, a significant portion of the liability falls within ten years.
Determining lease terms	The Committee considered the factors used by management to determine lease terms.	The Committee considered the key judgements made in determining lease terms and was satisfied with the approach.

The Committee considered the following key matters:

- Revenue recognition relating to the existence of revenue from newspapers and magazines and from carriage fees. The Company is considered to be the principal based on the following indicators of control over its inventory; discretion to establish prices; it holds some of the risk of obsolescence once in control of the inventory; and has the responsibility of fulfilling the performance obligation on delivery of inventory to its customers. Revenue from the delivery of newspapers and magazines and from carriage fees are recognised when the titles are delivered to the retailer, and there is no unfulfilled obligation that could affect the retailer's acceptance of the products, the risks of obsolescence and loss have been transferred to the retailer. No issues were noted with regards to this risk; and
- Carrying value of the investments in Smiths News plc. The impairment model is highly sensitive to key estimates and judgements. The key assumptions in the value in use calculations are the rates of revenue decline, level of cost mitigation to maintain margins, terminal growth rates and the risk-adjusted post-tax discount rate. The Committee concluded that the assumptions used by management in this review were appropriate and no further impairment or reversal was required at period end.

Audit Committee Report *continued*

Adoption of new accounting standards

The Financial Conduct Authority has introduced LR9.8.6R(8) in relation to adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which require premium-listed companies to disclose climate-related risks and opportunities, governance, strategy, risk management, and metrics and targets. Companies are obliged to also consider areas of the financial statements that could be impacted by such risks and uncertainties arising from climate change under the current accounting standards. Please see the TCFD report on page 44 for further details of our compliance in this area.

Apart from the above financial reporting developments, there have been no other significant changes in accounting standards which are expected to materially impact the Company. However, we nevertheless remain alert to any such changes and regularly receive updates on upcoming changes from both the external auditor and management. In this light, the Committee has received an update during the year on the Department of Business, Energy and Industrial Strategy's response to its March 2021 consultation on audit and corporate governance reform (Restoring trust in audit and corporate governance) for which the Committee welcomed the opportunity to participate in the consultation last year. The impact of the wide-ranging reforms has been considered and executive management invited to keep the Committee aware of latest developments and, in particular, the implementation timetable through primary and secondary legislation and proposed amendments to the UK Corporate Governance Code.

Going concern and viability assessment

The Committee also reviewed a paper prepared by the Chief Financial Officer to support the Going Concern and Viability Assessment referred to on page 56. The Committee noted that the Company had £79.5m of available facilities at the end of the reporting period (of which £14.2m was drawn at the end of the reporting period) and, therefore, achieved 0.3x leverage covenant of Bank Net Debt to Adjusted EBITDA (pre-IFRS16). With current facilities in place until 31 August 2025, this gives the Company a strong platform to continue for the foreseeable future. On this basis and the evaluation of the impact of a number of sensitivity scenarios, the Committee concluded in its recommendation to the Board that the profit and cash forecasts supported the view that the business can meet its liabilities as they fall due for a period greater than 12 months (being an assessment period of 16 months) from the date of approval of the Group Financial Statements, and that there is a reasonable expectation that the Company will remain viable over the period of assessment to August 2025. The Viability Statement on page 56 sets out further details on the process applied in relation to this assessment.

External auditor

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

BDO was appointed as external auditor following a competitive tender process in January 2019. In light of Articles 16 and 17 of the EU Audit Regulation, the Company will put the external audit contract out to tender at least every ten years and will mandatorily rotate audit firm every 20 years. The Committee acknowledges that in line with professional standards, BDO has a policy of rotating engagement partners every five years. This year's audit is the fourth year in which Sophia Michael has been engaged as audit partner and, consequently, we have commenced a process to consider the audit partner's rotation.

The Company has a formal policy on its relationship with the external auditor to ensure that the external auditor's independence is not impaired. Following regulatory changes and the introduction by the Financial Reporting Counsel (FRC) of a new 2019 ethical standard (which applied with effect from March 2020); in FY2020, the Committee reviewed the revised ethical standard and amended our non-audit services policy at that time. In doing so, we removed the previous de minimis financial approval limits for non-audit services and adopted a 'whitelist' of non-audit services which may be provided by the external auditor in adherence to the new ethical standard. No changes have been made this year and, therefore, going forward, the approval of both the Audit Committee Chairman and the CFO will continue to be required in respect of all non-audit service engagements and, as part of such approval process, where the maximum combined spend is likely to exceed 50% of the annual audit fee in any financial year, there is an express requirement to engage with the external auditor in order to ensure absolute compliance with the latest standards.

Fees paid to BDO during the year in respect of non-audit services support for the Company's interim financial results amounted to £97,000 (FY2021: £74,000). The Committee considered, and was satisfied that, it was appropriate for BDO to undertake this work and that doing so did not affect their independence. Details of the total fees paid to BDO during the year in respect of audit and non-audit services are shown in Note 3 to the Group Financial Statements.

Assessment of the effectiveness of the external auditor

The Committee regularly undertakes a review of the effectiveness of the external auditor, The Committee discusses, both internally and with BDO, the level to which BDO have demonstrated professional scepticism and challenge of management's position, specifically regarding estimations and judgements, with the addition of private meetings between the Committee and BDO being held regularly to encourage transparent feedback. At the completion of the financial reporting and audit process a formal evaluation process is undertaken each year, which includes a written questionnaire distributed to each member of the Committee, the Chief Financial Officer and senior Financial Controllers across the business. Subsequently, the Committee holds a dedicated session to discuss the collated responses, including any learnings and suggested areas for improvement, with BDO being afforded an opportunity to comment on any relevant findings and outcomes. Key areas of focus in the evaluation of the external audit included:

- the external auditor's processes for its review of the Board's accounting judgements;
- understanding of key accounting matters and issues;
- independence and objectivity;
- the expertise and technical knowledge of the external audit teams;
- the scope, delivery and execution of the external auditor's audit plan;
- a review of the completeness, quality and timeliness of the audit;
- a review of the robustness and perceptiveness of the external auditor; and
- a review of formal reporting to the Committee

Following its review, the Committee concluded that it was satisfied that the external audit process in FY2021 had been independent, objective and effective, with the Committee's review concluding as follows:

- the quality and independence of the BDO audit partner and team were agreed to be performing and confirmed;
- BDO had undertaken an appropriate level of analysis, discussion and review of relevant management papers and underlying assumptions of the going concern and viability statements to demonstrate the adequacy and sufficiency of audit challenge and critical assessment;
- the audit was well planned and executed on time, with key findings appropriately addressed; and
- BDO had a good understanding of the business and our internal control systems and reported in a clear and open manner.

Approval

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

Mark Whiteling
Audit Committee Chair

8 November 2022

Nominations Committee Report

David Blackwood

Nominations Committee Chair

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

Membership & Composition	Attendance
David Blackwood (Independent non-executive Chairman)	2/2
Mark Whiteling (Senior Independent Director)	2/2
Denise Collis (Independent non-executive director)	2/2
Michael Holt (Independent non-executive director)	2/2

Meets the 2018 UK Corporate Governance Code requirement that the majority of members are independent non-executive directors.

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

Chairman's introduction

A key focus of our business is on attracting, developing and retaining the best talent required to sustain our business and deliver our strategy. The Nominations Committee's focus primarily includes succession planning for the Board, Executive Team and senior management, as well as oversight of our talent pipeline and the development and implementation of our diversity and inclusion programme. Against this background, I am pleased to present the Nominations Committee report for the year and to highlight the key activities undertaken by the Committee during FY2022.

D&I

The Committee met at the beginning of the reporting period to specifically consider the progress we had made against our diversity and inclusion policies, noting the drive by the Company to encourage our colleagues to voluntarily update the relevant data held by the Company in order to facilitate more informed internal diversity reporting and discussion, and with a view to enabling better data analytics for both the composition of our workforce and the consideration of ethnicity pay gap metrics going forwards. The Company also carried out, and the Committee considered the results of, a diversity and inclusion survey amongst colleagues to establish a baseline data of their views and to further help the Committee and the Executive Team with areas of future targeted focus and action planning.

Following on from this, we also set ourselves a target to achieve a 30% increase in the number of our colleagues from minority groups recruited into leadership positions (LL2+) over the next five years and, in doing so, we have established new partnerships with our recruitment partners in an endeavour to increase the potential pool of diverse candidates participating in our recruitment processes.

Board diversity target

As we implement our Board-specific Diversity Policy, I am pleased to report that we have brought forward our intention to appoint an additional female director at Board level, with the recruitment process underway. We have sought to draw from a broad and diverse range of candidate profiles, including those who may not have previous listed company experience but who possess suitable skills, experiences or attributes which complement the expected future direction and strategy of the Company. We remain confident that we will achieve our Board-diversity target during FY2023 and well before the previous target set for refreshing the Board's diversity, which had originally been set to coincide with the Senior Independent Director's nine-year tenure (i.e. 2026).

While we remain committed to the diversity agenda, having the right blend of skills, expertise and experience remains paramount, with the Board acknowledging that retail, technology and marketing experience (for instance) would further support our strategic initiatives.

Colleague engagement

The Colleague Engagement surveys that the Company regularly conducts have moved to a more frequent quarterly 'pulse' process, with the Committee continuing to oversee these results. Participation in these surveys remains high amongst our colleagues, and it is pleasing to see the steady progress being made in the satisfaction scores.

Board workforce engagement

As more fully set out in both our Stakeholder Engagement report on page 14 and in the Corporate Governance report on page 58, we have refreshed the Board's engagement processes with our wider workforce. As previously disclosed, we primarily look to engage with our wider workforce through the appointment of a representative non-executive director (Michael Holt) to attend quarterly National Colleague Engagement Forum meetings and to report colleagues' views back to the Board. In FY2022, we reviewed this process and refreshed the impetus of all our colleague forums as they cascade up to the National Colleague Engagement Forum, to ensure that these forums and their processes remain fit for purpose, also considering whether alternative engagement methods may better promote or encourage colleague engagement. After due consideration, it has been agreed that the current representative non-executive director model best meets the needs of our business and ensures that the key stakeholder views of colleagues are appropriately considered by the Board in its decision-making.

Key issues discussed and action taken in the year included the introduction of published fair pay principles for colleagues; the commitment and scope of capital expenditure investments to be made across our locations; the merits of and issues arising from the launch of benefits roadshows to colleagues, to ensure that, in the current economic climate, colleagues have a good understanding and ability to access all benefits available to them; and the sharing of plans to introduce technology assets at our locations, to help colleagues access literature and relevant information where they may not otherwise have tools to access such information or training resources.

Chief Financial Officer

As disclosed in our 2021 Annual Report, Paul Baker replaced Tony Grace as Chief Financial Officer on 4 October 2021 following the announcement of Tony's retirement (Tony stepped down from the Board on 30 November 2021) and Paul is well settled into his role and has been an established and valued member of the team over the last year.

Further information on the Committee can be found at: *www.smithsnews.co.uk*, as well as in the Corporate Governance report on page 58.

David Blackwood
Chairman

8 November 2022

Roles & Responsibilities

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

For more details, please see *www.smithsnews.co.uk*.

Key Actions from FY2022

October 2021
- Received reports on talent review and development and upskilling of the senior leadership team
- Reviewed Diversity and Inclusion Policies and received a progress update
- Received results of colleague engagement surveys and considered colleague engagement processes and action plans

April 2022
- Received results of Colleague Engagement Pulse Survey and reviewed action planning
- Reviewed the Board-specific Diversity and Inclusion policy and the FCA's recent policy statements regarding changes to the Listing Rules to promote Board diversity

Diversity and inclusion

	Female representation		
	2022	2021	2020
Board	17%	17%	14%
Executive Team	33%	22%	22%

Nominations Committee Report *continued*

Recruitment and succession planning

This year has undoubtedly seen pressures in the recruitment sector, with increasing job vacancies and resourcing pressures being keenly felt throughout the country. While these challenges cut across all areas, they have been particularly evident in relation to driver recruitment and warehouse resourcing. Although the sector specific challenges largely abated towards the end of the financial year, we continue to review and enhance our recruitment and engagement processes at particular hotspots within our business, mindful of the logistics sector's peak trading period being the lead up to Christmas, and to benchmark our retention strategies that have been a key focus during FY2022.

Acknowledging that career progression and development remains a key aspect of attraction and retention of the right talent, this year has seen good progress being made in the talent and succession agenda of the Company's senior leadership team through development and upskilling activities. This has included the launch of Leadership Master Classes and the simplification of the Company's legacy talent management processes, such that talent reviews are now cascaded down the leadership levels, thereby ensuring a greater level of transparency and identification of talent to the Board. We continue to map our talent against the Company's values, as well as against key priorities for talent development, with the focus on proactive succession of key roles and the development of a diverse pipeline. The Committee, and Board, remain mindful however of the need for sound succession planning in respect of both executive and non-executive directors, and the recent appointment of the Chief Financial Officer following a planned retirement of the former CFO, as well as the internal appointment in 2020 of the current Chief Executive Officer demonstrates the robustness of this process, including a demonstration of the services of external search consultants being utilised as and when appropriate to ensure the right candidates are appointed into the right roles at the appropriate time.

Separately, the Board evaluation process (for further details see page 62 of the Corporate Governance report) also supports the ongoing assessment of the Company's development needs, opportunities and shortcomings against the Board's current skills, experience, expertise and composition, with any identified recommendations being aligned with our succession planning process.

I joined the Board in May 2020 and the Senior Independent Director was appointed in 2017; hence, the staggering of our respective tenures further ensures a period of continuity on the Board, helping to ensure the robustness of the Company's succession planning processes for the future.

Chief Financial Officer appointment

We confirm that, as reported in detail in last year's Annual Report, Paul Baker was appointed Chief Financial Officer (and Board director) with effect from 4 October 2021 following the prior announcement of the expected retirement of Tony Grace (former CFO), who stepped down from the Board on 30 November 2021.

Colleague engagement and pulse surveys

This year saw the business move away from our annual 'What Matters' survey of colleague engagement towards a more frequent 'pulse' survey approach, conducted in January, April and July 2022. We have seen 78% of colleagues taking part in the July 2022 survey, down slightly on the participation rates in January 2022 and April 2022 (which were at 86% and 87% respectively). Since January 2022, we have seen 120 actions recorded from the surveys, helping us to achieve an overall average engagement score of 7.0.

The survey measures 14 different areas of engagement, referred to as "drivers", with 13 such drivers showing an increasing engagement score and one remaining static across the year's pulse surveys. The two areas where scores increased most were 'Growth' and 'Organisational Fit' and our static driver related to 'Reward.' Management continues to focus on reward in particular, recognising the increasing cost of living pressures that colleagues are currently facing at this time in line with high levels of inflation and energy price concerns.

Although we responded successfully to the changing working environment following the COVID-19 pandemic and the impact this had on direct colleague engagement, we have since taken the opportunity this year to revisit the manner in which we engage with our wider workforce. In line with the Corporate Governance Code guidance around the manner of the Board's engagement with the wider workforce, we continue to appoint a representative non-executive director (Michael Holt) to attend our National Colleague Engagement Forum and report colleagues' views back to the Board. In revisiting the rationale and merits of this approach during the reporting period, the Board has considered alternative options, including the possibility of appointing colleague representatives to sit on the Board. However, after due consideration, the conclusion was that the current non-executive director representative model is best suited to the current needs of our business and, at the same time, we have also taken the opportunity to refresh the membership of the National Colleague Engagement Forum, in order to ensure strong representation across the business, together with giving it a renewed impetus. The National Colleague Engagement Forum continues to meet quarterly.

In addition to our non-executive director representative, the Chair of the Remuneration Committee has also engaged with the workforce, and remains committed to promoting broader engagement with colleagues, having spent time to outline our company-wide remuneration policy and pay and reward matters, promoting our new 'fair pay principles.' Further information on the work of our colleague forums can be found in the Corporate Governance report on page 58.

During the year, we also launched our new intranet-based information portal, SmithsZone, which enables two-way communication with colleagues. This has provided the opportunity for a review and refresh of our colleague information channels, as well as extended accessibility across our colleagues who do not always have access to company email addresses (and, therefore, previously had limited accessibility). We continue to publish our colleague newsletter 'Our News' in physical and electronic format, and have continued to hold virtual 'Town Hall' meetings hosted by the Executive Team, ensuring the sharing of news regularly and consistently and providing all colleagues with the opportunity to ask questions of the Executive Team.

In summary, the highlights of our various colleague engagement activities in the year included:

- Introduction of fair pay principles, following colleague forum input and ideas
- Relaunch of Extra Mile awards (our colleague-recognition scheme), granting easier digital access, fairer distribution of awards and simplified processes
- COVID-19 Hardship fund converting to a more generic colleague support fund, not exclusively related to COVID-19 related hardship
- Further training of mental health allies across underrepresented parts of the business
- Launch of benefits and payroll roadshows, educating and supporting colleagues
- 'Love to shop' vouchers issued to colleagues not part of a formal benefits package, to recognise their important contribution to business performance in the prior year
- Launch of the 'team leadership' apprenticeship, driven from pulse engagement survey results

- Externally conducted diversity and inclusion audit, identifying key actions across recruitment, learning and communication

Diversity and inclusion

Diversity and inclusion continues to be a key focal point at this time. In this regard, the Board acknowledges and welcomes recent changes to the Listing Rules (on a 'comply or explain' basis) which are targeted at encouraging enhanced disclosures in relation to gender and ethnic diversity at Board level for financial years starting on or after 1 April 2022.

The Board currently comprises six members, of which one is a woman and all are white. The chairperson of the Remuneration Committee is a woman, but the Board Chairman, CEO, CFO and SID are all men. As the Company seeks to diversify and pursue growth opportunities within our core markets, there is likely to be opportunity for additional skills, expertise and experience to be targeted amongst the composition of the Board. Against this background, a process has already been commenced to identify and appoint an additional Board member, facilitating a timely focus on the Board's diversity and skills mix. We are confident that we will be in a position to make an appointment in FY2023, well before the originally targeted 2026 date set out in our Board Diversity Policy (which had been set to coincide with the Senior Independent Director's nine-year tenure).

While the Committee is mindful of the expectations around gender and ethnic diversification, it is however unlikely that the set targets (see LR 9.8.6R(9) and FCA Diversity Targets 2022) will be met by the Board in the short to medium term. Whilst the Board is very much taking steps to improve its gender and ethnic diversification, we acknowledge that this takes time, particularly when the broader corporate-market is together faced with the same defined targets and where competition is likely to be fierce for a pool of talent that is naturally limited by the size, nature, location and profile of our business. Accordingly, whilst we hope to make progress in this area, we remain committed to also having the right blend of skills, expertise, commitment and experience when selecting suitable candidates, while at the same time also striving to reflect today's talent and customer pools to build balanced teams.

That said, we have made a number of positive efforts to develop a clear pathway towards improving compliance in this area, including:

- development and publication of Diversity & Inclusion Policies for both the Board and the wider workforce. These introduce specific targets, which originally included a Board target of two female directors by 2026 and a general target of a 30% increase in the number of colleagues from ethnic minority groups recruited into leadership positions over the next five years. The Board target has been accelerated, and we are confident that an appointment will be made in during the first half of FY2023. Our D&I data-gathering exercise indicates that within our business diversity decreases with seniority, which is why we believe that it is important that the targets we set ourselves are specific to the leadership group, rather than the whole organisation. We are also focused on the development of a future talent pipeline, with 33% of the current Executive Team being female;
- we have set an inclusion target which aims to maintain an inclusion score within the upper quartile of peer benchmarking data on an annual basis. We are committed to continuing to measure inclusion to ensure that, as we increase our diversity, we maintain an environment where all colleagues have a sense of belonging. We recognise that our diversity goals will not be achieved or maintained without a strong inclusive culture;
- external review of our current recruitment approaches and processes (job descriptions, adverts and inclusivity in interview processes), including a review, audit and changes to our processes in this area. In the case of senior appointments where we make use of executive search partners, our partners are required to be signed up to the Voluntary Code of Conduct on gender diversity, developed in response to the Davies Report. We also encourage our recruitment partners to present more balanced candidate recommendations, with at least one credible and qualified female and/or non-white candidate provided within the shortlist for the recruitment processes;
- diversity and inclusion training is available to all managers;
- following on from completion of our diversity data collection drive already referred to, we have undertaken an audit of this data, focusing on the accuracy of data and statistics, current status and observations, key findings and recommendations;
- promoting a culture and working environment that is a welcoming place for all, with a commitment to promoting and encouraging all aspects of diversity and supporting an inclusive working environment, together with adopting a zero tolerance approach towards discrimination; and
- engagement by the Board Chairman with shareholders on board diversity, including with those shareholders who may previously have raised diversity as a future voting issue, in order to mutually understand the others' position and to provide some reassurance over the steps currently being taken.

Our initiatives are further supported by our diversity and inclusion initiative called 'EveryoneIn', a programme which encompasses a number of national initiatives which primarily include education and awareness through an agreed calendar of D&I events, such as National Inclusion week, Black History month, Pride, Ramadan, etc.

Further information on gender and ethnic diversity, including the proportion of women in senior management (being for these purposes, the Executive Team and their direct reports as promulgated by the Hampton-Alexander Review) and within the organisation overall, is contained in the People report on page 30.

Approval

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

David Blackwood
Nominations Committee Chair

8 November 2022

Directors’ Remuneration Report

Shareholder letter from the Chair of the Remuneration Committee

Denise Collis

Remuneration Committee Chair

Committee objective: To determine the policy for, and setting of, director and senior management remuneration; to review workforce remuneration, related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration; and to design remuneration policies and practices to support strategy and promote the long-term sustainable success of the Company.

Membership & Composition	Attendance
Denise Collis (Independent non-executive director)	4/4
David Blackwood (Independent non-executive Chairman)	4/4
Mark Whiteling (Senior Independent Director)	4/4
Michael Holt (Independent non-executive director)	4/4

Meets the 2018 UK Corporate Governance Code requirement that the members are independent non-executive directors.

The Committee met four times during the year and all Committee members attended each of the meetings. At the invitation of the Committee, certain executive directors attended the meetings from time to time.

Dear shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee’s report for the 52-week period ended 27 August 2022.

Backdrop to the operation of the policy and our performance in FY2022

During FY2022, as economies began to open up again following the COVID-19 pandemic, the Committee has been particularly mindful of the backdrop of a challenging labour market and an increasing inflationary environment, with significant hikes experienced in both the cost of labour and energy prices in what has been referred to in the media as a ‘cost of living’ crisis. These macro-economic headwinds have not only impacted our business but also the livelihoods of our colleagues at all levels of the organisation. With that in mind, the Committee has once again devoted considerable time and attention to the appropriateness of the Company’s remuneration policies and procedures, including the so-called “*Fair Pay*” agenda for our workforce more generally. More details are provided later in this letter.

Against this background, it is therefore pleasing to reflect on the progress that the business has delivered in the year as noted elsewhere in this Annual Report (for example, and amongst other achievements, strong cash management with Bank Net Debt at historic lows, the receipt of a pensions surplus of £8.1m, successful refinancing in December 2021 which increased our dividend distribution cap limits, the effective onboarding of our new Chief Financial Officer and Operations Director, and the unstinting customer service and operational successes which have maintained our high standards of excellence), and to be able to report financial performance for FY2022 of £40.7m Adjusted EBITDA (pre-IFRS16) and £38.1m Adjusted Operating Profit, exceeding the market’s expectations for the reporting period. However, this over-delivery of operational and financial performance has not been straightforward. As referenced elsewhere in this Annual Report, the insolvency of one of our largest retailers (McColls) in May 2022 (and its potential bad debt exposure of £5.5m which, in turn, led the Board to conclude an adjusting provision of £4.4m) has presented considerable debate for each of the Board, the Audit Committee and the Remuneration Committee as to its appropriate treatment and impact on stakeholders, including incentive outcomes and distributions. Accordingly, following rigorous review, the Committee concluded that the impact of McColls should be similarly treated as an adjusting item in line with the agreed treatment of the £4.4m adjusting provision. In reaching this decision, the Committee started out by considering the formulaic outcomes of both the FY2022 Annual Bonus Plan and the FY2020-2022 LTIP. Based on Adjusted EBITDA, which (in line with normal market practice) formed the basis of the calculation, and combined with the decision by the Board that the impact of the McColls debt exposure would be treated as an adjusted item (being non-recurring and outside of the normal course of activity), the schemes’ formulaic outcomes were not negatively impacted by the potential bad debt exposure. The Committee then considered whether it would be appropriate to apply downward discretion, looking through the lens of all stakeholders. Key considerations were the shareholder experience in the reporting period as reflected in the expected levels of dividend distribution for FY2022, management’s effective management of the McColls account in advance of the bad debt situation becoming known, and management’s subsequent endeavours at the time to minimise the bad debt exposure. Taking all of these factors into consideration, the Committee has decided that it would not be appropriate or necessary to apply any downward discretion to override the formulaic outcomes.

Variable pay outcomes in FY2022

The FY2022 bonus was based 70% on Adjusted EBITDA (pre-IFRS16) (the key measure of profitability against which business performance was assessed over the year, in line with our internal financial reporting) and 30% on personal objectives. In addition, a minimum performance rating on the personal objectives was required to be met before the financial performance element could be paid, with the Committee also having a general power to adjust any formula-driven outturns, if required.

As a result of both Adjusted EBITDA (pre-IFRS16) of £40.7m for FY2022 and the successful delivery of the strategic goals that the business set itself a year ago (see later in this report), the annual bonus pay out is between target and maximum, resulting from:

- a pay out for the financial metric at 61.7% (i.e. 43.2% of the 70% bonus opportunity); and
- for the personal element in respect of each executive director's performance against their respective personal objectives as reported later on:
  - at 85% (i.e. 25.5% of the 30% bonus opportunity) for Jonathan Bunting;
  - at 75% (i.e. 22.5% of the 30% bonus opportunity) for Paul Baker; and
  - at 75% (i.e. 22.5% of the 30% bonus opportunity) for Tony Grace (the former Chief Financial Officer).

