smiths news plc

We deliver.

Annual Report and Accounts 2023

Welcome to our 2023 Annual Report and Accounts

We deliver for all our stakeholders.

As the UK's largest newspaper and magazine wholesaler we are proud of the difference we make to people and their communities. Every day we deliver to 23,000 retailers, from superstores to corner shops, city centres to small villages.

Strong headline results

A good performance on key measures

Total Statutory Revenue

£1,091.9m

FY23	**£1,091.9m**
FY22	£1,089.3m
FY21	£1,109.6m

Adjusted Operating Profit

£38.8m

FY23	**£38.8m**
FY22	£38.1m
FY21	£39.6m

Adjusted Profit before Tax

£32.3m

FY23	**£32.3m**
FY22	£31.1m
FY21	£30.9m

Statutory Profit before Tax

£31.8m

FY23	**£31.8m**
FY22	£27.9m
FY21	£30.6m

Adjusted Earnings per Share

10.8p

FY23	**10.8p**
FY22	10.8p
FY21	10.8p

Free Cash Flow

£21.8m

FY23	**£21.8m**
FY22	£48.2m
FY21	£24.0m

Average Net Debt

£25.0m

FY23	£25.0m
FY22	£49.9m
FY21	£82.6m

Bank Net Debt

£4.2m

FY23	**£4.2m**
FY22	£14.2m
FY21	£53.2m

Dividend per Share

4.15p

FY23	4.15p
FY22	4.15p
FY21	1.65p

Strategic Report

Governance

Financial Statements

Reliably *delivering* the news and more every morning.

For over 200 years Smiths News has been delivering newspapers to retailers across the UK. Our scale, experience and expertise in this uniquely time sensitive supply chain are unparalleled. We're proud to make a difference to people and communities every day, ensuring that newspapers and magazines are widely available to all.

The UK's leading news wholesaler

With 55% market share, Smiths News plc is the UK's largest newspaper and magazine wholesaler, serving over 23,000 retail outlets in England and Wales. We deliver seven days a week, providing the same core service to customers as diverse as superstores, travel outlets and small rural convenience shops.

Our long-standing relationships with both publishers and retailers make us an essential link in the supply chain. With an extensive network we offer a shared route to market that is flexible, cost efficient and timely – backed by service guarantees and added value services that are founded on our bespoke systems and technology.

This year we have completed the renewal of our publisher contracts with each of Frontline, Seymour Distribution, Associated Newspapers, Telegraph Media Group and News UK, together representing 65% of our current publisher revenues through to at least 2029. The award of these contracts confirms our leading position and the continued importance of the close partnerships that are the foundation of our success.

An essential supply chain partner

Delivering the nation's newspapers and magazines is a huge and complex task; it involves coordinating the needs of publishers, printers, hauliers, retailers and consumers. Most of all it requires the capability to reliably serve customers in some of the tightest and earliest of delivery windows.

Every day, we deliver to thousands of retailers across the UK, ensuring the wide availability of the latest editions of newspapers and magazines.

The newspaper lifecycle, from delivery of supplies to the recycling of unsold copies and calculation of net sales, takes less than 36 hours.

Our logistics expertise is supported by technology and processes that provide a comprehensive solution, encompassing sales forecasting, physical deliveries, sales-based replenishment, and ultimately the collection and recycling of any unsold copies.

All operations are backed by transparent KPIs that seek to ensure the same high-quality service in every corner of our network.

In tandem with our physical deliveries, we hold the most comprehensive data set on the latest (and historical) newspaper and magazine sales. We use this information to forecast volumes and help publishers and retailers respond to fluctuating demand with the highest possible efficiency. This unique market insight is critical to our added value role and distinguishes our service from that of a mere parcel carrier.

Our dedicated network

Our network is shaped by the distribution contracts we hold with all the major UK publishers. With strong coverage of the major conurbations, we operate in defined territories across England and Wales, amounting to 55% UK market share.

Using a hub and spoke configuration, we have 35 depots in total. The largest 'super hubs' operate round the clock, sorting and prepacking magazines and other products ready to be delivered with the next morning's newspapers. These are then transferred to smaller depots and overnight distribution centres which make the 'final mile' distributions to over 23,000 retailers.

This bespoke configuration provides for efficiency, flexibility and resilience – it's why we are able to deliver in such short time windows and maintain the same high standards, whether we are serving an urban supermarket, a major transport hub or a village community store.

Every night we make deliveries to

23,000 customers

c.16m

newspapers distributed each week

c.5m

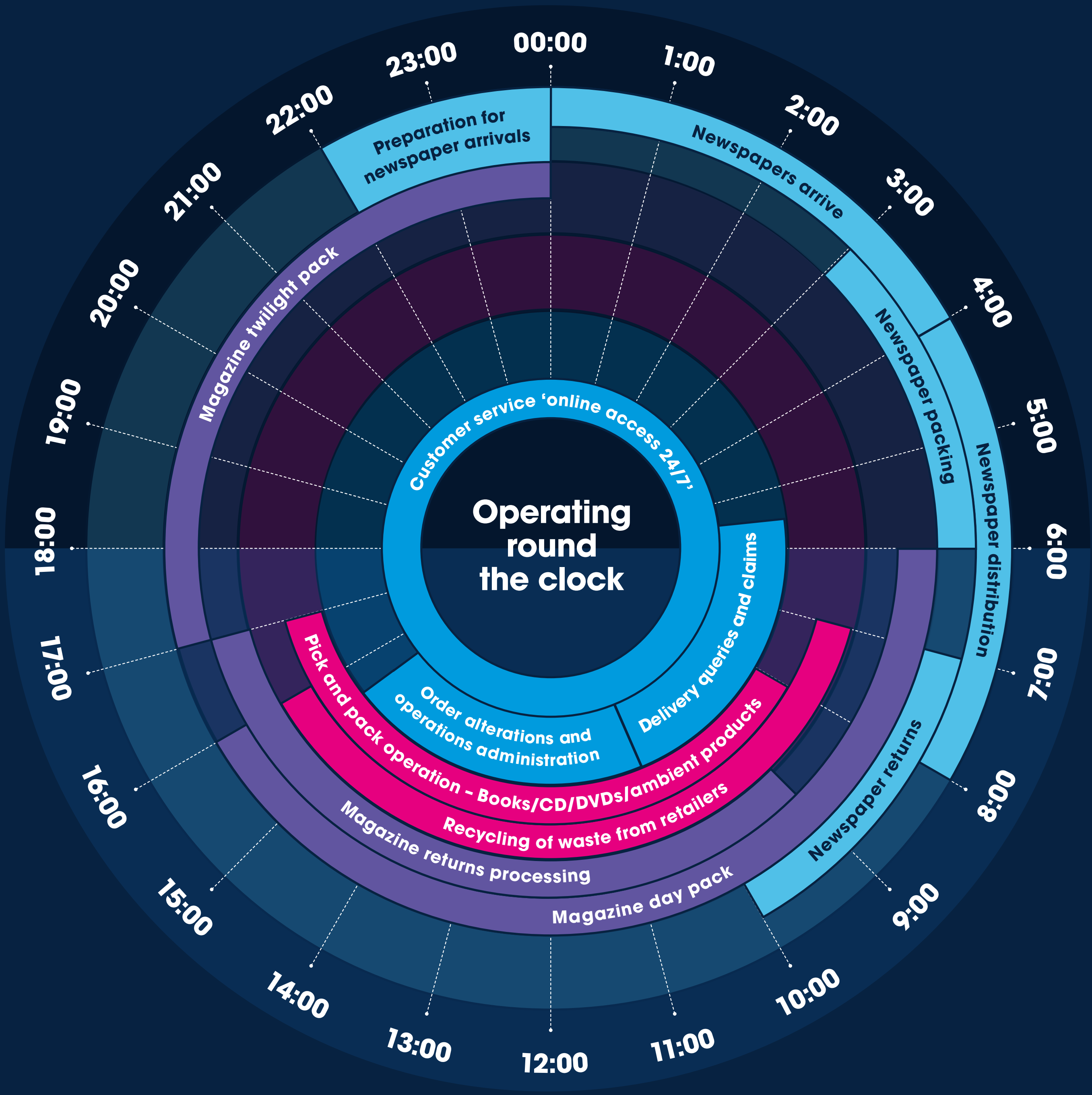
magazines distributed each week

c.160,000

tracked deliveries each week

99%

of unsold newspapers and magazines recycled



Operating round the clock

Newspapers must rank among the most time sensitive of any products – they are produced, bought and disposed of within hours. And with fast changing news content, their size and volumes can fluctuate day to day. At the core of Smiths News is the capability to manage this uniquely fast moving and variable supply chain — and doing so with an efficiency that more general logistics providers or internal supply chains cannot match.

Newspaper supplies arrive in the early morning and are picked, packed and delivered within only a few hours. On our delivery rounds, we collect the previous day's unsold newspapers. These are then scanned for crediting and sorted for recycling. Publishers typically receive an indicative 'net sales' report later in the day, allowing for speedy and efficient allocation of supplies and monitoring of demand patterns.

Magazines are highly time sensitive too, but slightly less so than newspapers. This means they can be packed and processed for delivery at regional hubs, creating scale efficiencies. Supplies typically arrive during the day and are then shipped to the spoke depots, ready for distribution with the next morning's newspapers. Unsold magazine copies are collected and processed as soon as new editions come on sale, providing publishers with an overview of sales and demand across the retail network.

Key

- Newspapers
- Magazines
- Ancillary products and services
- Customer service

Smiths News plc in Focus continued

Adding value

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 within agreed parameters

Collecting unsold copies for credit and recycling, including EPoS-based returns for larger retailers

Sales-based replenishment linked to retailer EPoS systems

Merchandising, product placement and other in-store and on-shelf and promotional services

Specialist advantage

Our competitive advantage is founded on a combination of factors that require an industry specialist. These include the ability to serve or provide:

- high-density, ultra-time-sensitive deliveries, every day of the week
- a fragmented customer base with wide variability in size and location
- a complex and fast-moving product range
- invoicing and crediting across the entire product range
- added value services including information management and demand forecasting
- the collection and recycling of unsold copies

These qualities are underpinned by the experience, know-how and dedication of our people. We take pride in what we do, recognising its importance to others and to wider society. We go the extra mile to ensure customers receive accurate on-time deliveries, swiftly rectifying any errors and making same day re-runs in the case of late arrival or supply chain disruption beyond our control.

Complementary capability

Our core service is enhanced by adjacent businesses that offer additional services for publishers and retailers. These leverage our knowledge, expertise and market leadership in the news industry.

Smiths News Recycle is a new and convenient service enabling our customers to recycle plastic and cardboard waste.

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

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

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

A focus on our future

Delivering the news for over 200 years means we have seen and understand the need for continual improvement. Today, we recognise the challenge of climate concerns and we readily embrace the need to work with our industry partners to reduce our collective impact on the environment.

While we have a strong track record in reducing our overall emissions, we know that the sector needs to go further. The growth of low emission zones is just one example of changes that will impact all carriers; meanwhile, legislation on vehicles, fuel and packaging is constantly evolving.

We are committed to finding practical and efficient solutions to these issues. As a supply chain partner to hundreds of publishers and thousands of retailers, we are working with our industry partners to make improvements and trial new initiatives. In doing so, we are mindful that while progress is likely to be evolutionary, there are opportunities for those who innovate and take the lead. The launch of Smiths News Recycle is an excellent example of how the drive to a more sustainable future can enhance our business, revealing new ways to serve our customers.

Inside news

Stockport – people and process working hand in hand.

With over 1,800 customers, Stockport newspaper distribution centre is one of the largest operations in the Smiths News network.

Serving the whole of the Greater Manchester region, it ensures the daily supply of newspapers and magazines to hundreds of communities across the North West, with the added complexities of airport deliveries, business contracts and returns processing.

The numbers alone are impressive: on a typical night Stockport will pack and deliver over 200,000 copies, using 75 delivery runs that cover 3,000 miles in a core time window of less than eight hours. The depot operates every day of the year, whatever the weather, with management always aware that any day's news might increase volumes at short notice.

'It pays to expect the unexpected,' says Tony McCall, night operations manager, with 15 years' experience. 'In theory, each shift should be much the same, but the reality is that every night is different. With so many variables, a critical skill is adapting to the imperfect flow of arrivals and departures, let alone all the other factors that can impact our best laid plans.'

Opening at around 9:00pm, the depot receives its magazines from the super-hub in Birmingham soon after. These are sorted into delivery rounds, ahead of the arrival of the national dailies from 1:00am. Customer deliveries begin around 4:15am with the first vehicles returning two hours later – the last van home, serving the most rural areas, is nearer to 9:30am.

'But that's only part of the story,' says Tony, who's keen to explain the complexity of an operation he's proud to lead.

'In addition to serving traditional retailers, we make multiple runs to the airport with security considerations; we deliver the Manchester Metro to drop points across the city; and we make direct supplies to several large businesses…

That's before we start processing returns from customers and other waste from Smiths News Recycle.'

The team at Stockport takes great pride in meeting their targets, closely monitoring KPIs, with reviews and action plans to ensue continual improvement. 'We might be a logistics business,' says Tony, ' but it's the people who make the difference as much as process.' Describing how this works in practice he adds, 'Empowering our teams to make decisions is vital, allowing us to draw on their experience and enthusiasm.'

It's therefore no surprise that the night team at Stockport is characterised by long service with the Company. Tony describes how this made a difference when volumes doubled after the passing of HM Queen Elizabeth II. 'Everyone knew what was required; everyone put their shoulder to the wheel — it was real team effort from start to finish.'

Looking ahead, the future for Stockport is bright, with new contracts giving colleagues certainty and new business developments adding to the core. Smiths News Recycle is growing steadily and the depot has a close relationship with the leading parcel company, renting space and providing overspill delivery support. It's all part of an ever-evolving picture that typifies the unique role of our night operations across the country.

Stockport NDC timeline

21:00
Depot opens for the night shift

21:30 – 01:00
Magazines arrive from super-hub
Parcels sorted into rounds
Regional Metro newspapers arrive

01:00 – 04:00
National newspapers arrive
Customer deliveries packed

04:00 – 07:30
Deliveries to customers

07:30 – 10:30
Returns processing
Administration and re-runs

11:00
Depot closes

Chairman's Statement

I'm pleased to report that once again we have *exceeded market expectations* and made progress against our key financial and strategic targets.

David Blackwood
Chairman

Shortly after joining Smiths News in 2020 I made a night visit to one of our larger depots. And, like most people who see the news operation first hand, I was impressed by the almost seamless coordination of deliveries and departures that culminates in the last van away. What impressed me most was not only the operational complexity, but the way in which everyone knew their role and contribution to the overall goal. It was an extraordinary demonstration of teamwork in action, and the embodiment of our ability to deliver with such consistency for our stakeholders.

Hence, I am pleased to be able to report that once again Smiths News has returned good results, exceeding market expectations while making progress against our key financial and strategic targets. Achieving this in the face of economic uncertainty and sustained inflationary pressures says a great deal about the ability of our teams to focus on what is most important, while flexing their capabilities to address changing circumstances. It is also a further demonstration of our resilience and reliability.

In terms of financial headlines, Adjusted Operating Profit of £38.8m is up 1.8% (FY2022: £38.1m) while Adjusted Profit before Tax is £32.3m, up 3.9% (FY2022: £31.1m). Statutory Profit before Tax of £31.8m was up 14.0% (FY2022: £27.9m), driven largely by the prior year's provisioning of £4.4m to cover the expected bad debt risk associated with the administration of McColl's. Free Cash Flow at £21.8m has returned to more typical levels after the one-off inflows in FY2022 which boosted the previous year (FY2022: £48.2m) — it remains a signature quality of our business model, and the reductions in Bank Net Debt to £4.2m (FY2022: £14.2m) and Average Net Debt to £25.0m (FY2022: £49.9m) further strengthen our balance sheet, providing flexibility for investment and positioning us well for the future renewal of our banking facilities, which run to August 2025.

Driving these results are core markets that have shown overall revenue growth, ahead of historic trends, from a combination of cover price rises and one-off news events, albeit substantially offset by declining volumes. Newspapers have performed most strongly, and the continued growth of higher margin one-shots and sticker collections has also made a positive contribution. This pattern was not unexpected as publishers had begun to respond to higher production costs in the second half of the previous year, but we remain conscious of the longer-term trends that indicate volumes will continue to decline, albeit at relatively predictable rates.

Without doubt, the most pressing trading challenge of the year has been the close management of costs to mitigate stubborn inflationary pressures. In this regard, our teams have worked tirelessly to find not only short-term opportunities, but to secure sustainable efficiencies that will carry forward year-on-year. The 'right-sizing' of our network and delivery routes will continue to be a vital element of our ability to deliver consistent returns over the lifetime of our publisher contracts. With plans underway for the current year and experienced teams with a track record of meeting these challenges over time, we are well placed to maintain this momentum.

In this regard, the securing of a critical mass of our publisher contracts through to 2029 is a strategic milestone. In giving us clarity of our network requirements, it facilitates the long-term planning of investment and configuration that will help us to continue delivering for all our stakeholders. Furthermore, given the relative predictability of our markets it provides enviable foresight of our potential cash flows, allowing us to proceed with confidence in pursuing appropriately sized new ventures that will enhance and complement the core.

Achieving this in the face of economic uncertainty and sustained inflationary pressures says a great deal about the ability of our teams to focus on what's most important, while flexing their capabilities to address changing circumstances.

This year we made progress on that journey too. In particular, our in-house recycling-collection venture, Smiths News Recycle, has grown from regional trial to a full network rollout in just over a year. While it is early days we are pleased with progress and already exploring opportunities to increase its scale and scope by working with new customers and adding further waste collection categories. Strategically, our approach to new revenues continues to focus on opportunities that leverage our skills and spare capacity. We remain open to carefully targeted bolt-on investments that complement our capabilities and add value to our role in the supply chain.

As always there is much good work that goes on behind the trading highlights. A good example is this year's achievement of Cyber Essentials Plus accreditation, a huge effort and excellent result from our technical teams that gives reassurance to our partners too. Meanwhile, our people strategy has made similarly good progress in the development of talent and the promotion of greater diversity and inclusion across the Company. Similarly, our sustainability strategy is building momentum, and we are working with an industry partner to find collective solutions to challenges that impact us all. The enthusiasm for these initiatives is tangible as is the commitment of colleagues to secure a better future by marrying our deep experience with a drive for continual improvement.

Looking ahead, our core challenges and opportunities have not materially changed. Inflation remains well above historic norms and mitigating its impacts will be a priority for the foreseeable future. So too the need to appropriately reconfigure our routing and depot configuration in the light of reduced volumes but without impacting standards of service. Our drive for new revenues will make an increasingly important contribution over time, helped by our underlying financial strength that gives us the flexibility to explore a range of organic and acquisitive opportunities.

In all our plans, we consider the needs of all stakeholders, seeking to balance investment in the business with sound finances and attractive returns for shareholders. For the second consecutive year the Board has recommended the payment of interim and final dividends amounting to c.£10.0m in total, the maximum allowable under our current banking agreements, which run to August 2025. We believe this to be an appropriate allocation of our free cash and, subject to performance, we remain committed to paying dividends up to the cap.

In concluding this review of the year I am, as always, grateful for the support of my colleagues on the Board and our constructive relationship with the Executive Team. But more widely, I am reminded of that night visit I began with, and the exceptional teamwork that drives our business every day. Our people are the bedrock of the consistent delivery that is so critical to and characteristic of our success. I thank them for all their efforts once again. Indeed, more than anything, it is their focused expertise and determination to see the job through that underpins my confidence that we have a bright future together.

David Blackwood
Chairman

7 November 2023

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Adjusted Operating Profit

£38.8m

(FY22: £38.1m)

Adjusted Profit before Tax

£32.3m

(FY22:£31.1m)

Statutory Profit before Tax

£31.8m

(FY22: £27.9m)

Free Cash Flow

£21.8m

(FY22: £48.2m)

Average Net Debt

£25.0m

(FY22: £49.9m)

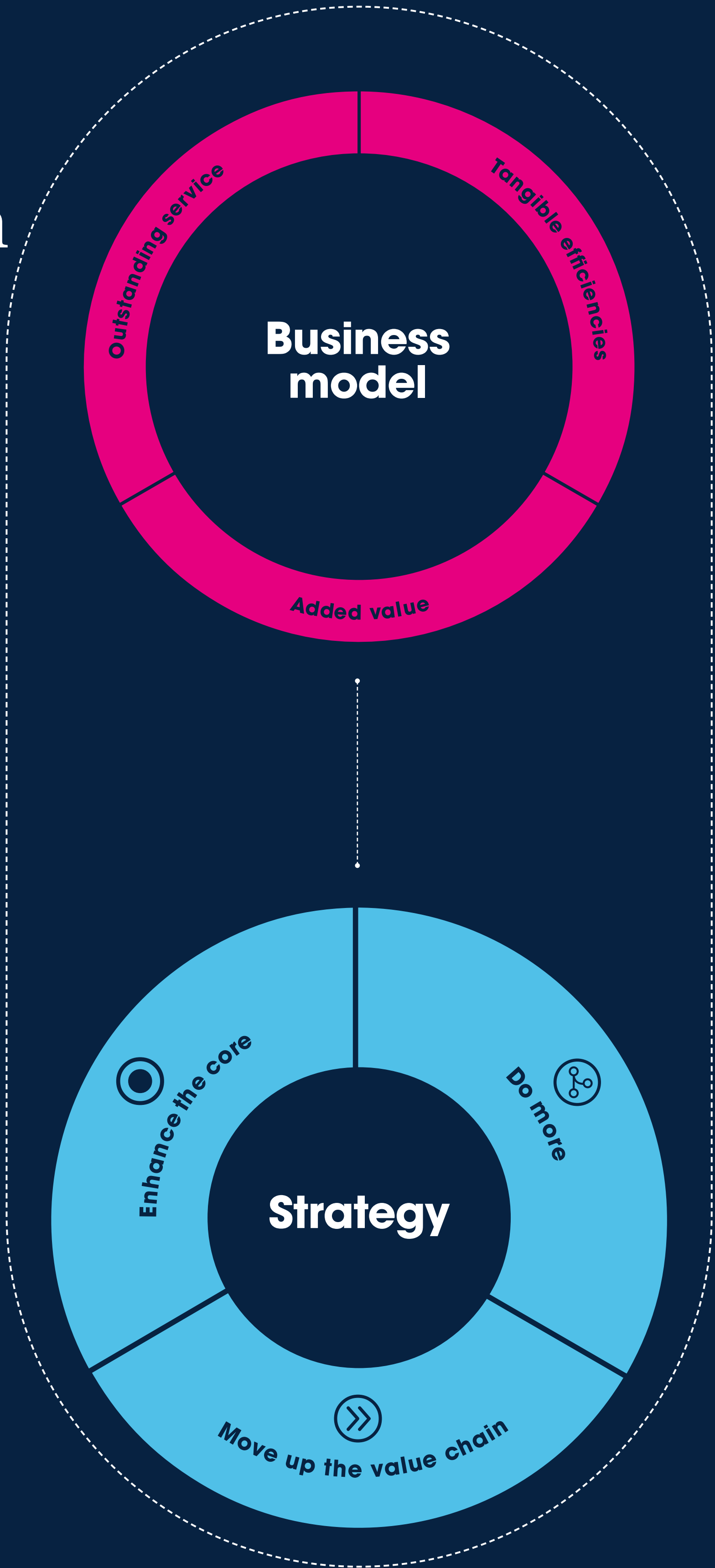
Bank Net Debt

£4.2m

(FY22: £14.2m)

Strategy and Business Model

Our business model and strategy are both clear and *well established.*



At our core we are the UK's leading news wholesaler, with unparalleled expertise in our sector and long-term contracts that give us both security and visibility of revenue streams. In addition to our daily deliveries, we provide a range of services that support enhanced margins and offer opportunity for adjacent revenue streams.

Looking ahead, we plan to **enhance** our core business, **do more** by embracing complementary products and services, and **move up the value chain** by providing information and services that leverage our unique oversight of the market and its channels.

Our commitment to meeting the needs of all our stakeholders is equally clear. We seek to balance investment in the business with attractive returns for our investors, ensuring that our people and all our stakeholders share in our success.

Our business model is fully aligned to our goals and strategy. It is founded on providing a shared route to market that delivers outstanding service, tangible efficiencies and added value for all parties.

Operating at the heart of a complex and time sensitive supply chain our model supports fair and sustainable returns that reflect our long-term partnership and expertise. While our targets and objectives may vary from year to year, they are always rooted in the needs of our customers and in leading the way in responsive solutions to changing market conditions.

Outstanding service

Our role in serving both publishers and retailers is founded on shared objectives and transparency of performance. As such, we measure every aspect of our service from the receipt of goods to the return of unsold copies and their eventual recycling. Using tracking technology, we monitor the entire product journey and we back this up with clear standards of timeliness, accuracy and data integrity.

Using tracking technology, we monitor the *entire product journey.*

In setting high standards we work to a win:win culture where all parties benefit from extra sales and efficiencies. And we are proud of our performance, with independent assessments showing that we are ranked the No.1 wholesaler across the range and quality of the services we provide.

Strategy

Enhance the core

The bedrock of our business model, we will enhance our market leadership in news wholesaling and work with the supply chain to ensure our network is fit for the future.

- Invest in our facilities, technology and people
- Enhance services to maintain our market leadership
- Secure and extend our contracts

Do more

Taking an agile approach, we will test and develop opportunities to extend our products and services in ways that complement our current operations.

- Leverage our network and daily deliveries
- Deliver complementary products
- Develop new services for retailers and publishers

Move up the value chain

Leveraging our data skills and market insight, we believe there are opportunities to move up the value chain, including category management and supply chain efficiencies.

- Leverage our market intelligence
- Category and data management
- Cyber security and data integrity

Tangible efficiencies

By delivering the daily news on a single delivery we ensure costs are shared across the supply chain. This not only means that prices are lower, but also that we can reach remote and smaller retailers at acceptable costs — fulfilling a vital social need in thousands of communities across the UK. Our network and routing expertise ensures this is achieved in the tightest of time windows.

Returns collections are made at the same time as the morning deliveries, meaning that there is no requirement for additional runs. We then scan and credit these copies before sending them for recycling. It is a speedy and efficient process that also gives publishers visibility of their net sales (supplies minus returns), allowing them to set future print figures with confidence.

But the efficiencies we create go well beyond physical distribution and the sharing of infrastructure and technology. Our market insight and sophisticated forecasting tools ensure that we respond to fluctuations in demand, allocating supplies to retailers so that we achieve optimum availability without excess waste. Customer experience is similarly supported, with both online and call centre technology that provides a comprehensive communication, sales and invoicing platform.

Added value

Our services and adjacent businesses add further value to publishers and retailers, embedding our role in the supply chain.

These include: specialist access to high value retailers at airports and travel points; business deliveries in several UK cities; merchandising services for retailers and publishers; and support for bespoke customer needs such as home news delivery operations.

Larger retailers benefit from sales-based replenishment services linked to their EPoS data, minimising stock holding in store and responding dynamically to consumer demand. We also work with several major retailers to simplify the handling of returns, making the category more profitable and easier to manage.

And of course, in response to exceptional national or international events we are always there to meet the needs of our customers with special deliveries and extra capacity. This flexibility is an essential part of what we do and we are proud to be partners in bringing news to the nation at times of celebration or crisis.

Strategy and Business Model continued

Why we are market leaders

1 Service excellence
Independent feedback confirms our service is ranked at the best and most comprehensive by both publishers and retailers.

2 Integrated network
Our hub and spoke network serves 55% market share and we continually evaluate opportunities for consolidation and improvement.

3 Bespoke technology
Our IT systems support a comprehensive sales and invoicing platform – this gives us a unique oversight of the market that we use to forecast demand.

4 Customer experience
Offering both online and call centre support we're committed to having the best communication channels for our retailers and publishers.

5 Additional services
Our adjacent services offer further value to publishers and retailers, embedding our role in the supply chain.

6 Supply chain commitment
We work with our supply chain partners to improve their efficiency and sustainability in tandem with our own.

Delivering shareholder value

We aim to deliver attractive and relatively predictable returns for our shareholders, paying regular dividends subject to performance while ensuring we meet the needs of all stakeholders. Our business model and strategy are closely aligned to this goal.

Publisher contracts

We have long-term contracts with all the UK's national publishers and the majority of regional press in our territories. Currently over 65% of our business is secured on new long-term agreements through to at least 2029, with the remainder to be renegotiated as contracts expire. These contracts provide a high level of cash flow predictability. They also provide the stability and surety of tenure that supports investment in our network and technology.

Multiple revenue streams

Our income comes from two main revenue streams: margin on the products we supply and a delivery service charge (determined by a volume related rate card) which helps to smooth the impact of any fluctuations in direct delivery costs. In addition, we receive income from the recycling of unsold copies of magazines.

Predictable sales patterns

With extensive market coverage our sales are spread across many publishers, retailers and regions. While volumes often vary between titles, overall sales are relatively predictable, following well-established trends that our market insight allows us to anticipate and respond to.

Positive cash flow

Our business model is characterised by swift turnover of products with minimal stock holding and frequent billing to customers – supplies are received on a sale or return basis, limiting cash risk. As such, we benefit from a positive and relatively predictable sales cash flow.

Sustainable futures

With over two centuries of experience in news wholesaling we have deep and lasting partnerships with our suppliers and customers. In serving the supply chain, we recognise that it is by working together that we find the best solutions to challenges such as reducing our impact on the environment or serving rural communities.

Incremental opportunity

We are working to build incremental revenues from activities that complement our core operation, focusing on those that leverage our capabilities, relationships and market insight. While we are excited by several new opportunities, the underlying strength of our core business means we can proceed with appropriate pace, ensuring the timing and risk profile of any actions are aligned to our overall strategy.

Inside news

Creating and supporting a culture of positive mental health and wellbeing.

At Smiths News we recognise the importance of creating an environment where our colleagues feel they are able to be their authentic self, knowing they can reach out for support to establish and maintain mental health wellbeing without fear of experiencing stigma.

As part of our overall sustainability and people strategy we are committed to supporting our colleagues' mental wellbeing, and we have created a network of 16 Mental Health Allies who have been trained to provide knowledgeable and safe support. Our Mental Health Allies are self-elected colleagues who have an interest and passion in the topic which fuels their desire to support others.

The Mental Health Allies proactively make themselves accessible to colleagues to encourage an open and trusted space to listen to those who have reached out, providing knowledgeable advice through signposting to expert support. Our Mental Health Allies play an equally important role to our qualified Health & Safety practitioners,' says Sam Matchett, Learning and Development Manager at Smiths News. 'As well as being a vital first point of contact, they're able to facilitate a range of initiatives that promote positive mental health and wellbeing at work.'

In addition to our Mental Health Allies, we have our free and confidential 24 helpline via our employee assistance programme which is accessible to all our colleagues and their direct family. Education is also an important part of our focus for a positive mental wellbeing culture, and we have various sources of information and training available for those wishing to understand more about the subject.

We are proud of the dedication of our Mental Health Allies in the professional support they offer and it is hugely important as they are seen as a trusted point of contact for colleagues in crisis but also in the everyday promotion of the importance of looking after our wellbeing.

Stakeholder Engagement

Engaging with and understanding our stakeholders is key to our strategy.

Stakeholder engagement is a priority for both the Board and the Executive Team. In making significant decisions we always seek to consider the views of the relevant and impacted parties.

This means our strategy, policies and performance measures are founded on an understanding of the needs and aspirations of our key stakeholders.

Engagement with stakeholders is conducted by both the Board and the Executive Team. Outcomes are discussed together, ensuring a common understanding of our stakeholders' feedback, enabling us to balance any competing interests and to take account of the various views.

Our engagement with stakeholders is focused on, but not limited to, five groupings which are described below. Our inclusion of 'the environment' as a stand-alone stakeholder reflects its importance to all our stakeholder groups and particularly its place within Section 172 of the Companies Act 2006. We believe it also encourages closer consideration of the environmental impact of decisions taken by the Board and the Executive Team. While these stakeholder groups reflect the majority of our activities, 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.

Key stakeholder engagements and their impacts

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

Shareholders and lenders

The Company's shareholders include large institutions, as well as individual investors. 70% of our issued shares are held by ten shareholders, with 48% 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.

What is important to stakeholders?

- 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

They are important because they impact our key strategic decisions and long-term success

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

2023 main engagements

- Annual Report
- Periodic RNS announcements and published trading statements
- Shareholder engagement on resolutions to be presented at the 2024 AGM, specifically an explanation around political donations
- One-on-one engagement with our largest shareholders, specifically around the merits and future direction of our growth and diversification strategy together with inorganic growth opportunities. These one-on-one engagements were supplemented with investor roadshows and ad hoc meetings, with contact made with our largest institutional shareholders representing approximately 70% of our share capital
- Receipt of corporate broker reports, providing coverage of investor and market sentiment, economic projections and share price performance
- Ongoing lender engagement
- 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 our decision-making

- Determine shareholder views on future growth and diversification strategy, with particular regard to inorganic growth opportunities

Risks

- Macroeconomic uncertainty
- Changes to retailers' commercial environment
- Growth and diversification

Suppliers and customers

We hold long-term 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. In FY2023, we renewed a number of our contracts with publishers and now have agreements in place, amounting to 65% of our current publisher revenues, to at least 2029.

With over 23,000 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 of news titles 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 c.700 self-employed distribution contractors who support our operations and deliver daily to our customers.

What is important to stakeholders?

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

They are important because they impact our key strategic decisions and long-term success

- 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

2023 main engagements

- Engaged with customers on delivery performance and service standards, delivery service charge levels and supporting the sustainability of the news and magazine category at retail level
- Engaged with publishers on contractual arrangements to secure future revenues
- Engaged with publishers on performance against our contractual commitments and in improving the efficiency of the supply chain as well as 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, print centre and network rationalisation

Impact on our decision-making

- Successful securing of new contracts with News UK, Associated Newspapers, Telegraph Media Group, Frontline and Seymour (together representing 65% of current newspaper and magazines revenues secured 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
- Support initiatives to improve the category profitability for retailers, reducing complexity and making the category sustainable in the long term

Risks

- Macroeconomic uncertainty
- Changes to retailers’ commercial environment
- Growth and diversification
- Sustainability and climate change
- Newspaper title exit
- Legal and regulatory compliance

Stakeholder Engagement continued

Colleagues

The Company employs over 1,100 full time colleagues operating from 35 distribution centres in 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, all-colleague 'Town Hall' meetings and staff briefings as well as benefiting from the input of various special interest employee network groups.

In addition to our colleagues, we have outsourced certain service functions to a Shared Service Centre (SSC) comprising c.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 so that outsourced colleagues have a sense of belonging and engagement within the wider business.

What is important to stakeholders?
- Job security
- Job satisfaction
- Remuneration and benefits
- Consultative and transparent engagement and processes
- Safe and healthy environment
- Sustainability and ESG

They are important because they impact our key strategic decisions and long-term success
- Workforce satisfaction
- Productivity
- Ability to attract, motivate and retain staff
- Regulatory compliance

2023 main engagements
- Local and regional colleague 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
- Establishment of Mental Health Allies raising awareness of mental health across all sites and providing stress support through a hotline, counselling services and employee assistance programmes
- The establishment of a 'Women in News' networking group, championing female-related issues within the business and broader industry
- Pulse engagement surveys (with outcomes reviewed by the Board, to inform action planning, priorities and impact on future decision-making) and a newly introduced D&I survey
- Quarterly face-to-face 'Town Hall' meetings hosted by the Executive Team, targeting two-way communication with all colleagues
- Newsworthy items and updates published on the Company-wide intranet 'SmithsZone' and/or in the Company's quarterly newsletters ('Our News') which is made available to all colleagues, either as paper copies or digitally
- The Executive Team and Board members have also undertaken site visits, with a combination of day and night visits, informal walk arounds and joining local colleague forum and team meetings

Impact on our decision-making
- Ratification of fair pay principles
- Continuation of Extra Mile colleague-recognition awards
- Continued support through the colleague hardship fund
- Launch of an enhanced maternity pay policy and support
- Launch of a trial for the free provision of sanitary products to our female colleagues
- 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

Risks
- Cyber security
- Acquisition and retention of labour
- Growth and diversification
- Sustainability and climate change

Community

With a 55% market share we serve thousands of local communities across the UK, ensuring newspapers and magazines are widely and easily available to all. The reliability of our service is critical to many communities and especially so in rural areas and at times of crisis or severe weather.

Smiths News is a critical component and active participant in the news industry community, supporting the sector through its NewstrAID charity. In addition, the Company is active in helping to address the issues and challenges of homelessness which our distribution colleagues witness on the streets. We are the chief sponsor of 'Pass It On', an independent registered charity which began as a Smiths News colleague initiative.

What is important to stakeholders?

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

They are important because they impact our key strategic decisions and long-term success

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

2023 main engagements

- 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 our decision-making

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

Risks

- Growth and diversification
- Sustainability and climate change

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 direct relevance to our industry partners. As such, we work closely with our publishers and retailers to find alignment and agree measures that maximise the positive impact of our combined efforts.

What is important to stakeholders?

- Environmental sustainability
- Social responsibility

They are important because they impact our key strategic decisions and long-term success

- Long-term sustainability
- Reputation
- Community support
- Regulatory compliance

2023 main engagements

- Review and confirmation of sustainability strategy
- Sustainability raised to a standing agenda item for all meetings with dedicated sustainability (incl. TCFD) presentation slots at the Board meetings as a quarterly agenda item
- Calculation of emissions and determination of science-based targets for Scopes 1, 2 and 'controllable' Scope 3 emissions
- 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
- Ongoing engagement around and implementation of the Company's supplier code, ethical trading policy and Modern Slavery Statement
- Ongoing 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 our decision-making

- TCFD report enhanced, emissions calculated and science-based targets established
- Sustainability strategy reviewed and 'SMART' objectives and measurable KPIs confirmed and updated
- 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

Risks

- Sustainability and climate change
- Legal and regulatory compliance

Stakeholder Engagement continued

Significant decisions taken by the Company during the year, having considered the views of the relevant parties impacted by those decisions as noted in this report, have included:

- the securing of new long-term publisher contracts with each of News UK, Associated Newspapers, Telegraph Media Group, Frontline and Seymour Distribution, together representing 65% of current newspaper and magazines revenues secured through to 2029. These contract awards represent a key strengthening of our business model and allow Smiths News to continue to drive efficiencies and deliver great service for publishers, retailers, and ultimately for millions of consumers across the UK;
- the network rollout in February 2023 (following a successful trial period) of Smiths News Recycle, a new business initiative providing convenient waste recycling services to retailers, leveraging our current distribution and network recycling facilities, making it an attractive and complementary bolt-on to Smiths News' core operations and ensuring that our customers have access to complementary services which allow them to focus on their own businesses;
- trialling new profit streams from a range of adjacent opportunities that complement Smiths News' core operations, notably the supply of DVDs and books to leading supermarkets, the exploitation of spare warehouse capacity and parcel sortation services for other third-party logistics suppliers and our investment in LoveMedia, a digital solution for the sale of single-issue magazines. These initiatives help to partially offset a reduction in activity at our larger depots and/or to deepen our trading relationships with some of our largest customers;
- exploring a potential acquisition aligned to our growth strategy which, following significant progress and having undertaken extensive due diligence, the Board concluded would not be in the interests of all stakeholders to proceed with at that time given the changing macroeconomic climate and the economics of the proposed transaction terms. The Board remains alive to the opportunity for inorganic growth, ensuring that such opportunities are complementary to our core operations and without risk to our dividend policy or our commitment to maintaining a strong balance sheet;
- considering the impact of, and determining shareholder views on, the outputs of one-on-one engagement with our largest shareholders, specifically around the merits and future direction of our growth and diversification strategies, including possible M&A opportunities;
- considering the closure of our Reading depot and the proposed rationalisation of our magazine operations in Nottingham to our Birmingham depot. Whilst these matters are never an easy decision to take, the nature of our business and markets requires that we continue to undertake a robust cost-out programme to ensure that our business remains sustainable into the future. In these instances we nevertheless remain committed to the responsible management of our colleagues impacted by these decisions and have acted in a fair and considered manner;
- ratification of our colleague 'fair pay' principles and a review of some of our most important colleague benefits, such as the introduction of an enhanced maternity policy and review of our expenses policy; and
- adopting science-based targets in respect of our CO_2 emissions as part of our sustainability strategy as a key focal area of importance to the business and its footprint on our communities and the environment.

Designated Workforce Engagement Director

The Board continues to assess its approach to engagement within the workplace, mindful of the UK Corporate Governance Code measures. To facilitate this process, the Board has designated a non-executive director with specific responsibility for workforce engagement. The role is a critical link in our communication and feedback chain and is currently held by Michael Holt, whose deep experience in the distribution sector is especially relevant to this engagement.

Michael has held the position since its inception in 2019, working closely with our People teams and the National Colleague Engagement Forum, which is a representative group from across the business. He reports on his interactions, raising issues and conveying the breadth and strength of views to the Board.

The formal 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 details on the nature of the engagements and outcomes can be found in the Corporate Governance report on page 70.

Inside news

Pass It On – reaching out to homeless people and those in need.

Beginning as an in-house initiative, Pass It On has grown to become a registered charity that provides tangible hands-on support to thousands of homeless people across the UK.

Now in its seventh year of operation, Smiths News acts as the charity's primary sponsor, providing resources, volunteers and a wealth of goodwill and fundraising support from across the Company.

This year the Smiths News volunteer steering group planned, resourced and manned campaigns that provided essential supplies for those on the streets in Manchester, Slough, Westminster, Birmingham, Oxford and Liverpool.

'We were delighted to be able to run both summer and winter campaigns this year,' said Mike Frost, one of the campaign coordinators and member of the steering group. 'In the colder months we provide packages that include warm clothes, sleeping bags, socks, gloves, food and hygiene products. For the summer we adapted this to focus on items such as fresh tee shirts, sunscreen, hats, toiletries and sanitary products… the sort of essentials that many of us take for granted.'

The steering group has worked with suppliers to source donations of items such as walking gear, woolly hats, cargo trousers and energy foods. They've also linked up with local charities including Oxford Homeless Project, Showerbox and Slough Outreach. 'These partnerships help us to scale the operation and reach even more people in need,' explained Mike.

Looking ahead, already in the pipeline for 2024 is a link up with Park Run UK that will encourage runners to donate good-quality used running kit and trainers at their local events. There are also plans to test a street hairdressing service. 'So many everyday services are incredibly difficult for homeless people to access,' concludes Mike. 'If we can make even a small difference then it will have been worthwhile.'

Smiths News and Pass It On would like to thank all the volunteers and fundraisers and people across the Company who have made this vital work possible. They would also like to thank our supply brand partners including Adidas, iPro, Great Run Group and Glanbia.

Interview with CEO, Jonathan Bunting

Delivering reliable results, performing consistently and restoring *our financial strength.*

Jonathan Bunting joined Smiths News in 1994 and was appointed to the Board in 2010. He held a variety of sales and marketing and senior operating roles before taking up the reins as Chief Executive Officer in November 2019. Outside of work he's a passionate Coventry City football fan and committed campaigner for the needs of homeless people.

There are few people with his depth of experience in the Company and wider news industry – we asked him to reflect on both.

Jonathan Bunting
Chief Executive Officer

7 November 2023

Q Reflecting on your four years as CEO, what have been the key challenges and highlights?

A Without doubt, the biggest single challenge we faced was coming through the pandemic; to do so profitably and having made a significant contribution to our communities and industry partners was a remarkable achievement. The service we delivered during that period is a tribute to our people and reflective of the understated determination that so characterises Smiths News.

From a performance perspective, I see our progress as more of a consistent climb than one of peaks and troughs. In many ways, the highlight for me is our ability to deliver consistently for all our stakeholders, keeping our promises and staying focused on our strategic goals. That we have done so during such disruptive and difficult times speaks to the underlying qualities and values of our business and the robustness of our plan and approach.

Four years on, the balance sheet is transformed. We have long-term contracts in place with our key clients, we have started to grow new profit streams, our colleague engagement levels continue to be very high, and we have restored and grown our dividend to shareholders.

Q This year, Smiths News has successfully renegotiated almost all of its contracts – why is that so beneficial?

A For all that we work with our industry partners every day, we never take them for granted. Renewing our contracts until at least 2029 confirms the territories we will be operating in, and given the relatively predictable nature of our markets, provides good visibility of our future sales and cash flows. This would be an enviable position for any business, but it's especially vital when we operate in core markets that are gradually declining and which require us to find both compensating efficiencies and complementary new profit streams. Last but not least, it provides a welcome degree of certainty for all our stakeholders, including our people, our retail customers and the industry as whole.

Q Turning to new revenues, you've said you want to develop these in an agile way – what do you mean by that?

A We are targeting new revenues from opportunities that complement the core business by leveraging our distribution capabilities and customer relationships. Our research and experience demonstrate that there's no 'silver bullet' solution; rather, there are a range of opportunities that will initially need testing, before scaling with appropriate investment over time.

Being agile means pursing this goal in a determined but open-minded way. It recognises that some paths will go to plan, others might lead to dead ends, and some might enable new and perhaps unforeseen opportunities. It's also about making progress at a pace and in a manner that meets the needs of all stakeholders, without putting at risk the strength of our underlying finances that we've worked so hard to secure or the dividend that our shareholders rightly value.

Q Smiths News Recycle has gone from regional trials to network rollout in just over a year. Is this a model for future organic ventures?

A It's certainly a good demonstration of how we plan to first test, trial and then move at pace. And it's also a great example of an opportunity that delivers on a number of fronts. The service backs onto our existing deliveries and recycling capabilities; it provides a new and convenient service for customers; it's positive from a sustainability perspective, and what's more, it's profitable without the need for significant capital investment. To go from one hundred customers to nearly 4,000 customers in a single year is clearly pleasing.

That said, we recognise that not every growth opportunity will develop quite like this; some may require greater capital investment or appropriately sized acquisitions to bring to scale. Importantly, we will have tested them robustly before making any decision to invest further in the pursuit of scale.

Q You've been with Smiths News for almost 30 years – what are the biggest changes that you've seen in that period?

A There are so many I could list, but I'd say the increase in our market share from 39% to 55% in 2009 which made us the clear market leader; it's a position we have held, not just in numbers but in service and strategic intent, ever since.

But there is another part of me that wants to highlight what has stayed the same. Smiths News has always been a strong and stable business – even during the difficult period for the former Group, before I became CEO, it was the news business which had performed consistently, delivering reliable results that have since restored our financial strength. That consistent performance was perhaps less well understood by the market when we were part of a wider Group.

Q We are all becoming more conscious of our impacts on the environment – how can Smiths News make a difference?

A The biggest difference we can make is doing the right things at the right time and in the right order. On this basis, we have first tackled some of the obvious opportunities in our core operations such as the energy in our buildings, the efficiency of our fleet and utilisation of vehicles to minimise emissions. But we know that's not enough, which is why we have set stretching and science-based emissions targets to reduce our own impacts steadily and consistently over the next five years.

Widening that scope, we are ideally placed to make a difference to the industry as a whole because our operations play a critical role in linking publishers to retailers. Smiths News Recycle is a tangible example of a venture that benefits all parties, but there is also a great deal of less visible work underway with our industry partners to align our actions and impacts. This will take time, but we are fully committed to making a difference for the long term, both as a business and a responsible supply chain partner.

Q And finally, what are your ambitions for the coming year – and what would a great result look like?