Overall, this has resulted in an annual bonus pay out of 68.7% of the maximum 100% opportunity for Jonathan Bunting and at 65.7% for each of Paul Baker and Tony Grace (pro rated to 1/3rd for Tony Grace, in order to reflect having worked four months of the reporting period and similarly pro rated to 11/12th for Paul Baker). In determining this outcome, the Committee has carefully considered the following:

- the directors' individual performances against their personal objectives, taking into consideration the financial performance 'underpin' whereby the Committee may scale back the personal element of the bonus if this is not deemed appropriate in light of financial performance or shareholder experience; and
- the application of the FY2022 bonus scheme across all scheme participants through the "fairness lens", to ensure that there has not been an unmerited bias of higher bonus outcomes (and payments) with seniority.

Overall, the Committee is satisfied that the bonus payments to the executive directors are appropriate, representing a strong link between reward and performance and shareholder alignment, as well as being consistent with the treatment of bonus payments for colleagues. On this basis, the Committee determined that there was no need to use discretion to adjust the outcome derived from the annual bonus performance conditions.

The FY2020-22 LTIP award was weighted 50% against adjusted basic EPS targets and 50% against TSR relative to the FTSE SmallCap (excluding investment trusts). The Adjusted EPS performance for FY2022 (excluding the impact of McColls' insolvency, as referred to above, and pre-IFRS16) was 10.9p, which is marginally ahead of threshold performance of 10.0p but representing significant growth of 42.9% over the three-year period from when the award was made at the end of the 2019 financial year (EPS: 7.9p). This has resulted in a pay out of 44% of the EPS metric. The performance period for the TSR element of the FY2020-22 LTIP award ends on 12 December 2022. Based on a current estimated TSR performance to 3 November 2022, this results in a formulaic vesting of 100% of the TSR metric, representing significant TSR outperformance vs the nominated peer group over the three-year performance period and an absolute TSR of 45%.

Roles & Responsibilities

- Determine the framework for the remuneration of the executive directors, the Chairman, the Company Secretary and the Executive Team
- Review the employee benefits structure across the business
- Determine annual bonus and share incentive plan awards and relevant vesting levels, including application of clawback and malus provisions
- Approve and monitor the shareholding guidelines policy for executive directors and the Executive Team
- Determine the policy for pension arrangements for the Executive Team
- Oversee contractual terms on termination and exit payments
- Ensure that remuneration-focused engagement with the workforce takes place
- Ensure that all provisions regarding disclosure of remuneration arrangements are met and produce a remuneration report to shareholders
- Setting terms of reference for the remuneration consultant.

For more details, please see *www.smithsnews.co.uk*.

Directors' Remuneration Report *continued*

Overall, the estimated vesting outcome for the FY2020-22 LTIP award is 72% of maximum, with the final vesting level to be confirmed in next year's Annual Report. The Committee has considered the estimated out-turn and confirms that it remains comfortable that the pay out level is appropriate in light of the overall performance and shareholder experience over the three-year performance period, and that no discretion is necessary to adjust the outturn.

Remuneration Policy review

During the year, the Committee carried out its triennial review of the executive directors' remuneration policy taking into account business strategy, corporate governance developments, institutional investor views and market practice.

The review concluded that our current policy is working effectively and is aligned to the business strategy, provides a good link between reward and performance and is in line with institutional investors' 'best practice' expectations. As a result, we are proposing only minor amendments to our policy (which is to be presented to our Annual General Meeting on 24 January 2023), to reflect current market and best practice developments and to formalise a particular area of the policy.

- Pension – the references to legacy pension provisions have been removed from the policy, and it is now clear that the Company's pension contributions to an executive director's pension (or a cash payment in lieu of pension) will be no higher than the percentage rate which is available to the majority of the workforce (currently 5% of salary);
- LTIP performance measures – flexibility is now included within the policy to allow a minority of the LTIP performance measures to be based on non-financial strategic measures, including those relating to our ESG strategy; and
- All-employee share schemes – the policy now formally includes the opportunity for executive directors to participate in HMRC Approved all-employee share schemes (such as Save as you Earn), alongside other colleagues.

As part of the review, the Committee engaged with our largest shareholders and leading advisory agencies to explain the proposed changes to policy. The feedback the Committee received was supportive. Whilst investors were welcoming of the flexibility included in the policy to use ESG performance measures, there were some comments expressing a desire for ESG metrics to have a minority weighting and the need for targets to be robust. For FY2023, the Committee is not proposing to introduce an ESG metric for the LTIP, but will consider its introduction at a future date, taking into account developments in market practice, any expressed shareholder preferences and the Company's ability to set meaningful stretching and measurable objectives linked to strategy.

Board changes

As described in last year's report, Tony Grace stepped down from the Board on 30 November 2021 and left the Company on 31 December 2021. Our new Chief Financial Officer, Paul Baker, joined the Board on 4 October 2021. Details of Tony Grace's remuneration arrangements on departure and Paul Baker's remuneration on joining were disclosed in last year's Annual Report.

Operation of the Remuneration Policy in FY2023

The base salaries of the Chief Executive Officer and the Chief Financial Officer were each increased by 3.25%, with effect from 1 September 2022, which is below the average percentage increase awarded to our workforce, the majority of whom saw an increase of 6.6%. The Committee also reviewed the fee rate of the Company chairman, whose fee of £140,000, has not been reviewed since 2015, and agreed a similar cost of living increase of 3.25% to £144,550 with effect from 1 September 2022. Separately, the Board has agreed an increase of 3.25% to the fee rates of the non-executive directors, including the fees for the chairing of committees, the senior independent director and the NED responsible for employee engagement, with effect from 1 September 2022.

For the executive directors, the annual bonus opportunity will remain at 100% of base salary, with 70% of the bonus subject to Adjusted Operating Profit and the remaining 30% subject to personal objectives. The Committee has endorsed the Company's desire to update its primary financial KPI from Adjusted EBITDA (pre-IFRS16) to Adjusted Operating Profit, in order to include the impact of lease commitments under IFRS16 and to bring this KPI into line with current accounting standards, a position which is expected to be positively received by all stakeholders. As such, the financial metric used for the annual bonus has been changed.

The LTIP grant level for the FY2023-2025 award will continue to be 100% of base salary. Performance will also continue to be assessed at 70% on a relative TSR measure and at 30% on a free cash flow metric in the final year of the award. The Committee is comfortable regarding the adoption and weighting of the relative TSR performance measure, particularly given that it ensures a strong direct incentive to increase the share price and aligns with the interests of the clear majority of our shareholders. Further details on the performance measures and target ranges can be found on page 98.

Broader employee remuneration considerations and employee engagement

The Committee continued its focus on the fairness agenda during the year as part of its review of workforce remuneration and related policies as required under the 2018 edition of the UK Corporate Governance Code. The topic was discussed in detail in the Committee's meeting, in March 2022, with a particular focus on the following areas:

- Considering the impact and scale of the National Living Wage increase effective 1 April 2022, in the context of the current financial climate and high inflationary environment;
- Reviewing the employer pension contribution level for less senior employees;
- Noting the review of the leadership grading framework and pay structure;
- Noting an additional 'peak' payment premium to be introduced for the second year running at our Hemel Hempstead location, to aid colleague retention in the four months over the Christmas peak period;

- Discussing and agreeing that the Company would look to develop and adopt a customised set of fair pay principles (subsequently introduced by the Company following colleague engagement);
- Improvements in financial well-being initiatives, such as providing free financial education to colleagues; and
- Approving an up-do-date revised company-wide non-contractual and discretionary redundancy policy, with reduced enhanced terms for senior managers and parity being offered to all colleagues, extending the same enhanced discretionary redundancy terms to lower paid and new colleagues too.

In addition to focusing on various policy initiatives, at the Committee's meeting in May 2022, the Committee also considered specific additional steps to support lower paid colleagues with the impending cost of living challenges and introduced a one-off (non-contractual) allowance of up to £250 each for those employees paid less than £25,000, representing approximately two-thirds of colleagues in receipt of this additional payment.

As in previous years, I remain committed to engaging with our colleagues around remuneration and ensuring that their views are shared with the Committee. During the year, I attended several meetings with colleagues where our company-wide remuneration policy, and director and wider workforce pay, was discussed alongside reward matters and sharing our aspirations around equitable reward. A key outcome from these discussions was a renewed effort by the Company to ensure that all employees were fully aware of the benefit options available to them, as it became apparent that existing communications were not achieving sufficient cut through. Following the introduction of our Fair Pay Principles in FY2022, a priority over the next year will be to review our grading framework and pay structures, to ensure these are appropriate and relevant for the roles being undertaken.

Concluding remarks

The Committee remains mindful that the decisions around executive pay outcomes should be proportionate and demonstrate a strong link between reward, performance and shareholder alignment. In this light, we are comfortable that the policy has operated as intended and remuneration is appropriate, taking into account internal and external factors and measures (including pay ratios and gaps, colleague pay and the fairness agenda, and the overall stakeholder experience). As ever, I welcome any feedback on our remuneration policy and its application.

Denise Collis
Remuneration Committee Chair

8 November 2022

Directors' Remuneration Report *continued*

Directors' Remuneration Policy

At-a-glance summary

A summary of the policy and its application for FY2023 is shown below with the policy to be put to shareholder vote at the 2023 AGM.

Policy element	Jonathan Bunting Chief Executive Officer	Paul Baker Chief Financial Officer
Annualised base salary from 1 September 2022	£483,396	£314,913
% increase from prior year	3.25%	3.25%
Pension for FY2023	5% of base salary, aligned to the rate available to the majority of the workforce	
Annual bonus (ABP)	100% of base salary	
Annual bonus metrics	Adjusted Operating Profit (70%) Personal objectives (30%)	
ABP payment for threshold performance	0% of base salary	
ABP payment for on-target performance	50% of base salary	
Deferred bonus plan (DBP)	50% of annual bonus deferred for 2 years in shares	
LTIP	100% of base salary	
LTIP metrics	Relative Total Shareholder Return vs FTSE Small Cap (70%) Free Cash flow in final year (30%)	
LTIP payment for threshold performance	20% of award	
LTIP post-vesting holding period	2 years	
Malus and clawback	Applies to awards made under the ABP, DBP and LTIP	
Shareholding Guidelines requirement	200% of base salary	
Post-cessation of employment shareholding requirement	Lower of 200% of base salary or shareholding on departure for 2 years post-cessation, excluding self-purchased shares	

Introduction

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

Directors' Remuneration Policy

The following section sets out the Company's policy on remuneration for executive and non-executive directors, which will be put to a binding shareholder vote at the Annual General Meeting on 24 January 2023. It is intended that the directors' Remuneration Policy will apply from the date of the Annual General Meeting for the maximum three years permitted by the regulations and so, in the absence of a new or amended policy or as otherwise required by law, will only be brought back to the shareholders at the Company's Annual General Meeting in 2026.

Decision-making process for the determination, review and implementation of the directors' Remuneration Policy

The aim of the policy remains to facilitate delivery of our long-term strategy through attracting, retaining and motivating high-calibre directors with the necessary skills and experience. In designing the policy, the Committee has adopted the principles set out in the 2018 edition of the UK Corporate Governance Code and also considered investor and investor representative body views and market practice. Where changes are made to the remuneration policy or a material change to operation, we will consult with our largest shareholders to ensure their views are taken into account. In addition, the Committee also considers management's views and input from its independent remuneration consultants.

Any potential conflicts of interest are managed by ensuring that no individual is involved in discussions regarding their own remuneration arrangements and that remuneration is fully aligned to and supports our business strategy and culture. When reviewing and implementing the policy, the Committee also carefully considers the remuneration arrangements, policies and practices of the workforce and the cascade of remuneration throughout the business.

The policy has been reviewed in light of the six factors listed in Provision 40 of the 2018 edition of the UK Corporate Governance Code:

- **Clarity** – the policy is as clear as possible and is described in straightforward concise terms.
- **Simplicity** – remuneration structures are as simple as possible and market typical, whilst at the same time incorporating the necessary structural features, to ensure a strong alignment to performance, strategy and minimising the risk of rewarding failure.
- **Risk** – the policy has been shaped to discourage inappropriate risk taking through a weighting of incentive pay towards long-term incentives, the balance between financial and non-financial measures, a significant portion of the annual bonus being paid in shares, recovery provisions, and in-employment and post-employment shareholding requirements.

- **Predictability** – annual bonus and LTIP awards are subject to caps and dilution limits. Examples of how remuneration varies depending on performance is set out in the scenario charts. The Committee may exercise its discretion to adjust executive directors' remuneration if a formula-driven incentive pay out is inappropriate in the circumstances. Outcomes will not reward poor performance.
- **Proportionality** – there is a sensible balance between fixed pay and variable pay, and incentive pay is balanced between annual and long-term performance.
- **Alignment to culture** – The Committee considers company culture and wider workforce policies when shaping and developing executive director remuneration policies to ensure that there is coherence across the business. There is a strong emphasis on the fairness of remuneration outcomes across the broader workforce.

Overview of the remuneration policy changes

Following a detailed review of the existing remuneration policy and shareholder engagement, the following changes are proposed. These are limited to modest amendments which do not substantively alter the policy from that previously adopted:

- Pension – we have removed references to legacy pension provisions and now make it clear that the policy is for the Company's pension contributions to an executive director's pension (or a cash payment in lieu of pension) will be no higher than the percentage rate available to the majority of the workforce (this is currently 5% of salary);
- LTIP performance measures – we have added flexibility to allow a minority of the LTIP performance measures to be based on non-financial strategic measures, including those relating to our ESG strategy; and
- The policy formalises the opportunity for executive directors to participate in HMRC Approved all-employee share schemes (such as Save as you Earn), alongside other colleagues.

Executive directors

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

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: • the skills and experience of the individual; • the size and scope of the role; • market data for similar roles in comparable companies; and • performance of the individual and the business. Typically, salaries are reviewed annually, with any changes effective from 1 September each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases generally for colleagues. Larger increases may be awarded where the Committee considers it appropriate to reflect, for example: • significant changes in the size and/or complexity of the Group and/or of the role; or • individuals being moved to market positioning over time.	None.
Benefits	Ensure that benefits are sufficient to recruit and retain individuals of the necessary calibre and provide business continuity.	Executive directors are eligible to receive benefits which may include a company car (or cash equivalent), private medical insurance, a periodic health assessment and permanent health insurance. Where relevant, other benefits to reflect specific individual circumstances, such as housing, relocation, travel or expatriate allowances may also be provided. Executive directors are also provided with insured Death in Service benefits.	There is no prescribed maximum monetary value of benefits. Benefit provision is set at a level which the Committee considers to be appropriate for the nature and location of the role.	None.

Directors' Remuneration Report *continued*

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Pension	Contribute towards funding later life cost of living.	Executive directors may participate in the Group's defined contribution pension plan, receive a salary supplement or a combination of the two.	The maximum employer contribution or salary supplement for executive directors is the contribution available to the majority of the workforce, currently 5% of salary.	None.
Annual bonus	To incentivise the delivery of the annual business plan.	Bonus levels are determined by the Committee after the year-end based on performance against targets set at the start of the financial year. The Committee retains discretion to adjust bonus payments, including to override the formulaic outcome of the award, in the event that performance against targets does not properly reflect the underlying performance of the Group and/or the relevant businesses, the overall shareholder experience or employee reward outcome. Half of the bonus is paid in (immediately vesting) shares but with appropriate and relevant trading restrictions imposed by the Company's share registrars, in order to enforce a two-year deferral period and with the associated share certificate retained by the Company for two years. Clawback and dividend equivalent provisions apply (see notes on page 102).	The maximum bonus opportunity in respect of a financial year is 125% of salary. The threshold payment level for the financial performance condition is 0%, and up to 50% of the maximum may be payable for target performance. The Company's largest shareholders would be consulted beforehand if the bonus opportunity increases above 100% of salary (the currently applied maximum level).	Annual measures and targets will be set by the Committee at the start of the financial year. The majority of the bonus will be based on financial performance, with the remaining performance condition attributable to non-financial strategic or personal objectives, including ESG related measures.
LTIP	To incentivise the delivery of long-term shareholder value.	Awards are made in the form of nil-cost options or conditional share awards, the vesting of which is conditional on the achievement of performance targets (as determined by the Committee). Vested awards must be held for a further two-year period before sale of the shares (other than to pay tax).	The maximum award in respect of a financial year is 150% of salary. The Company's largest shareholders would be consulted beforehand if the grant level increases above 100% of salary (the currently applied maximum grant level).	Performance conditions are based on the achievement of challenging financial, total shareholder return (TSR) or non-financial strategic (including related to ESG) performance targets measured over a period of three years normally. For the achievement of the threshold performance target, a maximum of 20% of the award will vest.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
LTIP *continued*		The Committee retains discretion to adjust the outturn of an LTIP award, including to override the formulaic outcome of the award, in the event that performance against targets does not properly reflect the underlying performance of the Group and/or the relevant businesses, the overall shareholder experience or employee reward outcome. Malus and clawback and provisions apply (see the notes below). The value of dividends payable over the vesting period may be paid, normally in the form of shares.		A majority of the award will be based on financial and/or TSR based conditions.
All employee share plans	To provide alignment with colleagues and to promote share ownership	The executive directors may participate in any all-employee share plan operated by the Company.	Participation may be capped by the Committee and, in any case, within HMRC limits applying to the respective plan.	None.
Shareholding guidelines	To provide alignment of interest between executive directors and shareholders.	The shareholding guideline for executive directors is 200% of base salary. Until this level is reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, executive directors will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the application of the Sharesave scheme). In exceptional circumstances, executive directors may seek permission from the Committee to temporarily go below their target holding. Following termination of their employment, executive directors will be required to retain shares at the lower of 200% of base salary, or the actual shareholding on departure, for two years post-cessation. Shares purchased voluntarily will not count towards this requirement.		

Directors' Remuneration Report *continued*

Notes to the policy table:

a) Choice of Performance Measures: Each year the Committee will select the most appropriate performance measures and targets for the annual bonus plan and LTIP. The measures selected will be aligned with Company strategy and key performance indicators and may also be based on total shareholder return.

b) Participation in incentive schemes is at the discretion of the Committee.

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

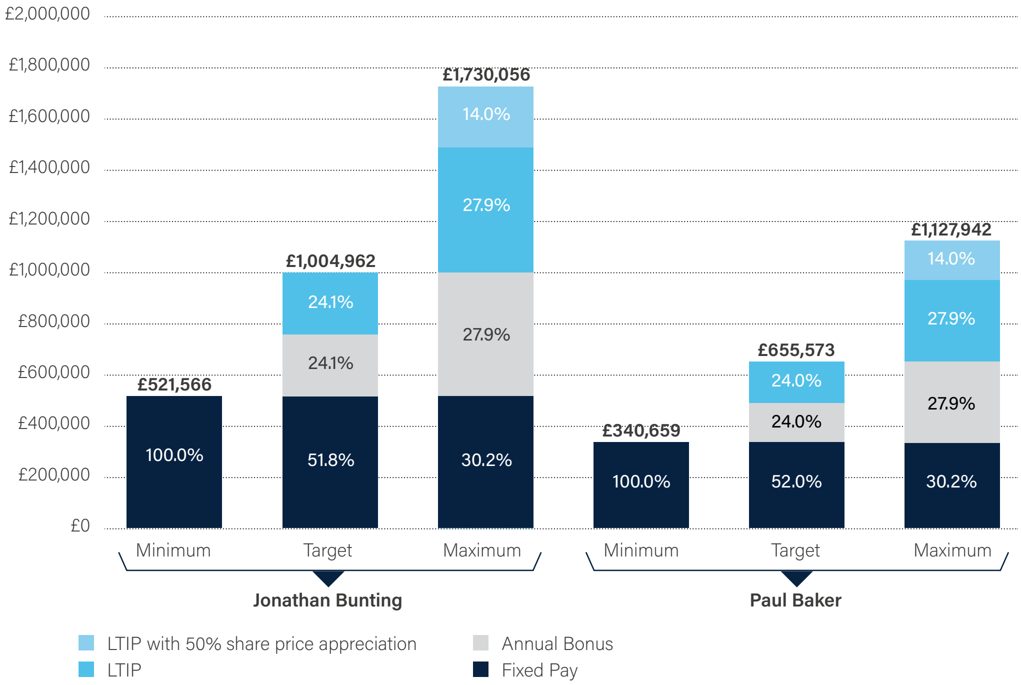
d) Clawback and malus – the Company operates clawback and malus provisions for the annual bonus plan, DBP and LTIP. The Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in the same overall financial position as they would have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

e) There are some differences in the director's Remuneration Policy compared to the policy for colleagues generally. Whilst the overall structure of the remuneration package cascades throughout the business, participation in, and the opportunity for the incentive plans varies by seniority. Pension opportunity for executive directors and the workforce is aligned. All permanent employees are invited to participate in the all-employee share plan. Overall, the remuneration policy for the executive directors is more heavily weighted towards variable pay than for other employees, to ensure a clear link between reward and the performance and value created for shareholders.

Application of the Remuneration Policy

The charts below illustrate the application of the proposed policy for FY2023. Each element (as a percentage of total remuneration) and the total values have been set out.

Application of the Remuneration Policy



Notes
(a) Fixed pay comprises annual base salary, benefits and pension, at current rates at the date of this report.
(b) Benefits are the value received in FY2022.
(c) The on-target level of annual bonus and LTIP is 50% of the maximum opportunity.
(d) The maximum value also shows the impact of an increase in share price of 50% on the value of the LTIP award.
(e) The value of dividend equivalents on LTIP vested awards are excluded.

Approach to recruitment remuneration

On appointment of a new executive director, the Committee would seek to offer a remuneration package which can secure an individual with the necessary skills, while seeking to pay no more than it believes is necessary to facilitate the appointment. Any remuneration package would be in line with the parameters set out in the directors' Remuneration Policy, which is salary set at a level to be able to recruit the most appropriate candidate, a maximum annual bonus opportunity of 125% of base salary and a maximum LTIP award of 150% of base salary.

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

If an executive director needs to relocate in order to take up the role, the Company may pay to cover the costs of relocation, including (but not limited to) actual relocation costs, temporary accommodation and travel expenses.

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

Contracts of service and policy on loss of office

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

Executive director	Date of current contract	Notice from the Company	Notice from the individual	Unexpired period of service contract
Jonathan Bunting	1 March 2018, as supplemented by a letter of variation dated 15 June 2020	12 months	12 months	Rolling
Paul Baker	10 August 2021	12 months	12 months	Rolling

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

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

Directors' Remuneration Report *continued*

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

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

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

External non-executive director appointments

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

Consideration of pay and employment conditions elsewhere in the Group

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

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

Consideration of shareholder views

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

Non-executive directors

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

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

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

Recruitment Policy

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

All non-executive directors, including the Chairman, have a letter of appointment for an initial three-year term, subject to review thereafter.

The table below details the letter of appointments for each non-executive director.

Non-executive directors	Date of current letter of appointment	Notice from the Company	Notice from the individual	Date current term is due to expire
David Blackwood	6 May 2020	3 months	3 months	2024 AGM
Denise Collis	16 November 2015	3 months	3 months	2025 AGM
Michael Holt	30 September 2018	3 months	3 months	2025 AGM
Mark Whiteling	14 August 2017	3 months	3 months	2024 AGM

Directors' Remuneration Report *continued*

Annual report on remuneration

Total remuneration payable in respect of FY2022 (audited)

The total remuneration for each director for FY2022 and the prior year is set out below.

	Jonathan Bunting		Paul Baker		Tony Grace[a]	
Fixed Pay	**FY2022 '000**	**FY2021 '000**	**FY2022 '000**	**FY2021 '000**	**FY2022 '000**	**FY2021 '000**
Salary	**468**	459	**278**	–	**75**	301
Benefits[b]	**14**	13	**10**	–	**3**	13
Pension benefits	**23**	23	**12**	–	**10**	44
Total Fixed Pay	**505**	495	**300**	–	**88**	358
Performance Related Pay						
Annual bonus payments[c]	**322**	377	**183**	–	**49**	247
LTIP award vesting[d]	**341**	43	**–**	–	**178**	87
Dividend equivalent payments[e]	**41**	2	**–**	–	**22**	3
Total Variable Pay	**704**	422	**183**	–	**249**	337
Total single figure	**1,209**	917	**483**	–	**337**	695

Notes

(a) Tony Grace stepped down from the Board on 30 November 2021 but remained employed by the Company until 31 December 2021. Remuneration in the table for FY2022 is for the period to 30 November 2021.

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

(c) Bonus for Tony Grace represents the pro-rated bonus for the three months of the financial year that he was a member of the Board to 30 November 2021. The bonus received in relation to the period from when he stepped down from the Board (30 November 2021) to the date of leaving (31 December 2021) is set out in the payments to former directors and payments for loss of office section. The bonus for Paul Baker represents the pro-rated bonus for the 11 months of the financial year that he was a member of the Board from 4 October 2021.

(d) The FY2020-2022 LTIP awards were granted on 13 December 2019. Based on a final assessment against the EPS performance conditions and an estimate of TSR performance based on performance to 3 November 2022, 72% of the awards are expected to vest on 13 December 2022. This would result in 1,016,524 shares vesting for Jonathan Bunting and 531,000 shares vesting for Tony Grace. The award has been valued at 33.5p per share, being the average share price of the Company's shares over Q4 of FY2022. Further details on these awards and vesting can be found on page 110. For Tony Grace, the FY2020-2022 LTIP award represents the pro-rated entitlement for 27 months of the 36-month performance period that he was a member of the Board to 30 November 2021 and the additional time prorating of the FY2020-2022 LTIP award received in relation to the period from when he stepped down from the Board (30 November 2021) to the date of leaving (31 December 2021 – i.e. one month of the 36-month performance period) is set out in the payments to former directors and payments for loss of office section.

(e) Dividend payments equivalent to the aggregate of all dividends paid during the vesting period applicable to the projected LTIP vesting noted in note (d) above, paid in shares.

Remuneration and link to performance during the year (audited)

Annual bonus

In FY2022, each executive director had a maximum opportunity under the annual bonus of 100% of salary, split 70% on financial performance and 30% on personal objectives. Tony Grace was eligible to participate in the annual bonus on a pro-rata basis for the period of the year worked to 31 December 2021. Paul Baker's bonus has been pro-rated to reflect the date he joined the Board on 4 October 2021.