A Every year we set clear targets for profitability, service, people, new revenue, and more... Of course, achieving these goals is central to our success. We want to be recognised for the consistency of our performance, and as a business that delivers even when the economic environment is less than favourable. I'm proud that in my four years as CEO we've done precisely this, and am delighted that our progress provides us with opportunities for the future that our people so deserve. As for some icing on the cake – well, if Coventry City could get promoted back to the Premier League that would be fabulous too!

Priorities FY2024

Continue to manage inflationary pressure

Sustainable cost reduction of circa £5.0m

Renew remaining large publisher contracts

Increase contribution from new business opportunities

Refinance our banking facilities which run to August 2025

The *business has delivered* despite wider economic pressures and uncertainty.

Despite uncertainty in the wider economy and continued inflationary pressures, the business has performed well, driving a typically robust result that is founded on sound operating principles, well-executed plans and maintaining close attention to our strategic priorities.

The fundamentals of excellent service, cost control and our ability to adapt to market trends remain signature qualities of our business model and its continued resilience.

We have exceeded market expectations for the full year by ensuring the benefit of stronger revenue was able to flow through to profitability. While top line sales were boosted by the FIFA World Cup, the Royal Succession and sustained price rises above historic norms, our performance was also driven by the mitigation of volume declines and inflationary impacts as a result of management actions and our ongoing programme of operational cost savings across the network. In this respect, the renewal of 65% of our publisher contracts to at least 2029 has given us the certainty required to proceed with network optimisation plans that will deliver savings over the lifetime of our agreements.

In parallel with our resilient profit performance, the underlying finances of the business have continued to strengthen, with Average Net Debt reducing to £25.0m. Free Cash of £21.8m and Earnings per Share of 10.8p are in line with our expectations, while a total dividend payment for the year of £10m is the maximum allowable under our banking arrangements, which run to August 2025.

More broadly, the easing in labour markets has aided recruitment, helping to ensure our market-leading service metrics have been maintained. This underpins our relationships with publishers and retailers and further reduces cost by minimising waste and rectification expense.

Drawing on a deep well of experience, we remain closely focused on operational efficiency and adapting to the structural decline in volumes in a way that maintains service for customers and performance for our stakeholders.

Our stated plans to explore adjacent market opportunities have progressed and we have learned a great deal in researching, testing and evaluating a range of initiatives that leverage our skills, technology and capacity. The regional trial and subsequent national launch of Smiths News Recycle is a highlight, and we remain optimistic about the prospects of supplying new categories to existing customers. Meanwhile, we continue to explore the potential for carefully targeted bolt-on acquisitions that provide greater scale to our new revenues while also complementing our core business and its customer relationships by adding value to our role and services.

In summary, our strategy and plans continue to achieve their objectives of strengthening the core while exploring appropriate platforms for future opportunity. That we have met and surpassed the majority of our targets in such challenging economic conditions is testament to the resilience of our business model and its reliability in delivering for all our stakeholders.

We have exceeded market expectations for the full year by ensuring the benefit of stronger revenue was able to flow through to profitability.

Financial performance and key variables

Adjusted Operating Profit of £38.8m was up by 1.8% (FY2022: £38.1m) from Revenue of £1,091.9m that was up by 0.2%. Adjusted Profit before Tax of £32.3m was up 3.9% (FY2022: £31.1m) as a result of lower financing charges and from the continued reduction in the Company's average debt requirements. Adjusted EPS is maintained at 10.8p (FY2022: 10.8p).

Statutory Profit before Tax of £31.8m is up by 14.0% (FY2022: £27.9m), the difference primarily due to the previous year's provision of £4.4m for bad debt risk associated with the administration of McColl's Retail Group in May 2022.

The most significant variables in driving our financial performance were:

- Overall revenue growth driven by strong cover price rises across the year
- Additional sales from the Royal Succession and the FIFA World Cup
- New revenues from ancillary contracts and ventures
- Lower wholesale margin due primarily to magazine volumes declining in line with historic norms
- Inflationary pressures on distribution costs, wages and third-party providers
- Cost savings of £5.8m from our actions to improve operational efficiency
- Lower depreciation costs reflecting sustained reductions in capital expenditure

Newspaper and magazine sales performance and trends

Overall sales in our core markets showed marginal growth as a result of sustained inflationary price increases as publishers looked to recover higher production costs. Newspapers have performed more strongly than magazines, for which greater volume declines have offset the benefit of increased cover prices. The continued strong year-on-year performance of higher margin trading cards and stickers (aided by the men's FIFA World Cup in H1) amounted to a further revenue boost of £8m. The Royal Succession had a broadly similar revenue impact, spread across newspapers, magazines and special editions.

> Newspapers have performed more strongly than magazines, for which greater volume declines have offset the benefit of increased cover prices.

As we start the current financial year, sales continue to benefit from the remaining flow through of price rises in FY2023. We expect volumes to continue to decline and we are planning accordingly, taking the opportunity to reconfigure our network and operations as part of our cost reduction programme. Furthermore, while underlying patterns are relatively predictable and stable, we are mindful that sales gains from the World Cup and Royal Succession will not repeat in FY2024.

Publisher contract success

By accelerating our contract renewals we have secured favourable agreements representing 65% of our current revenues through to at least 2029. As previously announced, we concluded new agreements with each of Frontline, Seymour Distribution, Associated Newspapers, Telegraph Media Group and News UK in the year. The renewed contracts not only give us security of territories but also enviable visibility of potential revenue and cash flows over their lifetime.

In addition to the renewal of existing contracts, in October 2023 the Company announced a supplementary agreement with News UK for newspaper distribution in our existing London territories (commencing in November 2023) and also secured a new contract with National World plc to distribute the Midland News Association regional press titles (expected to commence distribution in the Midlands in December 2023). Taken together, these contract awards represent additional sales value of c.£32m p.a.

Our remaining publisher contracts continue to operate well and we would very much expect them to be renegotiated in line with their end dates, which are staggered over the next three years.

Smiths News Recycle

The first of our organic growth ventures, Smiths News Recycle is a new and convenient waste recycling service for our retail customers. The service collects plastic and cardboard waste largely from our independent customers using our existing delivery runs and recycling facilities to transport and consolidate the waste. Starting as a regional trial in FY2022 we have moved from concept to launch across our network in February 2023. The service currently has c.4,000 subscribing customers, and the near-term potential in its current scope to make profits of c.£1.0m. We plan to continue scaling the operation in a way that leverages our existing capacity and have opened exploratory discussions with selected larger customers to explore its potential in new categories and outside the independent sector.

By accelerating our contract renewals, we have secured favourable agreements representing 65% of our current revenues through to at least 2029.

New revenue streams

Our plans to develop new and ancillary revenues, announced in FY2023, are founded on finding opportunities to leverage our physical capability and spare capacity; our technology and market intelligence; and our supply chain relationships. In adopting an agile approach to organic initiatives we were mindful of taking a prudent approach to long-term investment, and clear that while some trials would succeed, others would likely prove less practical at scale. Our plans also include exploring the potential for small-scale bolt-on acquisitions that would complement our core business without risk to our dividend policy or commitment to maintaining a strong balance sheet.

The exploitation of spare warehouse capacity and new revenues arising from parcel sortation services for other non-competitor carriers continues to drive a welcome contribution to overheads and our national launch of Smiths News Recycle is a highlight of our organic opportunities. In other areas we have started to pick, pack and deliver books and DVDs to major supermarkets and have maintained our investment in LoveMedia, a digital solution for the sale of single issue magazines. These further initiatives remain in their early stages.

We continue to explore opportunities for acquisitions of appropriate scale that would enhance our capabilities and add value to our role in the supply chain. While mindful of the current macroeconomic climate, our ambition to grow in new areas is undiminished, however, we will only act when we have identified the right combination of strategic fit, timing and commercial opportunity.

Cash Flow and Net Debt

Free cash flow of £21.8m (FY2022: £48.2m) represents a further good performance as the previous year had benefited from £22.1m of exceptional inflows. After removing these one-off factors and allowing for other timing and trading adjustments, we are satisfied that our cash generation remains strong and appropriate to meeting the needs of all stakeholders. Furthermore, the greater visibility of our publisher contract revenues and associated capital requirements, together with the relative predictability of such revenues, means we are confident that the levels of free cash flow can be maintained at or about current levels.

Bank Net Debt (excluding IFRS 16 leases) of £4.2m is down by 70.4% (FY2022: £14.2m) representing just 0.1 x Bank Net Debt/EBITDA. While this is excellent progress the figure can be impacted by the timing of publisher and retailer payments, hence a better indication of our ongoing requirements is Average Net Debt which at £25.0m is down 49.9% (FY2022: £49.9m).

The consistent progress we have made since FY2020 has reduced our interest payments, affording greater flexibility over future options and positioning us well to refinance our facilities, which run to August 2025.

Dividend

After considering the Company's financial progress and in line with our previously stated policy and the terms of our banking agreements, the Board proposes to use the full extent of the £10m 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 (FY2022: 4.15p). The final dividend will be paid on 8 February 2024 to all shareholders who are on the register at the close of business on 12 January 2024; the ex-dividend date will be 11 January 2024.

Outlook

The new financial year has started well. Our critical drivers of sales, margin and sustainable cost reduction are being closely managed and we remain attentive to ongoing inflationary pressures which remain above historic levels. Cost reduction initiatives are well underway and progress continues to be made with our growth strategy. We are confident in delivering results for the current financial year in line with market expectations.

Inside news

Smiths News Recycle, helping customers and us to reduce our impact.

Smiths News Recycle is a new and convenient waste recycling service, targeted at local retailers who want the convenience and flexibility of a daily collection. In its first year, the business has gone from a regional trial to full network rollout and already has nearly 4,000 paying customers.

With more coming on board every day, and more waste categories in the pipeline, Smiths News Recycle is well placed to grow and develop in the year ahead.

'We were taken aback by the take up across the country,' said Phil White, General Manager of Smiths News Recycle. More than 70% of those customers who try the service chose to become regular subscribers, confirming just how useful it is for smaller retailers. 'In many ways, I wish we'd launched earlier, because although the trials were essential in testing the logistics, it's wider customer feedback which has most helped us to refine the offer.'

The service is especially popular with retailers who lack the space to store waste materials, explains Phil. 'A daily collection, tied into their newspaper and magazines deliveries, is an ideal solution for these customers and by linking in to our infrastructure we can offer a competitive price. Invoicing through the news bill keeps things simple for the retailer too.'

At present collections include cardboard and plastic waste, which is taken to our depots for sortation and bailing before collection by recycling partners. So popular has the service proved that Smiths News has invested in new equipment to help speed the process and, in response to customer feedback, additional waste categories are now under consideration.

Launching the business at pace has required an agile approach, responding quickly to opportunities that emerge. 'Our guiding principle has been to test good ideas, learn from the experience and then try some more,' says Phil. 'For example, we're now collecting waste from additional customers such as bookmakers and other smaller independent retailers.'

Looking to the future, Phil sees lots of further potential. 'We still have more core customers to sign up, and there are new waste categories to consider; we're also in discussion with symbol groups and other potential partners.' One thing's for sure, he concludes, the demand for recycling solutions will only increase.

smiths news Recycle

People Report

Working together in a *supportive culture* is the foundation of our success.

Shaping our future

Our people strategy is shaped by a belief that the involvement of colleagues is crucial to setting our priorities and making the right calls. This is why, over the last two years, we have increased our efforts to hold conversations on what matters most and how we might better support each other. In listening to feedback, it is clear that our teams take great pride in their performance and that working together in a supportive culture is the foundation of their success.

This resonates with our commitment to being a business where everyone can flourish, with a culture that values its people for who they are, as well as what they do. As our needs and aspirations evolve, this means being open to change without abandoning those qualities and skills that have served us well. We believe this dynamic approach is best achieved with the consultation, involvement and energy of those who live the outcomes and are most impacted by the choices we make.

In pursuing our goals we have a rich heritage to draw on. Every day our teams work in testing circumstances to deliver outstanding service; in doing so they have become adept at collective endeavour and continual improvement. If in the past that has been primarily focused on operational measures, over recent years we have paid equal attention to the benefits of making progress in areas such as diversity, inclusion and communications.

As a result, it is colleagues who are driving the difference, facilitated by our specialist support functions, but ultimately shaping (and taking pride in) our vision of ensuring that people and performance go hand in hand. Together with our Company Values it is these human qualities of support, endeavour and determination that make Smiths News the successful business that it is.

> We have increased our efforts to hold conversations on what matters most and how we might better support each other.

In reviewing our progress over the last 12 months, we are pleased with what has been achieved and excited about the opportunities for the immediate future. The renewal of many of our contracts gives a level of security and foresight that is helpful to making improvements to our core activities. Meanwhile, the development of growth initiatives and new revenue streams opens possibilities for fresh skills and perspectives that will enhance the whole.

Whatever the outcome, it will be shaped by the needs and efforts of our people, for it is they who live, create and take pride in the culture that continues to underpin our leadership and success.

A commitment to communication

In response to positive feedback we've invested to further improve the frequency, content and availability of our communications. It's clear that colleagues want to know about our overall performance and be as well informed of Company-wide issues and policies as they are of those more local to them. Many colleagues are also shareholders, either independently or through the Sharesave scheme, and they take a keen interest in our commercial success. What's more, they want the opportunity to share ideas, make connections and pursue career opportunities that are facilitated by two-way communication channels.

As a result, we have expanded our face-to-face briefings, holding 'Town Hall' meetings on a quarterly basis. These cover Company performance as well as developments in strategy and policy; they are attended by senior executives working to a 'buddying' system that ensures colleagues at depots have the opportunity to meet and question those at the centre of key decision-making. We supplement the Town Hall meetings with our colleague publication 'Our News' and frequently update news articles and interactive features.

In FY2022 we refreshed and upgraded our intranet (Smiths Zone), making it available to all colleagues and simultaneously enhancing our digital services to support individuals across the network.

Over the last year we have further enhanced its content and functionality with a subsequent increase in usage, improving awareness of policies, benefits and training opportunities, as well as updating on Company news and performance. To better support colleagues who work in warehouse environments we are trialling the introduction of Tech Hubs at Birmingham and Hemel Hempstead; these give access to both our intranet and our 'Connect Me' self-service resource system and tool kit for employees.

In line with our sustainability goals, we have implemented an automated system to generate personal letters and communications where required – this improves accuracy, timeliness and confidentiality, as well as reducing risk associated with data management and GDPR requirements.

Enhancing our engagement

For several years we have conducted a regular engagement survey that measures our drivers of performance and colleague alignment to our goals and culture. In FY2023 we completed two surveys, returning 'net promoter' scores (on a scale of 1 to 10) of 7.2 and 7.1 against a target of 7.0. Participation rates of 90% and 84% give confidence that these results are an accurate reflection of engagement across the Company.

Our Values

Our Values guide the way we work together and help to set our ambition and strategy. They are reflective of our hands on and pragmatic culture, and as such are relevant to improving performance today and shaping the solutions of tomorrow.

Trusted

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

Creative

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

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.

People Report continued

Nonetheless, after consultation with colleagues, we will be moving to a new provider and approach in FY2024. In doing so, our aim is to improve the relevance and usability of the survey, ensuring we are better able to share and respond to its outputs in a timely and practical manner. A project group of colleagues, supported by our technical and operations teams, is working to shape the solution so that it is driven by our teams and addresses the issues they deem to be most relevant.

Talent and development

We work to support all colleagues in their roles and careers, recognising that across the business we have a range of skills, ambition and talent that spans both the geography and complexity of our operations. Our talent and development strategy therefore encompasses regular training and on-the-job 'best practice' updates, as well as identifying and giving specific support to those individuals who have the potential and wish to advance to more senior or indeed different roles.

Talent reviews are conducted across the business on a six-monthly basis and these are supported with development programmes to meet the identified needs. In FY2023, we conducted ten bespoke team development sessions and 19 colleagues were provided with personal coaching to help them in their role and career path. To support those colleagues who wish to progress but are unsure of their direction, we hold regular planning conversations and run career insight workshops. In response to feedback we introduced a 'trusted leadership' module founded on 12 sessions of tailored content. We have enrolled eight new apprentices, with candidates given training and relevant experience that will prepare them for team leader and supervisory roles.

Our online learning platform gives access to a wider range of generic courses and role-specific training. It includes mandatory modules for Data Protection, Dignity at Work and Information Security, for which compliance rates are currently at 98%. We have invested in additional content for colleagues to support wellbeing and inclusion, with modules such as Anxiety Awareness and Healthy Lifestyles. We plan to increase our use of online learning tools as an effective means of reaching and providing opportunity to all our employees.

We continue to support the development of our most senior leaders through twice yearly Senior Leadership conferences, focusing on themes such as the future of technologies and additionally drawing in external insight and experiences through bespoke Leadership Masterclasses.

Our People policies aim to ensure that the demands of work and home life are well balanced, allowing colleagues to contribute their best every day. They also recognise that, from time to time, this balance can be upset by factors such as physical and mental health, financial hardship, family issues or uncertainty over the future. This year, for example, the sustained pressure on the cost of living, including energy and fuel costs, has been a significant worry for many colleagues and their families.

Our colleague support fund, initially launched in the COVID-19 pandemic and subsequently expanded, enables those in financial need to make confidential and sensitive application for additional financial support. This year, in recognition of the exceptional concerns over rising energy bills, we paid an additional seasonal allowance of £250 to all colleagues earning less than £25k.

To promote wider awareness of how we might offer assistance, we ran a series of reward and benefit roadshows, explaining the different types of support available.

Our eLearning platforms include a financial planning toolkit supported by an external provider and in April 2023 we also launched the government backed Help to Save scheme which allows participants to build up a savings fund through deductions straight from their salary. Sometimes, of course, it is flexibility in working that makes the necessary difference and we seek to accommodate these needs, making adjustments where this is possible.

In all these actions our aim is to be there as a trusted partner for colleagues, offering the support, flexibility and confidential channels that can make a substantial difference in times of need.

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; confidential whistleblowing procedures are well communicated, including a confidential line. All concerns raised are carefully investigated and any significant matters are brought to the attention of the Audit Committee. Following best practice, this year we have upgraded our whistleblowing line to ensure it is available round the clock, seven days a week. It is now managed by an external provider, giving further confidence in its confidentiality, impartiality and improved access to multiple languages spoken.

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 the 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, in 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 on our website **www.smithsnews.co.uk.**

Gender composition and pay gap reporting

The Company is committed to gender equality in the workplace and is working to improve 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 26 August 2023 and the equivalent data for the prior year can be seen in the table to the right.

As a company employing more than 250 employees, we adhere to reporting and publishing the legislative gender pay gap requirements each year within a year of the snapshot date*. FY2022 arithmetic mean average equates to 11.3% (FY2021: 14.3%) and a median distribution average of 2.36% (FY2021: 4.04%) which is significantly lower than the UK's National Median Gender Pay Gap average at 15.4%.

This data is communicated and made fully accessible 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/wp-content/uploads/Smiths_News_gender_pay_gap_2022.pdf.**

The Company will update its gender pay gap report in due course, in line with the required reporting timetable and no later than 4 April each year – details will be published on the Company's website at **www.smithsnews.co.uk/investor-zone/.**

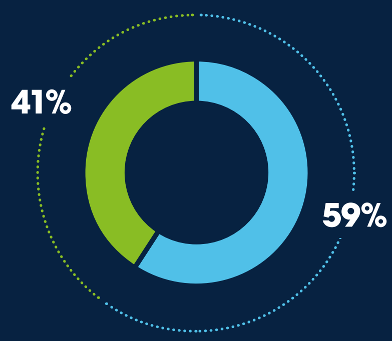
* Calculated on the defined snapshot date of 5 April 2022 and published before 4 April 2023 as required by Government reporting rules.

Key

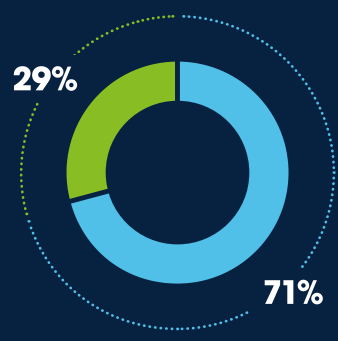
Female

Male

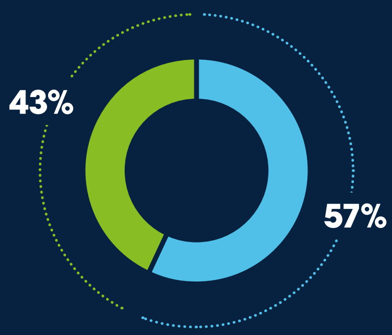
All employees



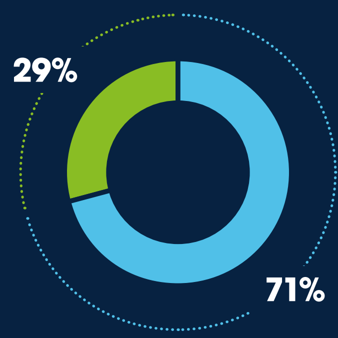
Board of Directors



Executive Team



Executive Team and other Senior Managers



Gender composition at 26 August 2023

	Male headcount	%	Female headcount	%	Total headcount
All employees	882	59%	607	41%	1,489
Board of Directors	5	71%	2	29%	7
Executive Team	4	57%	3	43%	7
Executive Team and other Senior Managers	15	71%	6	29%	21

Gender composition at 27 August 2022

	Male headcount	%	Female headcount	%	Total headcount
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	15	79%	4	21%	19

Key Performance Indicators

Our financial KPIs reflect the most critical financial measures and targets of the Company. Their achievement ensures we can continue to meet the needs of all stakeholders, encompassing investment in our business, strong underlying finances and attractive returns for shareholders.

Non-financial KPIs reflect the core performance measures of our service obligations to customers and industry partners. In addition, we include measures that give attention and visibility to workplace safety, colleague engagement and customer satisfaction.

As noted in last year's Annual Report, the Board reviewed the Company's key financial metrics in FY2022 and concluded that the performance of the business would be best monitored by the adoption of Adjusted Operating Profit as its primary measure of overall financial performance. The Company's financial KPIs therefore no longer include Adjusted EBITDA (pre-IFRS 16) as listed in the FY2022 Annual Report and Accounts.

The Board has subsequently reviewed both the revised financial and the non-financial KPIs, concluding that they largely continue to reflect our strategy and encompass the primary needs of stakeholders but that two new KPIs (profit from growth and diversified activities and an absolute reduction in Scopes 1, 2 and 'controllable' Scope 3 emissions (tCO_2e)) would be introduced for FY2024 to represent our sustainability and diversification strategies.

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 the Strategic Report on pages 2 to 65.

Financial KPIs

Total Statutory Revenue £

£1,091.9m

FY23	**£1,091.9m**
FY22	£1,089.3m
FY21	£1,109.6m
FY20	£1,164.5m

Statutory revenue measures the extent to which core sales and other revenues are within our planning assumptions and longer-term strategic forecasts.

Adjusted Operating Profit £

£38.8m

FY23	**£38.8m**
FY22	£38.1m
FY21	£39.6m
FY20	£35.1m

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 Company's performance and is the key management incentive metric from FY2022.

Adjusted Profit before Tax £

£32.3m

FY23	**£32.3m**
FY22	£31.1m
FY21	£30.9m
FY20	£27.9m

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 £

£31.8m

FY23	**£31.8m**
FY22	£27.9m
FY21	£30.6m
FY20	£14.8m

Statutory profit before tax measures the absolute profitability of continuing operations after any disposals.

Earnings per Share p

10.6p

FY23	**10.6p**
FY22	9.8p
FY21	10.8p
FY20	4.9p

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

10.8p

FY23	**10.8p**
FY22	10.8p
FY21	10.8p
FY20	9.7p

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 £

£21.8m

FY23	**£21.8m**
FY22	£48.2m
FY21	£24.0m
FY20	£10.9m

Free cash flow measures the cash available to the business, which can be used for investments, dividends and the reduction of debt.