Performance measures and actual performance are set out in the table below. As described earlier in this report, the impact of McColls' insolvency in May 2022 (and its related bad debt exposure of £5.5m which, in turn, led the Board to conclude an adjusting provision of £4.4m) has been excluded from the calculation of EBITDA performance for the purposes of assessing bonus performance given the agreed treatment of McColls as an adjusting item.

		Targets				
Measure	**Weighting**	**Threshold (0%)**	**Target (50%)**	**Max (100%)**	**Actual result (£m)**	**Bonus achievement (% of maximum)**
Group adj. EBITDA – (excluding IFRS16)	70%	£37.0m	£40.0m	£43.0m	£40.7m	61.7%
Personal objectives	30%			See detail below	See detail below	22.5% to 25.5%

For the financial year under review, the executive directors were each given a number of personal objectives against which the personal element of the annual bonus was assessed. These are set out in the table below, together with the basis for their assessment.

Personal objective	Weighting of objective	Target	Achievement	Outcome (%)	Bonus paid (%)
Jonathan Bunting					
Supply Chain Growth Initiatives	33%	To identify new initiatives from existing processes and capabilities to support new revenue growth	Strategic and tactical approach to developing the supply chain agreed with the Board, with current and new growth initiatives explored and actions approved. Year 1 of three-year business plan on track. Contract strategy with major publishers developed and approved, with key interventions in the year having contributed to the announcement in October 2022 of successful contract renewals, with each of Associated Newspapers, Frontline and Seymour, securing 35% of current revenues through to 2029. Preparation undertaken for the formation of a joint venture in the pursuit of a digital content platform for single-copy editions of newspapers and magazines (MyMags). New organic revenues of £0.9m profit delivered against a target of £0.5m from a combination of Smiths News Recycle, shared occupation of spare depot space and the expansion of a partnership with a national courier providing sortation and final mile distribution services. Diversification of revenues with existing supply chain partners to support new distribution activities.	90%	30%
Refinancing	33%	To complete refinancing with the syndicate of banks	Worked in collaboration with the outgoing CFO to secure an acceptable refinancing for all stakeholders, with an increased dividend cap and extended term to August 2025.	90%	30%

Directors' Remuneration Report *continued*

Personal objective	Weighting of objective	Target	Achievement	Outcome (%)	Bonus paid (%)
Safety First	10%	To maintain industry leading, upper quartile, health and safety performance	LTI frequency rate of 0.25% achieved against a target of 0.32% – remaining below the industry average of 1.0 and with only two RIDDORs. 13 RoSPA awards achieved, including 11 at the highest 'gold' standard and ISO 45001 certification for H&S management retained.	90%	9%
Sustainability	14%	To drive the ESG agenda, delivering against the specified targets	ESG strategy and programme of activity underway, with delivery against agreed Board-level KPIs and Science Based Target setting progressed and now underway.	75%	11%
People	10%	To score not less than 70% from the company-wide engagement survey, and remain in the upper quartile for the Diversity & Inclusion (D&I) Survey	After moving to pulse engagement surveys, three were conducted throughout the year, scoring an average of 7.0 against a target of 7. D&I survey results of 77%. Participation rates remained in excess of 85% across all three surveys.	50%	5%
Total (out of a maximum 30% bonus opportunity)	**100%**				**85%**
Paul Baker					
Sustainability	20%	To lead the ESG strategy, ensuring three-year targets were in place	Full set of KPIs agreed with governance processes established to manage the delivery within each area of strategy. TCFD report completed and Science Based Target setting progressed and now underway.	75%	15%
Shared service centre	20%	Phase 3 financial structure to be determined for the Shared Service Centre team based in India	Industry standard KPIs established and cost-efficiency projects underway, within the Shared Service Centre. Initial headcount reductions achieved.	50%	10%
Costs	20%	Oversight of a three-year cost reduction plan, addressing changing market conditions and enabling delivery of agreed three-year profit targets	Three-year functional costs targets set and being actively monitored, with functional leaders to support the Company's business plans.	75%	15%

Personal objective	Weighting of objective	Target	Achievement	Outcome (%)	Bonus paid (%)
People	20%	To lead the Finance function in a way that results in a score of not less than 70% in the Company engagement survey	Finance team engagement score improved from 6.1 to 7.4 (a score of 4% ahead of target).	100%	20%
Supply chain growth initiatives	20%	To provide both thought leadership and financial support in the pursuit of shareholder value creation	Provided financial support and analytical rigour for investment decisions in tactical and organic growth opportunities, helping to secure new organic revenues of £0.9m profit delivered against a target of £0.5m.	75%	15%
Total (out of a maximum 30% bonus opportunity)	**100%**				**75%**
Tony Grace					
Business Strategy	33%	To complete the close out of the FY2021 financial year end and audit	Financial year end processes complete and audit closed with no issues reported. Onboarding of new CFO undertaken to support transition.	60%	20%
Refinancing	33%	To complete refinancing with the syndicate of banks	Refinancing agreement secured on acceptable terms and with an increased dividend cap from £6m to £10m and an extended term from November 2023 to August 2025.	90%	30%
Pension Fund	33%	To finalise the winding up of the Company's Defined Benefit scheme and receive surplus cash proceeds	Sum of £8.1m cash proceeds (against a target of £8.0m) was received in December 2021. The pension scheme was formally wound up on 25 February 2022.	75%	25%
Total (out of a maximum 30% bonus opportunity)	**100%**				**75%**

Directors' Remuneration Report *continued*

Further detail on our key strategic objectives and performance against those objectives is provided in the Strategic Report set out on pages 2 to 57.

Overall, as a result of the financial performance (43.2% of the 70% bonus opportunity) and each director's respective personal performances (85% for Jonathan Bunting and 75% for each of Paul Baker and Tony Grace), Jonathan Bunting's aggregate annual bonus pay out is 68.7% of salary and the aggregate annual bonus payouts for each of Paul Baker and Tony Grace is 65.7% of salary. This results in payments of £321,640 to Jonathan Bunting, £182,891 to Paul Baker and £49,422 to Tony Grace (with 50% of the bonus deferred into shares for each executive for two years). The Committee is satisfied that these bonus payments represent a strong link between reward and performance, being aligned with the overall shareholder experience and consistent with the bonus payments made to employees generally.

Long-term incentive plan

Jonathan Bunting and Tony Grace were each granted LTIP awards on 13 December 2019 which were subject to performance over a three-year performance period FY2020-2022 for EPS and, over the three-year period from grant, for TSR relative to the FTSE SmallCap (excluding investment trusts). The targets set and the level of vesting for EPS and the current estimate of vesting under the TSR element are set out in the table below.

FY2020-2022 Award	Weighting	Threshold (20% vesting)	Maximum (100% vesting)	Actual performance	Vesting
FY2022 Adjusted basic EPS(a)	50%	10.0p	13.0p	10.9p	22% (of 50%)
Total Shareholder Return vs FTSE Small Cap	50%	Median	Upper quartile	Upper quartile(b)	50% (of 50%)
Estimated total vesting (% of max)(b)					72%

(a) The FY2020-2022 award was set on an IAS17 basis which gives an Adjusted basic EPS result of 10.9p. Please note that the Group Financial Statements to this Annual Report are, however, made under IFRS16 where Adjusted Basic EPS is 10.8p.
(b) Based on performance to 3 November 2022. Actual performance will be tested to 13 December 2022 and final vesting will be provided in the FY2023 Directors' Remuneration report.

Given the estimated vesting outcomes and the significant TSR growth over the three-year performance period, the Committee has considered the appropriateness of the rate of vesting at 72% and confirms that it remains comfortable that the pay out level would be appropriate in light of the overall performance and shareholder experience over the three-year performance period, and that no discretion would be necessary to adjust the outturn.

Accordingly, the table below shows the number of shares estimated to vest and the value of these shares:

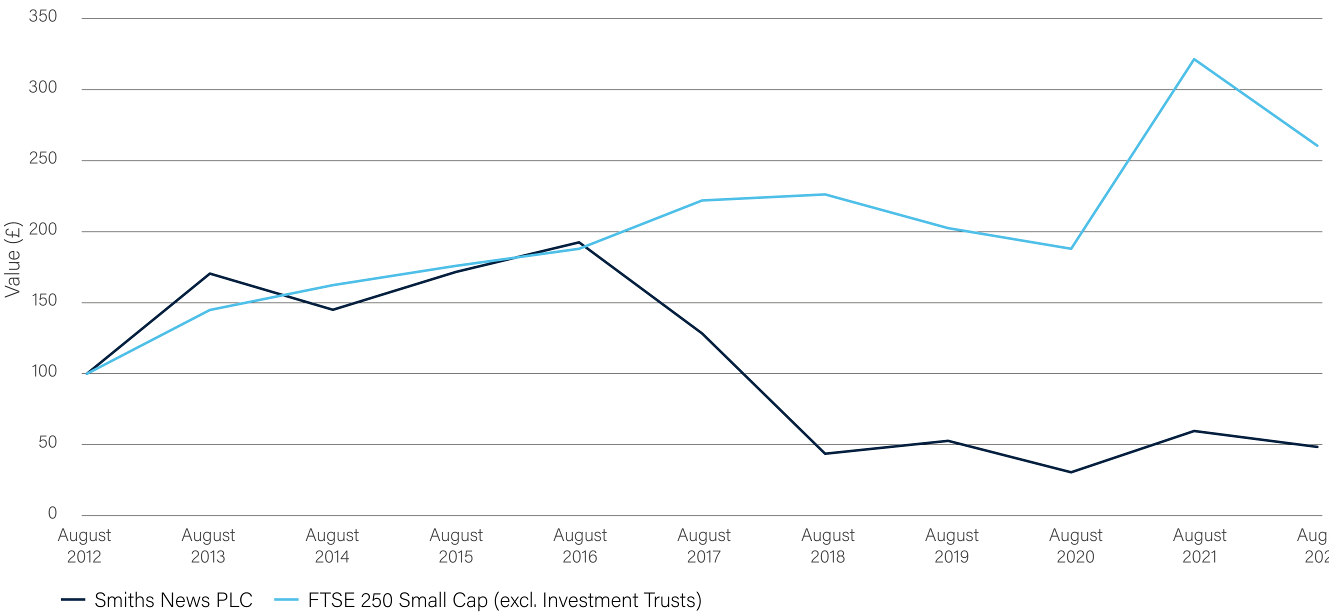
	Number of shares at grant	Value at grant (30.0p)	Estimated total vesting outcome	Number of shares estimated to vest	Value on estimated vesting(a)	Value attributable to share price growth on estimated vesting awards
Jonathan Bunting	1,411,840	£423,552	72%	1,016,524	£340,535	£35,578
Tony Grace(b)	983,333	£295,000	72%	531,000	£177,885	£18,585

(a) The FY2020-2022 LTIP awards have been valued at 33.5p per share, being the average share price over Q4 of FY2022.
(b) For Tony Grace, the FY2020-2022 LTIP award represents the pro-rated entitlement for 27 months of the 36-month performance period that he was a member of the Board to 30 November 2021. The additional time prorating of the FY2020-2022 LTIP award received in relation to the period from when he stepped down from the Board (30 November 2021) to the date of leaving (31 December 2021 – i.e. one month of the 36-month performance period) is set out in the payments to former directors and payments for loss of office section.

In addition, dividend payments equivalent to the aggregate of all dividends paid by the Company during the performance period apply to the LTIP awards that have vested and are to be paid in shares at the time of their exercise. In the case of Jonathan Bunting, the dividend equivalent payment applicable to the projected LTIP vesting is expected to be £41,169 and, in the case of Tony Grace, the dividend equivalent payment applicable to the projected LTIP vesting is expected to be £21,506.

Performance graph and table

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



	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Chief Executive Officer Total remuneration (£'000)	1,311	970	1,095	882	794	539	537	596	917	**1,209**
Chief Executive Officer Annual bonus payment (% of maximum)	67.1%	12.5%	71.3%	38.9%	15.0%	0.0%	0.0%	20.0%	82.2%	**68.7%**
Chief Executive Officer EPP[1] pay out (% of maximum)	86.8%	55.1%	61.5%	72.0%	72.0%	0.0%	N/A	N/A	N/A	**N/A**
Chief Executive Officer LTIP vesting (% of maximum)	100.0%	100.0%	63.5%	0.0%	0.0%	0.0%	0.0%	0.0%	27.6%	**72%**

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

Directors' Remuneration Report *continued*

Percentage change in directors' remuneration

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

		% Change FY2020			% Change FY2021			% Change FY2022		
		Base salary/ fees	Benefits	Annual bonus	Base salary/ fees	Benefits	Annual bonus	Base salary/ fees	Benefits	Annual bonus
Chairman[1]		0.0	0.0	–	0.0	0.0	–	**0.0**	**0.0**	**–**
Chief Executive Officer[2]		0.0	(30.8)	100.0	2.0	(38.1)	346.7	**2.0**	**7.7**	**(14.6)**
Chief Financial Officer – T Grace[3]		0.0	0.0	100.0	2.0	(13.3)	319.2	**0.0**	**0.0**	**(80.2)**
Chief Financial Officer – P Baker		N/A	N/A	N/A	N/A	N/A	N/A	**N/A**	**N/A**	**N/A**
Non-executive directors	D Collis	0.0	0.0	–	0.0	0.0	–	**15.0**	**0.0**	**–**
	M Whiteling	0.0	0.0	–	0.0	0.0	–	**13.6**	**0.0**	**–**
	M Holt[4]	0.0	0.0	–	0.0	0.0	–	**16.7**	**0.0**	**–**
UK employees		5.6	(1.0)	20.6	(9.1)	0.0	243.4	**4.6**	**0.0**	**(20.0)**

1. The Chairman's fee has not increased. The values in FY2020 represent the combined remuneration for Gary Kennedy (to 13 May 2020) and David Blackwood (from 13 May 2020) and in each of FY2021 and FY2022 exclusively represent the remuneration of David Blackwood.
2. The CEO's values in FY2020 represent the combined remuneration for Jos Opdeweegh (to 5 November 2019) and Jonathan Bunting (from 5 November 2019), and in each of FY2021 and FY2022 exclusively represent the remuneration of Jonathan Bunting.
3. Tony Grace stepped down from the Board on 30 November 2021 and his remuneration was pro-rated as a result.
4. For part of FY2020, the annual fee for Michael Holt was temporarily increased by £205,000 per annum for the duration of his tenure as Executive Chairman of Tuffnells from 5 November 2019 until its sale on 2 May 2020.

Chief Executive Officer pay ratio to the workforce

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

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

Year	Methodology	Population	25th percentile	Median	75th percentile
FY2022	Option B	Employee salary	£18,954	£20,752	£24,596
		Employee total remuneration	£19,104	£20,904	£27,552
		CEO to employee pay ratio	63.3:1	57.8:1	43.9:1
FY2021		CEO to employee pay ratio	51.6:1	40.8:1	38.5:1
FY2020		CEO to employee pay ratio	34.7:1	29.1:1	23.9:1
FY2019		CEO to employee pay ratio	31.8:1	22.7:1	18.8:1
FY2018		CEO to employee pay ratio	32.4:1	26.3:1	17.8:1

The Company has calculated the ratios in accordance with the Option B methodology laid out in the pay gap regulations which have been deemed the most reasonable and practical approach given the collation of data exercise required and held by the Company for gender pay gap reporting purposes. The data for the three employees at each quartile is based on the gender pay gap data as at April 2022 and has been calculated at a full-time equivalent level to allow for direct comparison.

The composition of colleague population in each of the reporting years FY2018-FY2022 remains consistent, with over 50% of colleagues in operational roles within the warehouse and field operations. As previously reported, these roles typically attract pay levels at or just above the National Living Wage. The large proportion of these operational roles therefore explains both the salaries that sit at the 25th percentile and median, and also the close proximity of salaries and total remuneration between those two points. The second-largest population consists of operational administrative support, team leaders/supervisors and management roles, with the remainder of colleagues (reflective at the 75th percentile) made up of professional functional roles and senior management which span Leadership Levels 1-4 and who, therefore, have a broad range of salaries and entitlement to performance-related initiatives.

In reviewing the pay gap assessment, the data and ratios are considered to represent a true reflection of pay within the Company which demonstrate the varied pay practice reported at each percentile due to (i) the Company's organisational shape and diverse range of roles within each grade in the business, (ii) the significant weighting of warehouse and field operational roles sitting at the 25th percentile and median, and (iii) the emphasis on fixed pay and overtime, rather than performance-related initiatives across most of our colleague population.

The pay package for the CEO has a higher weighting to performance related pay (part of which is share based) than the employees at the three percentiles. Therefore, the pay ratios in FY2022 are higher than in FY2021 primarily as a direct result of an increased total remuneration for the CEO due to increases in the combined payments of the annual bonus and the estimated vesting of the FY2020-2022 LTIP award (as reported in the total single figure table on page 106). In addition, in comparing FY2022 to FY2021, there was slightly higher pay at the lower quartile but with lower pay at the median following changes in the composition of colleagues and the total remuneration at these percentiles in FY2022 (including a slightly lower amount for the colleague recognition voucher scheme vs the previous year and in the composition of remuneration benefits received for the colleagues at these quartiles).

In FY2021 and FY2022, the pay gap rose sharply versus the prior periods as a direct result of a higher total CEO pay in each of these years than in the prior periods, noting that, for each of FY2020, FY2019 and FY2018, the ratios do not include any LTIP payments and, for each of FY2018 and FY2019, the ratios do not include any annual bonus payments either.

Relative importance of spend on pay

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

	FY2022 £m	FY2021 £m	% change
Total employees pay	44.9	44.8	0.2%
Adjusted Operating Profit	38.1	39.6	–3.8%
Corporation tax paid	5.3	6.3	–15.9%
Dividends paid	6.1	1.2	408.3%

The figures above are principally set out in the income statements on page 132 and on pages 178, 169 and 164 in the Notes to the Group Financial Statements. Total employee pay is the total pay for all colleagues across the Company. Adjusted Operating Profit has been used as a comparison as this is now the revised key financial metric which the Board considers when assessing the Company's financial performance (from Adjusted EBITDA (excl. IFRS16)). Corporation tax paid and dividends paid have also been used as a comparison as these together indicate the sustainable after tax and dividends paid position of the Company for reinvestment.

Share plans – awards made during the year

LTIP awards granted in FY2022 (audited)

On 29 December 2021, executive directors were granted the following FY2022-2024 LTIP awards:

Executive	Share price at date of grant[1]	Number of nil-cost options subject to maximum award	Face value of award	Percentage of awards released for achieving threshold targets[2]	Performance period
Jonathan Bunting	37.70p	1,241,856	£468,180	20%	FY2022-2024
Paul Baker		809,018	£305,000		

Notes
1. Share price is the mid-market average price in the three days immediately prior to the date of grant.
2. 100% for achieving maximum targets.

Awards are subject to (i) Adjusted free cash flow (for 30% of the award) and (ii) relative total shareholder return compared to the companies comprising the FTSE Small Cap Index (excluding investment trusts) (for 70% of the award).

The performance conditions applied to the awards were as follows:

Performance period	FY2024 Adjusted Free Cash flow (30% of award)	Relative TSR compared to the companies comprising the FTSE Small cap Index (70% of the award)	Proportion exercisable
Three years ending 31 August 2024	Below £36.4m	Below median rank	Zero
	36.4m	Median	20%
	Between £36.4m and £40.4m	Between Median and Upper Quartile	20%-100%
	£40.4m or more	Upper Quartile or higher	100%

Directors' Remuneration Report *continued*

Deferred Bonus Plan awards granted in FY2022 (audited)

On 29 December 2021, the following award was granted to the Chief Executive Officer under the DBP, equating to 50% of his FY2021 bonus payment, as follows:

Executive	Share price at date of grant[1]	Number of nil cost options subject to award	Face value of award (£)
Jonathan Bunting	37.70p	500,395	188,649

1. Share price is the mid-market average price in the three days immediately prior to the date of grant.

Awards are immediately exercisable subject to the shares being held (after payment of taxes) for a period of two years from the date of grant, in line with the Company's shareholding guidelines policy and subject to clawback within this period. As part of this deferral period, appropriate and relevant trading restrictions have been imposed with the Company's share registrars, in order to enforce the two-year deferral period and the associated share certificate retained by the Company.

Sharesave Scheme awards granted in FY2022 (audited)

No awards were granted to executive directors under the Sharesave Scheme in FY2022.

Payments to former directors and payments for loss of office

Tony Grace, former Chief Financial Officer, stepped down from the Board on 30 November 2021 and remained an employee until 31 December 2021, to continue to provide handover support to the finance function and support the Board through the finalisation of the FY2021 audited results and the successful conclusion of the Company's refinancing in December 2021.

In the period 1 December 2021 to 31 December 2021, Tony Grace received the following remuneration:

- Salary of £25,075 and benefits of £1,011;
- A grant under the Deferred Bonus Plan on 29 December 2021 in respect of his FY2021 bonus consisting of 328,036 nil-cost options, which were subsequently exercised (after deduction of taxes and NICs) into 173,549 shares, which must then be held for a period of two years from the date of grant;
- A time prorated annual bonus for FY2022 of an additional £16,474, 50% of which is deferred into shares for a period of two years from the date of grant; and
- An estimated time prorated FY2020-2022 LTIP vesting of an additional 19,666 shares and an associated dividend equivalent applicable to the projected LTIP vesting of £796.

Remuneration received by Tony Grace for FY2022 prior to stepping down is set out in the single figure table on page 106.

Employee Benefit Trust

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

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

The number of shares held in the Employee Benefit Trust at 27 August 2022 was 12,129,822 ordinary shares.

The Board has resolved that all employee share scheme exercises in FY2022 and, until otherwise agreed, all future employee share scheme exercises in FY2023 should be satisfied through the Employee Benefit Trust, using market purchased shares and intends to instigate a plan for share purchases to cover likely future commitments.

Dilution of share capital by employee share plans

Awards granted under the Company's Sharesave Scheme have, in the past, been satisfied by the issue of new shares when the options are exercised. The Company monitors the number of shares issued under the Sharesave Scheme and, as at 27 August 2022, had issued 2,906,449 new shares within the past ten-year period, representing 1.17% of the issued share capital. This is well within our dilution limit of 10% in any rolling ten-year period in the Sharesave Scheme rules and in line with the guidelines set by the Investment Association.

Executive directors' incentive plan share interests (audited)

The table below sets out details of outstanding share awards held by executive directors as at 27 August 2022 under the LTIP and DBP (covering deferred annual bonus awards), together with exercises made during the year under both the LTIP and DBP (covering deferred annual bonus awards). Awards under these schemes are structured as nil cost options. In addition, the table sets out awards held by executive directors pursuant to the Sharesave scheme.

	Share awards			
	With performance measures[1]	Without performance measures[2]	Vested but unexercised	Vesting during the year[3]
Jonathan Bunting	4,183,696	42,857	0	611,987
Paul Baker	809,018	0	0	0
Tony Grace[4]	1,210,593	42,857	0	554,046

1. These unvested awards relate to the FY2020-FY2022 LTIP which is estimated to vest at 72% of maximum based on performance against EPS and TSR performance conditions, and the FY2021-FY2023 and FY2022-FY2024 LTIPs which are both subject 70% to TSR and 30% to Free Cash Flow performance conditions.
2. These awards relate to annual bonus deferred shares in respect of the FY2020 bonus, these shares must be held for two years.
3. These awards relate to the immediately vesting annual bonus deferred shares which were granted to executive directors under the DBP on 29 December 2021, equating to 50% of their respective FY2021 bonus, and the FY2019-2021 LTIP for Jonathan Bunting and Tony Grace. These awards must be held for at least two years.
4. Figures for Tony Grace shown as at 30 November 2021, the date of stepping down from the Board and applying pro ration to unvested awards relating to the FY2020-FY2022 and the FY2021-FY2023 LTIPs. Subsequently, in line with 'good leaver' status, the 42,857 share awards designated without performance measures related to a Save As You Earn award which was exercised on cessation of employment in the amount of 26,190 shares (after tax and NICs).

Executive directors' shareholdings and shareholding guidelines

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

Name	Salary	Holding on 28 August 2021	Holding on 27 August 2022	Valuation of current holding[1]	% of salary held compared to 200% of salary target shareholding
Jonathan Bunting	£468,180	592,115	**918,188**	£283,720	60.60
Paul Baker	£305,000	–	**80,000**	£24,720	8.10
Tony Grace[2]	£300,900	257,876	**380,169**	£117,472	39.04

1. Using the closing share price of 30.90p as of 27 August 2022.
2. Figures for Tony Grace shown as at 30 November 2021, the date of stepping down from the Board.

Between 27 August 2022 and 8 November 2022 (the publication date of this report), there has been no other change in the executive directors' shareholdings shown above.

Directors' Remuneration Report *continued*

Non-executive directors

Non-executive directors' fees

The following fees were paid to non-executive directors for FY2022 and FY2021 (audited):

	Year	Base fee £000	Additional fees £000	Benefits[1] £000	Total fees £000
David Blackwood[2]	**FY2022**	**140**	**–**	**1.5**	**141.5**
	FY2021	140	–	0.4	140.4
Denise Collis[3]	**FY2022**	**47.5**	**10**	**0.0**	**57.5**
	FY2021	40	10	0.8	50.8
Mark Whiteling[4]	**FY2022**	**47.5**	**15**	**0.0**	**62.5**
	FY2021	40	15	0.6	55.6
Michael Holt[5]	**FY2022**	**47.5**	**5**	**0.0**	**52.5**
	FY2021	40	5	0	45

1. The benefits disclosed relate to the reimbursement of travel and accommodation expenses incurred in attending Board meetings at the Company's premises around the UK. The grossed-up value has been disclosed and the tax arising is settled by the Company.
2. The Company chairman is paid a single fee which includes chairmanship of the Nominations Committee.
3. Denise Collis receives an additional £10,000 per year as chair of the Remuneration Committee.
4. Mark Whiteling is Senior Independent Director and receives a fee of £5,000 per year for this role in addition to a fee of £10,000 per year he receives as chair of the Audit Committee.
5. Michael Holt is responsible for Board colleague engagement and is chair of the National Colleague Engagement Forum. He receives an additional £5,000 per year for this additional role.