Average Net Debt £

£25.0m

FY23	**£25.0m**
FY22	£49.9m
FY21	£82.6m
FY20	£98.6m

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 £

£4.2m

FY23	**£4.2m**
FY22	£14.2m
FY21	£53.2m
FY20	£79.5m

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

Dividend per Share p

4.15p

FY23	**4.15p**
FY22	4.15p
FY21	1.65p
FY20	0p

Dividend per share measures the profit per share of the Company and is used by investors when comparing performance to other similar businesses.

Profit from Growth of New Revenue Initiatives £

£0.7m

FY23	**£0.7m**
FY22	N/A
FY21	N/A
FY20	N/A

In recognition of the increasing strategic imperative to diversify and explore new revenue opportunities within our core markets and other adjacent categories, a new financial KPI is being introduced from FY2024 to represent the profit generated from growth of new revenue initiatives. This measure has also been introduced within the FY2024-2026 LTIP award, further details of which can be found in the Directors' Remuneration report on page 104.

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 the Strategic Report.

Key Performance Indicators continued

Non-financial KPIs

Customer Pack Accuracy %

99.7%

Target	98.0%
FY23	**99.7%**
FY22	99.7%
FY21	99.7%
FY20	99.3%

Pack accuracy ensures customer supplies and invoicing are aligned, minimising queries and administrative corrections.

Required Delivery Time %

93.3%

Target	90.0%
FY23	**93.3%**
FY22	92.4%
FY21	95.1%
FY20	96.8%

Arrival at the scheduled time is a key service measure for customers and publishers and aligns to our contractual obligations.

Returns Processing Accuracy %

99.9%

Target	99.5%
FY23	**99.9%**
FY22	99.9%
FY21	99.9%
FY20	99.9%

Unsold copies are credited to customers, so accuracy is vital for credits and invoicing to both retailers and publishers.

Returns Collections %

96.9%

Target	98.0%
FY23	**96.9%**
FY22	97.3%
FY21	98.4%
FY20	98.2%

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

Customer Satisfaction (Net promoter score)

28

Target	25
FY23	**28**
FY22	27
FY21	28

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.

Colleague Engagement (Net promoter score) *

7.1

Target	7.0
FY23	**7.1**
FY22	7.0
FY21	7.0
FY20	6.0

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.

* In FY2024 the Company will be appointing a new partner to conduct the colleague engagement survey; appropriate targets will be set during the course of the year in the light of lessons learned from its implementation. Further details can be found in the People report on page 24.

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

0.3

FY23	**0.3**
FY22	0.3
FY21	0.3

We measure 'lost time incidents' as the most comprehensive and accurate capture of reportable occurrences that impact our operations. By measuring these as a percentage of operating hours, we can benchmark to other organisations and allow for growth or contraction of our activities.

Health and Safety RIDDORs No.

4

FY23	**4**
FY22	2
FY21	11
FY20	7

We monitor RIDDORs to learn from every major incident, ensuring we take action to reduce the possibility of recurrence.

Greenhouse Gas Emissions **%**

New measure for FY24

Target **4.96% absolute reduction**

As part of our sustainability strategy, we have committed to a science-based target reduction in total equivalent greenhouse gas emissions within Scopes 1, 2 and 'controllable' Scope 3 (classes 1, 4 and 6) of 4.96% per year, representing an overall reduction of 55% by the end of FY2033. Further details can be found in the TCFD report on page 38. This has been introduced as a new KPI in FY2024 given our TCFD commitments and targets, noting that it similarly represents a performance measure within our FY2024-2026 LTIP award. Further details can also be found in the Directors' Remuneration report on page 104.

Sustainability Report

Smiths News is committed to *making a positive difference* to our supply chain, the environment, our people and the communities we serve.

In all our activities we seek to act responsibly, in harmony with our Values and with due care for the needs of all stakeholders. These are the foundations on which our approach to sustainability is built.

Our framework for managing sustainability was reviewed in FY2021 and more fully established the following year, with refinements based on the lessons that were learned from its practical application. This year, we have made further progress in pursuit of a science-based approach to our CO_2 emissions target setting, working with external experts to guide our goals. Meanwhile, we continue to challenge and review our objectives in the light of developments in our business, the supply chain and wider society.

A holistic approach

Our strategic framework is founded on a combination of the UN Sustainable Development Goals (SDGs) together with the structured disclosures-based reporting promoted by the Global Reporting Initiative (GRI). Using this as a start point, we then set stretching targets that are relevant to our operations and wider impacts on our stakeholders.

This holistic approach challenges us to make continual progress, acknowledging that as a scale business there are always improvements to be made; but equally, it recognises that in serving a wider and complex supply chain we must also work with others. In practical terms, this means balancing quick wins and internal progress with longer-term objectives that require coordination with our industry partners.

Looking ahead, we have incorporated science–based targets (SBTs) into our framework, considering short and long-term impacts of climate change, including widening our emissions measurements to include Scope 3.

As part of this process, we considered near-term targets linked to limiting warming to 1.5° above pre-industrial levels, with a specific focus on Scope 1 and 2 emissions, as well as emissions within categories 1, 4 and 6 of Scope 3, which we refer to as 'controllable' Scope 3 emissions. The Board has subsequently approved the Sustainability Steering Group's recommendation of a medium-term goal of a 55% reduction in Scope 1 and 2 emissions by 2033.

In line with these long-term goals, for FY2024 we have set stretching but realistic action plans in relation to SBTs that are consistent with our overall objectives. In particular, we will focus on reduction of energy usage, the use of renewable energy, and industry engagement in relation to the reduction of Scope 3 emissions. For the period between FY2024 and FY2028 we have set an absolute reduction target relating to Scope 1 and 2 emissions of 4.96% linear per year, and a reduction in Scope 3 emissions (categories 1, 4 and 6) of 32.5% cumulative.

Furthermore, we are conscious of the development of other global sustainability reporting frameworks, including: IFRS Sustainability Disclosure Standards; Corporate Sustainability Reporting Directive (CSRD); and International Sustainability Standards Board (ISSB)). We will continue to monitor the reporting landscape, reviewing our framework against latest developments to ensure that it remains fit for purpose and ensures the Company meets its regulatory and reporting requirements.

Strategic framework

Our sustainability pillars ensure we have a clear and robust structure to measure our goals and progress. Each pillar is assigned targets and priorities on an annual basis that help to ensure we allocate sufficient resources. The targets are then incorporated into more granular and tangible objectives that are cascaded from the Executive Team to our managers and workplace locations.

Notwithstanding the need for progress in all areas, for FY2023 onwards we have identified the Environment and People workstreams as priority pillars for the Company and we intend to continue with this approach, believing together they best reflect those areas in which we can make most impact for the good.

Action pillars

Environment

Encompassing our direct impact as measured by carbon emissions, fuel and energy usage, waste and packaging, and recycling. Our focus extends also to mitigations and offsets which result from actions of the Company.

Risk 6

People

Supporting the wellbeing and flourishing of colleagues, our focus areas include colleague engagement, diversity and inclusion, training and development, gender equality, free speech and human rights.

Risk 4

Governance

Committing to robust sustainability governance that includes formal reporting structures, compliance reporting and transparency, the ownership and communication of targets, and more widely the involvement of all colleagues in the delivery of our commitment to a more sustainable future. We include Health and Safety reporting under this pillar too.

Risk 8

Community

Working to make a positive contribution to the communities we serve, we seek to provide opportunities for colleagues to be involved and make a difference to the communities and causes they are close to. More broadly, we encourage support for charity and good causes in all its forms, including through our industry charity NewstrAID and the registered charity Pass It On which we established in 2017.

Risk 2 6

Responsible partnerships

Embracing responsible partnerships in pursuit of a more sustainable supply chain. Focus areas include our taking a leading role in industry-wide sustainability initiatives, data security and ethical sourcing.

Risks 1 3 5 7

Priority pillars

In our 2022 Annual Report and Accounts, we identified the Environment and People pillars as priorities for the Smiths News' strategy. This followed 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.

Notwithstanding our commitment to all our sustainability goals, we believe that declaring these priorities helps to maximise our impact, and focuses the attention on those outcomes which are most critical to our stakeholders.

The relevance of our sustainability framework is also assessed in relation to the Company's Principal and Emerging risks. These are listed below with details on page 62.

Risks

1. Cyber security
2. Macroeconomic uncertainty
3. Changes to retailers' commercial environment
4. Acquisition and retention of labour
5. Growth and diversification
6. Sustainability and climate change
7. Major newspaper titles exit the market or move to digital only editions
8. Legal and regulatory compliance

Accountability and reporting

Our approach to managing sustainability combines clear internal responsibilities with external accreditation/auditing, and, importantly, regular communication of our performance to stakeholders. This is aligned to our Company Values and a belief that the pursuit of sustainability can enhance our services and partnerships with our suppliers and customers.

The Board takes overall ownership of our sustainability goals while recognising that it is by engaging with our people and leveraging their supply chain expertise that we will make the most difference. In setting specific goals, we have adopted a structured scorecard that considers the interests of all key stakeholders. Objectives are then cascaded throughout the organisation, including to the Executive Team, functional specialists, line managers and other colleagues.

Paul Baker (CFO) chairs the central Sustainability Steering Group which comprises representatives with the relevant skills and experience for our objectives. This Steering Group monitors progress in our high-level strategic goals, taking action as required; it reports to the Executive Team and the Board on a quarterly basis. To further support our strategy we employ functional specialists and, where required, engage with external partners. This ensures we have the necessary expertise to progress and measures critical areas such as environmental emissions, Health and Safety, cyber security and people.

Smiths News is committed to making a positive contribution to the environment, our marketplace, our people and the communities we serve.

Progress and priorities

We are pleased with progress in our first full year since establishing our sustainability strategy in FY2021 and having refined it further in FY2022. In tandem with increasing and accelerating our objectives, we have improved the quantitative and qualitative measurements that help us to determine their impact. Most importantly, the strategic framework has focused our efforts on those actions that we believe will make the most tangible difference to our operations and supply chain. Inevitably, progress is not linear or at the same pace in all areas, but the overall direction is clear and irreversible. Looking ahead, we continue to prioritise the Environment and People pillars and have set stretching but realistic targets for each of our sustainability workstreams in FY2024.

FY2023 progress against our action pillars

Environment

Progress FY2023

Reducing emissions remains a priority workstream in our sustainability strategy, representing the most significant impact that we have on the environment and to global warming. Our prioritisation also recognises the pivotal role we play in bringing together the physical deliveries of the supply chain as a whole.

We continue to focus on those interventions that will make the most difference to our net impact. These are: the reduction of energy use and transition to renewable sources when viable; the reduction of vehicle and fleet emissions; and recycling and reuse of waste materials.

We continue to make progress with our company car fleet, which is now 48% alternative fuel and 52% internal combustion – as a result, our fleet's associated CO_2 impact is down by an estimated 26%. We are also on track to have 100% electric/hybrid car fleet by 2025. In our warehouses, 40% of our forklift truck fleet is electric, with plans underway to be 100% electric by June 2026, in line with lease renewals. In the year we have upgraded LED lighting at 21 locations.

In the light of reductions to overall newspaper and magazine sales volumes, we continue to focus on efficient route planning, this year removing or consolidating 35 routes, equating to c.713,440 miles per year.

In relation to waste, our launch of Smiths News Recycle has increased our waste processing and, working closely with our waste provider, we can now recycle crisp packets and polymer string.

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

People

Progress FY2023

Our People plan is fully integrated with our sustainability goals and remains a priority pillar within our strategic framework.

While in FY2023 we have achieved our target colleague engagement scores, activities to improve these continue and we will introduce revised and more tailored survey methodology in FY2024.

Development for all colleagues has been enhanced in the year through both online and in-person training. Compliance rates of mandatory modules in areas such as Health and Safety and Diversity are above 98% complete.

Similarly, our commitment to diversity and inclusion continues with the appointment of an Inclusion Manager to shape and drive our plans. We are making good progress in increasing the diversity of our workforce at all levels but recognise that we still have some way to go.

13 CLIMATE ACTION

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Governance

Progress FY2023

Our sustainability governance process is fully established, with clear responsibilities, action planning, reporting and a communications cascade that extends from the Board to colleagues at all levels. In the year, we reviewed all of our policies and published quarterly bulletins on legal and compliance issues impacting the Company.

Recognising that many colleagues work outside typical office hours we have established a new 24/7 confidential whistleblowing hotline, making it easier for colleagues to raise concerns and through the use of multilingual support.

Our high standards of corporate governance are described throughout this Annual Report and, in particular, within the Corporate Governance report on page 70.

Community

Progress FY2023

Smiths News, in its core activities alone, makes an active and substantial contribution to thousands of communities throughout the UK, by ensuring widespread availability of news and information, including remote rural locations that would not typically receive a regular delivery of many other products.

Our work in the wider community is headlined by our close partnership with Pass It On – a charity founded by Smiths News that provides immediate and tangible support to homeless persons throughout the UK. In FY2023, we coordinated seasonal campaigns distributing clothes, toiletries, food and other essentials and covered seven town and cities in our summer campaign. The charity inspires our teams and engagement in its campaigns is widespread across the network.

Smiths News is also a driving force in the industry charity NewstrAID, facilitating the collection of donations, partnering in its fundraising activities and playing an active role in both its governance and distribution of support for those in the newstrade who may find themselves in need.

Internally, we have a colleague hardship fund to help individuals in time of particular need, and this year supplemented it with additional universal payments to lower-paid colleagues in the light of the anxiety and concern caused by rising utility bills. Further details can be found in the People report on page 24.

We offer all colleagues the opportunity to volunteer time for good causes and in FY2023 have established a more accurate measurement from which to measure and drive progress.

In FY2023, we donated £24,680 to good causes.

Responsible partnerships

Progress FY2023

Working closely with our suppliers and customers we are continually seeking more sustainable ways of working, while exploring how step-change improvements might be made as an industry.

Building on the award of the standard Cyber Essentials certification secured in December 2022, we progressed to Cyber Essentials Plus certification in March 2023. This has been a major undertaking and we are proud of the progress and high standards it requires of our colleagues and business processes.

A new industry tracker to measure the environmental impact of Smiths News in tandem with publishers was implemented in July 2023 – in a spirit of continual improvement it will also help to ensure our sustainability objectives are aligned to those of the supply chain partners who are most critical to our making material progress together.

Our supplier code, ethical trading policy and modern slavery policies have been reviewed and we recorded no compliance issues or concerns. Our audits show that over 83% of our preferred suppliers meet the procurement standards we require.

Working with our customers we have launched Smiths News Recycle, a new service for smaller independent customers, helping them to reduce waste and improve recycling.

Separately, we continue to work with our largest retailers on supply forecasting and demand-driven replenishment to further reduce waste and improve efficiency.

Sustainability Report continued

Industry best practice and responsible partnership

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 2023, Smiths News retained the Chair of the PDF.

During 2022, the PDF and its associated service charter and complaints process operated for the full year under the newly revised and improved Charter, with the volume of complaints returning to more typical levels seen prior to COVID-19. Stage 1 issues (pre-complaint) rose as result of our new customer service lines and, to some extent, from a shortage of delivery drivers immediately following the easing of COVID-19 restrictions.

Stage 1 pre-complaints across all news wholesalers in the UK rose from 151 in 2021 to 244 in 2022, the number relating to Smiths News increasing from 39 in 2021 to 63. Only eight complaints progressed to stage 2 of the Charter resolution process. Furthermore, Smiths News improved the speed of resolution of these complaints from 22 days to 10 days. In total, with 55% market share, Smiths News accounts for only 28% of industry breaches under the Charter.

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 may be beyond our control. This scheme, which goes beyond the PDF Charter and our contractual obligations, continues to be well received by retailers and the trade bodies which represent them. In the latest year of operation, 7,501 payments were made to retailers from approximately 8.5 million deliveries made, representing 0.09% of total delivery instances.

Ensuring responsible standards in our supply chain is also 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

We are committed to a culture of attention to health and safety and take particular pride in working together to keep our workplaces safe. This means adopting positive behaviours, calling out concerns and encouraging proactive reporting of all incidents and near misses, without blame or fear of sanction for doing so.

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 report and categorise incidents – and every occurrence is treated as a learning opportunity to be followed up with training and corrective action.

The result is that we have a strong track record of limiting accidents in the workplace despite the physical nature of our operations.

The total of four reportable incidents in FY2023 represents a small absolute increase on the previous year, which we consider falls within normal fluctuations and acceptable tolerances – importantly, it maintains the material improvement on FY2021. The one specified injury incurred in the year related to a fractured foot bone sustained in the workplace.

During the year, Smiths News successfully retained accreditation of its OHSMS processes to ISO 45001 standard. This involves identifying the needs and expectations of all interested parties, ensuring the management system is suitable, with robust controls in place for all individuals and organisations impacted by our activities. It is supplemented by a programme of audits. This year we conducted a programme of 16 such audits, the findings of which have been used to refine our safety strategy. In parallel, a new Health and Safety team has been established with a refreshed focus on visibility, communication and partnership. Our culture of open and transparent root cause analysis continues to educate and support managers in identifying suitable corrective actions.

In line with best practice, we have moved our Health and Safety management system online, speeding and simplifying the reporting process. By also creating a Health and Safety resource centre on the Company's intranet we have ensured our policies and procedures are fully accessible to all colleagues. Meanwhile, we continue to mandate online safety induction training for all new starters.

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. During the year we rebased our calculation of hours worked to ensure greater accuracy of measurement. The total accidents recorded under this improved methodology was 2.44 per 100,000 hours worked (FY2022: 2.64). In relation to injuries that result in lost time, in FY2023 we recorded 12 cases (FY2022: 10 cases), a frequency rate of 0.33 per 100,000 hours (FY2022: 0.26).

It is also noteworthy that we have rebased the way in which we calculate total hours in the workplace in order to ensure greater accuracy of reporting. This has reduced the number of hours compared to previous years. For FY2024, we are keeping to the ambitious target of a lost time incident frequency rate of 0.32.

Looking ahead, we also plan to closely monitor vehicle incidents, with data now being tracked to allow for robust analysis and action planning where necessary.

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

	FY2023	FY2022	FY2021
Specified injuries	1	0	0
Injuries resulting in over seven days absence from work	3	2	11
Dangerous diseases resulting in over seven days absence from work	0	0	6
All RIDDOR	4	2	17

Inside news

Drive and determination show there's no limits in Smiths News.

Lidia Popa has been making her mark on Smiths News for almost a decade now. In just nine years she's become one of our most experienced distribution managers, relishing the daily challenges and matching them with exceptional commitment.

A popular figure in the business, her story is an inspiration to others, demonstrating that career progression is open to everyone with the desire to make a difference.

Starting as an agency worker, Lidia soon joined Smiths News full time and was quickly promoted to team leader. After gaining experience in several other roles, she was a valuable member of the team before leaving for a maternity break. Typical of Lidia's drive to progress, she completed the Academy Development Programme during that time, opening the door for further promotion on her return.

Today, as Distribution Centre Operations Manager in Birmingham, Lidia is a senior member of the management team at what is our largest DC. Her experience spans the running of daily operations to managing network change and new business development. She is also vice chair of the Women in News employee forum, helping to address issues and highlight opportunities for women in what was an historically male orientated environment.

'Lidia's success is built on her willingness to step out of her comfort zone,' says Andrea James, Director of Talent at Smiths News. 'Her innate curiosity means she's hungry for knowledge and new challenges, but equally open to learning from others and listening to those on the shop floor. In that sense, she's a role model for the value of different voices and diversity of experience in high performing teams.'

It's therefore no surprise that Lidia was part of the team which trialled and launched Smiths News Recycle; nor that she is currently taking a leading role in managing the network consolidation of 3,000 new customers into the Birmingham operation. And no doubt, in between times, she'll be helping colleagues with training or contributing to the community support that she's been at the forefront of in recent years.

Looking ahead, Lidia says she has no plans to slow down – whether that be as a mum, a colleague or manager. 'I'm grateful for the opportunities that Smiths News has given to me and my family,' she adds. 'And if my story can help to show there are no limits to pursuing your ambitions, then that's an inspiration to me too.'

Task Force on Climate-Related Financial Disclosures (TCFD)

Delivering on our commitment to the environment and responsible practice.

Following on from our first Task Force on Climate-related Financial Disclosures (TCFD) report which was published as part of our FY2022 Annual Report, we have made steady progress during the review period.

We have delivered on the commitments we made, including a review of our strategic plans to ensure they remain resilient to the identified climate risks and opportunities, to further analyse the financial impacts of climate change, and to develop science-based targets (SBTs, which are also called 'near-term SBTs'). Most significantly we have formalised our commitment to an absolute reduction of Scope 1 and 2 emissions by 4.96% (linear per year), Scope 3 (categories 1, 4 and 6) by 32.5% (cumulative by 2028) and have included ESG targets in our executive objectives.

Although we had also committed within our FY2022 Annual Report to further develop our analytical tools and methodologies to enable enhanced scenario analysis and review of both the physical and transition climate-related risks and opportunities, we currently do not have the internal resources to undertake this further work, nor do we believe that the projected expenditure to achieve this would be justified given our current level of compliance, the anticipated benefits of more accurate scenario analysis, as well as the anticipated requirements of the new standard IFRS S2. Instead, we have determined that our resources would be better used in the further analysis of our Scope 3 emissions, and we therefore touch on this more fully within this report. Our sustainability strategy remains pertinent to our business, as do the goals contained within our five critical 'pillars' accompanying our sustainability strategy, with those reflected in the Environmental pillar including a further commitment to renewable energy and the reduction of emissions and waste.

This year has seen us expend considerable effort to fully understand our emissions, how to define and measure them, and to separately consider and establish realistic and achievable (but stretching) near-term science-based targets for CO_2 reduction. In this regard we have made use of external expertise from EcoAct consultancy.

The high level of Scope 3 emissions has highlighted the need to accelerate our process of engagement and consultation with our customers, suppliers and broader stakeholders in a spirit of cooperation, to better understand our respective positions in the value-chain and to identify areas where we can each assist one another to both accurately collect and analyse data and to determine inclusive reduction goals and targets. In addition, we also have a deeper appreciation of the need to fully understand both the physical and transitional risks that our suppliers and customers are facing so that we can factor these into our own climate-related risks in a more holistic manner.

> FY2023 saw us make great progress with our recycling collection service (Smiths News Recycle).

One of the most marked impacts of climate change for our business is the expansion of the clean air travel zones under the Ultra Low Emission Zones (ULEZ) programme in London and similar programmes across major cities in the UK. This reinforces the growing awareness and risk of climate change to our business, which is acknowledged by our leadership at both executive and Board levels. We continue to include a regular ESG report at all Board meetings, with dedicated ESG Board presentations scheduled each quarter.

On a positive note, and moving away from risks to focus on opportunities, FY2023 saw us make great progress with our recycling collection service (Smiths News Recycle) which has now reached just under 3,000 live customers and is delivering a meaningful new income stream to the business as part of our broader business diversification within carefully targeted sectors, each of which is complementary to our core business of news and magazine wholesaling to almost 24,000 retailers.

Once again, I can confirm the commitment of us all at Smiths News to the climate change agenda and reiterate that we are working to understand our emissions patterns, as well as ways to both reduce and mitigate the impact we, and our collective stakeholders, are having on the environment.

Paul Baker
CFO and Chairman of Sustainability Steering Group

7 November 2023

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 pillars 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). In summary:

Governance	All disclosures fully met
Strategy	All disclosures partially met
Risk	Save for disclosure a, which is partially met, all disclosures are fully met
Metrics & targets	Save for disclosure c, which is partially met, all disclosures are fully met

We acknowledge that further work is required to refine the basis of our assumptions used in scenario planning and to develop an analytical model to more accurately identify the impact of climate-related risks and opportunities to our business and strategy and financial planning, including the timelines of such impact. Currently, we do not have the internal resources to undertake this further work, nor do we believe that the forecasted expenditure of such analytical models is currently justified nor necessary for us to have a better degree of certainty to be able to sufficiently assess our climate-related risks, their magnitude or the associated timelines.
Our current areas of focus are therefore two-fold – firstly to fully understand our emissions (Scope 1, Scope 2 and Scope 3 (the latter within categories 1, 4 and 6 only*)), to accurately measure them and to develop action plans to support our commitments to reduce our emissions, including the establishment of science-based targets. The second focus includes robust engagement with our key suppliers and customers around the remainder of our Scope 3 emissions, which will include a better understanding of the climate risks that our suppliers and customers face and how this may impact our business.

We believe this approach is commensurate with the current economic and geo-political environment in which we operate and the circumstances of our business, acknowledging that we have considered all reasonable and supportable information available to us without incurring undue cost or effort (IFRS S2 requirement).

During the review period we have undertaken multiple workstreams to be able to model appropriate SBTs.

A summary appendix of our compliance against the TCFD recommendations is set out at the end of this TCFD report on page 51.

* Scope 3
Category 1 Purchased goods and services
Category 4 Upstream transport
Category 6 Business travel

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

Overview

The Task Force on Climate-related Financial Disclosures (TCFD) is a framework that provides recommendations for climate-related financial disclosures which the Financial Conduct Authority (FCA) requires the Company to report against in line with Listing Rule 9.8.6R(8). The framework consists of four themes – governance, risk management, strategy, and metrics and targets, and has 11 specific disclosure recommendations for reporting on the financial impact of climate change. Smiths News has adopted the recommendations as set out in the TCFD framework and recognises that climate change presents both risks and opportunities to our business. Our report provides a progress update against the TCFD framework across each of the four TCFD pillars and a summary of the strength and resilience of our strategy and business model, taking into account a number of climate-related scenarios. When determining which information to include in our disclosures on climate change we have also considered the outcomes of our regular materiality process, our risk assessment process, the climate scenario analysis we have undertaken and stakeholder feedback.

We will keep our disclosures under continual review and will continually look for opportunities to improve both our underlying processes and our disclosures, as well as striving to meet the expectations of our stakeholders.

Progress to setting science-based targets (SBTs)

During the review period we have undertaken multiple workstreams to be able to model appropriate SBTs. We have considered near-term SBTs linked to limiting warming to 1.5° above pre-industrial levels, with specific focus on Scope 1 and 2 emissions as well as emissions within categories 1, 4 and 6 of Scope 3 emissions. We are yet to consider long-term SBTs necessary to achieve net zero. Part of the response to establishing targets to achieve our near-term SBTs is to develop and implement action plans which are realistic and achievable (but appropriately stretching), and which support our accepted targets. FY2024 will see us further develop these plans using a number of principles including the overall reduction of energy usage, consolidation and rationalisation of high energy processes, the continued use of renewable energy, and supplier and customer engagements.

As part of the development of our implementation plans, we have remained cognisant of the impact of both the growth and decline of our business on these targets. It is also necessary to acknowledge the widely accepted use of assumptions and models when calculating emissions and the ongoing developments in this area. We anticipate changes in these models as we progress along the climate change journey, and it is realistic to expect these changes to impact both our emissions calculations and our implementation plans. By way of example, FY2023 has seen a change in the DEFRA emission factors which has resulted in our year-on-year results not reflecting the reductions we would have expected to see in respect of electricity emissions had the DEFRA factors remained unchanged – e.g. these changes have seen the volume of emissions allocated to electricity usage increase by 7% such that whilst the Company's usage has in absolute terms declined by 6%, the associated emissions (based on the new DEFRA guidance) have perversely seen an overall increase of 1%. Going forward, we will highlight the impact of any such changes in modelling on our targets, and metrics, if applicable.

FY2024 will see... reduction of energy usage, consolidation and rationalisation of high energy processes, the continued use of renewable energy, and supplier and customer engagements.

TCFD	• Assess internal policy and process for alignment to TCFD recommendations • Review of Annual Report to assess reporting alignment to TCFD • Peer review • Presentation of readiness assessment results	**Complete**
S3 calculations	• Materiality assessment • Data collection • Data processing – minor queries • Delivery of results	**Complete**
SECR	• Collection of data • Data processing and queries • Calculation • Delivery of results	**Complete**
SBT setting	• Peer benchmarking • Context report • Target modelling* • Target selection • Stakeholder engagement • Target approval	**Complete**

* Dependent on Scope 3 calculations.

Progress on FY2023 commitments

Area	FY2023 commitment	Progress report
Energy consumption	• Where practical, move to alternative gas supplies by 2030 • Develop 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	• installed or upgraded LED lighting in 21 locations and will continue to make improvements to any locations that are currently not fully LED • introduced totes made of 100% recycled material • transitioned to re-usable pallet lids to reduce the use of single use plastics • working with suppliers to find more environmentally friendly products • replaced seven diesel powered trucks with fully electric trucks • installed electric vehicle chargers to reduce use of fuel
Waste	• Compositional analysis – understand if opportunities for further waste segregation exist • Although we are likely to see an increase in our total waste figure, this will be driven by our encouragement to retailers to recycle through the new Smiths News Recycle business initiative which is seen as a climate change opportunity	• working with our waste provider, we have identified that we can now recycle our crisp packets and our polymer string • growth of Smiths News Recycle (NB – this will result in an overall increase in the recyclable waste figure) • ongoing identification of waste reduction opportunities through optimisation of packaging, optimised use of resources, storing and introduction of specific equipment or processes
Emissions	• Review of science-based target setting and achieving SBTi certification • Monitor fuel costs, to establish appropriate time to convert to advanced renewable diesel • Continue delivery of 'Final Mile' reviews to further optimise routes and minimise mileage	• completed our science-based target setting but will not progress with the SBTi certification in the short to medium term • reduction of approximately 35 final mile routes which equates to an average of 713,440 miles per year • introduced part pre-running Mon to Thurs. with Distribution Planning teams calculating the most cost-effective means to deliver part pre-runs, and as a result we have seen a reduction of over 94k miles on pre-running, averaging 3.5k per week • move of one of our trunking suppliers from diesel to LNG in their vehicles
	• Create target for overall fleet emissions (tCO_2e) • Continue with conversion to PHEV/BEV company car fleet	• our current company car fleet is 48% alternative fuel (PHEV and BEV) and 52% ICE (diesel or petrol). Since this change, year-on-year in P1 our CO_2 production is down by 26% which is equivalent to 1,102g • 40% of our current forklift truck fleet is electric, with the plan to be 100% electric by June 2026

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

TCFD Governance structure

Board

(Standing agenda item for all meetings)

Overall responsibility

Oversees sustainability strategy

Challenges and monitors metrics and targets

Audit Committee

(Standing risk agenda item and responsibility for oversight and monitoring of the ESG narrative reporting)

Oversees risk management process (including climate-related risks)

Oversees financial statements, including non-financial disclosures

Remuneration Committee

(Considered annually)

Alignment of remuneration policies and incentives*

Executive Team

(Periodic review)

Responsibility for implementation of sustainability strategy

Sustainability Steering Group

(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

All KPIs and targets are updated monthly, with the colleagues responsible for specific implementation plans updating the functional owner of the sustainability strategy pillar under which the action lies.

All colleagues

All colleagues, through the communication of our sustainability strategy, clarification of actions required to achieve our goals and communications to ensure climate change imperatives, drive the right activities in our business

* ESG metrics are included within the personal objectives of the executive directors and therefore impact bonus payments. The Directors' Remuneration Policy (approved by shareholders at the 2023 AGM) makes explicit reference to the inclusion of ESG metrics as an executive performance measure within the LTIP scheme which is included in the FY2024-2026 LTIP awards.

Governance

The Board has responsibility for our sustainability strategy, as well as the climate-related risks and opportunities, including oversight of energy consumption, waste management and emissions-related reporting associated with our business. ESG reports form part of the regular Board papers considered at scheduled meetings, with quarterly dedicated sessions for ESG issues, updates and reporting of progress to defined targets. In addition to tracking progress made against the agreed metrics and targets, this year the Board has specifically considered the process undertaken to commence the quantification of our emissions (Scopes 1, 2 and 3), the path to understand what science-based targets mean for the Company and the overall reporting obligations for the Company classified as part of the FTSE Small Cap Index. The outcome of this process led to the Board approving both the approach to determining realistic science-based targets and the targets themselves. The Board is assisted by the Audit Committee in the discharge of its duties regarding the maintenance of proper systems of risk management, as well as the oversight and monitoring of the ESG narrative reporting (including sustainability matters), which change has been incorporated into the Audit Committee's terms of reference in anticipation of proposed edits to the UK's Corporate Governance Code which are currently under consultation by the FRC. To further understand how we apply our risk management process, and the elements of oversight, monitoring and reporting, please refer to the Risk section below. During the review period, the Board has interrogated the climate-related risks identified by management, so as to better understand the rationale behind both the identification and the classification of these risks.

The Board appreciates that the current transitional and physical risks have been identified using the scenario analysis set out below and are primarily focused on direct operations. The Board acknowledges that the risk profile may well change once we have concluded our engagement with our key suppliers, customers and stakeholders in our value chain and have more fully been able to consider the impact of their identified risks on our business, more specifically on our supply chain. As part of the oversight process, the Board considered whether the established climate-related risk should remain a principal risk or not, having been elevated from an emerging risk in FY2022, and concluded that the risk remains of a principal nature given that it could have a serious impact on the Company, with the Board remaining actively focused on mitigating this risk. As part of the risk assessment process, access to capital has been considered within the context of the Company's approach to climate change. Selected banks have indicated that their green funds would potentially be accessible as part of a refinancing option, with the ability to track and report against agreed science-based targets being a sufficient qualifying factor. On this basis the business is working to ensure it can utilise its ESG credentials to maximise access to capital opportunities.

A Sustainability Steering Group 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. The Committee meets monthly and submits regular structured reports to both the Executive Team and the Board, in particular reporting progress made against goals and targets. The Committee has designated representatives who are the functional owners of each of the sustainability strategy's key pillars.

There is a monthly reporting template which sets out the various KPIs, metrics and targets for each objective and includes the person responsible for monitoring, informing and updating the related data. It should be noted that while the functional owner of the various sustainability pillars is a member of the Committee, and ensures the accurate updating of our reporting template, the responsible person includes operational persons who oversee a function, e.g. waste management falls within the Environmental pillar of the sustainability strategy. Functional ownership of the Environmental pillar lies with the Fleet and Services Director who is a member of the Committee, but the responsible party for waste management is split between the head of proposition development within strategy and planning (reporting against retailer recycling through Smiths News Recycle) and the facilities management team (composition analysis to understand waste segregation opportunities). For more information on our sustainability strategy and the pillars, including associated goals, please refer to our Sustainability report on page 32. At an operational level the importance of every colleague understanding our sustainability strategy and their role in delivering on our goals is communicated through SmithsZone (our intranet), at Town Hall-style all-colleague meetings and through regular communications around specific events such as recycle week. At a management level, those responsible for the implementation of specific programmes that support our commitments are consulted to ensure we consider all consequences of our decisions and have full buy-in and support for initiatives which are then reported on and monitored monthly.

Strategy

We recognise that climate change poses both risks and opportunities for our Company, including both physical and transitional risks. 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 change which could result in migration and/or famine. Transitional risks include the economic impact of climate change, changing consumer patterns, growing regulatory requirements and technology changes, for which we acknowledge the need to adapt and refine our business model and strategy. The reputational risk to our business of failing to adequately meet the changing social expectations relating to climate change are also considered. We acknowledge that our business model and strategy may require further development once we have concluded the period of engagement with key customers and suppliers in our value chain in an endeavour to further understand the risks identified by them and which may also impact our business through our supply chain.

> We recognise that climate change poses both risks and opportunities for our Company, including both physical and transitional risks.

We have assessed climate-related risks and opportunities across the short-term (to 2028), medium-term (to 2033) and long-term (beyond 2033) horizons, looking at their potential impacts on our business, strategy and financial planning, having regard to our materiality assessment as well as our climate scenario analysis.

Climate scenario analysis

When considering our obligations to report in line with TCFD requirements, and the FCA Listing Rules (LR9.8.6R (8)), we have applied the concept of materiality to our judgements, aware that we are required to provide sufficient detail to enable readers to assess our exposure and approach to addressing climate-related issues. We believe that, considering both the degree of exposure to Smiths News as well as the mitigations through our sustainability strategy, the level of detail included in our disclosures is adequate. 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 Group, as well as through our risk management system. In this regard, please see the Risk section on the following page.

We have undertaken a limited analytical assessment of our risks and opportunities across two time horizons: short term (to 2028) and medium term (to 2033) horizons, using two scenarios which anticipate temperature rises of 1.5° and >2°. We have selected these two scenarios given that we believe that they represent the current projected outcomes as 1.5° is the required measure for near-term assessment. The Paris Accord targets <2°, the achievement of which requires the early implementation of societal actions and policy towards a low-carbon economy, resulting in the limitation of global warming. Under this scenario, we expect higher transitional risks and limited physical risks. Although we remain optimistic, current data would indicate that there are piecemeal global actions and divergent policy implementation with stalling, delays and/or scaling-back of initiatives coupled with compensatory measures to address late implementation.

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

This latter scenario is likely to result in a greater than 2° rise in global temperature, thus giving rise to our second scenario and under which we would expect the highest level of transitional risks and increased physical risks. In relation to transition risks, the analysis shows a moderate to high level of residual risk exposure in the short term, levelling out to moderate exposure in the medium term. This reflects, among other factors, the short-term impact of complying with the current and anticipated imposition of low emissions zones across UK cities, as well as the need to move to lower emission technology. In relation to physical risks, it shows moderate exposure to risks relating to windstorms, flooding and drought, the mitigation of which would have an associated cost. We have taken into consideration the likely physical impact on our business and any merits of adjusting our business strategy because of this expected impact. We have engaged a third-party consultancy (EcoAct) to assist us with the development of science-based targets on our journey to net zero and, as part of this process, they are working with us to quantify our Scope 3 emissions and to model our carbon reduction scenarios, and to provide a feasibility check on targets in order to help inform our business and sustainability strategy.

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 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. Modelling has included three interventions, being an increase in charges for distribution to inner-city delivery points, optimisation of routes to limit the number of vehicles accessing city centres and the utilisation of electric vehicles.

The Board has considered the impact of climate-related risks and opportunities on the performance of our business, markets and the changing regulatory landscape.

We will look to further develop this modelling and seek to develop a number of programmes to inform future options. We have considered the impact on our financial statements and any known costs associated with regulation change which may affect the impact of climate change, and these have been included where applicable. 'Climate change' is one of our principal risks but, given the timeframe over which both going concern and viability are considered (16 months and three years respectively), the future impact of climate change on the operating costs of our business and of our supply chain, beyond those costs already included, is not currently considered material.

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. 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, to understand any residual risks through ongoing reviews of our processes, systems and controls, and to improve our business resilience, each step in order to put us in a position to better respond to climate changes in a way that has the least impact on our business. After carrying out a robust assessment of these climate-related risks, we have determined that, while the risk environment which could impact our business model, future performance, solvency or liquidity remains material to us, this is not rated as a high likelihood nor of a serious impact over the short to medium term given our current and ongoing mitigating actions. We will continue to monitor these risks and assess the appropriateness of our mitigation actions and the resultant risk ratings.

Risk

Climate-related risks are included in the risk management approach and have been identified and included within our risk management framework as a principal risk facing the Company – please see our Principal Risks report on page 62 for further details. We have an established risk management process to identify both risks and opportunities through a bottom-up/top-down approach. This includes a combination of processes encompassing an analysis of trends, engagement with key stakeholders, benchmarking with peers, brainstorming, comparison against standard risk checklists, 'cause and effect' analysis, review of processes and procedures, and the robust maintenance of our developed risk management framework and registers. 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. 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 their size.

These risk maps are reviewed and challenged by the Executive Team and Audit Committee and reconciled against the Company's risk appetite. 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 62.

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 Sustainability Steering Group and incorporates the identified climate-related risks reflected in the operational and functional risk registers. Climate change-related risks are one of the principal risks 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 this risk to an acceptable level, we understand that climate-related risks can change quickly and thus the risk is monitored and periodically reviewed. Please refer to the Strategy section of this report to understand the role of the Sustainability Steering Group and the oversight and management of risk across roles and functions.

Climate-related risks and opportunities

Risks have been classified by term, impact and likelihood as follows:

Term	
Short term	<2028, with a focus on transition risk and policy frameworks
Medium term	between 2029 and 2033, with a focus on transition risks and policy frameworks aligned to meet climate goals and some physical impacts
Long term	>2033, largely focused on physical risks to take into account climate science projections

Impact

The impact of an identified risk is rated as critical, serious, moderate or minor with two of the six climate-related risks currently rated as 'serious' and the other four as 'moderate'.

Impact	Serious	Moderate
Financial	• £2.0m to £5.0m at risk of loss/gain (revenue) • £200k to 500k at risk of loss/gain (profit)	• £0.5m to £2.0m at risk of loss/gain (revenue) • £50k to £200k at risk of loss/gain (profit)
Commercial	• Medium-term impact on share price/ shareholders • National media attention	• Short-term impact on share price/ shareholders • Local media attention
Operations	• Short/medium–term disruption • Loss of a significant contract or customer • Potential breach of transport licence	• Short-term disruption to operations • Loss of important contract or customer
Tech & Services	• Important issues with quality or temporary and prolonged unavailability of network, software or hardware	• Manageable issues with quality or short-term and temporary unavailability of network, software or hardware
Health & Safety	• Injury requiring hospital attention • Breach of H&S regulations • Issue affects transport licence compliance	• Injury or injuries requiring medical attention but not serious • Minor breach of H&S regulations
People	• Important, unplanned loss of employees, or loss of one/a few key employees • Employee welfare seriously impacted • Important reputational/financial damage or legal exposure	• Unplanned loss of several employees • Employee welfare moderately impacted • Reputational/financial damage or legal exposure
Legal & Regulatory	• Minor litigation or class action • Formal investigation, disciplinary action • Significant compliance failure • Moderate legal interpretation	• Regulatory criticism with potential penalties • Compliance deficiency or external audit findings

Likelihood

The likelihood of an identified risk is rated as 'highly likely', 'likely', 'possible' and 'unlikely', with four of the six climate-related risks currently rated as 'possible' and the other two as 'unlikely'.

Likelihood	Description	%
Likely	Event could occur	10% to 30%
Unlikely	Event may occur in exceptional circumstances	<10%

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

The following risks have been identified:

Physical risk

Risk title	Increase in extreme weather events (Acute)	Decreasing fuel availability and/or increasing fuel prices (Chronic)	Decreasing paper supply and/or increasing raw material or paper prices (Chronic)
Risk description	**Risk event** 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.	**Risk event** Availability of diesel and/or petrol decreases, thereby sharply increasing prices.	**Risk event** Availability of paper supply for publishers and printers impacts physical copy availability and risks sharply increasing cover prices, presenting pressure on consumer purchase decisions.
	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.	**Causes** Increased competition for scarce resources as sources of supply close or cannot be accessed due to international trade sanctions. Increased competition for resource locally as fuel stations convert to EV charging stations.	**Causes** Deforestation causing natural resource depletion and disruption to paper supply chain through environmental lobby actions.
	Impacts 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 centre and offices) and increased costs to ensure safe operational environment.	**Impacts** 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 reputation and relationships.	**Impacts** Due to restrictions on the supply of newsprint, publishers reduce the quantity of physical copies available for distribution to retailers and consumers leading to reduction in range of titles available. This in turn reduces the Company's revenue and profitability as fixed costs of final distribution cannot all together be mitigated by reducing volumes.
Time horizon	Medium to long	Medium to long	Medium to long
Controls and mitigations	Review of depot network and relocation where deemed necessary using public flood assessments and insurance data.	Fuel availability and price trends are monitored by our operations teams and strategies developed to counter threats and maximise opportunities.	Monitor of paper supply chain availability and costings through our Procurement function. Quarterly update to the Sustainability Steering Group of any significant changes.
Current impact	Moderate	Serious	Serious
Current likelihood	Possible 10% to 30% chance	Possible 10% to 30% chance	Unlikely <10% chance
Current risk rating	4	6	3
Risk response	Accept	Accept	Accept
Explanation of risk measurement and criteria applied	Risk is rated as moderate impact given that we believe that any increase in extreme weather conditions may result in short-term disruptions to operations and employee welfare being moderately impacted. Risk is rated possible from a likelihood perspective as an event could reasonably occur.	Risk is rated as serious impact given that we believe that any increase in fuel price/decrease in fuel availability may result in short/medium-term disruptions to operations and £2.0m-£5.0m at risk of loss/gain (revenue)/£200k to £500k at risk of loss/gain (profit). Risk is rated likely from a likelihood perspective as an event could reasonably occur.	Risk is rated as serious given that we believe that any increase in paper price/decrease in paper availability may result in short/medium-term disruptions to our operations and £2.0m-£5.0m at risk of loss/gain (revenue)/£200k to £500k at risk of loss/gain (profit). Risk is rated unlikely from a likelihood perspective as an event may occur only in exceptional circumstances.

Transitional risk

Risk title	Impact of extension of low emission zones across major UK local authorities (Policy)	Increase in temperatures impacting operational efficiency costs (Technology)	Potential for energy supply limitation/blackouts (Market)
Risk description	**Risk event** Emissions and air quality targets introduced in UK towns and cities, e.g. ULEZ in London.	**Risk event** Increase in temperatures leading to more energy consumption to ensure a safe operational environment.	**Risk event** Energy demand exceeds supply during peak times such as periods of extreme cold or hot weather resulting in energy rationing including blackouts.
	Causes Local authority legislation.	**Causes** Increase in temperature.	**Causes** Insufficient UK energy capacity to meet demand at peak times as insufficient new power generation capability replaces retired plant.
	Impacts Increased distribution costs for final mile delivery results in higher operation 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.	**Impacts** Need to allow core breaks for day shift colleagues and/or provide additional cooling by our air conditioning fans.	**Impacts** Energy rationing and/or blackouts could cause service interruptions to our depots, data centres and offices and prevent the Company from serving its customers. Increased investment required in our depots to enable them to withstand service interruption, e.g. on-site back-up generation.
Time horizon	Short to medium	Medium	Short to medium
Controls and mitigations	Monitored by our operational teams and reported to the Sustainability Steering Group. Adaptation of our distribution model through consolidation of last mile delivery routes to minimise operational costs. Technology development (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 vehicle when their current loan period expires, supporting use in clean air zones.	Preparation and monitoring, to ensure cooling equipment hired and deployed during critical periods.	Preparation and monitoring, to ensure access to generators and financial provision to operate during critical periods.
Current impact	Moderate	Moderate	Moderate
Current likelihood	Possible 10% to 30% chance	Possible 10% to 30% chance	Unlikely <10% chance
Current risk rating	4	4	2
Risk response	Accept	Accept	Accept
Explanation of risk measurement and criteria applied	Risk is rated as moderate impact given that we believe that any extension of low emission zones may result in short-term disruptions to operations, possible regulatory criticism and potential penalties and £0.5m-£2.0m at risk of loss/gain (revenue)/£50k to £200k at risk of loss/gain (profit). Risk is rated possible from a likelihood perspective as an event could reasonably occur.	Risk is rated as moderate impact given that we believe that any increase in operating efficiency costs may result in £0.5m-£2.0m at risk of loss/gain (revenue)/£50k to £200k at risk of loss/gain (profit). Risk is rated possible from a likelihood perspective as an event could reasonably occur.	Risk is rated as moderate impact given that we believe that any increase in risk of blackouts/ limitation of energy may result in a short-term disruption to operations and due to need to buy in fuel for generators will result in £0.5m-£2.0m at risk of loss/gain (revenue)/£50k to £200k at risk of loss/gain (profit). Risk is rated unlikely from a likelihood perspective as an event may occur only in exceptional circumstances.