Non-executive directors' shareholdings (audited)

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

	27 August 2022	28 August 2021
David Blackwood	**284,510**	240,000
Denise Collis	**48,846**	48,846
Mark Whiteling	**80,000**	80,000
Michael Holt	**0**	0

There has been no change in the non-executive directors' shareholdings shown above between 27 August 2022 and 8 November 2022 (the publication date of this report).

Implementation of the Remuneration Policy in FY2023

Executive directors

Salaries

The base salary for the Chief Executive Officer increased by 3.25% to £483,396, and the base salary for the Chief Financial Officer increased by 3.25% to £314,913, with effect from 1 September 2022, each of which is below the average percentage increase awarded to our workforce, the majority of whom saw an increase of 6.6%.

Pension

The Company's pension contribution for executive directors is 5% of salary, which is aligned to the rate available to the majority of the workforce.

Bonus

The annual bonus opportunity will remain at 100% of salary. 70% will be based on Adjusted Operating Profit as this will be the key measure of profitability against which business performance will be assessed over the year and will be in line with our internal financial reporting. An Operating Profit target range has been set against a stretching budget number and is also considered to be challenging in light of analysts' consensus expectations for our FY2023 profit performance. Also, 30% will be based on personal measures which will be based on the achievement of stretching targets set against our operational KPIs.

Of the maximum bonus, 50% will be paid out for both the financial and personal objectives for on-target performance. The Committee will apply discretion as to whether any payment should be made on the personal element of the bonus in the event that the financial targets are not met. There will also be a requirement for a minimum personal performance rating to be achieved before the financial performance element may be paid.

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

LTIP

LTIP awards are expected to be granted within 42 days following publication of the Company's preliminary financial results for FY2022 covering the performance period FY2023-2025. The LTIP grant level for the FY2023-2025 award will be 100% of base salary.

The performance measures will be unchanged, being a relative Total Shareholder Return measure (70% weighting) and free cash flow in the final year of the three-year performance period (30% weighting).

The performance targets are set out below:

Measure	Weighting	Threshold (20% vests)	Maximum (100% vests)
Adjusted Free cash flow in the final year (FY2025) of the three-year performance period	30%	£36.6m	£41.2m
Relative TSR versus the companies comprising the FTSE Small Cap index as at the date of grant	70%	Median	Upper quartile

Free cash flow includes agreed adjustments from EBITDA, such as the purchase of fixed assets, finance lease payments and the cash impact of adjusted items, and so provides a sharper focus on strong cash generation, return on investment and dividend cover, in line with the Company's capital allocation strategy.

TSR provides a strong and direct incentive to continue to focus on share price growth and shareholder value.

Non-executive directors

Non-executive directors' fees in FY2023

The Company Chairman's fee rate increased by 3.25% to £144,550, with effect from 1 September 2022, and the non-executive directors' fees similarly increased by 3.25%, with effect from 1 September 2022, such that the following rates now apply:

- the base fee rate increases from £47,500 per annum to £49,043.75;
- the additional fee for chairing the Board's Committees increase from £10,000 per annum to £10,325 per annum; and
- the additional fees for the role of Senior Independent Director and/or chairing the National Colleague Engagement Forum increase from £5,000 per annum to £5,162.50 per annum.

Directors' Remuneration Report *continued*

Consideration by the directors of matters relating to director's remuneration

Remuneration Committee

David Blackwood is non-executive chairman of the Board and was deemed independent on appointment. All other members of the Committee are independent non-executive directors.

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

	Meetings attended	Possible meetings
Denise Collis	5	5
David Blackwood	5	5
Mark Whiteling	5	5
Michael Holt	5	5

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

During the year, the Committee was supported in its work by its appointed external advisers, Korn Ferry, who were paid fees of £37,953 (plus VAT). Korn Ferry has no connection with the Company or the directors. Based on its experience of working with the advisers, the Committee is satisfied that the advice received from Korn Ferry has been, and continues to be, objective and independent. Korn Ferry provides no other services to the Company that could potentially lead to a conflict of interest with the independent advice to the Committee.

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

The Chief Executive Officer, the Chief Financial Officer, the Company Secretary & General Counsel, the People Director and the Head of Reward also attended Committee meetings in the year but were not present when their own performance or remuneration was discussed.

Shareholder vote

The table below sets out the voting results for the Directors' Remuneration Policy at the 2020 AGM and the Directors' Remuneration Report at the 2022 AGM:

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Total votes cast	Votes withheld
To approve the Remuneration Policy (2020 AGM)	131,630,015	83.08%	26,813,938	16.92%	158,443,953	468,570
To approve the Directors' Remuneration report for the year ended 28 August 2021 – the 2022 AGM	132,872,601	87.43%	19,099,963	12.57%	151,972,564	133,138

Approval

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

Denise Collis
Remuneration Committee Chair

8 November 2022

Directors' Report – Other Statutory Disclosures

Directors' Report

This Annual Report and the Group Financial Statements include the Directors' Report and the audited financial statements of Smiths News plc (the 'Company') and its subsidiaries (the 'Group') for the 52-week period ended 27 August 2022. The information required to be disclosed in the Directors' Report is provided in the following sections of the Annual Report, which are incorporated into this Directors' Report by reference:

- Strategic Report on pages 2 to 57;
- Corporate Governance report on page 58;
- Audit Committee report on page 80;
- Nominations Committee report on page 90;
- Directors' Remuneration report on page 94;
- TCFD report on page 44;
- this section, Other statutory disclosures;
- Directors' Responsibilities statement on page 123; and
- Notes to the Group Financial Statements as detailed in this section.

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

Non-financial information statement

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

- the business model on page 6;
- information on environmental, employee, social, human rights, anti-corruption and anti-bribery matters (non-financial matters), including the relevant policies, due diligence process implemented in pursuance of the policies and outcomes of those policies, on pages 24 to 29;
- principal and emerging risks identified in relation to non-financial matters, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed, on page 40;
- all Key Performance Indicators (KPIs), including those in relation to non-financial matters, are on page 10;
- the Financial Review, which includes where appropriate, references to, and additional explanations of, amounts included in the Group Financial Statements on pages 132 to 181;
- a statement explaining how the directors have had regard to the matters in s172 of the Companies Act 2006 in performing their duties on page 70; and
- future developments in the business on pages 20 to 23.

Subsidiaries and branches

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 31 to the Group Financial Statements.

Post balance sheet events

The directors have considered the period between the balance sheet date and the date when the accounts are authorised for issue for evidence of conditions that existed at the balance sheet date, either adjusting or non-adjusting post balance sheet events and have concluded that there are no such events in the current period.

Profit attributable to shareholders and dividends

The statutory profit for the financial year, after taxation, from the Continuing Operations was £23.4m (FY2021: £26.3m) and from the Discontinued Operations was £nil (FY2021: loss of £0.1m). In aggregate, the statutory profit for the financial year, after taxation, from both the Continuing Operations and Discontinued Operations was £23.4m (FY2021: £26.2m).

In light of the Company's performance, the Board has decided to recommend a final dividend of 2.75p which is expected to be paid on 9 February 2023 to all shareholders who are on the register of members at close of business on 13 January 2023. Accordingly, the total dividend for the 52-week period ended 27 August 2022 is 4.15p per ordinary share (FY2021: 1.65p). The dividend recommendation represents the maximum permissible sum that can be paid under the distribution cap limits within our banking arrangements (£10m per annum) and is based on the forecast number of shares in issue at the record date.

Directors’ Report – Other Statutory Disclosures *continued*

Share capital

The Company’s issued share capital comprises a single class of ordinary shares of 5p each. All issued shares are fully paid, can be held in certificated or uncertificated form and are listed on the London Stock Exchange. Details of movements in the issued share capital during the year can be found in Note 25 to the Group Financial Statements.

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

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

Voting rights and restrictions on transfer of shares

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

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

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

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

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

Shares held by the Employee Benefit Trust

The Trustee of the Smiths News Employee Benefit Trust holds ordinary shares of the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Company. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are, at that time, subject to subsisting options, but will have regard to the interests of the option holders and can obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair. The Trustee waives its right to vote and to dividends on the shares that it holds. Further details on the Trust can be found in the Directors’ Remuneration report on page 94.

Purchase of own shares

At the Annual General Meeting held on 20 January 2022, authority was given for the Company to purchase, in the market, up to 24,765,920 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during FY2022. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2023 to renew the authority for a further year.

Issue of new ordinary shares

The Board has resolved that all employee share scheme exercises during FY2022 and, unless otherwise agreed, all future employee share scheme exercises in FY2023 should be satisfied through the Employee Benefit Trust (further details on the Employee Benefit Trust and market purchases are set out in Directors’ Remuneration report on page 94). Accordingly, during the 52-week period ended 27 August 2022, no ordinary shares in the Company were issued.

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

Interests in voting rights

As at 27 August 2022, the Company is aware of the following shareholding interests in its issued share capital as may have been notified to it from time to time pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5:

Holder	% of voting rights
Aberforth Partners LLP	20.05
Fidelity International Limited	9.99
FORUM Family Office Value Fund	9.87
Wellcome Trust	5.78
FORUM Smallcap Fund	4.42
Smiths News Employee Benefit Trust	4.91
Worsley Investors Limited	4.01

In the period 27 August 2022 to 8 November 2022, no further notifications of updated voting rights positions have been received by the Company from any such holder.

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

Change of control

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

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

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

Directors

All directors who served during the year are set out on page 64.

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

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

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Directors' Remuneration Report on page 94 onwards.

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

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

Directors' conflicts of interest

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

Employees

Details of the Company's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the People report on page 30 and in the Corporate Governance report on page 58.

Directors' Report – Other Statutory Disclosures *continued*

Suppliers and customers

Details of how the directors have engaged with suppliers and customers to foster the Company's business relationships with its suppliers, customers and others, and the outcome of such engagement on the decisions made by the Board are set out the Corporate Governance report on page 58.

Greenhouse gas emissions

Details of the Company's greenhouse gas emissions and SECR disclosures are set out in the TCFD report on page 44.

Consideration of climate change

In preparing the Group Financial Statements, the directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD report on page 44. There has been no material impact identified on the financial reporting judgements and estimates. In particular, the directors considered the impact of climate change in respect of the Company's going concern and viability review (see page 56). The directors have determined that none of the short or medium term climate-related risks identified in its review pose a threat to the business but the directors nonetheless remain mindful of the ever-changing risks associated with climate change and intend to continue to assess these risks (and any emerging risks that arise from ongoing reviews) against the judgements and estimates made in the preparation of the Group Financial Statements.

Political donations

It is the Company's policy not to make political donations and no political donations or EU political expenditure were made in the year (FY2021: £nil).

Bribery Act 2010

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

Health & safety

We are committed to providing a safe place for our colleagues to work and for visitors and contractors to our sites. Policies applicable to the safety and well-being of our colleagues are reviewed on an ongoing basis, to ensure that the approach to training, risk assessments, safe systems of working and accident management are appropriate. An ongoing audit programme assesses health and safety risks on a regular basis and ensures that robust control measures are in place to limit these risks. Further details are set out in the Sustainability report on page 24.

Financial instruments

Information on the Company's financial risk management objectives and policies and on the exposure of the Company to relevant risks in respect of financial instruments is set out in Note 18 to the Group Financial Statements.

Disclosure of information to auditor

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

Auditor

Resolutions to re-appoint BDO LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2023 Annual General Meeting.

Annual General Meeting

The 2023 Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Tuesday 24 January 2023 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes to the proposed resolutions to be considered at the meeting, in the booklet which accompanies this report.

Approved by the Board and signed on its behalf by:

Stuart Marriner
Company Secretary & General Counsel

8 November 2022

Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group Financial Statements in accordance with UK adopted international accounting standards and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

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

The directors are responsible for ensuring that the Annual Report and the Group Financial Statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

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

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group Financial Statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board on 8 November 2022 and signed on its behalf by:

Jonathan Bunting
Chief Executive Officer

8 November 2022

Paul Baker
Chief Financial Officer

8 November 2022

Independent Auditor's Report

to the Members of Smiths News Plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 August 2022 and of the Group's profit for the 52-week period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Smiths News Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52-week period ended 27 August 2022 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statements of Changes in Equity, the Group Cash Flow Statement, the Company Balance Sheet, Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by The Board of Directors on 15 March 2019 to audit the financial statements for the year ended 31 August 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is four years, covering the years ended 31 August 2019 to 27 August 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- A review of the forecasts and covenant calculations for the Group for a period of at least 12 months from the date of approval of the financial statements. This included testing that the forecasts were consistent with the latest Board approved budgets;
- Considering whether the period used by the Directors to assess going concern which was based on cash flow forecasts to 28 February 2024 was not inappropriate – this period was selected by the Directors as it represented a period greater than 12 months from the approval of the Group and Parent Company financial statements and aligned to a covenant measurement date;
- Assessing assumptions within the cash flow forecasts: we challenged the assumptions used in the forecasts, in particular the rate of sales volume decline, publisher price increases, the ability to achieve operational cost saving plans in light of increasing inflationary costs, the impact of further cost increases owing to the current macroeconomic environment and inflationary pressures, as well as gross margins – in challenging management, we held meetings with both the finance team and Commercial Director. The assumptions were corroborated by reviewing historical trend analysis and reviewing against market data where applicable;
- Testing the numerical accuracy of the model used to prepare the forecasts;
- Agreeing a sample of the Group cash balances from the forecasts to post year end bank statements and comparing the Group cash balance to the forecasted amount to identify any potential liquidity issues;
- Testing the covenant calculation, and forecast covenant compliance, against the Group's facility agreements to confirm that there remains sufficient headroom in the forecasts for the going concern period which is 16 months;
- Challenge of Director's scenario analysis with specific reference to the Group's risk register. This included an evaluation of sensitivities over the Group's cash flows and covenants to changes in the significant inputs and assumptions used. We challenged management where principal risks had not been directly incorporated into specific scenario analysis and considered the potential impact of these against the impact of the reverse stress test;
- Scrutinising the stress tests and reverse stress test which demonstrated the reduction in EBITDA required without mitigation for a liquidity event or covenant breach to occur and challenging the Directors' assessment that it was remote for such a reduction to occur;
- Comparing the post year end trading results to the forecasts to evaluate the accuracy and achievability of the forecasts prepared;
- Evaluating the accuracy of Management's historical forecasting; and
- Evaluating the completeness and accuracy of the disclosures (Note 1) in relation to the conclusion reached by the Directors in their going concern assessment and the adequacy of the disclosures in the financial statements against the requirements of the accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	*99% (2021: 99%) of Group profit before tax* *99% (2021: 99%) of Group revenue* *98% (2021: 98%) of Group total assets*		
Key audit matters		**2022**	**2021**
	Revenue recognition	✓	✓
	Carrying value of the investments in Smiths News plc (Parent Company)	✓	✓
Materiality	*Group financial statements as a whole* £1.49m (2021: £1.55m) based on 4.8% (2021: 5%) of adjusted profit before tax		

1. These are areas which have been subject to a full scope audit by the Group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates through a number of legal entities, which forms one reporting segment as disclosed in Note 2 to the financial statements. There were two significant components which were subject to full scope audits. Non-significant components were subject to desktop review procedures with specified audit procedures where necessary. All audits and desktop review procedures were completed by the Group engagement team.

Key audit matters

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

Independent Auditor's Report *continued*

to the Members of Smiths News Plc

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Revenue recognition – existence of revenue from Newspapers and Magazines and from Carriage Fees

The Group's revenue streams and the related accounting policies applied during the period are detailed in Note 1 to the financial statements.</td><td>Revenue from the delivery of Newspapers and Magazines and from Carriage Fees are recognised when the products are delivered to the retailer and there is no unfulfilled obligation that could affect the retailer's acceptance of the products, the risks of obsolescence and loss have been transferred to the retailer.

Revenue for the Group is derived from high volume and low value transactions.

The existence of revenue recognised from these streams relies upon the precision of the returns process and the adequacy of the processes and controls in place across the relevant IT systems.

Due to the complexity of these IT systems and dependency on the effective returns process, there is a risk over the existence of revenue from the delivery of Newspapers and Magazines and from Carriage Fees, which requires a significant proportion of the audit and IT audit team's time and effort, and for these reasons we determined it to be a Key Audit Matter.</td><td>We utilised our own IT specialists to test the operational effectiveness of the key revenue controls from inception to recognition of revenue, including the automatic posting of invoices and scanning in of customer returns.

We agreed a sample of revenue to sales invoice, customer sales data and payments received from the customers. We also agreed a sample of rebates through to the underlying agreements, verified the rebate percentage and volume, and finally agreed the sample through to payment or credit note.

We analysed a sample of journal postings to revenue and the sales ledgers, to ensure these were in line with our understanding of revenue transactions and to confirm there were no unusual or unexpected manual entries that were outside of our expectations.

In addition to testing a sample of invoices recorded in revenue in the year to cash receipt, we agreed a sample of trade receivables to cash received after the period-end to test the existence and accuracy of revenue.

Credit notes in year and post year end were tested on a sample basis to confirm they were appropriately raised and recorded in the correct period. We also scrutinised the complaints process and outcomes relating to deliveries/returns processing to ensure there were no other matters which may indicate that revenue may be materially misstated. The period end returns provision and corresponding estimate was assessed against prior period actual returns to test the accuracy of the provision.

Key observations:
From the testing performed, we consider that the operating effectiveness of controls within the IT System relating to the existence of revenue from Newspapers and Magazines and from Carriage Fees, as well as the related returns process was adequate.</td></tr>
<tr><td>Carrying value of investments in Smiths News plc (Parent Company)

Refer to the Accounting polices (page 137); and Note 3 of the Parent Company Financial Statements (pages 132 to 181).</td><td>The carrying value of investments in subsidiaries has previously been subject to impairment and the carrying value is therefore below original cost.

During the reporting period impairment indicators were identified by management, in respect of the increase in discount rates and the disparity of the market capitalisation and investment carrying value.

Conversely management also identified indicators of potential reversal which would offset the above factors owing to the reduction in the Group's net debt, improvement in business performance in the year and its resulting impact on future cash flow assessment.</td><td>We have assessed the methodology applied by management in performing the impairment test against the requirements of IAS 36 'Impairment of assets' and considered the various indicators identified by management in respect of impairment and reversal.

In respect of the value in use calculations we challenged the cash flow estimates and assumptions used by:
• agreeing them to supporting information where available, including long-term volume declines, contracts in place and the ability of the Group to mitigate volume declines with operational savings;
• searching for corroborative or contrary evidence to assess the reasonableness of such assumptions including the use of third-party research reports; and
• holding discussions with operational team members who were separate to the finance team and by assessing against market benchmarks and historical trends.

In conjunction with our valuation specialists, we challenged and assessed the discount rate used by reviewing the methodology used to calculate the discount rates and by independently determining a range of acceptable rates, considering market data and comparable sectors, and comparing the range of rates independently calculated to the rate used by management.</td></tr>
</table>

Key audit matter		How the scope of our audit addressed the key audit matter
Carrying value of investments in Smiths News plc (Parent Company) *continued*	Therefore a full assessment was performed by management on the Company's investment carrying value. Where an impairment review is conducted, the recoverable amount is determined based on the higher of 'value in use' or 'fair value less costs of disposal.' Value in use has been calculated using cash flows reflecting management's best estimate of the current economic outlook and impact of inflationary pressures. As the investment represents an equity investment the value in use has been adjusted to reflect the overall net debt of the underlying subsidiaries. Management's value in use model and hence impairment/reversal assessment is sensitive to changes in the key assumptions, including discount and growth rates set out in Note 3 of the Parent Company financial statements. Management is required to ensure that the disclosures are complete and accurate, to enable users of the financial statements to understand the assumptions and the sensitivities apparent. For these reasons, we determined it to be a Key Audit Matter.	We assessed and challenged the adequacy of management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required to lead to a significant change in the carrying value, in particular forecast cash flows and discount rate. This challenge was completed by assessing against the Group's principal risks and uncertainties, as well as considering whether further sensitivities could be applied. Furthermore, the audit team evaluated the accuracy of Management's historical forecasting, challenged the revenue, costs and other cash flows assumptions based on our knowledge of the business, contractual revenue streams and the economic outlook. We tested the arithmetic accuracy of the impairment model. We assessed whether the disclosures in the financial statements and sensitivity analysis given were complete and accurate. Finally, we considered risk of management bias and override given the impact an impairment or reversal would have on retained earnings, and hence distributable reserves. **Key observations:** Management determined that the carrying value of the investment remained consistent with the prior year with no material impairment or reversal. This was based on both qualitative and quantitative factors. As disclosed in page 182 the carrying value of the investment is highly sensitive to movements in the discount rate. The rate established by management was within the range independently recalculated by our valuation specialists and therefore not considered to be unreasonable. Retained earnings in the Parent Company at balance sheet date was £118.7m. Therefore, based on the sensitivity analysis completed, we did not identify a significant risk of management bias or override in respect of the Group's ability to declare dividends. Based on procedures performed, we have not identified a material misstatement in relation to the valuation of the Parent Company investments.

Independent Auditor's Report *continued*

to the Members of Smiths News Plc

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial, as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	1.49	1.55	0.89	0.93
Basis for determining materiality	4.8% of profit before adjusting items and tax	5% of profit before adjusting items and tax	60% of Group materiality	60% of Group materiality
Rationale for the benchmark applied	We consider this to be the most appropriate performance measure as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders.	We consider this to be the most appropriate performance measure, as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.
Performance materiality	1.04	1.08	0.59	0.65
Basis for determining performance materiality	70% of materiality based on our experience and knowledge of the Group, the Group structure, planned testing approach, and history of errors.	70% of materiality based on our experience and knowledge of the Group, the Group structure, planned testing approach, and history of errors.	70% of materiality based on our experience and knowledge of the Parent Company, planned testing approach, and history of errors.	70% of materiality based on our experience and knowledge of the Parent Company, planned testing approach, and history of errors.

Component materiality

We identified two significant components, being the Smith News trading entity and the parent company. We set materiality at £1.34m and £0.89m, respectively based on a percentage of Group materiality. In the audit of each component, we further applied performance materiality levels of 70% to our testing, to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £60k (2021: £60k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 56 and 57; and • The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 123.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 57; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 40; • The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 82; and • The section describing the work of the Audit Committee set out on page 80

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company, and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.
Directors' remuneration	In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Independent Auditor's Report *continued*

to the Members of Smiths News Plc

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Parent and Group through our knowledge of the business and the industry in which it operates. The most significant of these were considered to be the applicable financial reporting frameworks (UK adopted international accounting standards in respect of the Group and UK GAAP in respect of the Parent Company) and relevant tax compliance regulations. The audit team engaged an internal tax specialist to analyse the Group's compliance with local tax regulations.
- We also focused on the provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context include the UK Companies Act, Listing Rules, employment law, health and safety, and pensions legislation.
- We considered the nature of the industry, control environment and business performance, including design of the Group's remuneration policies, key drivers for Director's remuneration, bonus levels and performance targets.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how and where fraud might occur. The areas considered to be most susceptible to fraud being management override of controls and revenue recognition.
- We obtained an understanding of the procedures and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud. Fraud risks were identified in relation to revenue and management override of controls. We performed audit procedures to address each identified fraud risk by assessing the potential for manipulation or override and then performing targeted testing on this risk.
- In respect of the procedures performed, we tested a sample of manual journal entries and also automated entries, focusing on journal entries containing characteristics of audit interest, year-end consolidation journals, journals processed by users with privileged IT systems access rights and those relating to revenue, cash and trade receivables.
- We also performed journal testing over one of the non-significant components that would not normally be tested based on our scoping and risk assessment. This was completed to add unpredictability to our testing approach of management override.
- Based on the understanding obtained, we designed audit procedures to identify non-compliance with the laws and regulations, as noted above. This included enquiries of in-house legal counsel, Management, the Audit Committee, in-house Internal Audit and review of Board minutes.
- We also communicated potential fraud risks to the Group and component engagement team members as part of the engagement team discussion. The engagement partner concluded that collectively the engagement team had sufficient competence and capabilities to identify or recognise non-compliance with laws and regulations; and
- We tested and challenged the key estimates and judgements made by management in preparing the financial statements for indications of bias or management override when presenting the results and financial position of the Group. This included those relating to the Parent Company impairment review, presentation of adjusting items and the property dilapidations provision.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

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

8 November 2022

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

Group Income Statement

for the 52-week period ended 27 August 2022

£m	Note	2022 Adjusted*	2022 Adjusted items	2022 Total	2021 Adjusted*	2021 Adjusted items	2021 Total
Revenue	2	**1,089.3**	**–**	**1,089.3**	1,109.6	–	1,109.6
Cost of Sales	3	**(1,016.6)**	**–**	**(1,016.6)**	(1,036.2)	–	(1,036.2)
Gross profit	3	**72.7**	**–**	**72.7**	73.4	–	73.4
Administrative expenses	3	**(35.0)**	**(2.5)**	**(37.5)**	(33.9)	(1.9)	(35.8)
Net impairment loss on trade receivables	4	**–**	**(4.4)**	**(4.4)**	–	–	–
Other income		**0.1**	**–**	**0.1**	–	–	–
Income from joint ventures	13	**0.3**	**–**	**0.3**	0.1	(0.3)	(0.2)
Impairment of joint venture investment	13	**–**	**1.2**	**1.2**	–	(1.6)	(1.6)
Operating profit	2,3	**38.1**	**(5.7)**	**32.4**	39.6	(3.8)	35.8
Finance costs	7	**(7.0)**	**–**	**(7.0)**	(8.8)	–	(8.8)
Finance income	7	**–**	**2.5**	**2.5**	0.1	3.5	3.6
Profit/(loss) before tax		**31.1**	**(3.2)**	**27.9**	30.9	(0.3)	30.6
Income tax credit/(expense)	8	**(5.4)**	**0.9**	**(4.5)**	(4.6)	0.3	(4.3)
Profit/(loss) for the year from continuing operations		**25.7**	**(2.3)**	**23.4**	26.3	–	26.3
Discontinued operations							
Loss for the year from discontinued operations	4	**–**	**–**	**–**	–	(0.1)	(0.1)
Profit/(loss) attributable to equity shareholders continuing and discontinued operations		**25.7**	**(2.3)**	**23.4**	26.3	(0.1)	26.2
Earnings/(Loss) per share from continuing operations							
Basic	10	**10.8**		**9.8**	10.8		10.8
Diluted	10	**10.2**		**9.3**	10.2		10.2
Earnings per share total							
Basic	10	**10.8**		**9.8**	10.8		10.8
Diluted	10	**10.2**		**9.3**	10.2		10.2
Equity dividends per share (paid and proposed)	9	**4.15**		**4.15**	1.65		1.65

* This measure is described in Note 1(4) of the accounting policies and the Glossary to the Accounts on page 176. Adjusted items are set out in Note 4 to the Group Financial Statements.