We have considered the risk of carbon pricing and any reliance on 'carbon 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 more accurate scenario planning nor to better understand the impact of climate change in 2050 or our ability to implement changes to reduce our emissions or to what extent we may or may not need to rely on carbon credits/offsets to achieve our net zero status. However, we do keep this risk under review and adjust accordingly.

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

Opportunities

In FY2022, we identified a recycling growth opportunity amongst our retailer customers, resulting in the Smiths News Recycle initiative being rolled out nationally from 2 February 2023 following a successful experimentation period within the Birmingham area. This initiative consists of a low-cost daily recycling collection, sortation and secure onward recycling service, specifically aimed at supporting our independent retail customers to safely recycle soft plastic and bulky cardboard packaging. We are now supplying the service to around 24% of our independent customer base and are generating approximately 50 tonnes of additional recycling matter per week. We have a dedicated sales team based in India which is targeting customer growth. Our ambition is to continue to grow the number of customers, including through collaborations with other recycling providers where our network can be used to add additional value. In recognition of the new IFRS S2 standards, we will look to further enhance our data collection in this area to enable us to better meet the changing reporting standards, specifically around climate-related opportunities.

Metrics 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. Having established science-based targets in FY2023 we will look to consolidate, refine and develop our implementation plans during the coming years so as to ensure that we have agreed processes and plans to support our commitments and ensure that we remain on track to achieve our KPIs and targets to transition to renewable energy and reduce our emissions and waste.

KPIs

Renewable energy

Transition to renewable energy – all electricity to be sourced from 100% green/renewable sources by 2030 (commitment to renewable energy) and a review of gas utilisation to determine if this remains an applicable energy source for the business into the future

Emissions mitigation

Optimise our transport network to reduce emissions through promoting the adoption of sustainably fuelled vehicles and reducing annual distribution mileage

Optimise our company car fleet – renewing at end of lease over the next four years to electric or hybrid vehicles

Waste

Recycle and reuse – 100% of our generated waste to be recycled and/or reused

Net zero by 2050

Stage 1 2021 – 2023

TCFD reporting requirements – April 2022

Commitment

- SECR and ESOS reporting confirmed
- Developed and refined sustainability strategy – five key pillars with associated activities and metrics
- First stage analytical methodologies established for TCFD reporting
- Refined emissions understanding and commencement of calculations for Scopes 1, 2 & 3 reporting, with a view to establishing science-based targets (SBTs)

Implementation plans

- Compositional analysis – understand if opportunities for further waste segregation exist (100% waste recycled and/or reused)
- Growth of Smiths News Recycle
- Review of science-based target setting
- Monitor fuel costs, to establish appropriate time to convert to advanced renewable diesel
- 'Mileage' switch to EV and hybrid vehicles
- 100% waste recycled and/or reused
- Final mile distribution optimisation projects reducing mileage and emissions
- Company car policy review – only allow PHEV or EV cars
- Switch to EV and hybrid vehicles
- New car orders placed for four PHEV and six BEV – 25% of total company car fleet

Targets

- Base line FY2022: 316,398 tCO_2e across the whole value chain (Scope 1, 2 & 3)*

*	Scope 1	1,536
	Scope 2	916
	Total	**2,452** (of which 9,697 was reported for SECR contractors and inter-depot trunking)
	Scope 3	313,946
	Total	**316,398**

Stage 2
2024 – 2028

New audit standards for climate change – IFRS S2 applicable for financial years beginning on or after 1 January 2024

- Undertake ESOS Phase 3 audits across our sites and develop energy reduction plans
- Confirm SBTs for Scopes 1 & 2
- Developed and refined implementation plans to achieve SBTs for Scopes 1 & 2
- Engagement with key suppliers and customers to better understand a collaborative strategy for reduction of value-chain emissions and assist us in developing Scope 3 emission targets
- Refine analytical methodologies for TCFD reporting

- New warehouse locations to be net carbon neutral
- Review of gas utilisation to determine if this remains an applicable energy source for the business into the future
- Assessment of renewable fuel type for Company-owned LGV/HGV fleet complete and decision to progress to EV and hybrid vehicles
- Make progress towards the migration of the Company's car fleet to sustainably fuelled/hybrid vehicles by 2025 and of our LGV/HGV fleet to decarbonised technology by 2030
- Renewable gas supply conversion commencement
- Continue 'final mile' reviews to further optimise routes and minimise mileage
- Create target for overall fleet emissions (tCO_2e)
- Continue with conversion to PHEV/BEV company car fleet

- Absolute reduction of Scope 1 & 2 by 4.96% linear per year
- Reduce Scope 3 (categories 1, 4 & 6) by 32.5% (cumulative)

Stage 3
2029 – 2033

2035 projected ban on petrol/diesel car manufacture in UK

- Review SBTs for Scope 1 & 2 (if necessary) and establish for Scope 3 in conjunction with key suppliers and customers
- Review implementation plans to achieve SBTs for Scope 1 & 2
- Develop implementation plans to achieve SBTs for Scope 3

- Renewable gas supplies by 2030
- New warehouse locations to be net carbon neutral and current sites to be net carbon neutral by 2030. Surveys to be planned and facilitated
- Renewable energy sources for current sites to achieve net carbon neutrality by 2030
- All internal fleet to be electric or PHEV
- Migration of our subcontracted delivery service partners to sustainably fuelled vehicles by 2035 through the installation of supporting infrastructure at our sites by 2035

- Reduce Scope 1 & 2 by 55% (cumulative)
- Reduce Scope 3 (categories 1, 4 & 6) by 55% (cumulative)

Stage 4
beyond 2033

2035 UK electricity grid 100% decarbonised

- Aspirational target to achieve net zero status

- Operating net zero sites and offices
- Fully decarbonised internal and third-party fleets

- Net zero (aspirational)

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

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 2023. Any estimates included in our totals are derived from actual data which have been extrapolated to cover the full reporting year.

This year we have focused on reducing our Scope 1 & 2 usage by adopting more energy efficient equipment, quarterly reporting on our emissions as a tracking tool to ensure reduction and introducing internal sustainability targets linking to Scope 3 emissions. Within this reporting year, some of the actions we have undertaken included the upgrade or installation of LED lighting in 21 of our locations, installation of electric vehicle chargers to reduce the use of fuel and the replacement of seven diesel-powered trucks with fully electric trucks to reduce fuel usage.

Natural gas: only 0.2% of data is secondary in 2022/23 (estimated using historical data)

- Compared with 27% at the end of FY2022; and
- 11% at the end of Q3 2023.

Electricity: 3% of electricity data was estimated in 2022/23

- Compared with 29% at the end of FY2022; and
- 8% at the end of Q3 2023.

Continue to work on improving data quality, including these key areas:

- Gather information on fuel type for final mile deliveries; and
- Obtain weight data for trunking mileage so that calculation can use tonne/kms, which is a more accurate representation of emissions than just km.

Summary of results

	Overall, a decrease in absolute Scope 1 emissions by 33 tCO_2e. Company car mileage has risen by 11,482 miles; however we have swapped to more environmentally friendly Company cars, moving from diesel to hybrid, which has actually lowered our emissions by 7%.
Scope 1 movement	Gas emissions have reduced by 10 tCO_2e due to depots using slightly less gas as a result of warmer weather.
	Diesel purchased has grown by 33k litres due to increased use by our internal fleet.
Scope 2 movement	Scope 2 emissions decreased by 40 tCO_2e despite the 7% increase in DEFRA emissions factor. Electricity has reduced year on year by 205,316 kwh but has seen an increase in emissions usage due to changes in DEFRA emissions by 7%. However, as we used 100% renewable electricity within 35 of our 36 sites, our market-based emissions are only 18.6 tCO_2e.
Scope 3 movement	Final mile delivery contractor vehicle mileage has decreased by 2,660,105 km due to a reduction in the number of 'final mile' routes within the operation and from improved route optimisation.
	Inter-depot trunking mileage has decreased by 35,710 km due to a reduction in trips. One of our trunking suppliers is also now using LNG rather than diesel fuel for their operations which has been incorporated into the emissions. Hence, despite a 4% increase in emissions, our emissions are still a reduction of 7% as a result.
	We have seen a decline in grey fleet business mileage by our colleagues due to the rise in the use of virtual meetings.
Other important factors	**tCO_2e/£million turnover decreased due to a combination of emissions reductions and a minor increase in turnover.** **tCO_2e/employee increased marginally due to a slight drop in headcount year-on-year.** Our emissions are down in almost every specific reporting measure with the exception of electricity (due to a change in DEFRA factors) and diesel in hire vans. This would have been lower if more sustainable hire vans had been made available.

September 2022 – August 2023

	2023 (UK & offshore)	2022# (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	**1,503.1**	1,536.4
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	**876.2**	915.8
Total gross emissions/tCO_2e	**2,379.3**	2,452.1
tCO_2e per million £ turnover	**2.2**	2.3
tCO_2e per FTE (per employee) – increased due to a drop in the overall headcount	**1.6**	1.5
Energy consumption used to calculate above emissions/kWh	**11,079,725**	11,706,928#*
Estimated emissions from the mileage covered by our outsourced delivery drivers (tCO_2e) – Scope 3 emissions**	**9,084.7**	9,342.5#

\# Last year's SECR disclosure. Improved data provision and site assumptions means the FY2022 footprint previously reported differs from the numbers indicated (#) in this column. Materiality threshold of 5% was not met to justify a restatement. The reason for the restated figures was the availability of Newport depot's actual data and the replacement of extrapolated months with actual data.

* '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.

** 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.

FY2023 has seen a change in the DEFRA emission factors which has resulted in our year-on-year results not appearing to be quite as positive as they may otherwise have been in respect of trunking and electricity emissions had the DEFRA factors remained unchanged – e.g. these changes have seen the volume of emissions allocated to electricity usage increase by 7%, such that whilst the Company's usage (as distinct from emissions) has in absolute terms declined by 6%, the associated emissions (based on the new DEFRA guidance) have perversely seen an overall increase of 1%. Going forward, we will highlight the impact of any such changes in modelling on our targets, and metrics, if applicable.

Our total overall emissions amounted to 11,079,725 tCO_2e (FY2022: 11,706,928#), which is a year-on-year decrease of 627,2 tCO_2e (5.7%). Set out on the previous page is a summary explanation of our emissions reporting.

Assurances

The SECR data set out above has been externally assured by our appointed consultant EcoAct (see Appendix 2).

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 160 employees in offices across France, the United Kingdom, Spain, the United States, Turkey and Kenya.

- 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-based solutions team and experienced project developers
- Expert research and development function

Outlook

The Company remains well positioned to consider the impact of climate-related risks on its business model (and any associated costs in meeting these) which we believe are materially mitigated through the implementation of our sustainability strategy. Building on this, together with developing our enhanced understanding of our value-chain emissions and establishing associated but realistic SBTs, we believe that we are in a good position to meet our regulatory obligations and have established a solid platform for the Company to address the climate-related challenges in the near and medium terms.

Appendix 1 (Summary of Compliance)

Recommendations and disclosures		Confirmation	Cross reference
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	TCFD report and the Corporate Governance report on page 70
	b) Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed in full and requirements met	TCFD report and the Corporate Governance report on page 70
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	TCFD report and the Principal Risks section on page 62
	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	TCFD report and the Strategic Report on pages 2 to 65
	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	TCFD report and the Strategic report on pages 2 to 65
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	TCFD report and the Principal Risks section on page 62
	b) Describe the organisation's processes for managing climate-related risks	Disclosed in full and requirements met	TCFD report and the Risk report on page 60
	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	TCFD report and the Principal Risks section on page 62
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	Disclosure in full and requirements met	TCFD report and the Sustainability report on page 32
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Disclosure in full and requirements met	TCFD report and the Sustainability report on page 32
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets	Partial disclosure – science-based targets disclosed in respect of Scope 1 & 2 only, with Scope 3 in progress	TCFD report and the Sustainability report on page 32

Financial Review

The Company has continued to deliver a *strong financial performance.*

Both revenue and adjusted operating profit have increased since last year, despite the ongoing pressures of inflation within the wider economy.

Reliable cash generation has enabled the maximum dividend of £10m to be proposed by the Board and for average net debt to be reduced to £25m (FY2022: £50m).

Revenues of £1,091.9m were ahead of last year by 0.2%, benefiting from sales associated with the Royal Succession and the FIFA World Cup, and from newspaper price increases which had a consequent adverse impact on volumes. Adjusted operating profit of £38.8m was a £0.7m increase on the prior year (FY2022: £38.1m) due to both the additional revenue and to cost savings which delivered ahead of plan, although the overall cost base continued to be affected by higher levels of inflation.

Adjusted profit before tax increased by £1.2m to £32.3m, with £0.5m lower financing charges on debt fees and leases.

Adjusted profit after tax decreased by £0.1m to £25.6m due to a £1.3m higher tax charge which included a higher headline rate in FY2023. Adjusted EPS remained at 10.8p (FY2022: 10.8p).

Average Bank Net Debt for the year fell by £24.9m (50%) to £25.0m, with good continuing cash flow across both years assisted by the one-off pension surplus (£8.1m) and Tuffnells deferred consideration receipts (£14.0m) in 2022. Free cash flow of £21.8m was £26.3m lower than last year due to those one-off receipts (£22.1m) and to the £5.4m timing impact of trade receivables at the end of August 2023, which fell into the first week of FY2024. Bank Net Debt on 26 August 2023 was £4.2m compared to £14.2m 52 weeks earlier. At two points during the second half of the year, the Company was in a net cash position, the first time since demerger from WH Smith in 2006.

Adjusting items reduced by £1.8m to £0.5m in FY2023 as the prior year included the provision for McColl's receivables (£3.6m cost after tax) and the unwind of a discount on the Tuffnells deferred consideration (£2m benefit after tax). Statutory profit after tax increased from £23.4m in FY2022 to £25.1m and statutory EPS from 9.8p in FY2022 to 10.6p in FY2023.

A final dividend of 2.75p per share (£6.7m) is proposed by the Board, due to be paid in February 2024. Combined with the interim dividend of 1.4p paid in July 2023, total dividends for the year are 4.15p or £10m, consistent with last year. The financial results evidence the ability of the Company to deliver value in what is otherwise considered a declining sector and with a background of instability in the wider economy.

While the Company does not expect the one-off events which have benefited FY2023 to repeat in FY2024, the Company's financial performance and balance sheet provide a stable basis for delivering future value to shareholders.

Revenue

Revenue was £1,091.9m (FY2022: £1,089.3m), up 0.2% on the prior year (FY2022: down -1.8%) compared to the historic revenue trend of c.-3% to -5%. This was aided by the 2022 FIFA World Cup, Premier League and Pokémon trading cards and by newspaper cover price increases.

Newspaper revenues were up 0.6%, benefiting from newsworthy events and ongoing cover price increases since the second half of FY2022, which had an impact on volumes. Magazine revenue was down 5.1%, broadly in line with historic trends. Revenue from collectibles was up 43% (FY2022 43%), supported by World Cup football collections and by a continuation of strong Premier League and Pokémon trading card performance.

Operating profit

The increase in adjusted operating profit of £0.7m to £38.8m (FY2022: £38.1m) can be attributed to:

- The benefit to wholesale margin (£1.5m) from sales associated with the Royal Succession and the FIFA World Cup;
- A reduction in other wholesale margin (£3.4m), driven primarily by magazine revenue declines, in line with historic trends;
- Cost-out plans, which are designed to offset reductions in wholesale margin and inflation as part of the Company's business model, which reduced costs by £5.8m and were ahead of plan;
- The impact of inflation on the depot and support functions' cost bases of £4.7m, a greater level than experienced historically;
- New ancillary revenue contracts which contributed £0.7m; and
- Lower depreciation on owned assets of £1.0m reflecting lower capex over the last three years than previously.

Statutory Revenue

£1,091.9m

(FY22: £1,089.3m)

Adjusted Operating Profit

£38.8m

(FY22: £38.1m)

Adjusted Profit before Tax

£32.3m

(FY22: £31.1m)

Dividend per Share

4.15p

(FY22: 4.15p)

Table A: Adjusted results £m

	2023	2022	Change
Revenue	**1,091.9**	1,089.3	0.2%
Operating profit	**38.8**	38.1	1.8%
Net finance costs	**(6.5)**	(7.0)	7.1%
Profit before tax	**32.3**	31.1	3.9%
Taxation	**(6.7)**	(5.4)	(24.1%)
Effective tax rate	***20.7%***	*17.4%*	(19.0%)
Profit after tax	**25.6**	25.7	(0.4%)

Table B: Statutory results

£m	2023	2022	Change
Revenue	**1,091.9**	1,089.3	0.2%
Operating profit	**38.3**	32.4	18.2%
Net finance costs	**(6.5)**	(4.5)	(44.4%)
Profit before tax	**31.8**	27.9	14.0%
Taxation	**(6.7)**	(4.5)	(48.9%)
Effective tax rate	***21.1%***	*16.1%*	(31.1%)
Profit attributable to equity shareholders	**25.1**	23.4	7.3%

Table C: Earnings per share

	Continuing adjusted		Continuing statutory	
	2023	2022	2023	2022
Earnings attributable to ordinary shareholders (£m)	**25.6**	25.7	**25.1**	23.4
Basic weighted average number of shares (millions)	**237.3**	238.5	**237.3**	238.5
Basic earnings per share	**10.8**	10.8	**10.6**	9.8
Diluted weighted number of shares (millions)	**249.9**	252.0	**249.9**	252.0
Diluted earnings per share	**10.2**	10.2	**10.0**	9.3

Table D: Dividend

	2023	2022
Dividend per share (paid and proposed)	**4.15p**	4.15p
Dividend per share (recognised)	**4.15p**	2.55p

Financial Review continued

Table E: Adjusting items

£m	2023	2022
Aborted acquisition costs	**(0.6)**	–
Tuffnells insurance provision	**(0.4)**	–
Network and re-organisation credits	**0.5**	0.2
Impairment of receivables – McColl's	**–**	(4.4)
Pension	**–**	(1.8)
Transformation programme planning costs	**–**	(0.9)
Impairment reversal of investment in joint ventures	**–**	1.2
Total before tax and interest	**(0.5)**	(5.7)
Finance income – unwind of deferred consideration	**–**	2.5
Total before tax	**(0.5)**	(3.2)
Taxation	**–**	0.9
Total after taxation	**(0.5)**	(2.3)

Table F: Free cash flow

£m	2023	2022
Adjusted operating profit	**38.8**	**38.1**
Depreciation & amortisation	**9.2**	**10.5**
Adjusted EBITDA	**48.0**	48.6
Working capital movements	**(4.9)**	(0.6)
Capital expenditure	**(3.4)**	(1.9)
Lease payments	**(6.1)**	(6.4)
Net interest and fees	**(5.3)**	(8.0)
Taxation	**(6.6)**	(5.3)
Other	**1.1**	1.2
Free cash flow (excluding Adjusting items)	**22.8**	27.6
Adjusting items (cash effect) – return of pension surplus	**–**	8.1
Adjusting items (cash effect) – receipt of deferred consideration	**–**	14.0
Adjusting items (cash effect) – other	**(1.0)**	(1.5)
Free cash flow	**21.8**	48.2

Adjusted Earnings per Share

10.8p

(FY22: 10.8p)

Average Net Debt

£25.0m

(FY22: £49.9m)

Free Cash Flow

£21.8m

(FY22: £48.2m)

Profit after tax

Net finance charges of £6.5m (FY2022: £7.0m) were lower than the prior year due to £0.6m lower amortisation of bank arrangement fees following the amendment and extension of banking facilities in December 2021 and £0.3m lower interest on leases and other items. Interest on bank debt was higher by £0.4m than the prior year (FY2022: £3.5m) as lower average net debt was more than offset by increased interest rates.

Adjusted profit before tax was £32.3m, up 3.9% on FY2022.

Taxation of £6.7m includes a higher effective tax rate of 20.7% compared to the prior year (FY2022: 17.4%) due to the increase in the corporation tax rate from 19% to 25% from April 2023 and beneficial one-off adjustments in FY2022 relating to capital allowances.

As a result of the £1.3m increase to the tax charge which partially offset the £1.2m increase in profit before tax, profit after tax decreased by £0.1m to £25.6m.

Statutory profit includes the impact of adjusting items, which had a less significant impact on the FY2022 result than on the current year. Adjusting items are covered in more detail below.

Statutory operating profit of £38.3m was £5.9m higher than in FY2022, owing to £0.7m higher adjusted operating profit and £5.2m lower adjusting items, including the provision for McColl's bad debt risk in FY2022 (£4.4m).

Net finance costs of £6.5m were £2.0m higher than FY2022 as the prior year statutory result benefited from a £2.5m credit from the unwind of discount on the Tuffnells deferred consideration.

Statutory profit after tax of £25.1m was a £1.7m increase on the prior year, largely due to a decrease in the impact of adjusting items after tax.

The Company has net liabilities of £16.3m on its balance sheet (FY2022: £32.0m). The net liabilities arose largely because of impairments to the assets and goodwill of the Tuffnells business prior to its sale in May 2020.

Earnings per share (Table C)

Continuing adjusted basic earnings per share of 10.8p is consistent with the prior year, driven by the higher profit after tax and by the reduction in the average number of shares due to the Employee Benefit Trust's share purchases.

Statutory continuing basic earnings per share, which includes adjusting items, is up 0.8p to 10.6p (FY2022: 9.8p) due to the lower level of adjusting items and a reduction in the weighted number of shares.

Dividend (Table D)

The Board is proposing a final dividend of 2.75p per share (FY2022: 2.75p), taking the full period dividend to 4.15p (FY2022: 4.15p). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 31 January 2024 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 final dividend will be paid on 8 February 2024 to shareholders on the register at close of business on 12 January 2024. The ex-dividend date will be 11 January 2024.

Adjusting items (Table E)

Adjusting items before tax of £0.5m (net cost) were a £2.7m decrease on the prior year (FY2022: £3.2m).

In the current year, the Company incurred £0.6m of costs for due diligence and legal activity associated with exploring a potential acquisition aligned to our adjacent opportunities strategy. While the target entity was complementary to our core business, aligned with our markets and synergised with elements of our business, macroeconomic challenges in the latter half of 2022 led to the decision to abort the opportunity.

The Tuffnells insurance provision costs of £0.4m were recognised as a result of Tuffnells' administration in June 2023. The provision relates to incidents arising during the Company's period of ownership of Tuffnells up to May 2020.

The above costs were offset by £0.5m of network and re-organisation credits relating to provision releases which were the result of a contract renewal with our shared service centre partner.

In the prior year, the Company provided for £4.4m impairment loss on receivables as a result of McColl's going into administration. This represented 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. During the reporting period no further impairment charge or reversal has been recognised.

Pension costs in the prior year related to the buy-out of the Company's defined benefit pension scheme.

The Company also incurred professional fees of £0.9m in the prior year in relation to transformation programme planning.

An asset impairment reversal of £1.2m was recognised in the prior period in respect of the joint venture investment in Rascal Solutions Limited (Rascal). During the reporting period, no further impairment charge or reversal has been recognised.

The finance income credit in the prior period of £2.5m is the unwind of the discount on the Tuffnells deferred consideration which was settled by the end of April 2022.

The tax on adjusting items was £nil (FY2022: a credit of £0.9m).

Further information on these items can be found in Note 4 of the Group Financial Statements. Adjusting items are defined in the Glossary to the Group Financial Statements and present a further measure of the Group's performance. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across years 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.

Free cash flow (Table F)

Free cash flow of £21.8m was £26.4m lower than FY2022 (£48.2m) due to the £8.1m pension surplus receipt and £14.0m deferred consideration received from Tuffnells in FY2022 and a £5.9m increase in the working capital movement in FY2023.

The increase in working capital reflects the timing of £5.4m due before the end of August 2023 from a major supermarket which was received on Thursday 31 August 2023 (the first week of FY2024). These working capital cycles led to average intra-month working capital movements of £28.7m (FY2022: £28.4m).