Group Statement of Comprehensive Income

for the 52-week period ended 27 August 2022

£m	Note	2022	2021
Continuing Items that will not be reclassified to the Group Income Statement			
Reassessment as to recoverability of retirement benefit scheme surplus	6	**14.8**	(0.4)
Impact of IFRIC 14 on defined benefit pension scheme	6	**–**	0.8
Tax relating to components of other comprehensive income that will not be reclassified	8	**(5.1)**	0.2
		9.7	0.6
Items that may be subsequently reclassified to the Group Income Statement			
Currency translation differences		**–**	–
Other comprehensive result for the year – continuing		**9.7**	0.6
Profit for the year – continuing		**23.4**	26.3
Total comprehensive income for the year – continuing		**33.1**	26.9
Other comprehensive income for the period discontinued		**–**	–
(Loss) for the year – discontinued		**–**	(0.1)
Total comprehensive (expense) for the year – discontinued		**–**	(0.1)
Total comprehensive income/(expense) for the year		**33.1**	26.8

Group Balance Sheet

as at 27 August 2022

£m	Note	2022	2021
Non-current assets			
Intangible assets	11	**1.7**	2.3
Property, plant and equipment	12	**8.6**	9.4
Right of use assets	19	**26.3**	28.4
Interest in joint ventures	13	**4.2**	2.9
Other receivables	15	**–**	2.3
Deferred tax assets	20	**1.1**	1.8
		41.9	47.1
Current assets			
Inventories	14	**15.6**	13.2
Trade and other receivables	15	**95.7**	106.6
Cash and bank deposits	17	**35.3**	19.3
Corporation tax receivable		**0.9**	–
		147.5	139.1
Total assets		**189.4**	186.2
Current liabilities			
Trade and other payables	16	**(140.3)**	(136.5)
Current tax liabilities		**–**	(0.3)
Bank loans and other borrowings	17	**(8.0)**	(21.2)
Lease liabilities	19	**(5.9)**	(5.9)
Provisions	21	**(3.0)**	(3.6)
		(157.2)	(167.5)
Non-current liabilities			
Bank loans and other borrowings	17	**(39.1)**	(50.1)
Lease liabilities	19	**(21.7)**	(23.3)
Non-current provisions	21	**(3.4)**	(3.0)
		(64.2)	(76.4)
Total liabilities		**(221.4)**	(243.9)
Total net liabilities		**(32.0)**	(57.7)
Equity			
Called up share capital	25(a)	**12.4**	12.4
Share premium account	25(c)	**60.5**	60.5
Demerger reserve	26(a)	**(280.1)**	(280.1)
Own shares reserve	26(b)	**(4.6)**	(3.9)
Translation reserve	26(c)	**0.4**	0.4
Retained earnings	27	**179.4**	153.0
Total shareholders' deficit		**(32.0)**	(57.7)

The accounts were approved by the Board of Directors and authorised for issue on 8 November 2022 and were signed on its behalf by:

Jonathan Bunting
Chief Executive Officer

Paul Baker
Chief Financial Officer

Registered number – 05195191

Group Statement of Changes in Equity

for the 52-week period ended 27 August 2022

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging and translation reserve	Retained earnings	Total
Balance at 30 August 2020		**12.4**	**60.5**	**(280.1)**	**(1.8)**	**0.4**	**127.0**	**(81.6)**
Profit for the year		–	–	–	–	–	26.2	26.2
Actuarial gain on defined benefit pension scheme	6	–	–	–	–	–	(0.4)	(0.4)
Impact of IFRIC 14 on defined benefit pension scheme	6	–	–	–	–	–	0.8	0.8
Tax relating to components of other comprehensive income		–	–	–	–	–	0.2	0.2
Total comprehensive expense/income for the year		**–**	**–**	**–**	**–**	**–**	**26.8**	**26.8**
Dividends paid	9	–	–	–	–	–	(1.2)	(1.2)
Employee share schemes purchases		–	–	–	(2.7)	–	–	(2.7)
Employee share scheme awards		–	–	–	0.6	–	(0.6)	–
Recognition of share-based payments net of tax		–	–	–	–	–	1.0	1.0
Balance at 28 August 2021		**12.4**	**60.5**	**(280.1)**	**(3.9)**	**0.4**	**153.0**	**(57.7)**
Profit for the year		–	–	–	–	–	23.4	23.4
Actuarial gain on defined benefit pension scheme	6	–	–	–	–	–	14.8	14.8
Tax relating to components of other comprehensive income		–	–	–	–	–	(5.1)	(5.1)
Total comprehensive expense/income for the year		–	–	–	–	–	33.1	33.1
Dividends paid	9	–	–	–	–	–	(6.1)	(6.1)
Employee share schemes purchases		–	–	–	(2.2)	–	–	(2.2)
Employee share scheme awards		–	–	–	1.5	–	(1.5)	–
Recognition of share-based payments net of tax		–	–	–	–	–	1.2	1.2
Current tax recognised in equity		–	–	–	–	–	(0.1)	(0.1)
Deferred tax recognised in equity		–	–	–	–	–	(0.2)	(0.2)
Balance at 27 August 2022		**12.4**	**60.5**	**(280.1)**	**(4.6)**	**0.4**	**179.4**	**(32.0)**

Group Cash Flow Statement

for the 52-week period ended 27 August 2022

£m	Note	2022	2021
Net cash inflow from operating activities	24	**49.8**	41.4
Investing activities			
Dividends received from joint ventures		**0.2**	0.2
Purchase of property, plant and equipment		**(1.3)**	(2.4)
Purchase of intangible assets		**(0.7)**	–
Net proceeds on sale of property, plant and equipment		**0.1**	–
Interest received		**–**	0.1
Loan repayment received		**–**	6.5
Deferred consideration receipts		**14.0**	–
Net cash generated from investing activities		**12.3**	4.4
Financing activities			
Interest paid		**(5.1)**	(6.8)
Arrangement fees paid		**(2.9)**	(2.7)
Dividend paid	9	**(6.1)**	(1.2)
Repayments of lease principal		**(6.4)**	(5.9)
Repayment of term loan		**(83.0)**	(57.5)
New loans issued		**60.0**	80.0
Net decrease in revolving credit facility and overdrafts		**–**	(80.2)
Purchase of shares for employee benefit trust		**(2.6)**	(2.6)
Net cash (used in)/generated financing activities		**(46.1)**	(76.9)
Net (decrease)/increase in cash and cash equivalents		**16.0**	(31.1)
Effect of foreign exchange rate changes		**–**	(0.2)
		16.0	(31.3)
Opening net cash and cash equivalents		**19.3**	50.6
Closing net cash and cash equivalents	17	**35.3**	19.3

Notes to the Accounts

For the 52-week period ended 27 August 2022

1. Accounting policies

(1) Basis of consolidation

Smiths News plc ('the Company') is a company incorporated in England UK under Companies Act 2006. The Group accounts for the 52-week period ended 27 August 2022 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in joint ventures and associates. Subsidiary undertakings are included in the Group Accounts from the date on which control is obtained. They are deconsolidated from the date on which control ceases. All significant subsidiary accounts are made up to 27 August 2022 and are included in the Group Accounts.

Unless otherwise noted, references to 2021 and 2022 relate to a 52-week period ended 28 August 2021 and 27 August 2022 as opposed to calendar year.

The Accounts were authorised for issue by the directors on 8 November 2022.

(2) Accounting basis of preparation

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

The Group Accounts have been prepared in accordance with UK-adopted International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006.

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

(3) Going concern

The Group accounts have been prepared on a going concern basis.

When assessing the going concern of the Group, the directors have reviewed the year-to-date financial actuals, as well as detailed financial forecasts for the period up to 29 February 2024, the going concern period.

The Group currently has a net liability position of £32.0m as at 27 August 2022. All bank covenant tests were met at the year end. The key bank net debt: EBITDA (ex IFRS16) ratio of 0.34x, was below the covenant test threshold of 2.0x. The threshold reduces to 1.75x from 25 February 2023.

The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing of up to £40m. This results in a predictable fluctuation of bank net debt during the course of the month compared to the closing net debt position. Our average net borrowings during 2022 were £49.8m (2021: £82.6m). The Company utilises the Revolving Credit Facility (RCF) to manage the cash swing. At the year end, £30.0m of the RCF was available and the Company had £35.3m of cash on hand giving headroom of £64m.

3i) Bank facility

The Group has a facility of £79.5 million at the balance sheet date, comprising a £49.5 million amortising term loan and a revolving credit facility (RCF) with a limit of £30.0m. The Group's banking facility was amended and extended in December 2021 and has a final maturity date of 31 August 2025. The new facility comprises an initial £60 million amortising term loan, of which the Group has since repaid £10.5 million as at the balance sheet date. The available facility was £27.65m at year end due to £2.35m of letters of credit (see Note 17). The agreement is with a syndicate of banks comprising HSBC, Barclays, Santander and Clydesdale.

The facility's current margin is 4% per annum over SONIA.

Consistent with the Company's stated strategic priorities to reduce net debt, the terms of the facility agreement include: an amortisation schedule of £6m in the first year and £10m per annum thereafter for the repayment of the term loan; a reduction in the RCF of £5m per year after the first year; and capped dividend payments at £10m per year.

The final maturity date of the facility is 31 August 2025.

3ii) Reverse stress testing

The directors have prepared their base case forecast which represents their best estimate of cash flows over the going concern period, which is up to 29 February 2024, and in accordance with FRC guidance have prepared a reverse stress test that would create a covenant break scenario which could lead to the facilities being repayable on demand.

The break scenario would occur in February 2024 if EBITDA (ex IFRS 16) was 48% below the board approved three-year plan. Facility headroom of £11m would still exist at this point. The directors consider the likelihood of this level of downturn to be remote based on:

- current trading which is in line with expectations
- year-on-year declines in revenues would have to be significantly greater than historical trends;
- the contracts are secured with publishers until at least 2024; and
- the Company continues to trade with adequate profit to service its debt covenants.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

1. Accounting policies continued

(3) Going concern continued

3iii) Mitigating actions

In the event the break environment scenario went from being remote to possible, then management would seek to take mitigating actions to maintain liquidity and compliance with the bank facility covenants. The options within the control of management would be to:

- Optimise liquidity by working capital management of the peak-to-trough intra-month movement of up to £40m. Utilising existing vendor management finance arrangements with retailers and optimising contractual payment cycles to suppliers which would improve liquidity headroom;
- Not pay planned dividend;
- Delay non-essential capex projects;
- Cancel discretionary annual bonus payments; and
- Identify other overhead and depot savings.

More extreme mitigating actions would also be available if the scenario arose.

The Company has vendor finance arrangements in place where it has the ability to request early payment of invoices at a small discount, the payments are non-recourse and the invoices are considered settled from both sides once payment is received. The Company has not made use of this facility in FY2022 nor FY2021 or since the Balance Sheet date.

3iv) Assessment

Having considered the above and the funding requirements of the Group and Company, the directors are confident that headroom under the bank facility remains adequate, future covenant tests can be met and there is a reasonable expectation that the business can meet its liabilities as they fall due for a period of greater than 12 months (being an assessment period of 16 months) from the date of approval of the Group Financial Statements. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements and no material uncertainty has been identified.

(4) Alternate performance measures

In reporting financial information, the Group presents alternative performance measures (APMs), which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs (listed in the glossary on page 176) are not considered to be a substitute for, or superior to, IFRS measures but provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Team.

The APMs do not have standardised meaning prescribed by IFRS, and therefore may not be directly comparable to similar measures presented by other companies.

(5) Estimates and judgements

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

Key accounting judgements

The significant judgements made in the accounts are:

Revenue recognition

The Group recognises the wholesale sales price for its sales of newspapers and magazines. The Group is considered to be the principal based on the following indicators of control over its inventory: discretion to establish prices; it holds some of the risk of obsolescence once in control of the inventory; and has the responsibility of fulfilling the performance obligation on delivery of inventory to its customers. If the Group were considered to be the agent, revenue and cost of sales would reduce by £921.3m (2021: £945.2m).

Determining lease terms

In determining lease terms, 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 distribution centres and equipment, the following factors are the most relevant:

- The Company continually considers the optimal network structure in its judgement over lease terms;
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Company 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.

1. **Accounting policies** continued

(5) **Estimates and judgements** continued

Key accounting judgements continued

Adjusting items

Adjusting items of income or expense are excluded in arriving at Adjusted operating profit to present a further measure of the Group's performance. Each adjusting item is considered to be significant in nature and/or quantum, non-recurring in nature and/or are considered to be unrelated to the Group's ordinary activities or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.

The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. Adjusted measures are defined with other APM's in the glossary on page 176.

Based on the nature of the transactions, Adjusting items after tax, including a £4.4m net loss on trade receivables in respect of the Group's outstanding trade receivable with McColl's Retail Group, totalled £2.3m (2021: £0.1m) and a breakdown is included within Note 4.

Retirement benefits

During the year, the Trustee reached the position where it was advised that it could legally distribute the pension cash surplus to the employer as it had completed activities to trace former members of the Trust impacted by the GMP ruling. This gave the Company an unconditional right to the surplus asset, and as such the IAS 19 pre-tax surplus of £14.8m has been recognised through other comprehensive income in the year and the IFRIC14 ceiling eliminated. Subsequently, the Company received the sum of £8.1m, the value of the surplus net of tax and costs on 3 December 2021.

As agreed with the Trustee, the return of the surplus preceded the formal winding up steps of the News Section of the pension scheme, with the winding up of the scheme formally being completed on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC by the Trustee.

As part of the closure of the scheme, the Company agreed to deposit £1.3m of the pension surplus into an escrow account to fund the insurance costs for the Trustee and the outstanding liability to former members in respect of the Lloyds GMP ruling in November 2020. The funds held in escrow are not considered an asset of the Company and are not recognised on the balance sheet. The cost of the insurances have been recognised through administration expenses in the income statement and treated as an Adjusted item.

The Company has agreed run-off indemnity coverage for any member claims that are uninsured liabilities capped at £6.5m over the next 60 years. This potential liability is considered a contingent liability at the period end and reported as such.

Key sources of estimation uncertainty

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

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

Impairment of investments in joint ventures

Investments in joint ventures are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined using value in use calculations. The value in use method requires the Company to determine appropriate assumptions in relation to the cash flow projections over the three-year plan period (which is a key source of estimation uncertainty), the terminal growth rate to be applied beyond this three-year period and the risk-adjusted post-tax discount rate used to discount the assumed cash flows to present value. The assumption that cash flows continue into perpetuity is a source of significant estimation uncertainty.

During the period, the Company reviewed the business plan for the Rascal Joint Venture and it was determined that the potential challenges anticipated to arise in the prior period have not materialised with the successful renewal of contracts previously considered to be at risk. The Company has therefore chosen to reverse the impairment previously booked by £1.2m. In the prior period, it was assessed that certain challenges may arise from increasing market competition, resulting in an impairment loss of £1.6m being recognised. A value in use of £4.2m has been calculated based on future cash flows of the business and have been discounted at a rate of 13% and a terminal growth rate applied of 0%. The result is a reversal of impairment of £1.2m. Refer to Note 13, for further details.

Property provision

The Group holds a property provision which estimates the future liabilities to restore leased premises to an agreed standard at the date the lease is terminated. The provision is calculated based on key assumptions, including the length of time properties will be occupied, the future costs of restoration and the condition of the property at the future exit date.

The property provision represents the estimated future cost of the Group's potential dilapidation costs on non-trading properties across the Group. As the current economic outlook is for increased inflation, the Group has assessed the effect of inflation as material on the provisions in the current year. The provisions have therefore been adjusted for the effect of inflation in the current year. These provisions have been discounted to present value and this discount will be unwound over the life of the leases.

A change in any of these assumptions could materially impact the provision balance. Refer to Note 21 for further details on the sensitivity of the assumptions used to calculate the property provision. The property provisions carrying value at the year end is £4.4m (2021: £3.8m).

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

1. Accounting policies continued

(5) Estimates and judgements continued

Key sources of estimation uncertainty continued

Net impairment loss on trade receivables

On 9 May 2022 ("the administration date"), McColl's Retail Group went into administration. A statement of claim form was filed with the Administrators for an amount of £5.5m. The administrators issued notification on 27 May 2022 that they expected unsecured creditors to receive between 20-40% of approved claims. Management has not received any further information from the Administrators as at the balance sheet date and issuance of this report and has therefore provided a best estimate that only 20% of the outstanding balance is recoverable. The Company has therefore recognised a net impairment loss of £4.4m, representing 80% of the total balance of £5.5m in the current financial period. If the Company had considered 40% of the total balance of £5.5m to be recoverable in line with the upper range of the administrators estimate, the provision recognised would have been £3.3m. The net impairment loss of £4.4m does not have an impact on the Group's assessment of its expected credit losses in respect of its remaining trade receivables and therefore remains negligible. For this reason, the provision for the McColl's net impairment loss of £4.4m has been disclosed separately as a specific provision for doubtful debts, with the net impairment loss expense presented in adjusting items.

(6) Discontinued operations

On 2 May 2020, the Company completed the sale of Tuffnells and assumed liability to settle certain pre-disposal insurance and legal claims relating to employer's liability, public liability, motor accident claims and legal claims, held as provisions. The Company continues to present the cash outflows from these provisions for comparative purposes.

In accordance with IFRS 5 'Non-current assets held for sale and Discontinued operations,' the net results of discontinued operations have been presented separately in the comparative Group Income statement, and the assets and liabilities of operations are presented separately in the Group balance sheet if they meet the held for sale criteria at the balance sheet date or were disposed of during the year.

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

(7) Revenue

Smiths News – Sales of Newspapers and Magazines

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

Distribution income

Distribution income is recognised when the products, such as newspapers and magazines, are delivered to the retailer and there are no unfulfilled obligations that could affect the retailer's acceptance of the products.

Voucher income

Voucher income represents the margin income received from managing the process of collecting voucher payments from retailers and passing them on to voucher processing centres. The Group is primarily responsible for fulfilling the service.

Sales and marketing

The Group supplies marketing services to both retailers and suppliers. This includes services such as shelf stacking, stock checking and merchandising. The Group is primarily responsible for fulfilling the services.

Sale of waste

Income from the sale of waste represents the amount received per tonne of newspapers and magazines returns sold on for recycling. The Group has primary responsibility for fulfilling the service.

Return Reserve

Newspapers and Magazines sales are made on a sale or return basis, therefore the Group is required to estimate a value relating to expected returns from retailers. Likewise, as the publishers are required to provide the Group with credit for any purchase returns, so a purchase returns reserve is also required. The key estimates used in calculating the period end reserve are rates of returns (based on historical trends), average shelf life of the product types and average price of each product type. These estimates are similarly applied to calculate the credit for purchase returns.

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

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

1. Accounting policies continued

(8) Cost of Sales and Gross profit

The Group considers cost of sales to equate to cost of inventories recognised as an expense and distribution costs as these are considered to represent for the Group direct costs of making a sale.

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

(9) Taxation

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

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

(10) Dividends

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

(11) Capitalisation of internally generated development costs

Expenditure on developed software is capitalised when the Group is able to demonstrate all of the following: the technical feasibility of the resulting asset; the ability (and intention) to complete the development and use it; how the asset will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use the software are available; and the ability to measure reliably the expenditure attributable to the asset during its development. Software costs are also capitalised if they can be hosted on another server, are portable and the Group has sole rights to the software. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(12) Joint ventures

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

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

(13) Business combinations goodwill and intangibles

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

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

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

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

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

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. All intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that the carrying value may be higher than its recoverable value. The recoverable value used is the value in use. The value in use is determined by estimating the future cash inflows and outflows to be derived from continuous use of the asset and applying the appropriate discount rate to those future cash flows. Where the carrying value is higher than the calculated value in use, an impairment loss will be recognised.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

1. Accounting policies continued

(14) Property, plant and equipment

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

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

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

(15) Leasing

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.

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.

1. Accounting policies continued

(15) Leasing continued

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.

(16) Inventories

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

(17) Financial instruments

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

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

(18) Financial assets

The group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Trade receivables

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

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 15.

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

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

1. Accounting policies continued

(18) Financial assets continued

Other receivables

Other receivables are recognised on trade date, being the date on which the Group has the right to the asset. Other receivables are derecognised when the rights to receive cash flows from the other receivables have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures other receivable at their fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of other receivables depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The group classifies its other receivables at amortised cost.

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in Note 3.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Group applies the general approach to impairment under IFRS 9 based on significant increases in credit risk rather than the simplified approach for trade receivables using lifetime ECL.

(19) Trade and other payables

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

(20) Treasury

Cash and bank deposits

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. BACS and next day payments are recognised at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and bank overdrafts which form part of the group's cash management.

Financial liabilities and equity

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

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

Modification/Derecognition of financial liabilities

Financial liabilities are derecognised only when there is extinguishment of the original financial liability and recognition of a new financial liability. Equally, modification of the terms of existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability takes place.

Foreign currencies

Financial statements of foreign operations

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

Foreign currency transactions

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

1. Accounting policies continued

(21) Provisions

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

(22) Retirement benefit costs

Defined contribution schemes

The Group operates a number of defined contribution schemes for the benefit of its employees. Payments to the Group's schemes are recognised as an expense in the income statement as incurred.

Defined benefit scheme

Following the disposal of Tuffnells, the Group previously operated one defined benefit pension scheme, the news section of The WH Smith Pension Trust. On 3 December 2021, the Group received the sum of £8.1m in respect of the net cash surplus held by the Trustee following finalisation of the buy-out of the defined benefit liabilities in the News Section of the Trust. As agreed with the Trustee, the return of surplus preceded the formal winding up steps of the News Section of the Trust, the winding up of the News Section of the Trust being formally completed on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC. The IAS 19 pre-tax surplus of £14.8m has been recognised through other comprehensive income in the current financial period, after the Trustee confirmed its intention to return the surplus cash to the employer, giving the Company an unconditional right to the surplus.

Prior to the winding up of the News Section of the Trust, actuarial gains and losses were calculated by independent actuaries and recognised in full in the period in which they occur in the Group statement of comprehensive income. As at 28 August 2021, there were a small proportion of liabilities within the Trust relating to amounts owed to former members of the Trust. As these liabilities were not long term in nature, actuarial assumptions at 28 August 2021 were not required. The Group did not previously recognise any surplus unless there was an unconditional right to do so.

(23) Employee Benefit Trust

Smiths News Employee Benefit Trust

Where any Group company purchases the Company's shares, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity as 'own shares reserve' until those shares are either cancelled or reissued.

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

(24) Share schemes

Share-based payments

The Group operates several share-based payment schemes, being the Sharesave Scheme, the Executive Share Option Scheme, the LTIP and the Deferred Bonus Plan. Details of these are provided in the Directors' Remuneration report and in Note 28.

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

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

(25) Changes in accounting policies

The Group's accounting policy has been changed to recognise BACS and next day payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions. The comparative amounts have not been restated as the prior period is unaffected by this change in accounting policy.

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 29 August 2021:

- Proceeds before intended use – Amendments to IAS 16;
- Onerous contracts – Amendments to IAS 37;
- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS3;
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7;
- Revised Conceptual Framework for Financial Reporting;
- Annual Improvements to IFRS Standards 2018-2020 Cycle; and
- Where applicable, COVID-19-Related Rent Concessions – Amendments to IFRS.

None of the other amendments listed above did have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

1. Accounting policies continued

(25) Changes in accounting policies continued

New Standards and Interpretations not yet applied.

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

- Classification of Liabilities as Current or Non-current – Amendments to IAS 1;
- Definition of Accounting Estimates – Amendments to IAS 8;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

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

2. Segmental analysis

In accordance with IFRS 8 'Operating Segments', management has identified its operating segments based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable operating segment under IFRS 8, which is that of a 'UK market leading distributor of newspapers and magazines', referred to as 'Smiths News'. The performance of Smiths News is reviewed, on a monthly basis, by the Board. The Board primarily uses a measure of Adjusted operating profit before tax to assess its performance. The Board also receives information about the segments' revenue.

The Smiths News continuing operating 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.

The Company derives revenue from the transfer of goods and services in the following major product line and geographical regions:

	Revenue	
£m	2022	2021
Smiths News	1,089.3	1,109.6
Total revenue from contracts with customers	**1,089.3**	1,109.6

The Company's revenue by geographical location is UK 99.9% (2021: 99.9%) and Rest of World 0.1% (2021: 0.1%).

Information about major customers

Included in revenues arising from Smiths News are revenues of approximately £102.5m (2021: £121.9m) which arose from sales to the Group's largest customer. Three other customers contributed 13.3% or more of the Group's revenue in 2022 (2021: 6.0%).

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

3. Operating profit

The Group's results are analysed as follows:

£m	Note	2022 Adjusted	2022 Adjusted items	2022 Total	2021 Adjusted	2021 Adjusted items	2021 Total
Continuing operations							
Revenue		1,089.3	–	1,089.3	1,109.6	–	1,109.6
Cost of inventories recognised as an expense		(921.3)	–	(921.3)	(945.2)	–	(945.2)
Distribution costs		(95.3)	–	(95.3)	(91.0)	–	(91.0)
Cost of sales		(1,016.6)	–	(1,016.6)	(1,036.2)	–	(1,036.2)
Gross profit		72.7	–	72.7	73.4	–	73.4
Other administrative expenses		(23.3)	(2.5)	(25.8)	(22.1)	(1.9)	(24.0)
Share-based payment expense	28	(1.2)	–	(1.2)	(1.0)	–	(1.0)
Net impairment loss on trade receivables		–	(4.4)	(4.4)	–	–	–
Impairment reversal/(charge) of joint venture Investment		–	1.2	1.2	–	(1.6)	(1.6)
Impairment		–	–	–	(0.1)	–	(0.1)
Other income		0.1	–	0.1	–	–	–
Share of profits from joint ventures	13	0.3	–	0.3	0.1	(0.3)	(0.2)
EBITDA		48.6	(5.7)	42.9	50.3	(3.8)	46.5
Depreciation on property, plant & equipment	12	(2.3)	–	(2.3)	(2.4)	–	(2.4)
Depreciation on right use assets	19	(6.9)	–	(6.9)	(6.4)	–	(6.4)
Amortisation of intangibles	11	(1.3)	–	(1.3)	(1.9)	–	(1.9)
Operating profit		38.1	(5.7)	32.4	39.6	(3.8)	35.8

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

£m	Note	2022 Total	2021 Total
Depreciation on property, plant & equipment	12	2.3	2.4
Amortisation of intangible assets	11	1.3	1.9
Depreciation on right-of-use assets	19	6.9	6.4
Short-term and low value lease charges			
occupied land and buildings		–	0.1
equipment and vehicles		0.3	0.4
Lease rental income – land and buildings		(0.4)	(0.2)
(Loss)/gain on disposal of non-current assets		–	0.2
Staff costs (excluding share-based payments)	5	43.7	43.8

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

£m	2022	2021
Fees payable to the Company's auditor for the audit of the Company's annual accounts – BDO LLP	0.2	0.2
Fees payable to the Company's auditor for the audit of the Company's subsidiaries – BDO LLP	0.4	0.2
Total non-audit fees	0.1	0.1
Total fees	0.7	0.5

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

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

4. Adjusted items

£m		2022 Continuing	2022 Discontinued	2022 Total	2021 Continuing	2021 Discontinued	2021 Total
Transformation programme planning costs	(a)	**(0.9)**	**–**	**(0.9)**	(1.1)	–	(1.1)
Pension	(b)	**(1.8)**	**–**	**(1.8)**	(1.0)	–	(1.0)
Other		**–**	**–**	**–**	0.1	–	0.1
Network and re-organisation costs	(c)	**0.2**	**–**	**0.2**	0.1	–	0.1
Administrative expenses		**(2.5)**	**–**	**(2.5)**	(1.9)	–	(1.9)
Net impairment loss on trade receivables	(d)	**(4.4)**	**–**	**(4.4)**	–	–	–
Share of profits from joint ventures	(e)	**–**	**–**	**–**	(0.3)	–	(0.3)
Asset impairment reversal/(charge)	(f)	**1.2**	**–**	**1.2**	(1.6)	–	(1.6)
VAT refund	(g)	**–**	**–**	**–**	–	0.4	0.4
Review and sale of Tuffnells	(h)	**–**	**–**	**–**	–	(0.6)	(0.6)
Total before tax and interest		**(5.7)**	**–**	**(5.7)**	(3.8)	(0.2)	(4.0)
Finance income – unwind of deferred consideration	(i)	**2.5**	**–**	**2.5**	3.5	–	3.5
Total before tax		**(3.2)**	**–**	**(3.2)**	(0.3)	(0.2)	(0.5)
Taxation		**0.9**	**–**	**0.9**	0.3	0.1	0.4
Total after taxation from continuing operations		**(2.3)**	**–**	**(2.3)**	–	–	–
Total loss from discontinued operations		**–**	**–**	**–**	–	(0.1)	(0.1)
Total for the year from both continuing and discontinued operations		**(2.3)**	**–**	**(2.3)**	–	(0.1)	(0.1)

The Group incurred a total of £3.2m (2021: £0.5m) of Adjusted items before tax and after tax £2.3m (2021: £0.1m) respectively.

Adjusted items are defined in the accounting policies in Note 1 and in the glossary on page 176. The impact of removing these items from the adjusted profit provides a relevant analysis of the trading results of the Group because it is consistent with how the business performance is planned by, and reported to, the Board and Executive Team. However, these additional measures are not intended to be a substitute for, or superior to, IFRS measures. They comprise:

Continuing operations – Administrative expenses £2.5m (2021: £1.9m)

(a) Transformation programme planning costs: £0.9m (2021: £1.1m)

During the financial period, the Company incurred professional fees in relation to transformation programme planning projects. These projects were concluded in the current period.

These costs are reported as adjusting items on the basis that they are significant in nature and quantum and are considered to be non-underlying items.

The total impact on net cash inflow from operating activities was a £1.3m outflow (2021: £0.7m), see Note 24.

(b) Pensions: £1.8m (2021: £1.0m)

The Trust completed the wind up of the news section of the WH Smiths Pension Trust (the Company's defined benefit pension scheme), with a Deed of Termination signed by the Company and the Trustee on 25 February 2022.

As part of the wind up, £1.3m was paid to an escrow account in December 2021 for the Trustee to purchase indemnity insurance and to cover future claims from members owed amounts following the Lloyds ruling in November 2020. This amount has been accounted for as an adjusted item through the income statement.

The winding up of the News Section was formally completed on 25 February 2022 through the purchase of insurance run-off cover, plus other associated professional fees at a total cost of £0.6m. £0.3m of these costs was funded from the total pre-tax pension surplus received of £14.8m, see Note 6 for further details. A refund of £0.1m due to the Company in relation to the total amount previously held in escrow has been credited against these costs. In the prior period, the Company incurred £1.0m in pension administrative expenses and other professional fees as a result of the winding up process.

These costs are reported as adjusting items on the basis that they are significant in nature and quantum and are unrelated to the Group's ordinary activities.

The total impact on net cash inflow from operating activities was an £7.9m inflow (2021: £0.6m outflow). An £8.1m inflow was received from the return of the pension surplus, less a net £0.2m outflow in respect of the insurance run-off cover, see Note 24.

4. Adjusted items continued

Continuing operations – Administrative expenses £2.5m (2021: £1.9m) continued

(c) Network and re-organisation: £0.2m credit (2021: £0.1m credit)

The disposal of the Tuffnells business in 2020 and lockdowns associated with the COVID-19 pandemic led to the Company restructuring its support functions and a reorganisation provision was put in place. The Company released £0.2m of this provision in the current period (2021: £0.1m) and the release was reported as an adjusting item.

Continuing operations – Net impairment loss on trade receivables £4.4m (2021: £nil)

(d) Net impairment loss on trade receivables

On 9 May 2022 ("the administration date"), McColl's Retail Group went into administration. A statement of claim form was filed with the Administrators for an amount of £5.5m. The administrators issued notification on 27 May 2022 that they expected unsecured creditors to receive between 20-40% of approved claims. Management has not received any further information from the Administrators as at the balance sheet date and issuance of this report, and has therefore provided a best estimate that only 20% of the outstanding balance is recoverable. The Company has therefore recognised a net impairment loss of £4.4m, representing 80% of the total balance of £5.5m in the current financial period.

Simultaneously on the administration date, Wm Morrison Supermarkets Ltd ("Morrisons") agreed terms with the administrator to acquire McColl's in a pre-packaged insolvency agreement. The Company continues to trade with McColl's under the new ownership structure. The Company's bad debt exposure relates solely to the outstanding trade receivable balance as at the administration date.

This cost is reported as an adjusting item on the basis that they are significant in nature and quantum, are considered non-underlying items, outside the normal course of activity and aid comparability from one period to the next. The bad debt from McColl's has limited predictive value given the historic low level of bad debts incurred in the ordinary course of business.

Continuing operations – Share of profits from Joint Ventures £nil (2021: £0.3m)

(e) Share of profits from Joint Ventures: £nil (2021: £0.3m)

In the prior financial period, Rascal Solution Limited, one of the Group's joint ventures, has impaired an intangible asset. The Company's share of the impairment was £0.3m.

These costs are reported as adjusting items on the basis that they are significant to the investment in Rascal, and are considered non-underlying items, outside the normal course of activity and aid comparability from one period to the next regarding the performance of the joint venture.

Continuing operations – Asset impairments – impairment reversal £1.2m (2021: impairment loss £1.6m)

(f) Asset impairments: impairment reversal £1.2m (2021: impairment charge £1.6m)

During the period, the Company reviewed the business plan for the Rascal Joint Venture, and it was determined that the potential challenges anticipated to arise in the prior period have not materialised with the successful renewal of contracts previously considered to be at risk. The Company has therefore chosen to reverse the impairment previously booked by £1.2m. In the prior period, it was assessed that certain challenges may arise from increasing market competition, resulting in an impairment loss of £1.6m being recognised.

The Group considers the impact of the above to be adjusting given the impairment charges are significant in both quantum and nature to the results of the Group.

Total discontinued operations before tax and interest £nil (2021: £0.2m)

(g) VAT refund: £nil (2021: £0.4m credit)

During the prior period, the Company received a refund of VAT previously considered as non-recoverable on prior disposals of businesses previously owned by the Group.

This income was considered to be adjusting given its quantum and is unrelated to the Group's ordinary activities.

(h) Review and sale of Tuffnells: £nil (2021: £0.6m expense)

During the prior period, as part of the sale of Tuffnells in 2020, the Company assumed a liability to settle certain pre-disposal insurance and legal claims related to: employer's liability, public liability, motor accident claims and legal claims. In the prior period, £0.6m of costs were recognised due to clarification of the likely settlement costs of existing claims.

Continuing operations – Finance income £2.5m credit (2021: £3.5m credit)

(i) Finance Income – Deferred consideration £2.5m credit (2021: £3.5m credit)

During the year, £2.5m has been recognised in Finance income, £3.5m (2021: £3.5m) as the unwind of discount on the original total deferred consideration due of £15.0m. This is offset by the £1.0m agreed reduction in deferred consideration due, see Note 15 for further details. The deferred consideration relates to the disposal of Tuffnells that took place in 2020, and for that reason has been classified as adjusting because it does not relate to the Group's ordinary activities.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

5. Staff costs and employees

(a) Staff costs

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

£m	Note	2022	2021
Continuing			
Wages and salaries		**39.2**	39.2
Social security		**3.4**	3.4
Pension costs	6	**1.1**	1.2
Share-based payments expense		**1.2**	1.0
Total		**44.9**	44.8

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

(b) Employee numbers

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

Number	2022	2021
Continuing operations		
Operations	**1,425**	1,536
Support functions	**149**	154
Total	**1,574**	1,690

6. Retirement benefit obligation

Defined benefit pension schemes

During the current and prior period, the Group operated one defined benefit scheme, the news section of the WH Smith Pension Trust (the 'Pension Trust').

The amounts recognised in the balance sheet are as follows:

£m	2022	2021
Present value of defined benefit obligation	**(0.1)**	(0.1)
Fair value of assets	**14.9**	14.9
Net surplus	**14.8**	14.8
Amounts not recognised due to asset limit	**–**	(14.8)
Administrative expenses	**(1.6)**	–
Tax paid	**(5.1)**	–
Refund of surplus to Company	**(8.1)**	–
Pension liability	**–**	–

6. Retirement benefit obligation continued

Return of the surplus and formal winding up of the Pension Trust during the current period

The IAS 19 pre-tax surplus of £14.8m has been recognised through other comprehensive income in the current financial period after the Trustee confirmed its intention to return the surplus cash to the employer, giving the Company an unconditional right to the surplus. The asset was not previously recognised as the Company did not have an unconditional right to the surplus and, therefore, the net surplus in the scheme was restricted with an IFRIC 14 asset ceiling, which has now been reversed. On 3 December 2021, the Company received the sum of £8.1m in respect of the net cash surplus held by the Trustee following finalisation of the buy-out of the defined benefit liabilities in the News Section of the Trust. As agreed with the Trustee, the return of surplus preceded the formal winding up steps of the News Section, the winding up of the News Section being formally completed on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC. The pension surplus of £8.1m (net of tax and costs) received was recognised as cash on the balance sheet and, in accordance with the requirements of the banking agreement, this cash has been used to repay existing debt. The tax charge which represents 35% of the surplus (£5.1m) has been treated in accordance with the recognition of the surplus and recognised through other comprehensive income. The liability was extinguished in January 2022 when the Trustee paid the outstanding tax balance on behalf of the Company. The Company had agreed to deposit £1.3m of the pension surplus into an escrow account, to fund the insurance costs for the Trustee and the outstanding liability to former members in respect of the Lloyds GMP equalisation ruling in November 2020. The funds held in escrow are not considered an asset of the Company and are not recognised on the balance sheet. The cost of the insurances has been recognised through administration expenses in the income statement and treated as an Adjusted item. During the period, £0.3m of administration expenses were incurred by the Trustee to obtain legal and consulting advice before the surplus of £8.1m could be refunded. These administration costs have been recognised in the income statement as an Adjusted item.

Information relating to the prior period

Prior to the winding up of the scheme, the valuation of the defined benefit schemes for the IAS 19 (revised) disclosures were carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective scheme, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

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

% p.a.	2022	2021
Discount rate	N/a	1.95
Inflation assumptions – CPI	N/a	2.8
Inflation assumptions – RPI	N/a	3.4

Demographic assumptions for WH Smith Pension Trust:

	2022		2021	
Life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
Member currently aged 65	N/a	N/a	21.7	23.7
Member currently aged 45	N/a	N/a	22.8	24.9

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

6. Retirement benefit obligation continued

Inflation assumptions

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

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

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 29 August 2020	**496.4**	**(481.2)**	**(15.2)**	**–**
Net interest cost	4.4	(4.2)	(0.2)	–
Administration expenses	(0.4)	–	–	(0.4)
Total amount recognised in income statement	**4.0**	**(4.2)**	**(0.2)**	**(0.4)**
Actual return on scheme assets (excluding amounts included in net interest expense)	(8.7)	–	–	(8.7)
Actuarial gains arising from changes in financial assumptions	–	2.4	–	2.4
Actuarial gains arising from changes in demographic assumptions	–	6.1	–	6.1
Change in surplus not recognised	–	–	0.6	0.6
Amount recognised in other comprehensive income	**(8.7)**	**8.5**	**0.6**	**0.4**
Benefit payments	(14.5)	14.5	–	–
Amounts included in cash flow statement	**(14.5)**	**14.5**	**–**	**–**
Settlement	(462.3)	462.3	–	–
At 28 August 2021	**14.9**	**(0.1)**	**(14.8)**	**–**
Purchase of indemnity insurance	(1.3)	–	–	(1.3)
Other administration expenses	(0.3)	–	–	(0.3)
Total amount recognised in income statement	**(1.6)**	**–**	**–**	**(1.6)**
Change in surplus not previously recognised	(0.1)	0.1	14.8	14.8
Tax relating to the repayment of pension surpluses	–	–	(5.1)	(5.1)
Amount recognised in other comprehensive income	**(0.1)**	**0.1**	**9.7**	**9.7**
Tax paid	(5.1)	–	5.1	–
Refund of surplus to Company	(8.1)	–	–	(8.1)
Amounts included in cash flow statement	**(13.2)**	**–**	**5.1**	**(8.1)**
At 28 August 2022	**–**	**–**	**–**	**–**

Included within Current liabilities	–

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

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

£m		2022	2021
Gilts and swaps portfolio	Quoted and Unquoted	**N/a**	11.4
Corporate bonds	Quoted and Unquoted	**N/a**	–
Equity funds	Unquoted	**N/a**	–
Insurance policy	Unquoted	**N/a**	–
Cash and other	Unquoted	**N/a**	3.5
		N/a	14.9

6. Retirement benefit obligation continued

Inflation assumptions continued

The return on scheme assets during 2022 was a loss of £0.4m (2021: £8.7m).

The value of the assets held by the Trust in Smiths News Plc (formerly Connect Group PLC) issued financial instruments is £nil (2021: £nil).

The Company has agreed run-off indemnity coverage for any member claims that are uninsured liabilities capped at £6.5m over the next 60 years.

Defined contribution schemes

The Group operates two defined contribution schemes. For the 52 weeks ended 27 August 2022, contributions from the respective employing company for continuing operations totalled £1.1m (2021: £1.1m) which is included in the Income Statement.

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

7. Finance costs

£m	Note	2022	2021
Continuing operations			
Interest on bank overdrafts and loans		**(3.5)**	(5.0)
Amortisation of loan arrangement fees		**(1.7)**	(2.0)
Interest payable on leases		**(1.6)**	(1.6)
Total interest cost on financial liabilities at amortised cost		**(6.8)**	(8.6)
Unwinding of discount on provisions – trading	21	**(0.2)**	(0.2)
Finance costs – continuing operations		**(7.0)**	(8.8)
Interest income on loans and deferred consideration		**2.5**	3.6
Net Finance costs – continuing operations		**(4.5)**	(5.2)
Interest payable on leases		**–**	–
Unwinding of discount on provisions – trading	21	**–**	–
Net Finance costs – discontinued operations		**–**	–
Net Finance costs – continuing and discontinued operations		**(4.5)**	(5.2)

8. Income tax expense

	2022			2021		
£m	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Continuing operations						
Current tax	**5.7**	**(0.9)**	**4.8**	6.3	(0.3)	6.0
Adjustment in respect of prior year	**(0.8)**	**–**	**(0.8)**	(0.9)	–	(0.9)
Total current tax charge/(credit)	**4.9**	**(0.9)**	**4.0**	5.4	(0.3)	5.1
Deferred tax – current year	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
Deferred tax – prior year	**0.6**	**–**	**0.6**	(0.1)	–	(0.1)
Deferred tax – impact of rate change	**0.2**	**–**	**0.2**	(0.3)	–	(0.3)
Total tax charge/(credit) – continuing operations	**5.4**	**(0.9)**	**4.5**	4.6	(0.3)	4.3
Effective tax rate	***17.4%***		***16.1%***	*14.9%*		*14.1%*
Tax (credit)/charge – discontinued operations	**–**	**–**	**–**	–	(0.1)	(0.1)
Tax charge/(credit) – continuing and discontinued operations	**5.4**	**(0.9)**	**4.5**	4.6	(0.4)	4.2

The effective adjusted income tax rate for continuing operations in the year was 17.4% (2021: 14.9%). After the impact of Adjusted items of £0.9m (2021: £0.3m), the effective statutory income tax rate for continuing operations was 16.1% (2021: 14.1%).

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

8. Income tax expense continued

Corporation tax is calculated at the main rates of UK corporation tax, those being 19.0% (2021: 19.0%). The UK Finance Act 2021 has been substantively enacted, increasing the corporate tax rate to 25%, effective from 1 April 2023. Since this change has been substantively enacted, the Group has assessed its deferred tax positions using the higher enacted rate of 25%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the profit in the income statement as follows:

£m	2022	2021
Continuing Profit before tax	**27.9**	30.6
Tax on profit at the standard rate of UK corporation tax 19.0% (2021: 19.0%)	**5.3**	5.9
Income not subject to tax	**(1.0)**	(0.7)
Expenses not deductible for tax purposes	**0.2**	0.4
Adjustment in respect of prior years	**(0.2)**	(1.0)
Impact of change in UK tax rate	**0.2**	(0.3)
Tax charge	**4.5**	4.3

Income not subject to tax comprised mainly of the tax effect of the Tuffnells discount unwind.

Amounts recognised directly in equity

£m	2022	2021
Aggregate current tax and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly (charged)/credited to equity:		
Current tax: share-based payments	**(0.1)**	–
Deferred tax assets: share-based payments	**(0.2)**	0.2

9. Dividends

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

	2022 Per share	2021 Per share	2022 £m	2021 £m
Paid & proposed dividends for the year				
Interim dividend – paid	**1.40p**	0.50p	**3.3**	1.2
Final dividend – proposed	**2.75p**	1.15p	**6.7**	2.4
	4.15p	1.65p	**10.0**	3.6
Recognised dividends for the year				
Final dividend – prior year	**1.15p**	–	**2.8**	–
Interim dividend – current year	**1.40p**	0.50p	**3.3**	1.2
	2.55p	0.50p	**6.1**	1.2

A final 2.75p dividend per share is proposed for the 52 weeks ended 27 August 2022 (2021: 1.15p), which is expected to be paid on 9 February 2023 to all shareholders who are on the register of members at close of business on 13 January 2023. The ex-dividend date will be 12 January 2023.

10. Earnings per share

	2022			2021		
	Earnings £m	Weighted average number of shares Million	Pence per share	Earnings £m	Weighted average number of shares Million	Pence per share
Weighted average number of shares in issue		247.7			247.7	
Shares held by the ESOP (weighted)		(9.2)			(4.2)	
Basic earnings per share (EPS)						
Continuing operations						
Adjusted earnings attributable to ordinary shareholders	25.7	238.5	10.8	26.3	243.5	10.8
Adjusted items	(2.3)	–	–	–	–	–
Earnings attributable to ordinary shareholders	23.4	238.5	9.8	26.3	243.5	10.8
Discontinued operations						
Adjusted profit/(loss) attributable to ordinary shareholders	–	–	–	–	243.5	–
Adjusted items	–	–	–	(0.1)	–	–
Loss/(profit) attributable to ordinary shareholders	–	–	–	(0.1)	243.5	–
Total – Continuing and discontinued operations						
Adjusted earnings attributable to ordinary shareholders	25.7	238.5	10.8	26.3	243.5	10.8
Adjusted items	(2.3)	–	–	(0.1)	–	–
Earnings attributable to ordinary shareholders	23.4	238.5	9.8	26.2	243.5	10.8
Diluted earnings per share (EPS)						
Effect of dilutive share options – continuing operations		13.5			13.5	
Effect of dilutive share options – adjusting continuing		13.5			13.5	
Effect of dilutive share options – discontinued operations		–			–	
Effect of dilutive share options – total		13.5			13.5	
Continuing operations						
Diluted adjusted EPS	25.7	252.0	10.2	26.3	257.0	10.2
Diluted EPS	23.4	252.0	9.3	26.3	257.0	10.2
Discontinued operations – Diluted EPS						
Diluted adjusted EPS	–	–	–	–	257.0	–
Diluted EPS	–	–	–	(0.1)	257.0	–
Total – Continuing and discontinued operations						
Diluted adjusted EPS*	25.7	252.0	10.2	26.3	257.0	10.2
Diluted EPS*	23.4	252.0	9.3	26.2	257.0	10.2

* The prior period number of dilutive share options was amended from 11.3m to 13.5m. The effect of which decreased both the diluted adjusted EPS and diluted EPS from 10.3p to 10.2p.

Dilutive shares increase the basic number of shares at 27 August 2022 by 13.5m to 252m (28 August 2021: 257.0m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 13.5m dilutive shares (28 August 2021: 13.5m).

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

11. Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost:							
At 29 August 2021	5.7	2.4	0.2	–	2.7	7.2	18.2
Additions	–	–	–	–	0.5	0.2	0.7
Disposal	–	–	–	–	–	–	–
At 27 August 2022	**5.7**	**2.4**	**0.2**	**–**	**3.2**	**7.4**	**18.9**
Accumulated amortisation and impairment:							
At 29 August 2021	(5.7)	(2.4)	(0.2)	–	(1.8)	(5.8)	(15.9)
Amortisation charge	–	–	–	–	(0.3)	(1.0)	(1.3)
Disposals	–	–	–	–	–	–	–
At 27 August 2022	**(5.7)**	**(2.4)**	**(0.2)**	**–**	**(2.1)**	**(6.8)**	**(17.2)**
Net book value at 27 August 2022	**–**	**–**	**–**	**–**	**1.1**	**0.6**	**1.7**
Cost:							
At 30 August 2020	5.7	2.4	0.2	–	2.9	7.5	18.7
Additions	–	–	–	–	0.4	–	0.4
Disposals	–	–	–	–	(0.6)	(0.3)	(0.9)
At 28 August 2021	**5.7**	**2.4**	**0.2**	**–**	**2.7**	**7.2**	**18.2**
Accumulated amortisation and impairment:							
At 30 August 2020	(5.7)	(2.4)	(0.2)	–	(1.9)	(4.5)	(14.7)
Amortisation charge	–	–	–	–	(0.4)	(1.5)	(1.9)
Disposals	–	–	–	–	0.5	0.2	0.7
At 28 August 2021	**(5.7)**	**(2.4)**	**(0.2)**	**–**	**(1.8)**	**(5.8)**	**(15.9)**
Net book value at 28 August 2021	**–**	**–**	**–**	**–**	**0.9**	**1.4**	**2.3**

Impairment tests goodwill

Goodwill is not amortised but has been tested annually for impairment. As a result of these reviews, goodwill is fully impaired at the end of FY2022 and FY2021.