Cash capital expenditure in the year was £3.4m (FY2022: £1.9m), an increase of £1.5m due to depot refurbishments which were initiated at the end of FY2022.

Lease payments of £6.1m (FY2022: £6.4m) decreased by £0.3m due to the exit of a depot lease in the second half of the last financial year and the non-renewal of a further depot lease in H2 FY2022.

Net interest and fees of £5.3m (FY2022: £8.0m) decreased by £2.7m, as the prior year included the payment of £2.9m arrangement fees in relation to the Company's refinancing of its banking facilities.

Cash tax outflow of £6.6m was a £1.3m increase on the prior year (FY2022: £5.3m outflow) due to the increase in corporation tax rate from 19% to 25% in April 2023 and lower taxable profit in FY2022 due to the £4.4m provision for the McColl's debtor.

Other items relate predominantly to the non-cash share-based payment expense.

In the prior year, the wind-up of the Company's defined benefit pension scheme (detailed further below) resulted in the receipt of £8.1m and settlement of deferred consideration due from Tuffnells (£14.0m).

Financial Review continued

The total net cash impact of other adjusting items was a £1.0m outflow (FY2022: £1.5m outflow). In the reporting period, amounts related to aborted acquisition costs (£0.6m), payments in respect of legacy Tuffnells insurance matters (£0.2m) and reorganisation costs (£0.2m). In the prior year, adjusting items comprised: £1.3m of transformation programme planning costs and £0.2m of pension-related costs.

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 year at £4.2m compared to £14.2m at August 2022, a decrease of £10.0m. Average daily net debt reduced from £49.9m last year to £24.9m this year, a reduction of £25.0m.

The reduction in both reported and average daily Bank Net Debt was driven by the Company's ongoing cash flow generation and aided by £21.1m of one-off receipts in FY2022, being the pension receipt of £8.1m in December 2021 and deferred consideration receipts from Tuffnells of £6.5m in November 2021 and £7.5m in April 2022.

The Company's Bank Net Debt/EBITDA ratio decreased to 0.1x (FY2022: 0.3x). The year end fell just before major publisher payments of c.£18m were made, which benefited reported Bank Net Debt. Bank Net Debt rose to £19.5m on 5 September 2023 after the year end.

The intra-month working capital cash flow cycle generates a routine and predictable cash swing averaging £28.7m (FY2022 £28.4m) within the overall bank facility of £64.0m at the year end (FY2022: £79.5m). This results in a predictable fluctuation of net debt during the month compared to the closing net debt position.

Table G: Net debt

£m	2023	2022
Opening Bank Net Debt	**(14.2)**	**(53.2)**
Continuing operations free cash flow (excluding adjusting items)	**22.8**	**27.6**
Continuing operations free cash flow (adjusting items)	**(1.0)**	20.6
Discontinued operations free cash flow	**–**	(0.5)
Free cash flow	**21.8**	47.7
Dividend paid	**(9.8)**	(6.1)
Investment in joint venture	**(0.3)**	–
Purchase of shares for Employee Benefit Trust	**(1.7)**	(2.6)
Bank Net Debt	**(4.2)**	(14.2)

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

Total dividends paid during the year amounted to £9.8m (FY2022 £6.1m), an increase of £3.7m. The FY2022 final dividend of £6.5m was paid in February (FY2022: £2.8m), bringing the total dividend paid in respect of FY2022 to £9.8m (FY2022: £6.1m). The Company also paid an interim dividend in July 2023 of £3.3m (FY2022: £3.3m). The Company invested £0.3m during the year in LoveMedia, a joint venture for retailing single copy electronic versions of newspapers and magazines.

A reconciliation of Bank Net Debt (which excludes the IFRS 16 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 impact of inflationary pressures within the macroeconomy and the funding requirements of the Group and 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

On 3 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 Smith 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.

Inside news

Delivering for the nation.

When exceptional events occur, printed newspapers and magazines have a special place in our national mood. This was never more clearly demonstrated than when HM Queen Elizabeth II passed away in September 2022. Immediately following the announcement, we worked closely with our publishers to ensure the delivery of millions of additional copies, remembrance supplements and tribute specials.

In the first three days alone, our depots delivered 16.8 million newspapers, an uplift of 44% on typical levels. The initial increases amounted to over 3,000 tonnes of products – all of which had to be picked, packed and delivered to our 23,000 retail customers.

In the following two weeks, volumes remained exceptionally high, and our teams worked round the clock to ensure supplies were despatched as soon as possible. During this time, we delivered millions more magazine specials and remembrance tributes.

Most importantly, we achieved this while meeting the vast majority of standard delivery times. Drawing on contingency plans, every depot put on hundreds of extra distribution runs and ensured clear communication of the special arrangements with retail customers.

As a result of our efforts, we received messages of thanks and glowing testimonials from all our major partners, confirming the commitment that's a cornerstone of our long trading relationships. It all amounted to an exceptional effort for extraordinary times – and a reminder of how, when a collective effort is essential, the supply chain pulls together to deliver for the nation.

Viability Statement

1. How the Group assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 65. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 52 to 57.

The Group manages its financing by structuring core borrowings and the availability of debt facilities for draw down. The Group's prospects are assessed primarily through its business planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecast future funding requirements over the assessment period of three years. The most recent review was approved in September 2023, 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 2026 is an appropriate assessment period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above and reflects the directors' best estimate of the future prospects of the business, including the nature and potential impact of the principal and emerging risks that face the business.

The Board noted in considering the appropriate assessment period that the Group's banking facilities are due to expire in August 2025 and that this period also includes publisher contract renewals covering 35% of revenue, with the other 65% already in place until 2029.

The Board also considered whether there are specific foreseeable events relating to the principal and emerging risks that could occur beyond this 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 and will be refinanced before its expiry at the end of August 2025 (see also Note 18 of the Group Financial Statements on page 164).

3. Assessment of viability

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

1. Continued decline in volumes of printed media during the assessment period offset by price increases;
2. The impact of inflationary pressures in the economy, including fuel and energy prices and their impact on the Company's delivery and warehouse cost base;
3. The benefit of cost reduction programmes in delivery and warehouse costs and in overheads;
4. The continuing development of new and ancillary revenues;
5. No major changes in working capital profile; and
6. No significant acquisitions or disposals in the assessment period.

In making this statement, 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, and also considered the impacts of climate change.

Consideration has been given to the Company's ability to renegotiate the remaining publisher contracts (35% of revenue) 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 also 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 90).

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 Group's principal and emerging risks and uncertainties (as documented on page 62). 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 and emerging risks on page 62 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 on the following page.

As noted on the next page, the scenarios have assumed that external debt is repaid as it becomes due and will be refinanced before its expiry at the end of August 2025.

The scenarios are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; 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 Group would be able to continue operating within its existing debt covenants and liquidity headroom. Scenario 6 requires 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 Group but, rather, illustrates the factors that could 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 scenarios and 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 supplier finance arrangements), cancelling discretionary annual bonus payments and share schemes vestings, identifying other cost savings, as well as not paying dividends.

4. Viability statement

In light of the scenario modelling noted above, the directors are confident that headroom under the Group's existing banking facilities remains adequate and covenant tests can be met until the end of the current facility in August 2025. The directors are further confident that the Company will be able to refinance its debt facilities on or before August 2025 on terms which do not change the Company's viability assessment. 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 Group'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 Group not being able to enact mitigating actions is remote.

Taking into account the Group's current position and principal risks and emerging risks, the directors confirm that they have a reasonable expectation that the Group will remain viable over the period of assessment to August 2026.

5. Going concern

The Group meets its day-to-day working capital requirements through its bank facilities of £64.0m at the end of the reporting period, with an outstanding term of 22 months to 31 August 2025. The terms of the facility agreement include: an amortisation schedule of £10m per annum for the repayment of the term loan and a reduction in the revolving credit facility of £5m per year.

The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within the current banking facilities and the Group will be able to continue to operate within the covenants during the assessment period.

Considering the principal and emerging risks discussed in this report, the directors have a reasonable expectation that the Group and the Company 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. Thus, the Group and the Company continue to adopt the going concern basis in preparing its consolidated financial statements which are shown on pages 138 to 173.

Stress scenarios

Scenario modelled	Link to principal risks
Scenario 1 Changes to retailers' commercial environment	
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 supermarket multiples removing their magazine offering.	**Risk 2:** Macroeconomic uncertainty and **Risk 3:** Changes to retailers' commercial environment: Deterioration in the macroeconomic 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 2:** Macroeconomic uncertainty and **Risk 5:** Growth and diversification: Deterioration in the macroeconomic environment and/or the failure of the core operations to deliver profit expectations 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 efficiency savings are not achieved.	**Risk 2:** Macroeconomic uncertainty **Risk 4:** Acquisition and retention of labour and **Risk 5:** 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	
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 fiscal impact.	**Risk 6**: 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 Major newspaper titles exit the market	
The business plan assumes all major newspaper titles will continue over the assessment period. We have modelled a scenario that reflects one or more newspapers removing their paper edition from the market.	**Risk 2:** Macroeconomic uncertainty **Risk 3:** Changes to retailers' commercial environment and **Risk 7**: Major newspaper titles exit the market or move to digital only editions: One or more national newspaper titles exit the market and/or publications are taken fully digital, leading to a deterioration in the Company's profitability.
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.

Regular reporting and oversight *ensures the success* of our risk management.

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.

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.

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

Board/Audit Committee

Executive Team

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 which regularly reviews strategic risks affecting the Group and performs deep-dive reviews on specific risk areas.

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.

Inside news

Cyber Essentials; working together to maintain high standards.

Cyber Essentials is a government-backed scheme aimed at protecting an organisation against a range of the most common cyber-attacks.

In December 2022 Smiths News achieved Cyber Essentials certification, swiftly followed by Cyber Essentials Plus in March 2023.

'Achieving this standard requires strong and effective processes across the entire Company,' explains Chris Hall, Head of Information Security, who led the project. 'But more than that, it must be founded on a culture that regards security as essential, not only to internal needs but to responsible partnerships too.'

Certification required a cross-functional effort to ensure compliant practices are fully embedded across the business – focusing not just on the potential for high-profile data breaches, but on those everyday working practices that keep Smiths News secure. Chris's team worked to help colleagues implement the standards, explaining the benefits and responding to concerns so that everyone better understands the potential issues.

'We recognise that security needs are forever evolving,' says Chris, 'and that means constantly reviewing our processes beyond Cyber Essentials so they meet both our needs and those of our trading partners. Working through these issues together is the key to keeping the Company safe from threats and mishaps.'

Continuously *identifying and reviewing* both the 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 and emerging risks and regular reporting to, and robust challenge from, both the Executive Team and Audit Committee.

The directors' assessment of these risks is aligned to the strategic business planning process and regulatory landscape.

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 their 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 register. 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 and macroeconomic landscape, the Company's future strategic direction and ambition as well as the heightened 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, one emerging risk has been elevated to a principal risk in our risk register and relates to the risk of a major newspaper title/s potentially exiting the market and/or moving to digital only editions.

Risks are still subject to ongoing scrutiny, monitoring and appropriate mitigation.

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

We have increased our efforts to hold conversations on what matters most and how we might better support each other.

Key

- Increasing
- Stable
- New risk

Principal risks and potential impact	Mitigations	Strategic link/change
1. Cyber security		
To meet the needs of our stakeholders, our IT infrastructure and data processes need to be flexible, reliable and secure from cyber-attacks. Secure infrastructure acts as a deterrent to and helps prevent and/or mitigate the impact of external cyber-attack, internal threat or supplier-related breach, which 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.	• Defined risk-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 detect and mitigate common threats. • Dedicated information security investments and access to third-party cyber security specialists, including 24/7 security monitoring, incident response and specialist testing. • The Company encourages a cyber-aware culture by undertaking exercises, such as computer-based training and simulated phishing attacks and regular communications about specific cyber threats. • We have successfully secured Cyber Essentials and Cyber Essentials Plus certification.	**Strategic link** Technology **Change** Increasing This risk has been re-evaluated following enhancement of the Company's IT infrastructure and now focuses exclusively on cyber security-related risks. That said, despite ongoing investment in the Company's IT infrastructure and IT security (notably gaining Cyber Essentials Plus certification), the backdrop remains heightened, leading to an increased risk assessment.
2. Macroeconomic uncertainty		
Deterioration in the macroeconomic environment results in supply-side cost inflation and/or a reduction in demand-side sales volumes. Supply-side macroeconomic pressures present the Company with additional cost challenges, e.g. increased competition in the distribution labour market and rises in fuel and utility prices. Adverse changes to economic conditions result in reduced consumer demand for newspapers and magazines and/or reduction in titles/editions. These cost increases and sales pressures 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 macroeconomic 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. • Cover price increases in magazine and newspaper titles provide some offset against the impact of volume decline. • 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** Costs and efficiencies, Operations **Change** Stable

Principal and Emerging Risks continued

Principal risks and potential impact	Mitigations	Strategic link/change
3. Changes to retailers' commercial environment		
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/or magazine channel, leading to a significant reduction in newspapers' and/or magazines' selling space in-store (or its location) in favour of other higher margin products and/or the delisting of all/particular titles of newspapers and/or magazines. A reduction in (or change in location of) sales space and/or full delisting of newspapers and/or magazines by our largest retailers (or a high number of other retailers) could materially reduce the Company's revenue, profitability and cash flow.	• Our EPoS-based returns (EBR) solution has been introduced in-store with our largest retailers, improving staff efficiency in managing the magazine category, thereby reducing cost to the retailer. • 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. • Expand retail offering to include single copy digital downloads of newspapers and/or magazines to supplement physical print and category range in-store.	**Strategic link:** Costs and efficiencies **Change** =
4. Acquisition and retention of labour		
Due to the current competition in the distribution labour market, 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 our ability to address the strategic priorities and to deliver forecasted 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 is 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** =
5. 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 Business Development Group and Growth Operations Delivery Steering Committee have been established to review and control new business opportunities and then plan and measure the impact of these opportunities on core operations. • Experimentation through trials of new business opportunities has been deployed to assess the demand and potential economic benefit of such opportunities and any likely impact on maintaining the Company's outstanding and sector-leading standards of service in newspaper and magazine wholesaling. • The Executive Team's 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** Costs and efficiencies **Change** =

Principal risks and potential impact	Mitigations	Strategic link/change
6. 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 flooding, 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:** Sustainability **Change** =
7. Major newspaper titles exit the market or move to digital only editions		
Significant decline in advertising and/or circulation, together with rising production costs, lead to one or more national newspaper titles exiting the market and/or publications being taken fully digital. This could lead to a significant deterioration in the Company's profitability and cash flow in both the short and medium term as well as impacting on its ability to execute its strategies.	• We seek to ensure full availability of alternative newspaper titles to maximise substitution opportunities for customers. • Partial mitigation against newspaper title closures is built into our contracts with major publishers. • Ongoing successful execution of our growth and diversification strategy provides longer-term mitigation through alternative profitable revenue streams.	**Strategic link** Costs and efficiencies **Change** *
8. 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, third-party redress 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** =

Key

- ↑ Increasing
- = Stable
- * New risk

Chairman's Statement on Corporate Governance

This has been a good year for our business, but we remain alive to the threat of negative economic headwinds and the impact this may have not only on our business but on our people.

David Blackwood
Chairman

7 November 2023

As we reflect on this past year, as a business we have delivered a good financial and operational performance and been able to meet the ambitious targets we set ourselves this time last year, as reported elsewhere in this Annual Report; however, we rightly have to also acknowledge the ongoing inflationary challenges and economic uncertainty that continue to cast a shadow over the United Kingdom's prosperity and the resultant impact of this on each of our business, the businesses of our suppliers and customers and, crucially, our colleagues. Engagements across all our stakeholder groups have kept this in mind and we have been careful to consider all feedback in a balanced manner when reaching decisions, which are always taken in the best interests of the Company as a whole. We continue to apply 'fair pay principles' for our colleagues and we are pleased to be able to continue to support our colleagues at these troubling times where they may be suffering financial hardship through the provision of our 'colleague support fund.' In addition, we have also considered further financial support for colleagues at the lower end of our pay-scale who we believe to be most vulnerable to the escalating cost of living challenges, providing a one-off discretionary payment of up to £250 last winter to support them in the face of unprecedented energy costs. Through our colleague engagement surveys, as well as the National Colleague Engagement Forum meetings, we have been able to gauge the concerns of our colleagues and to provide feedback around any recurring issues raised. Despite the economic headwinds, our engagement survey results do not suggest any major pay or retention concerns. We remain confident of our ability to deliver sustainable value to all our stakeholders, while being mindful of the pressures being brought to bear on colleagues, customers, suppliers and investors and, to this end, we remain committed to a balanced and measured approach in all our decisions.

The Board is also acutely aware of the expectations around gender and ethnic diversification and it is therefore pleasing to report that this year we have made progress against our diversity targets through the appointment of Deborah Rabey on 1 March 2023 as an additional independent non-executive director. In light of Deborah's appointment, the Board now comprises seven members, of whom two are women (29%). The chairperson of the Remuneration Committee is a woman, but the Board Chairman, CEO, CFO and Senior Independent Director are all men. In reporting this progress, we do however remain mindful of the fact that we still fall some way short of the FCA's new Listing Rule recommendations (which have been introduced this year on a 'comply or explain' basis) in relation to both gender and ethnicity targets. I have sought to address this issue in some detail in the Nominations Committee report (see page 98) to which I would refer you, but, for now, I would highlight that in the absence of appointing an additional Board member to help support the Company's ongoing pursuit of diversification and growth opportunities within our core markets (which remains a key element of our business strategy), it is considered to be unlikely that the set targets (see LR9.8.6R(9) and FCA Diversity Targets 2022) will be met in the short to medium term given the current established composition of the Board, the tenures of our current directors and in the light of recent evaluations of the Board reinforcing our view that the Board is operating effectively and in accordance with good corporate governance principles.

Accordingly, whilst the Board is keen to take steps to further improve its gender and ethnic diversification, it does not see a compelling rationale or need at this time to immediately replace any of the Chair, CEO, CFO or Senior Independent Director outside the normal rotation periods or terms of employment (as applicable) and, in any case, we acknowledge that any such changes may otherwise take time, particularly when the broader corporate market is 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. Hence, whilst we aspire to make progress in this area and to meet the jointly held aspirations of our stakeholders, we remain committed to also ensuring that the Board at all times possesses 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.

This year has also seen a renewed focus on both our health & safety performance as well as our whistleblowing process. The wellbeing of our colleagues remains paramount and the Board took the decision to move the reporting lines of our health & safety compliance to become a standing agenda item at all our Board meetings, with it being the first discussion point. A more detailed report is now considered by the Board, with clear metrics and targets established which cater for a measured focus and concerted effort to understand, address and reduce any health & safety issues within the workplace. For further detail on our health & safety performance I would refer you to our People report (see page 24). Furthermore, in light of recent high-profile whistleblowing incidents reported in the national press, this has resulted in the Board taking a proactive approach here by reviewing our policy, process and procedures.

The wellbeing of our colleagues remains paramount and the Board took the decision to move the reporting lines of our health & safety compliance to become a standing agenda item at all our Board meetings, with it being the first discussion point.

This has consequently led to the appointment of a dedicated third-party service provider to help manage our hotline and reporting processes, resulting in increased confidence amongst colleagues in the protection of their confidentiality, impartiality and an enhanced accessibility channel for reporting matters of concern, each of which can now be raised through multiple languages, with 24 hours a day, 7 days a week availability. The refreshed Whistleblowing Policy has also sought to raise awareness amongst colleagues and encourage a culture of appropriately calling-out of any concerns around inappropriate behaviour and/or transgressions against our Company culture and Values.

With the ever-increasing focus on cyber security, this year has seen us continue on the road of enhancement of our systems and controls, with the attainment of 'Cyber Essentials Plus' accreditation through the National Cyber Security Centre, as well as an insightful simulation cyber-attack incident response exercise, with learning points and improvements fed back into our system and processes. We remain committed to maintaining the highest standards of data integrity and security and strive to ensure the robustness (as far as reasonably practicable) of our systems. More details in this regard are available in the Audit Committee report (see page 88).

As we progressed along the path of preparing the first of our TCFD reports last year, our sustainability team has built on the learnings from this process, where necessary by accessing external expertise to complement our internal work. This journey has led to a better understanding of the methodologies used to both measure and address the risks and impact of climate change on our business and to calculate our emissions.

Having now reached a point where we better understand our greenhouse gas emissions across Scopes 1, 2 and 3, we have set about establishing realistic and achievable metrics and targets, underpinned by implementation and action plans to support the sustainability of our business into the future and quantifying our commitment to addressing the 'climate emergency.' While much of the focus of our sustainability team has been on energy utilisation and emissions during the review period, we have not lost sight of the other imperatives and goals contained within the five pillars of our sustainability strategy, and in this regard, I would refer you to our Sustainability report (see page 32) which provides the details on our progress to date.

This has been a good year for our business, but we remain alive to the threat of negative economic headwinds and the impact this 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. Once again, I would encourage all shareholders to attend and vote at the forthcoming AGM, either in person or by using the various electronic methods of engagement allowing you to exercise your vote and ensure your voice is heard. On behalf of myself and the Board I assure you of our continued commitment to the Company and thank everyone for their contribution to another good year.

David Blackwood
Chairman

7 November 2023

Board of Directors

N R

David Blackwood

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.

Most recently, David has been a non-executive director of Dignity plc (until June 2020), Scapa Group plc (until April 2021) and The Go-Ahead Group plc (until 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 where he was employed for seven years, 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.

D AP

Jonathan Bunting

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

D AP

Paul Baker

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

A N R

Mark Whiteling

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

None

A N R

Denise Collis

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).

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.

In addition to the appointments noted above, Denise was also a non-executive director and chair of the remuneration committee for EMIS Group plc from October 2021 until its successful sale to UnitedHealth Inc in October 2023.

Other current appointments

- SThree PLC, senior independent non-executive director and chair of remuneration committee
- British Heart Foundation, chair of remuneration and people committee

A N R

Michael Holt

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 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 from 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
None

A N R

Deborah Rabey

Independent Non-Executive Director

Year of appointment: 2023
Gender: Female
Ethnic origin: White
Citizenship: British
Disability: None

Deborah possesses a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector, having spent 23 years with Tesco PLC (to October 2022), of which 14 years were at director level positions, notably as UK Category Director, General Merchandise. She was most recently Chief Customer Officer at Wilko, the mixed-goods retailer.

Other current appointments
None

D

Stuart Marriner

Company Secretary and General Counsel

Background and experience

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 secretarial teams.

Committee key

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- D Disclosure Committee
- AP Approvals Committee
- Chair

Our *culture and values* underpin and determine the way that we do business.

Framework

Governance is not a stand-alone concept but a holistic approach which encompasses our structures, principles, methodologies and systems, as well as our policies and procedures.

Together, these create a framework that underpins our culture and Values and determines the way that we do business and how we may prioritise our responsibilities to all our stakeholders.

Board of Directors

↓

Audit Committee | **Nominations Committee** | **Remuneration Committee** | **Approvals and Disclosures Committees**

↓

CEO & Executive management team

↓

Sub-committees/Steering Committees

Governance highlights

1 Culture and Values
Refreshed Whistleblowing policy & procedure (see page 76)

2 Diversity
Addressing diversity: Appointed an additional female Board member (see page 72)

3 Technology and IT security
Achieved Cyber Essential Plus accreditation (see page 88)

4 Environment
Growth of Smiths News Recycle (see page 23)

5 Health & Safety
Maintained ISO 45001 certification (see page 36)

Remuneration Committee	Audit Committee	Nominations Committee	Disclosure Committee	Approvals Committee
• determines directors' and senior management's 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	• promotes governance and our risk management framework • ensures the accuracy of our financial reporting • monitors and reviews the effectiveness of the internal and external auditors	• makes recommendations to the Board for executive and non-executive appointments and succession planning • promotes employee engagement and diversity	• monitors and oversees the Company's compliance with the Market Abuse Regulation (as in force in the UK) and the consideration of inside information procedures and disclosures	• responsible for approving delegated Board matters
See pages 104 to 125 for report	See pages 88 to 97 for report	See pages 98 to 103 for report		

Leadership and oversight

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.