12. Property, plant and equipment

£m	Land and Buildings: Long-term leasehold improvements	Land and Buildings: Short-term leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost:					
At 29 August 2021	0.2	10.2	2.9	22.1	35.4
Additions	–	0.3	0.1	1.2	1.6
Disposals	–	–	–	(0.3)	(0.3)
At 27 August 2022	**0.2**	**10.5**	**3.0**	**23.0**	**36.7**
Accumulated depreciation:					
At 29 August 2021	(0.2)	(8.2)	(1.6)	(16.0)	(26.0)
Depreciation charge	–	(0.5)	(0.2)	(1.6)	(2.3)
Disposals	–	–	–	0.2	0.2
At 27 August 2022	**(0.2)**	**(8.7)**	**(1.8)**	**(17.4)**	**(28.1)**
Net book value at 27 August 2022	**–**	**1.8**	**1.2**	**5.6**	**8.6**
Cost:					
At 30 August 2020	0.2	10.1	2.7	22.4	35.4
Additions		0.6	0.4	1.8	2.8
Disposals	–	(0.5)	(0.2)	(2.1)	(2.8)
At 28 August 2021	**0.2**	**10.2**	**2.9**	**22.1**	**35.4**
Accumulated depreciation:					
At 30 August 2020	(0.2)	(8.2)	(1.7)	(15.9)	(26.0)
Depreciation charge	–	(0.5)	(0.2)	(1.7)	(2.4)
Disposals	–	0.5	0.3	1.6	2.4
At 28 August 2021	(0.2)	(8.2)	(1.6)	(16.0)	(26.0)
Net book value at 28 August 2021	**–**	**2.0**	**1.3**	**6.1**	**9.4**

13. Interests in joint ventures

£m	2022	2021
At 29/30 August	**2.9**	4.9
Share of profit/(loss)	**0.3**	(0.2)
Impairments reversal/(charge)	**1.2**	(1.6)
Dividends received	**(0.2)**	(0.2)
At 27/28 August	**4.2**	2.9

The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the Group.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

13. Interests in joint ventures continued

Nature of investments in joint ventures

Company name/(number)	Share Class	Group %	Registered address	Measurement method
Fresh On The Go Limited 08775703	Ordinary Shares	30%	61 Bridge Street, Kington, HR5 3DJ	Equity method
Bluebox Systems Group Limited SC544863	Ordinary A Shares	36.1%	Estantia House, Pitreavie Drive, Pitreavie Business Park, Dunfermline, Fife KY11 8US	Equity method
Rascal Solutions Limited 05191277	Ordinary A Shares	50%	Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF	Equity method

The Group owns 50% of the ordinary shares of Rascal Solutions Limited, a company incorporated in England, which in turn owns 100% of the Ordinary shares of Open-Projects Limited. The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2022. Rascal Solutions Limited provides retail support services and is a strategic partnership for the Group to provide additional services to its existing customers.

Bluebox Systems Group Limited is the holding company of Bluebox Aviation Systems Ltd, the principal activity of which is the sale of innovative in-flight entertainment systems. This business is a strategic partnership with DMD which also provides inflight media to the aviation industry.

Fresh On The Go Limited provides retail outlets with coffee vending and other related products.

All joint ventures are private companies and there is no quoted market price available for their shares.

The Group has no commitments relating to its joint ventures

The results, assets and liabilities of joint ventures are as follows:

	2022			2021		
£m	Rascal Solutions Limited	Other	Total	Rascal Solutions Limited	Other	Total
Revenue	6.0	2.8	8.8	5.7	1.3	7.0
Depreciation	–	–	–	(1.6)	(0.1)	(1.7)
Tax	(0.2)	0.3	0.1	0.1	–	0.1
Profit/(loss) after tax	0.6	(0.8)	(0.2)	(0.1)	(0.6)	(0.7)
Non-current assets	2.2	–	2.2	2.3	0.6	2.9
Current assets	1.5	1.6	3.1	1.7	1.5	3.2
Cash	1.6	0.7	2.3	1.0	0.3	1.3
Total assets	5.3	2.3	7.6	5.0	2.4	7.4
Current liabilities	(1.7)	(1.6)	(3.3)	(1.6)	(0.9)	(2.5)
Non-current liabilities	–	(1.4)	(1.4)	–	(1.3)	(1.3)
Total liabilities	(1.7)	(3.0)	(4.7)	(1.6)	(2.2)	(3.8)
Net assets/(liabilities)	3.6	(0.7)	2.9	3.4	0.2	3.6
Share of net assets	1.8	–	1.8	1.7	–	1.7
Goodwill*	2.4	–	2.4	1.2	–	1.2
Share of net assets and Goodwill	4.2	–	4.2	2.9	–	2.9

* Goodwill represents the difference between the fair value of the share of the net assets acquired and the amount paid, and forms part of the investment in the joint venture.

Dividends of £0.2m (2021: £0.2m) were received in the 52 weeks to 27 August 2022 from joint ventures.

13. Interests in joint ventures continued

Rascal Solutions Limited investment

During the period Rascal Solutions Limited (Rascal) recorded a profit of £0.6m (FY2021: loss of £0.1m). The prior year result includes the full impairment (£0.6m) of a software development intangible fixed asset which was found to no longer be of economic value to Rascal. The Company's share of this impairment was 50% (£0.3m) and was reported as an adjusting item in income from joint ventures.

During the period, the Company reviewed the business plan for the Rascal joint venture, and it was determined that the potential challenges anticipated to arise in the prior period, have not materialised with the successful renewal of contracts previously considered to be at risk. The Company has therefore chosen to reverse the impairment previously booked by £1.2m. In the prior period, it was assessed that certain challenges may arise from increasing market competition, resulting in an impairment loss of £1.6m being recognised. The current period impairment review was performed, resulting in a value in use of £4.2m being calculated based on future cash flows of the Rascal business. These cash flows were discounted at a post-tax discount rate of 13.0% (pre-tax discount rate of 15.2%) (2021: 15.4% post-tax discount rate and pre-tax discount rate of 18.5%) and a terminal growth rate applied of 0% (2021: 0%). The result was a reversal of the previous impairment loss recognised by £1.2m (2021: £1.6m impairment loss).

Sensitivities to assumptions

If the post-tax discount rate had been increased by 1.0%, the impairment reversal would have reduced by £0.3m and if the post-tax discount rate had been reduced by 1.0%, the impairment reversal would have increased by £0.4m.

14. Inventories

£m	2022	2021
Goods held for resale	**15.5**	13.1
Raw materials and consumables	**0.1**	0.1
Inventories	**15.6**	13.2

15. Trade and other receivables

£m	2022	2021
Trade receivables	**69.0**	65.8
Specific provision for doubtful debts[1]	**(4.4)**	–
Provision for expected credit losses	**(0.1)**	(0.1)
	64.5	65.7
Other debtors	**28.6**	29.1
Deferred consideration[2]	**–**	9.2
Prepayments	**1.0**	1.2
Accrued income	**1.6**	1.4
Trade and other receivables	**95.7**	106.6

1. Net impairment loss on trade receivables – McColls Retail Group

During the period, the Company received notice that McColl's Retail Group went into administration. A statement of claim was filed with the Administrators for an amount of £5.5m. The administrators issued notification on 27 May 2022 that they expected unsecured creditors to receive between 20-40% of approved claims. Management has not received any further information from the Administrators as at the balance sheet date and issuance of this report, and has therefore provided a best estimate that only 20% of the outstanding balance is recoverable. The Company has therefore recognised a net impairment loss of £4.4m, representing 80% of the total balance of £5.5m in the current financial period. For more information, see Note 4.

The net impairment loss of £4.4m has been allocated to both the 61-91 days overdue and 91-120 days overdue ageing buckets, matching the ageing profile of the £5.5m total receivable due. £1.4m of the total impairment loss of £4.4m has been allocated to the 61-90 days overdue ageing bucket and £3.0m to the 91-120 days overdue ageing bucket.

If the Company had considered 40% of the total balance of £5.5m to be recoverable in line with the upper range of the administrators estimate, the provision recognised would have been £3.3m, £1.0m allocated to the 61-90 days overdue ageing bucket and £2.3m to the 91-120 days overdue ageing bucket.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

15. Trade and other receivables continued

Trade receivables

The average credit period taken on sale is 23 days (2021: 22 days). Trade receivables are generally non-interest bearing.

The following table provides information about the Group's exposure to credit risk and ECLs against customer balances as at 27 August 2022 under IFRS 9:

	2022				2021		
£m	Gross carrying amount	Specific provision for doubtful debts	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Current (not overdue)	63.0	–	(0.1)	62.9	63.9	(0.1)	63.8
30-60 days overdue	0.2	–	–	0.2	1.9	–	1.9
61-90 days overdue	2.0	(1.4)	–	0.6	–	–	–
91-120 days overdue	3.8	(3.0)	–	0.8	–	–	–
Over 120 days overdue	–	–	–	–	–	–	–
	69.0	(4.4)	(0.1)	64.5	65.8	(0.1)	65.7

The following table provides information about the Group's loss rates applied against customer balances as at 27 August 2022 under IFRS 9:

%	2022	2021
Current (not overdue)	0.1	0.1
30-60 days overdue	–	–
61-90 days overdue	1.2	0.9
91-120 days overdue	0.1	11.4
Over 120 days overdue	0.1	15.5

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

- Two customers (2021: one) had individual balances that represented more than 10% of the total trade receivables balance. The total of these was £16.9m (2021: £9.7m); and
- A further three customers (2021: five) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £15.6m (2021: £24.2m).

Movement in the allowance for doubtful debts:

£m	2022	2021
At 29/30 August	0.1	0.4
Impairment losses recognised	4.4	(0.2)
Amounts written off as uncollectible	–	0.1
Amounts recovered during the year	–	(0.2)
Disposal of business	–	–
At 27/28 August	4.5	0.1

The directors consider that the carrying amount of trade and other receivables approximates their fair value which is considered to be a level 2 methodology of valuing them. The inputs used to measure fair value are categorised into different levels of the fair value hierarchy (levels 1 to 3). The fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

Default occurs when the debt becomes overdue by 90 days.

The Group performed sensitivity analysis on the expected credit loss (excluding the McColls Retail Group net impairment loss) and should the default rate change from expected.

- An increase in default rate by 2% would increase the expected credit loss by £1.2m; and
- A decrease in default rate by 2% would result in no credit losses.
- An increase in default rate by 5% would increase the expected credit loss by £3.1m; and
- A decrease in default rate would result in no credit losses.

15. Trade and other receivables continued

Other debtors and prepayments

The largest items included within this balance are returns reserve asset of £18.3m (2021: £18.5m) (refer to Note 1 Accounting Policies, section 7) and £7.9m (2021: £6.5m) of publisher debtors.

Non-Current – other receivables

£m	2022	2020
Deferred consideration[2]	–	2.3
Loans receivable	–	–
	–	2.3

2. Tuffnells Deferred Consideration

Previously included within other receivables were deferred consideration amounts relating to the disposal of the Tuffnells business unit on 2 May 2020.

The original unsecured consideration payable by Tuffnells Holdings Limited to the Group was £15.0m, 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 first tranche of the unsecured consideration (£6.5m) was paid on 2 November 2021. Following this payment, Tuffnells Holdings Limited (formerly Palm Bidco Limited ("THL")) approached the Company regarding the outstanding deferred consideration due of £8.5m. Mindful of the current macro-economic climate and to extinguish any further liability or outstanding arrangements with THL, the Board agreed revised terms such that the Company would accept £7.5m in full and final settlement of the outstanding deferred consideration due. This amount was received in full during the current financial period. Previously, the Company had discounted the total consideration due at 30% and recognised £7.1m on Completion. At 28 August 2021, the Company recognised total discounted deferred consideration of £11.5m (£2.3m non-current and £9.2m current). On settlement of the outstanding deferred consideration, £2.5m has been recognised in adjusted items, representing the effect of unwinding the total discount of £3.5m, less the £1.0m agreed reduction in settlement of the remaining deferred consideration. See Note 4 for further details.

16. Trade and other payables

£m	2022	2021
Trade payables	(98.6)	(94.9)
Other creditors	(35.1)	(33.8)
Accruals	(6.5)	(7.4)
Deferred income	(0.1)	(0.4)
	(140.3)	(136.5)

Included within other creditors is a balance of £21.6m (2021: £21.7m), relating to the returns reserve accrual. (Refer to Note 1 Accounting Policies, section 7).

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2021: 27 days). No interest is charged on trade payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value using a level 2 valuation.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

17. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2022	2021
Cash and bank deposits	34.1	0.6	0.4	0.2	**35.3**	19.7
Overdrafts – included in cash and cash equivalents	–	–	–	–	**–**	(0.4)
Net Cash and cash equivalents	34.1	0.6	0.4	0.2	**35.3**	19.3
Overdrafts – included in borrowings	–	–	–	–	**–**	–
Revolving credit facility – disclosed within current liabilities	–	–	–	–	**–**	–
Term loan – disclosed within current liabilities	(8.0)	–	–	–	**(8.0)**	(21.2)
Term loan – disclosed within non-current liabilities	(41.5)	–	–	–	**(41.5)**	(51.3)
Unamortised arrangement fees – disclosed within non-current liabilities	2.4	–	–	–	**2.4**	1.2
Total borrowings	(47.1)	–	–	–	**(47.1)**	(71.3)
Net borrowings	(13.0)	0.6	0.4	0.2	**(11.8)**	(52.0)
Total borrowings						
Amount due for settlement within 12 months	(8)	–	–	–	**(8)**	(21.2)
Amount due for settlement after 12 months	(39.1)	–	–	–	**(39.1)**	(50.1)
	(47.1)	–	–	–	**(47.1)**	(71.3)

Cash and bank deposits comprise cash held by the Company 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 December 2021, an agreement was signed to extend and amend the existing financing arrangements. The original facility which was due to expire in November 2023 has been extended to August 2025. The new facility comprises an initial £60 million amortising term loan ('Facility A') and a £30 million revolving credit facility ('RCF'). Facility A is also repayable from any proceeds received from the deferred consideration as part of the sale of Tuffnells, and any disposal proceeds. The agreement is with a syndicate of banks, comprising lenders HSBC, Barclays, Santander and Clydesdale Banks. The final maturity date of the facility is 31 August 2025.

The terms of the facility agreement include: agreed repayments against Facility A arising from funds received in relation to deferred consideration received following the sale of Tuffnells and any disposal proceeds, plus £8m in FY2023, and then £10m in FY2024 and FY2025 respectively for the repayment of Facility A and a final bullet payment; and capped dividend payments of up to £10m in respect of any financial year. At the year end, the Term Loan had reduced to £49.5m. The RCF, which remained £30m at year end, will reduce by £5m in November 2022 and then by £2.5m every six months from February 2023 onwards. As part of the terms of the financing, the Company and its principal trading subsidiaries have agreed to provide security over their assets to the lenders.

The current rate on the facility is 4.00% per annum over SONIA (in respect of Facility A and the RCF).

At 27 August 2022, the Company had £30.0m (28 August 2021: £40.0m) of undrawn committed borrowing and cash facilities in respect of which all conditions precedent had been met.

Reconciliation of liabilities arising from financing activities

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

£m	Note	29 August 2021	Financing cash flows	New leases	Disposals	Other changes	27 August 2022
Term Loan	18	71.3	(29.4)	–	–	5.2	47.1
Revolving credit facility	18	–	–	–	–	–	–
Overdrafts	18	0.4	(0.4)	–	–	–	–
Leases		29.2	(8.0)	5.4	(0.6)	1.6	27.6
Total		**100.9**	**(37.8)**	**5.4**	**(0.6)**	**6.8**	**74.7**

17. Cash and borrowings continued

Reconciliation of liabilities arising from financing activities continued

£m	Note	29 August 2020	Financing cash flows	New leases	Disposals	Other changes	28 August 2021
Term loan*	18	49.8	21.5	–	–	–	71.3
Revolving credit facility	18	39.0	(39.0)	–	–	–	–
Overdrafts	18	41.3	(40.9)	–	–	–	0.4
Leases		33.4	(5.9)	–	–	1.7	29.2
Total		**163.5**	**(64.3)**	**–**	**–**	**1.7**	**100.9**

* The opening term loan liabilities have been amended to include the associated loan arrangement fees.

Other changes include interest accruals, payments.

Analysis of net debt

£m	Note	2022	2021
Cash and cash equivalents	18	**35.3**	19.3
Current borrowings	18	**(8.0)**	(21.2)
Non-current borrowings	18	**(39.1)**	(50.1)
Net borrowings		**(11.8)**	(52.0)
Lease liabilities	20	**(27.6)**	(29.2)
Net debt		**(39.4)**	(81.2)

18. Financial instruments

Treasury policy

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

Capital risk management

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

The only externally imposed capital requirements for the Group are debt to EBITDA, fixed charge cover and interest cover under the terms of the bank facilities. The Group has fully complied during both the current year and the prior year. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders and/or issue new shares. There is a future cap on dividends of £10.0m under the new banking facility, this is also subject to all the covenants.

The Board regularly reviews the capital structure. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. We expect free cash from operations to be sufficient to reduce net debt while also maintaining an attractive total shareholder return. The Group is targeting a reduced net debt/EBITDA (ex. IFRS 16) ratio of 1 x by 2023, with repayment achieved through surplus free cash from operations. The Group's facilities include a frozen GAAP clause in relation to IAS17 and the net debt/EBITDA is stated on this basis.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

18. Financial instruments continued

Liquidity risk

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

As at 27 August 2022, the Group had £79.5m committed bank facilities in place (2021: £112.5m). Bank facilities comprised:

- £49.5 million amortising term loan (Facility A); and
- £30 million revolving credit facility (RCF)

which together expire in August 2025.

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

- Leverage cover – the net debt: adjusted EBITDA ratio which must remain below 2.00x, reducing 0.25x annually to 1.5x at 24 February 2024. At 27 August 2022, the ratio was 0.3x (2021: 1.2x);
- Interest cover – the consolidated net interest: adjusted EBITDA ratio which must remain above 4.0x. As at 27 August 2022, the ratio was 12.0x (2021: 8.5x);
- Fixed charge cover – the ratio of adjusted EBITDA to consolidated fixed charges is not less than 1.75x to 1. As at 27 August 2022, the ratio was 4.3x (2021: 4.0x); and
- Guarantor cover – The annual turnover, gross assets and pre-tax profits of the Guarantors contribute at any time 80% or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidiaries of the Smiths News plc (formerly Connect Group PLC), are each of Smiths News plc, Smiths News Holdings Limited, and Smiths News Trading Limited.

At 27 August 2022, the Group had available £27.7m (2021: £35.1m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

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

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle at Smiths News that results in significant predictable swings within each month of around £40.0m, the Group's average gross borrowings for the past year was £62.3m (2021: £94.5m). The Group has utilised the Revolving Credit Facility of £30.0m for this.

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

£m	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 27 August 2022				
Non derivative financial liabilities				
Bank and other borrowings	(8.0)	(10.0)	(10.0)	(21.5)
Trade and other payables	(140.3)	–	–	–
Leases	(7.3)	(5.8)	(4.8)	(14.5)
Total	**(155.6)**	**(15.8)**	**(14.8)**	**(36.0)**
At 28 August 2021				
Non derivative financial liabilities				
Bank and other borrowings	(21.3)	(23.5)	(27.8)	–
Trade and other payables	(136.5)	–	–	–
Leases	(5.9)	(5.7)	(4.4)	(13.1)
Total	**(163.7)**	**(29.2)**	**(32.2)**	**(13.1)**

18. Financial instruments continued

Counterparty risk

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

Foreign currency risk

- The majority of the Group's transactions are carried out in the functional currencies of its operations, and so transactional exposure is limited.
- The majority of the Group's net liabilities are held in Sterling, with only £0.6m (2021: £0.7m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries profits and net assets into sterling for financial reporting purposes, and is not seen as significant.
- Note 17 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

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

Interest rate sensitivity analysis

Based on the assumption that the liabilities outstanding at the balance sheet date were outstanding for the whole year, if interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit and equity for the 52 weeks ending 27 August 2022 would decrease/increase by £0.2m (2021: £0.4m).

Credit risk

The Group considers its exposure to credit risk at 27 August 2022 to be as follows:

£m	2022	2021
Bank deposits	35.3	19.3
Deferred consideration	–	11.5
Trade and other receivables	93.1	94.8
	128.4	125.6

Further detail on the Group's policy relating to trade receivables and other receivables can be found in Note 15.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

19. Leases

Amounts recognised in the Right-of-use assets

The balance sheet shows the following amounts relating to leases:

£m	Equipment and vehicles	Land and buildings	Total
Cost:			
At 29 August 2021	1.6	38.6	40.2
Additions	0.1	5.3	5.4
Disposals	–	(1.8)	(1.8)
At 27 August 2022	**1.7**	**42.1**	**43.8**
Accumulated depreciation:			
At 29 August 2021	(0.6)	(11.2)	(11.8)
Depreciation charge	(0.4)	(6.5)	(6.9)
Disposals	–	1.2	1.2
At 27 August 2022	**(1.0)**	**(16.5)**	**(17.5)**
Net book value at 27 August 2022	**0.7**	**25.6**	**26.3**
Cost:			
At 30 August 2020	1.8	36.9	38.7
Additions	–	2.8	2.8
Disposals	(0.2)	(1.1)	(1.3)
At 28 August 2021	**1.6**	**38.6**	**40.2**
Accumulated depreciation:			
At 30 August 2020	(0.4)	(5.5)	(5.9)
Depreciation charge	(0.4)	(6.0)	(6.4)
Disposals	0.2	0.3	0.5
At 28 August 2021	**(0.6)**	**(11.2)**	**(11.8)**
Net book value at 28 August 2021	**1.0**	**27.4**	**28.4**

Lease commitments

The company have the following lease commitments:

	2022	2021
Due within one year	**5.9**	5.9
Due in more than one year, but no more than five years	**15.2**	16.6
Due in more than five years	**6.5**	6.7
Total lease commitments	**27.6**	29.2

Amounts recognised in the income statement

£m	2022	2021
Continuing operations		
Interest expense (included in finance cost)	**1.6**	1.6
Expense relating to low value leases (included in cost of sales and administrative expenses)	**0.3**	(0.1)
Property rental income	**(0.4)**	0.3
Total cash outflow from leases	**6.6**	6.2

£m	2022	2021
Lease Liabilities		
Current	**(5.9)**	(5.9)
Non-current	**(21.7)**	(23.3)
Total	**(27.6)**	(29.2)

20. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Fixed assets	Share-based payments	Retirement benefits	Total
At 30 August 2021	1.4	0.4	–	1.8
(Charge)/credit to income	(0.8)	0.3	–	(0.5)
Charge to equity	–	(0.2)	–	(0.2)
At 27 August 2022	**0.6**	**0.5**	**–**	**1.1**
Deferred tax assets	0.6	0.5	–	1.1
Deferred tax liabilities	–	–	–	–
At 29 August 2020	0.7	0.1	–	0.8
Credit to income	0.7	0.1	–	0.8
Credit to other comprehensive income	–	0.2	–	0.2
At 28 August 2021	**1.4**	**0.4**	**–**	**1.8**
Deferred tax assets	1.4	0.4	–	1.8
Deferred tax liabilities	–	–	–	–

The deferred tax assets have been deemed recoverable as the Group forecasts that it will continue to make profits against which the assets can be utilised for tax purposes.

The Group has capital losses carried forward of £20.2m (2021: £20.2m). Deferred tax assets of £5.1m (2021: £3.8m) have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

The UK Finance Act 2021 has been substantively enacted, increasing the corporate tax rate to 25% effective from 1 April 2023.

The deferred tax asset at the period end has been calculated based on the rate of 25%, substantively enacted at the balance sheet date on the basis that the temporary differences are expected to unwind when that rate applies.

21. Provisions

£m	Provision for onerous contracts and other provisions	Re-organisation provisions	Insurance and legal provision	Property provisions	Total
At 29 August 2021	**(0.7)**	**(0.8)**	**(1.3)**	**(3.8)**	**(6.6)**
Charged to income statement	–	(0.1)	–	(1.0)	(1.1)
Credited to income statement	0.2	–	0.2	–	0.4
Utilised in period	–	–	0.5	0.6	1.1
Unwinding of discount utilisation	–	–	–	(0.2)	(0.2)
At 27 August 2022	**(0.5)**	**(0.9)**	**(0.6)**	**(4.4)**	**(6.4)**
At 30 August 2020	**(0.9)**	**(2.7)**	**(1.8)**	**(3.9)**	**(9.3)**
Charged to income statement	–	(0.5)	(0.6)	(0.2)	(1.3)
Credited to income statement	–	0.3	–	–	0.3
Utilised in period	0.2	2.1	1.1	0.5	3.9
Unwinding of discount utilisation	–	–	–	(0.2)	(0.2)
At 28 August 2021	**(0.7)**	**(0.8)**	**(1.3)**	**(3.8)**	**(6.6)**

£m	2022	2021
Included within current liabilities	**(3.0)**	(3.6)
Included within non-current liabilities	**(3.4)**	(3.0)
Total	**(6.4)**	(6.6)

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

21. Provisions continued

Included within non-current liabilities is £3.4m (2021: £3.0m) relating to real estate property provisions.

Re-organisation provisions of £0.9m (2021: £0.8m) relates to the restructure of the DMD business, the Smiths News network and the Group's support functions, this was all announced in the prior year.

Insurance & legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims, included within the total balance is £0.6m (2021: £1.0m) relating to claims from the Tuffnells business prior to disposal.

The property provision represents the estimated future cost of the Group's onerous leases on non-trading properties and for potential dilapidation costs across the Group. These provisions have been discounted to present value, and this discount will be unwound over the life of the leases. The provisions cover the period to 2036, however, a significant portion of the liability falls within ten years.

The Group has performed sensitivity analysis on property provision using possible scenarios below:

If the discount rate changes by +/- 0.5%, the property provision would change by +/-£0.1m (2021: +/-£0.1m).

If the repair cost per square foot changes by +/- £1.00p, the property provision would change by +/-£0.3m (2021: +/- £0.9m).

22. Contingent liabilities and capital commitments

£m	2022	2021
Bank and other guarantees	2.4	4.9

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Smiths News plc and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Smiths News plc in any 12-month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 27 August 2022 of £0.5m (2021: £0.5m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £nil (2021: £0.2m).

As at 27 August 2022, the Group had approved letters of credit of £2.4m (2021: £4.9m) to the insurers of the Group for the motor insurance and employer liability insurance policies. The letters of credit cover the employer deductible element of the insurance policy for insurance claims.

On winding up of the News Section of the Trust defined benefit pension scheme, the Company has agreed run-off indemnity coverage for any member claims that are uninsured liabilities capped at £6.5m over the next 60 years.

23. Operating lease

The Group as lessor:

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

£m	2022	2021
Within one year	0.2	0.2
In the second to fifth years inclusive	0.3	0.5
More than five years	–	–
	0.5	0.7

24. Net cash inflow from operating activities

£m	Note	2022	2021
Operating profit – continuing	3	32.4	35.8
Operating profit/(loss) – discontinued	3	–	(0.2)
Operating profit – total		32.4	35.6
Profit on disposal of assets		–	(0.2)
Impairment (reversal)/charge of investments in joint ventures	13	(1.2)	1.6
Share of profits of joint ventures	13	(0.3)	0.2
Adjustment for pension funding	6	8.1	–
Depreciation of property, plant and equipment	12	2.3	2.4
Depreciation of right of use assets	19	6.9	6.4
Amortisation of intangible assets	11	1.3	1.9
Impairment of assets	4	–	0.1
Share-based payments		1.2	1.0
(Increase)/decrease in inventories		(2.4)	0.7
Decrease in receivables		1.7	5.4
Increase/(decrease) in payables		3.9	(5.1)
(Decrease) in provisions		(0.4)	(2.8)
Non-cash pension costs		1.6	0.5
Income tax paid		(5.3)	(6.3)
Net cash inflow from operating activities		49.8	41.4

Net cash flow from operating activities is stated after the following adjusted items:		
Continuing operations		
Re-organisation, Restructuring & Transformation programme planning costs[1]	(1.3)	(2.2)
Pension	(0.2)	(0.6)
Return of pension surplus	8.1	–
Other strategic costs	–	(1.2)
	6.6	(4.0)
Discontinued operations[2]		
Re-organisation & Restructuring costs	–	(0.1)
Strategic review	–	–
Sale and leaseback	–	–
Insurance cost	(0.5)	(1.1)
VAT refund	–	0.8
	(0.5)	(0.4)
Total adjusting items cash flow	6.1	(4.4)

1. Included in the Re-organisation, Restructuring & Transformation programme planning costs adjusted cash flows in the prior period of £2.2m was £0.7m of Transformation programme planning costs.
2. On 2 May 2020, the Company completed the sale of Tuffnells and assumed liability to settle certain pre-disposal insurance and legal claims relating to employer's liability, public liability, motor accident claims and legal claims, held as provisions. The Company continues to present the cash outflows from these provisions for comparative purposes.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

25. Share capital

(a) Share capital

£m	2022	2021
Issued, authorised and fully paid:		
At 29/30 August	**12.4**	12.4
Shares issued during the year	**–**	–
247.7m Ordinary shares of 5p each (2021: 247.7m)	**12.4**	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
29 August 2021	247.7
Shares issued during the year	–
At 27 August 2022	**247.7**

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

No shares were issued during the 52 weeks to 27 August 2022 or the period to 28 August 2021.

(c) Share premium

£m	2022	2021
Balance at 29/30 August	**60.5**	60.5
Balance at 27/28 August	**60.5**	60.5

26. Reserves

(a) Demerger reserve

£m	2022	2021
At 29/30 August	**(280.1)**	(280.1)
At 27/28 August	**(280.1)**	(280.1)

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

(b) Own shares reserve

£m	2022	2021
Balance at 29/30 August	**(3.9)**	(1.8)
Acquired in the period	**(2.2)**	(2.7)
Disposed of on exercise of options	**1.5**	0.6
Balance at 27/28 August	**(4.6)**	(3.9)

The reserve represents the cost of shares in Smiths News plc purchased in the market and held by the Smiths News Employee Benefit Trust, to satisfy awards and options granted under the Group's Executive Share Schemes (see Note 28). The number of ordinary shares held by the Trust as at 27 August 2022 was 12,084,239 (2021: 8,121,362). In accordance with IAS 32, these shares are deducted from shareholders' funds. Under the terms of the Trust, the Trustee has waived all dividends on the shares it holds.

(c) Translation reserve

£m	2022	2021
Balance at 29/30 August	**0.4**	0.4
Exchange differences on translating net assets of foreign operations	**–**	–
Balance at 27/28 August	**0.4**	0.4

27. Retained Earnings

	£m
Balance at 30 August 2020	**127.0**
Amounts recognised in Total comprehensive expense	26.8
Dividends paid	(1.2)
Disposed of on exercise of options	(0.6)
Equity-settled share-based payments, net of tax	1.0
Balance at 28 August 2021	**153.0**
Amounts recognised in total comprehensive expense	33.1
Dividends paid	(6.1)
Disposed of on exercise of options	(1.5)
Equity-settled share-based payments, net of tax	1.2
Current tax recognised in equity	(0.1)
Deferred tax recognised in equity	(0.2)
Balance at 27 August 2022	**179.4**

28. Share-based payments

In 2022, the Group recognised a total charge of £1.2m related to equity-settled share-based payment transactions. In 2021, there was a total charge of £1.0m. The average share price throughout the year was 35.6p (2021: 33.2p).

The Group operates the following share incentive schemes:

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

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

28. Share-based payments continued

Details of the options/awards are as follows:

Number of options/ awards	Sharesave		ESOS		LTIP		DBP	
	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)
At 29 Aug 2020	8,252,887	34.2	1,785,833	126.7	10,967,034	–	1,464,611	–
Granted	2,122,030	43.64	–	–	4,350,408	–	1,541,268	–
Exercised	(59,495)	–	–	–	–	–	(938,854)	–
Expired/Forfeited	(1,927,785)	23.12	(62,621)	108.7	(1,389,340)	–	(41,481)	–
At 28 Aug 2021*	8,387,637	28.92	1,723,212	126.7	13,928,102	–	2,025,544	–
Granted	900,405	34.70	–	–	4,043,731	–	1,807,242	–
Exercised	(92,308)		–	–	(1,113,915)	–	(2,333,638)	–
Expired/Forfeited	(1,616,651)	35.80	(666,468)	137.8	(4,439,620)	–	–	–
At 27 Aug 2022	7,579,083		1,056,744		12,418,298		1,499,148	
Exercisable at 27 Aug 2022	**–**	**–**	**1,056,744**	**126.1**	**–**	**–**	**–**	**–**
Exercisable at 28 Aug 2021	–	–	1,723,212	113.8	–	–	–	–

* During the current period, the opening number of options for the Sharesave, LTIP and DBP schemes were restated to amend disclosure errors made in the prior period.

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

	Sharesave	ESOS	LTIP	DBP
Outstanding at 27 August 2022	**1.9**	**5.2**	**1.2**	**1.5**
Outstanding at 28 August 2021	1.9	6.2	1.2	1.3

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

	Sharesave	ESOS	LTIP	DBP
During 2022:				
Effective date of grant or commencement date	July 2022	–	Dec 2021	Dec 2020
Average fair value at date of grant or scheme commencement – pence	4.3	–	26.0	38.0
During 2021:				
Effective date of grant or commencement date	Jun 2020	–	Dec 2020	Dec 2020
Average fair value at date of grant or scheme commencement – pence	19.7	–	25.0	35.0

The options outstanding at 27 August 2022 had exercise prices ranging from nil to 167.8p (2021: nil to 167.8p).

The weighted average share price on the date of exercise was 37p (2021: 39p).

The Sharesave options granted during each period have been valued using the Black-Scholes model, the LTIP performance measures include 70% total shareholder return (TSR) metric, and this is valued by reference to the share price at date of grant less an adjustment for the TSR portion of the award. The DBP schemes are valued by reference to the share price at the date of grant.

28. Share-based payments continued

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

	Sharesave	LTIP	DBP
2022 options/awards:			
Share price at grant date – pence	34.7	38	38
TSR adjustment – pence	–	(17)	–
Exercise price – pence	32.0	–	–
Expected volatility – per cent	40.3	–	–
Expected life – years	3	–	–
Risk free rate – per cent	1.7	–	–
Expected dividend yield – per cent	8.37	–	–
Weighted average fair value – pence	4.3	21	38
2021 options/awards:			
Share price at grant date – pence	44.0	30	30
TSR adjustment – pence	–	(6.0)	–
Exercise price – pence	35.0	–	–
Expected volatility – per cent	97.0	–	–
Expected life – years	3	–	–
Risk free rate – per cent	(0.1)	–	–
Expected dividend yield – per cent	–	–	–
Weighted average fair value – pence	19.7	24.0	30

29. Post balance sheet events

The directors have considered the period between the balance sheet date and the date when the accounts are authorised for issue for evidence of conditions that existed at the balance sheet date, either adjusting or non-adjusting post balance sheet events, and have concluded that there are no such events in the current period.

30. Related party transactions

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

Transactions with the Group's pension schemes are disclosed in Note 6.

Trading transactions

	Sales to related parties		Amounts owed by related parties	
£m	**2022**	**2021**	**2022**	**2021**
Joint ventures	**0.4**	0.4	**0.1**	0.1

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

Non-trading transactions

	Loans to related parties	
£m	**2022**	**2021**
Joint ventures	**0.1**	0.2

The balance above is secured against the assets of Fresh on the Go Limited.

Tuffnells Deferred Consideration

On 2 November 2021, the Group received £6.5m (the first tranche) of the total amount of unsecured consideration due of £15m. Following receipt of this payment, the Board agreed revised terms with Tuffnells Holdings Limited (formerly Palm Bidco Limited) regarding the outstanding deferred consideration payable, such that it would accept £7.5m in full and final settlement of the outstanding amount due, were it received on or before 2 August 2022. This amount was received in full during the current financial period. The Chairman of Tuffnells Holdings Limited is also a non-executive director of Smiths News plc.

Notes to the Accounts *continued*

For the 52-week period ended 27 August 2022

30. Related party transactions continued

Directors' remuneration

£m	2022	2021
Salaries	0.9	0.9
Bonus	0.6	0.6
Non-executive director fees	0.3	0.3
Post-employment benefits	–	–
Termination benefits	–	0.1
	1.8	1.9

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

There are 2 (2021: 2) directors to whom retirement benefits are accruing in respect of qualifying services under money purchase schemes.

Directors made gains on share options of £nil (2021: £nil).

Key management personnel (including directors)

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

£m	2022	2021
Short-term employee benefits	2.8	2.8
Termination benefits	–	–
Share-based payments	1.1	0.6
	3.9	3.4

31. Subsidiary and associated undertakings

Company name/(number)	Share Class	Group %	Company name/ (number)	Share Class	Group %
United Kingdom					
Rowan House, Cherry Orchard North, Kembrey Park, Swindon SN2 8UH					
Connect Limited 02008952	Ordinary Shares	100%	Martin-Lavell Limited 02654521 (*)	Ordinary Shares	100%
Connect Logistics Limited 09172965	Ordinary Shares	100%	Pass My Parcel Limited 09172022	Ordinary Shares	100%
Connect News & Media Limited 08572634	Ordinary Shares	100%	Phantom Media Limited 03805661 (*)	Ordinary Shares	100%
Connect Parcel Freight Limited 09295023	Ordinary Shares	100%	Smiths News Holdings Limited 04236079	Ordinary Shares	100%
Connect Parcels Limited 09172850	Ordinary Shares	100%	Smiths News Instore Limited 03364589	Ordinary Shares	100%
Connect Services Limited 08522170	Ordinary Shares	100%	Smiths News Investments Limited (*) 06831284	Ordinary Shares	100%
Connect Specialist Distribution Group Limited 08458801	Ordinary Shares	100%	Smiths News Distribution Limited 08506961	Ordinary Shares	100%
Connect2U Limited 03920619	Ordinary Shares	100%	Smiths News Trading Limited 00237811	Ordinary Shares	100%
Dawson Media Services Limited 06882722	Ordinary Shares	100%	Dawson Limited 03433262	Ordinary Shares	100%
Dawson Guarantee Company Limited 06882393	Ordinary Shares	100%	Dawson Media Direct Limited (*) 06882366	Ordinary Shares	100%
Dawson Holdings Ltd (*) 00034273	Ordinary Shares	100%			
France					
Dawson Media Direct SAS 450 101 340 RCS Bobigny	Ordinary Shares	100%	11 rue Léopold Bellan, 75000 Paris, France		
Spain					
Dawson Media Direct Iberica SL CIF-B84692904	Ordinary Shares	100%	Calle Zurbano 76 Madrid 28010, Spain		
Germany					
Dawson Media Direct GmbH HRB 99445	Ordinary Shares	100%	Johannstr. 39 40476 Dusseldorf, Germany		
Belgium					
Dawson Media Direct NV 474.114323	Ordinary Shares	99%	Priester Cuypersstraat 3 Brussel 1040, Belgium		
Turkey					
Dawson Media Direct Anonim Sirketi 14449-5	Ordinary Shares	100%	Park Plaza, No:14/24 Resitpasa Mahallesi Istanbul Turkey		
Australia					
Dawson Media Direct Australia Pty Limited 615545545	Ordinary Shares	100%	C/O Grant Thornton Australia Level 17, 383 Kent Street, Sydney NSW 2000, Australia		
Hong Kong					
Dawson Media Direct China Limited 1167911	Ordinary Shares	100%	Flat/Rm 5008 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong		
Thailand					
Dawson Media Direct Co. Ltd 105558138385	Ordinary Shares	48.9%	87 M Thai Tower, All Seasons Place, 23rd Floor, Wittayu Road, Lumpini Sub-District, Pathumwan District, Bangkok, Thailand		

* Audit exemption statement

For the 52 weeks ended 27 August 2022, the companies as indicated in the table by '(*)' above were entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. As such, Smiths News plc (formerly Connect Group PLC) has provided a guarantee against all debts and liabilities in these subsidiaries as at 27 August 2022. The members of these companies have not required them to obtain an audit of their financial statements for the 52 weeks ended 27 August 2022.

Glossary

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 measures of the Group's performance. They provide readers with additional information on the performance of the business across periods which is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.

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

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income Statement				
Adjusted Items	No direct equivalent	N/A	Note 4	Adjusting items of income or expenses are excluded in arriving at Adjusted operating profit to present a further measure of the Group's performance. Each of these items is considered to be significant in nature and/or quantum, non-recurring in nature and/or are considered to be unrelated to the Group's ordinary activities or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.
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 178	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.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Adjusted earnings per share	Earnings per share	Adjusted items	Note 10	Adjusted earnings per share is defined as continuing adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.
Cash flow Statement				
Free cash flow	Net movement in cash and cash equivalents	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments	Page 178	Free cash flow is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loan principal amounts, 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)	Net movement in cash and cash equivalents	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments, Adjusted items	Note 24	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	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 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 and obligations under leases.

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

Glossary *continued*

Reconciliation of free cash flow to net movement in cash and cash equivalents

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

£m	2022	2021
Net (decrease)/increase in cash & cash equivalents	**16.0**	(31.3)
Decrease in borrowings and overdrafts	**23.0**	57.8
Movement in borrowings and cash	**39.0**	26.5
Dividend paid	**6.1**	1.2
Working capital loan to Tuffnells	**–**	(6.7)
Outflow for EBT shares	**2.6**	2.6
Continuing free cash flow	**47.7**	23.6
Discontinued free cash flow	**0.5**	(0.4)
Total free cash flow	**48.2**	24.0

Continuing Adjusted EBITDA reconciliation

£m	2022	2021
Operating profit	**32.4**	35.8
Adjusting items	**5.7**	3.8
Adjusted operating profit	**38.1**	39.6
Depreciation	**2.3**	2.4
Amortisation	**1.3**	1.9
Right of use asset depreciation	**6.9**	6.4
Adjusted EBITDA	**48.6**	50.3
Operating lease charges	**(7.9)**	(7.7)
Adjusted EBITDA (excluding IFRS 16)	**40.7**	42.6

Reconciliation of Bank net debt to reporting net debt

£m	2022	2021
Bank net debt	**(14.2)**	(53.2)
Unamortised arrangement fees (Note 17)	**2.4**	1.2
IFRS 16 lease liabilities (Note 19)	**(27.6)**	(29.2)
Net debt (Note 17)	**(39.4)**	(81.2)

Company Balance Sheet

As at 27 August 2022

£m	Note	2022	2021
Fixed assets			
Investments in subsidiary undertakings	3	**370.2**	370.2
Current assets			
Cash and bank deposits		**–**	0.1
		–	0.1
Creditors: amounts falling due within one year	4	**(178.6)**	(172.5)
Net assets		**191.6**	197.8
Capital and reserves			
Called up share capital	5(a)	**12.4**	12.4
Share premium account	5(c)	**60.5**	60.5
Retained earnings	6	**118.7**	124.9
Total shareholders' funds		**191.6**	197.8

The result for the year was a loss of £0.1m (2021: £3.0m).

These accounts were approved by the directors on 8 November 2022.

Signed on behalf of the Board of Directors

Jonathan Bunting
Chief Executive Officer

Paul Baker
Chief Financial Officer

Registered number – 05195191

Company Statement of Changes in Equity

For the 52 weeks ended 27 August 2022

£m	Note	Share Capital	Share Premium	Retained earnings	Total
Balance at 29 August 2020		**12.4**	**60.5**	**129.1**	**202.0**
Loss for the year and total comprehensive income		–	–	(3.0)	(3.0)
Dividend paid		–	–	(1.2)	(1.2)
Balance at 28 August 2021		**12.4**	**60.5**	**124.9**	**197.8**
Loss for the year and total comprehensive income		–	–	(0.1)	(0.1)
Dividend paid		–	–	(6.1)	(6.1)
Balance at 27 August 2022		**12.4**	**60.5**	**118.7**	**191.6**

Notes to the Company Balance Sheet

1. Accounting Policies

(a) Accounting convention

The separate financial statements of "the Company" are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

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

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

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

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

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

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

Critical accounting estimates and judgements

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

Estimated impairment of investments

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined using value in use calculations. The value in use method requires the Company to determine appropriate assumptions in relation to the cash flow projections over the three-year plan period (which is a key source of estimation uncertainty), the terminal growth rate to be applied beyond this three-year period and the risk-adjusted post-tax discount rate used to discount the assumed cash flows to present value. The assumption that cash flows continue into perpetuity is a source of significant estimation uncertainty.

(b) Investment in subsidiary undertakings

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

(c) Financial liabilities and equities

Trade payables are measured at amortised cost.

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

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

(d) Taxation

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

Notes to the Company Balance Sheet *continued*

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was a loss of £0.1m (2021: loss of £3.0m). There were no other recognised gains or losses. The dividend paid in the year is £6.1m (2021: £1.2m) (refer to Note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2022	2021
Net book value:		
At 29/30 August	**370.2**	373.2
Impairment charge	–	(3.0)
At 27/28 August	**370.2**	370.2

In the prior year, the Company impaired its Investment in subsidiary by £3m, bringing the carrying value to £370.2m and the cumulative impairment provision to £292.7m. At the end of FY2022, the directors identified indicators both of impairment (due to an increase in the risk free rate and difference when compared to the Group's total market capitalisation) and of reversal of impairment (due to a lower net debt position for the Group and improved outlook). Accordingly, they conducted an impairment review, based on the Group's value in use, which included a sensitivity analysis on the key inputs, including the discount rate and on scenarios which might affect the Group's future cash flows.

In the value in use calculation, the impact of an increased discount rate was offset by improved profitability and an improved net debt position. The sensitivity analyses showed a material range of outcomes were possible and highlighted a sensitivity to the discount rate (see table below).

The directors further considered whether there had been a significant change to the long-term value of the Group or its market since the prior year. While the Group's FY2022 result (£40.7m EBITDA ex-IFRS16) was ahead of modelled and market expectation (£39m); there was not currently evidence that newspaper and magazine revenue decline had permanently rebased post Covid; and, with new ancillary revenues in their infancy, the Group had not significantly diversified from its core newspaper and magazine wholesale activities.

As a result of impairment review, the directors concluded that it was not appropriate either to impair the investment further or to reverse previous impairments. At 27 August 2022, the investment in subsidiary therefore remains £370.2m with a cumulative impairment provision of £292.7m.

The Company indirectly owns three cash-generating units (CGU): Smiths News Trading Limited (Smiths News), Dawson Media Direct Group (DMD) and its joint venture investment in Rascal Solutions Limited. Each cash-generating unit was independently valued using value in use calculations; the Company prepares cash flow forecasts derived from the most recent budgets and three-year plans. Cash flows beyond this three-year period are extrapolated using a terminal growth rate based on management's future expectations.

The future cash flows applied in the calculation reflect the Group's current plan for Smiths News and its ancillary businesses. These plans reflect the updated trading position of the businesses post COVID-19, emerging inflationary cost pressures and the change in corporation tax rate from 19% to 25%, effective from 1 April 2023.

The key assumptions in the value in use calculations are the rates of revenue decline, level of cost mitigation to maintain margins, terminal growth rates and the risk-adjusted post-tax discount rate. The post-tax discount rates are derived from a risk-adjusted weighted cost of capital, using an average market participant capital structure the inputs of which include a UK risk free rate, risk premium, small company risk premium and a risk adjustment (beta). The post-tax discount rate used is 11.1% (FY2021: 9.4%) for the primary Smiths News CGU. The pre-tax discount rate used for the Smiths News CGU is 14.5% (FY2021: 12.7%).

The core newspaper and magazine market (and associated revenues) are in long-term structural decline and it is assumed that revenue is expected to fall each year over the longer term. Any such decline in revenue is considered to be consistently within a historically tight range allowing management to plan appropriate cost savings measures each year, to mitigate the impact of any fall in revenue such that profitability and cash flows are maintained or impacted to a lesser extent by such declining revenues. As such, a terminal growth rate of 0% (FY2021: 0%) is used in the calculations.

As disclosed in the accounting policies (see Note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a change in the impairment loss. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions and in reference to the Company's principal risks.

3. Investments in subsidiary undertakings continued

	Terminal Growth Rate %	Post-Tax Discount Rate %	Headroom/ Impairment £'m
Expected Case	0%	11.1%	0.0
+1% Discount Rate	0%	12.1%	(17.8)
-1% Discount Rate	0%	10.1%	21.3
+1% TGR	1%	11.1%	14.7
-1% TGR	(1%)	11.1%	(12.2)
Scenario 1	0%	11.1%	(7.5)
Scenario 2	0%	11.1%	(8.6)

Scenario 1 – Assumes magazines revenue and gross margin are reduced by 3%

Scenario 2 – Assumes the Company growth targets are not achieved

4. Creditors: amounts falling due within one year

£m	2022	2021
Amounts owed to Group companies	(178.6)	(172.5)

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

5. Share capital

(a) Share capital

£m	2022	2021
Issued and fully paid ordinary shares of 5p each		
At 29/30 August	12.4	12.4
Shares issued in the year	–	–
At 27/28 August	**12.4**	12.4

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

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 29 August	247.7
Issued in the year	–
At 27 August	**247.7**

(c) Share Premium

£m	2022	2021
Balance at 29/30 August	60.5	60.5
Shares issued in the year	–	–
At 27/28 August	**60.5**	60.5

Notes to the Company Balance Sheet *continued*

6. Reserves

£m	2022 Retained earnings
Balance at 29 August	124.9
Loss for the year	(0.1)
Dividend paid	(6.1)
At 27 August	**118.7**

7. Directors emoluments and employees

The Company employed 3 (2021: 3) non-executive directors. Smiths News Trading Limited, an indirect subsidiary, pays all remuneration without recharge for all directors and the amounts are disclosed within the Director's Remuneration report in the Group's annual report.

Shareholder Information

Company Secretary and registered office

Stuart Marriner, Smiths News plc, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH.

Telephone 0845 128 8888.

Smiths News plc (formerly Connect Group PLC) is registered in England and Wales (company number 05195191).

Shareholder enquiries may be submitted to *cosec@smithsnews.co.uk*

General shareholder enquiries – Registrar

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

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

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

Company website

Smiths News plc's Annual Reports and results announcements are available online at *www.smithsnews.co.uk*. The investor zone section of our website provides a wide range of information about the Company, including Annual Reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing Annual General Meeting information and other useful shareholder information.

Annual Report and Financial Statements

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

Annual General Meeting

The 2023 Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Tuesday 24 January 2023 at 11.30am.

The Notice of Annual General Meeting sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form that they are sent and present it at the registration desk on arrival at the Annual General Meeting.

The voting results of the 2023 Annual General Meeting will be accessible at *www.smithsnews.co.uk* shortly after the meeting.

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

Proxy Form

Shareholders unable to attend the Annual General Meeting should complete a Proxy Form. To be effective, it must be completed and lodged with the Company's Registrars, Equiniti, by not later than 11.30am on Friday 20 January 2023.

Electronic proxy voting

You may, if you wish, register the appointment of a proxy for the Annual General Meeting electronically, by logging onto the website *www.sharevote.co.uk*. Full details of the procedure are given on the website. You will need to have your Proxy Form to hand when you log-on as it contains information which will be required. CREST members may appoint a proxy electronically via the Company's Registrars, Equiniti (ID RA19). If you are an institutional investor you may alternatively be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to *www.proxymity.io*. Electronic proxy voting instructions must be received by not later than 11.30am on Friday 20 January 2023.

Financial calendar (provisional dates)

Financial year end	27 August 2022
Results announced	9 November 2022
Annual Report published	16 December 2022
FY2022 Final Dividend Record Date	13 January 2023
Annual General Meeting	24 January 2023
FY2022 Final Dividend Payment Date	9 February 2023
Half-year end	25 February 2023
Interim results announced	3 May 2023
Financial year end	26 August 2023
Results announced	8 November 2023

For the dates of events in the second half of the financial calendar, please check the Smiths News plc website at *www.smithsnews.co.uk* nearer the relevant time for further details, and to ensure that no changes have been made.

Shareholder Information *continued*

Share dealing service

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

ShareGIFT

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

Warning to shareholders ('boiler room' scams)

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

Please see the Financial Conduct Authority website (*Protect yourself from scams | FCA*) for more detailed information about this or similar activity.

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

UK Capital Gains Tax (CGT)

Rights Issue 17 December 2014

Shareholders who acquired shares

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

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

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

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

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of $2\frac{13}{81}$p (adjusted if you held your shares at 24 September 2004 and 22 May 1998, to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of $22\frac{6}{67}$p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original tax base cost of your old WH Smith PLC ordinary shares of $55\frac{5}{9}$p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2\frac{13}{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2\frac{13}{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55\frac{5}{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55\frac{5}{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

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

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of 22 6/67p	61.62p	50.92p

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

Cautionary statement

This Annual Report contains certain forward-looking statements with respect to Smiths News plc's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense and statements other than statements of historical fact, identify forward-looking statements. These forward-looking statements are not guarantees of Smiths News plc's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Unless otherwise required by applicable law, regulation or accounting standard, Smiths News plc undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise.

The information contained within this Annual Report may be deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 (as it forms part of the law of England and Wales by virtue of section 3 of the European Union (Withdrawal) Act 2018). Upon the publication of this Annual Report, this inside information is now considered to be in the public domain.

Notes

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