The Board and its Committees receive regular reports 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 in a manner that ensures the Board has full knowledge and oversight of the Company's activities, including the impact of decisions on all stakeholders.

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 which 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.

The Senior Leadership Team, assisted by functional experts, oversees day-to-day operational, commercial and functional activity.

Sub-committees/steering committees report into the Executive Team and, in turn, to the Board and its Committees. They 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 similarly structured manner but which are established to deal with one-off or short-term projects.

Composition, attendance and evaluation

Board of Directors

We have been delighted to make progress in the year against the Board's diversity targets through the appointment of Deborah Rabey on 1 March 2023 as an additional independent non-executive director. Deborah brings with her a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector.

Corporate Governance Report continued

Gender and ethnic diversity

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 FCA's 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. Although progress has been made we remain mindful of the fact that we still fall short of the Listing Rules recommendations in relation to both gender and ethnicity targets.

We have been delighted to make progress in the year against the Board's diversity targets through the appointment of Deborah Rabey on 1 March 2023 as an additional independent non-executive director. Deborah brings with her a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector.

Accordingly, the Board now comprises seven members, of whom two are women (29%) and all are white. The chairperson of the Remuneration Committee is a woman, but the Board Chairman, CEO, CFO and SID are all men.

The Board remains acutely aware of the expectations around gender and ethnic diversification. However, in the absence of appointing an additional Board member to help support the Company's pursuit of business diversification and growth opportunities within our core markets, it is considered to be unlikely that the set targets (see LR9.8.6R(9) and FCA Diversity Targets 2022) will be met by the Board in the short to medium term. The Board has reached this position given the current established composition of the Board, the current tenures of directors (the Senior Independent Director is not expected to retire from the Board until the January 2027 AGM) and in light of recent evaluations of the Board reinforcing our view that the Board is operating effectively and in accordance with good corporate governance principles.

Accordingly, whilst the Board is keen to take steps to further improve its gender and ethnic diversification, it does not see a compelling need or rationale at this time to immediately replace any of the Chair, CEO, CFO or Senior Independent Director outside the normal rotation period or terms of employment (as applicable) and, in any case, it is acknowledged that any such changes may otherwise take time, particularly when the broader corporate market is 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. Hence, whilst the Board aspires to make progress in this area, we remain committed to also ensuring that the Board possesses 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.

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 on page 126.

> Diversity and inclusion continues to be a key focal point at this time.
>
> We have been delighted to make progress in the year against the Board's diversity targets.

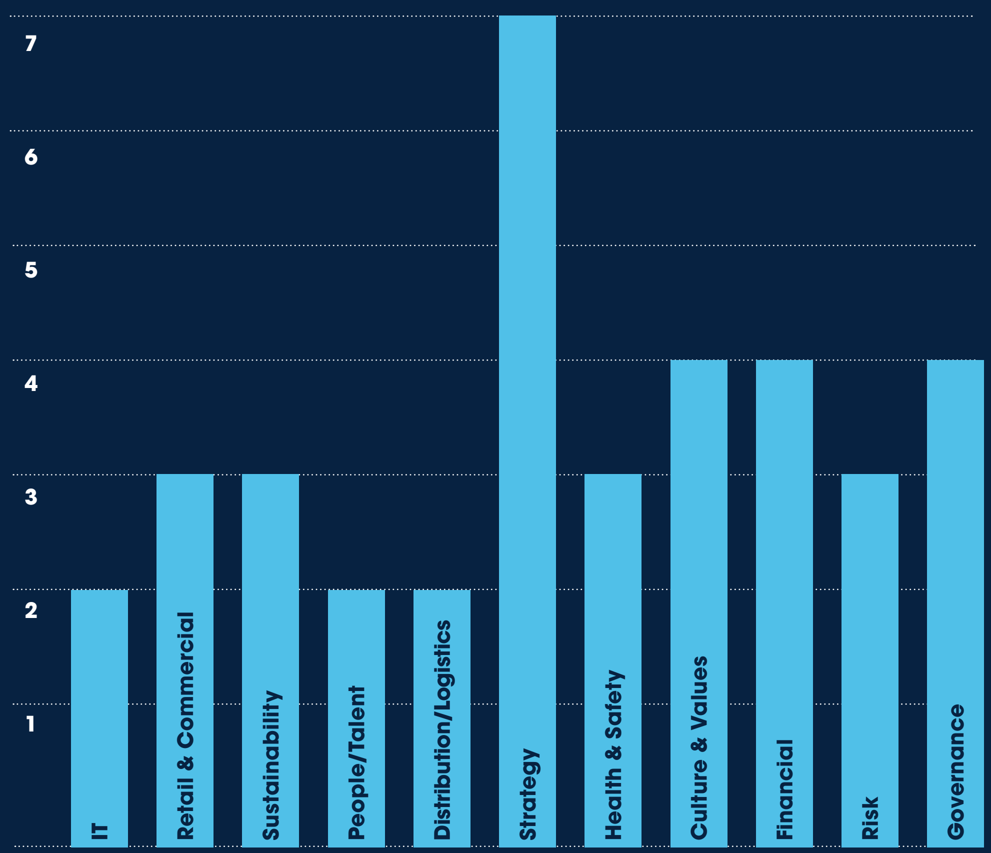
Board evaluation

Following an externally facilitated Board evaluation process during FY2022, this year we undertook an internally facilitated process in keeping with the three-year external evaluation cycle, with each member of the Board participating in an online evaluation questionnaire which covered the performance of both the Board and its Committees. The overall scores remained consistently high across all topics, reinforcing the position that the Board appears to be operating effectively and in accordance with good corporate governance principles. The Board noted feedback from the evaluation process highlighted the need for Board composition and diversity to remain a continuing focus area requiring close monitoring, succession planning representing an increasing area of attention, and an acknowledgment that the current tenures of some non-executive directors were approaching the end of the '9-year independence' market expectation. New areas of focus identified in the review included the heightened consideration within the Board's decision-making process to its risk appetite in order to ensure that the right long-term decisions are taken at the right time and an acknowledgement that the Company could, in that light, redouble its efforts in the pursuit of successful diversification into business adjacencies with greater levels of materiality, pace and scale identified as key metrics to ensure the Company's long-term sustainability. Finally, it was noted that visits to/briefings by functional teams and/or ancillary businesses had been well received in the year and would therefore continue into FY2024.

Board attendance
The following tables show the attendance of directors at Board and Committee meetings held during the year, the independence 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	Committee meetings		
			Audit	Nominations	Remuneration
Number of meetings	11	0	4	3	3
David Blackwood	11	0	–	3	3
Denise Collis	11	0	4	3	3
Michael Holt	11	0	4	3	3
Mark Whiteling	11	0	4	3	3
Deborah Rabey	5 (out of 5)	0	2 (out of 2)	0 (out of 0)	1 (out of 1)
Jonathan Bunting	11	0	–	–	–
Paul Baker	11	0	–	–	–

Key skills & expertise



Corporate Governance Report continued

Director appointments and training

The Board's director appointment and induction programme was refreshed during FY2023 in anticipation of the appointment of Deborah Rabey. This programme 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 operational sites and support locations, as appropriate. No director is appointed or nominated by a stakeholder, with all director appointments being identified through and only 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 relating to equality, diversity and inclusion across multiple criteria. Please see the Nominations Committee report on pages 98 to 103.

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 2024 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 FY2023 included corporate social responsibility, with specific focus on diversity, sustainability and emissions (the latter being specifically identified as a possible metric in relation to performance), the onset of artificial intelligence, FRC focus areas and reports (including feedback on the proposed new listing regime reform and the FRC's review of the UK's Corporate Governance Code following reforms outlined by the government in May 2022 on audit and governance reform) as well as shareholder trends and expectations, annual reporting expectations and new legislative 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.

Our Values underpin our commitment to ensuring that everyone involved in our business is treated in an inclusive manner, with respect and dignity, while we collectively strive to provide the best possible service in all we do, within an environment which allows everyone to develop and grow. The Board is ultimately responsible for oversight in this area, which includes measuring whether our Values-based culture is alive and well throughout the Company. The Board believes that this is best achieved by listening to our stakeholders and identifying key themes, issues and views through both physical engagements and the receipt of reports and management discussions throughout the year.

To this end, during the year the Board has undertaken periodic visits to our operational sites, as well as direct one-to-one engagements with our largest shareholders, publisher clients, retail customers and colleagues – see Stakeholder Engagement table on page 12.

The Board continues to both challenge and support 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 the Stakeholder Engagement table on page 12. We use a number of tools to corroborate and measure how well our Values and culture are embedded throughout our organisation and to assist in determining the effectiveness of our policies and procedures, to gain a more informed perspective of colleague issues and concerns, to assesses the outcomes of proactive and remedial activities and to ensure insight into the priorities of our stakeholders in general.

Selection decisions are based on merit and the Board strives to ensure that recruitment activities are fair, transparent and non-discriminatory.

Culture and Values

Quick

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

Creative

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

Trusted

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

Open

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

Friendly

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

Fair

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

Implementing and monitoring our culture and Values

Management oversight	The Board ensures that functions within the business are both empowered and resourced appropriately to support our Values and receives regular reports demonstrating behaviour throughout the Company (e.g. Health & Safety, Internal Audit, sustainability, whistleblowing, operational and financial performance, risk etc). Please refer also to our Audit Committee report on page 88.
Policies and 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. We also have a number of compulsory (anti-bribery and corruption, money laundering prevention, competition law, data protection and information security) and optional e-learning modules which are accredited by the CPD Certification Service. These support and encourage a better understanding of the Company's culture, our working environment and the relationship between the Company and our colleagues. 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. 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 colleague 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 24 and the Directors' Remuneration report on page 104).
Risk management and Internal Audit processes	We maintain strict financial discipline and risk management processes throughout the business and 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	Any impact on our Values and culture is taken into account when considering our strategy (see page 8) and the pursuit of diversification and growth opportunities. The Board seeks assurances that our operational and strategic priorities are aligned with our Values and that our business model and practices remain compatible with our Values.

Living our Values 2023

Help to Save scheme	**Gender Equality network**	**What Matters pulse surveys**
With Help to Save, a government-backed scheme, you can start to build a savings fund and earn bonuses on your savings.	Smiths News establishes first ever Gender Equality networking group (Women in News).	The survey closed with 84% of colleagues having had their say through our What Matters pulse survey, delivering an overall engagement score at a strong level of 7.1.
IOC Award	**Extra Mile Recognition Awards**	**National Colleague Engagement Forum**
Smiths News won an EIIR Merit Award for our Operation London Bridge work (delivery of print media following the death of Her Majesty Queen Elizabeth II) at the IOC National Courier Awards.	Mohammed Farooq, from the Birmingham depot's twilight operations team, won a £1,000 voucher through the reward programme only to then donate it to his local food bank.	Colleague forums are designed to give colleagues a voice and to be heard, by providing opportunities for direct feedback to the local management teams, regional management teams, Executive Team and PLC Board.

Further information on our Values can be found in the People report on pages 24 to 27.

Corporate Governance Report continued

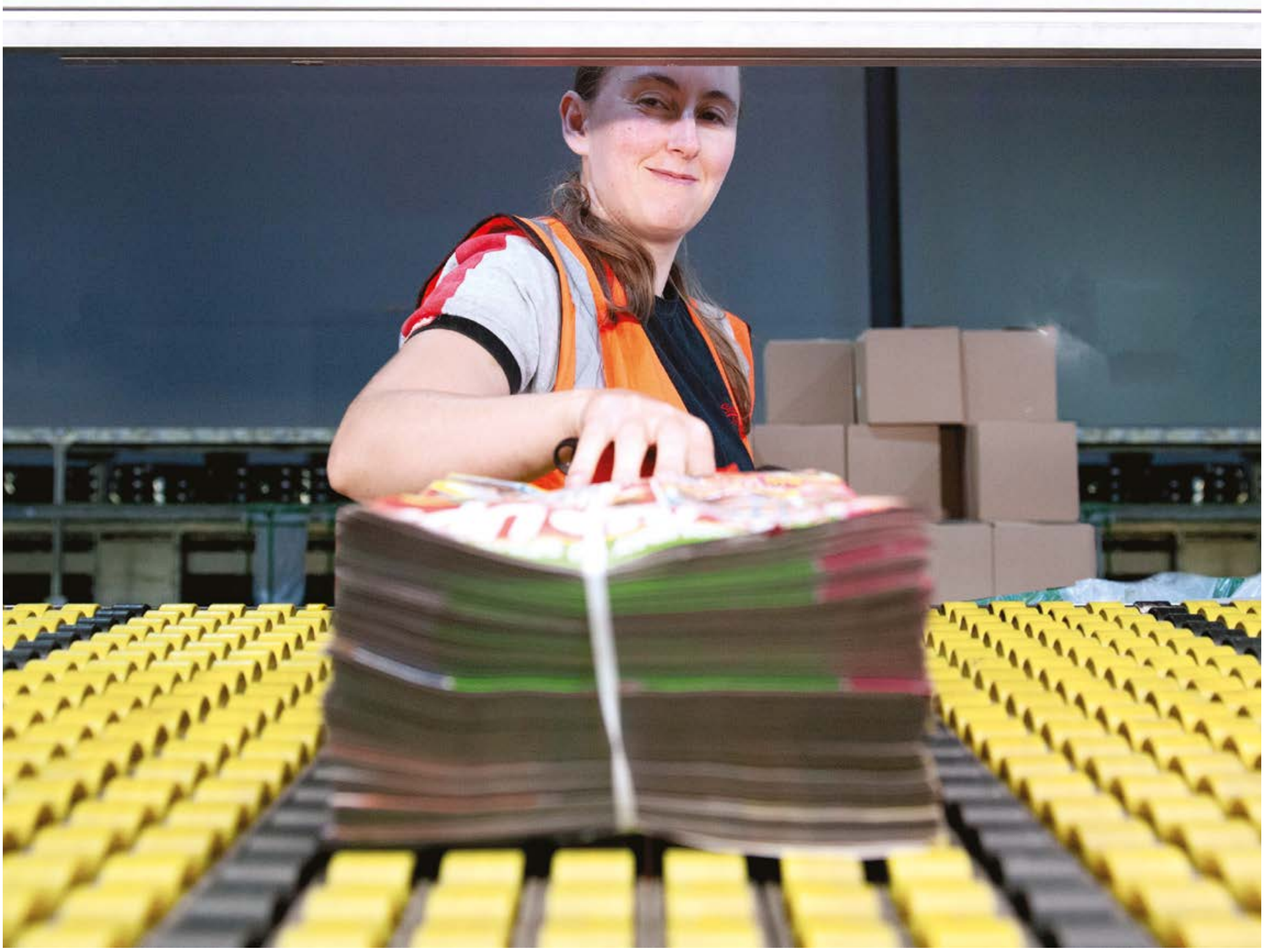
Whistleblowing
With whistleblowing gaining prominence in the national press this year, management took a proactive approach and undertook a review of both our current policy and reporting processes and procedures. A new revised Whistleblowing Policy and process was identified, seeking to better raise awareness amongst our colleagues and encouraging a culture of openness in calling out any concerns that colleagues may have. This policy is underpinned by a confidential 'speak up' whistleblowing hotline which encourages colleagues to raise any matters of concern which may arise from time to time.

A revamp of the Company's whistleblowing processes has seen the appointment of a dedicated third-party service provider to manage our hotline and reporting processes, resulting in an increased confidence amongst colleagues in the protection of their confidentiality, of impartiality and an enhanced accessibility channel for reporting matters of concern to them, each of which can now be raised through multiple languages with 24 hours a day, 7 days a week availability.

Risks
1 Cyber security
2 Macroeconomic uncertainty
3 Changes to retailers' commercial environment
4 Acquisition and retention of labour
5 Growth and diversification
6 Sustainability and climate change
7 Newspaper titles exit market/Move to digital only
8 Legal and regulatory compliance

Whistleblowing

	Reports received	Reports investigated and closed	Outstanding investigations
FY2023	8	8	0
FY2022	5	5	0



Board activities in FY2023	Supporting our Values	Addressing principal risks
Governance		
• reviewed directors' conflicts of interest • reviewed terms of reference of Board committees, reserved and delegated matters • reviewed cyber security preparedness and mock simulation outputs • reviewed various policies, including the Whistleblowing Policy and procedures manual (received and reviewed whistleblowing reports and activities) • reviewed and approved the science-based targets for CO_2 emissions reductions • approved the interim financial results and the Annual Report and Accounts • reviewed corporate social responsibility, with specific focus on human capital, customer relations, climate change and business ethics • received reports from the Company's advisers, including its corporate brokers • monitored engagement with stakeholders, including responses to our 2023 AGM and voting outcomes • received updates on the impact to stakeholders of operational and strategic matters • reviewed the internal evaluation of the Board and its committees		1 2 5 6 8
Finance		
• 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, including treasury • considered mitigations to the current inflationary environment		2 5 8
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 ongoing capital allocation strategy • reviewed the sustainability strategy and approved science-based targets for reduction of CO_2 emissions • reviewed performance and reward • reviewed business continuity plans • considered new publisher contract renewals and terms of market announcements		2 4 5 6 7 8
Audit, internal controls and risk		
• reviewed business-wide risks, risk appetite and mitigating actions • 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 and data protection compliance • 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		1 2 3 8
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 employee engagement and employee satisfaction survey results • supported equality, diversity and inclusion • received reports on colleague engagement forums • appointed a new non-executive director		1 4 8

Corporate Governance Report continued

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

The Board remains committed to both the intent and spirit of s172 of the Companies Act 2006, with stakeholder engagement identified as a priority in the Board's decision-making processes and, in doing so, seeks to consider the interests and competing views of all relevant parties who may be potentially impacted. This includes ensuring that the Board (and each director) has a good understanding of the position of all stakeholders, coupled with an unwavering commitment to their primary duty to act in good faith and in a way which is likely to promote the success of the Company and is to the benefit of its members as a whole. The Board strives to balance competing interests in a fair and transparent manner, in the best interests of the Company as a whole, having regard for the realisation that conflicting positions 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. This requires the Board to balance any competing interests and to take account of the various views when making decisions, while remaining 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 has determined as significant those issues relating to strategy, transformation, restructuring, corporate development and capital allocation and thus requiring specific consideration. That said, the Board remains cognisant of the fact that other issues may be considered priorities by key stakeholder groups and thus other areas so identified from time to time may equally be included in its deliberations and decision-making processes.

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, reflections and feedback from our designated non-executive director for colleague engagement following National Colleague Engagement Forum meetings, as well as extensive engagement across all stakeholder groups. The Board continues to keep engagement mechanisms under review in order to ensure they remain relevant and deliver the desired outcomes. It is anticipated that FY2024 will see the commencement of intensive supplier and customer engagement to better understand Scope 3 emissions and how we may be able to jointly develop reduction plans across the broader value chain.

The Board remains of the view that the dedicated focus of a designated non-executive director (Michael Holt) is and remains the best means for effective and authentic colleague engagement at Smiths News. The Executive Team and Board members have undertaken various depot visits across our operational sites, with a combination of day and night visits, informal walk arounds and joining local colleague forum and team meetings. This has also facilitated Board meetings to be held regionally, which has further encouraged engagement with our workforce and has promoted the accessibility of directors to those colleagues.

This year also saw Smiths News attend the National Convenience Show 2023 at the NEC in Birmingham. The National Convenience Show is an annual event that brings together over 6,000 convenience professionals from forecourts to co-ops, symbol groups to independents and presented a great opportunity to showcase the range of our services and to engage with both existing and potentially new customers.

We have set out in our Stakeholder Engagement/Section 172 report (please see page 12) 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 pages 88 to 97, the Nominations Committee report on pages 98 to 103 and the Directors' Remuneration report on pages 104 to 125, 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 26 August 2023, it has complied with the principles and provisions of the Code.

The following table is a demonstration of our compliance with the Code during FY2023, 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, is 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 last externally facilitated review was conducted in FY2022). The output of each such review highlights the merits and effectiveness of the Board and each director in the last 12 months and identifies any learnings, reflections and action areas to be taken forward to ensure the Board has the most appropriate skills, experience, expertise and overall composition in order to best promote the long-term sustainable success of the Company.

B. Company Purpose
The Company's purpose, business model and strategy are set out within the Strategic Report and reflect the latest views of the Board following a strategic and business planning session held in July 2023. 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 pages 24 to 27.

C. Objectives and Controls
The Company's objectives and KPIs are set out within the Strategic Report on pages 2 to 65. 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 62. 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 pages 88 to 97.

D. Engagement
An overview of how the Company engages with its stakeholders is set out within the Stakeholder Engagement section of this 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 and are followed by a formal Q&A session. The presentations and recorded video-cast are available to view on the Company's website.

Furthermore, in order to reach out to our increasing retail investor base we continue to present to investors and prospective investors on specialist retail investor platforms and, as part of such engagement measures, invite investors and prospective investors to participate in a dedicated Q&A format with the Chief Executive Officer and Chief Financial Officer. Separately, we also look to promote greater levels of transparency with retail investors through the publication of analyst consensus, research and key metric data via our website.

The Chief Executive Officer and Chief Financial Officer duly 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, each of which facilitate the views of colleagues from across the business, which are also then reported to the Board.

In addition, during the year as part of our investor relations activity, a number of meetings were held with some of our largest institutional shareholders and financial analysts to discuss (inter alia) business performance and strategy; diversification opportunities and process; to better understand our investors' views on the merits of share buy-backs, distributions and dividends; to provide information on the Company's refinancing strategy and proposals; and to inform investors about any M&A plans and ambitions. Further, as part of an informed investor engagement process, key investor views were also canvassed following a 'significant vote' being recorded against resolution 13 (which had sought investor approval (on a precautionary basis only) to make political donations under the Companies Act 2006) at our 2023 AGM (the resolution having been carried at 78.77% of votes cast).

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 associated 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 a refreshed Whistleblowing Policy which seeks to raise awareness amongst colleagues and encourages a culture of appropriately calling-out any concerns that they may have. During the year, the Company's whistleblowing processes were revamped, leading to the appointment of a dedicated third-party service provider to manage our hotline and reporting processes, resulting in an increased confidence amongst colleagues in the protection of their confidentiality, of impartiality and an enhanced accessibility channel for reporting matters of concern to them, each of which can now be raised through multiple languages with 24 hours a day, 7 days a week availability.

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 65. The Sustainability report on pages 32 to 37 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 been to accelerate our work in building a diverse and inclusive culture for all of our colleagues. We have appointed our first Inclusion Manager, who is leading and guiding the business to drive a clear inclusion strategy which is built on data, colleague representation and education. Our EveryoneIn group has continued to grow, and in support of this structure we have built and established our first network group – WIN (Women in News). The WIN group is comprised of 25 active and passionate colleagues who have a clear goal – "Smiths News will be a place where gender, flexibility & parity is embraced and championed, and everyone has equal access to all opportunities. We stand for every woman in the business at every stage of their career". The WIN group has led awareness activities as part of our Inclusion calendar and driven important business initiatives, such as a full review of our Maternity Support and Policy and the trial of free provision of sanitary products to our female colleagues. Our Inclusion calendar continues to drive awareness and education and through demographic data analysis is relevant and representative of our minority colleagues. The calendar is supported by a rollout of 'Dignity and Respect' training to all our colleagues, reinforcing our new policy and whistleblowing reporting line.

We continue to build on our communication strategy of ensuring information is relevant, available and engaging for all colleagues. SmithsZone (the Company's dedicated intranet) continues to grow in usage and develop in functionality, with fresh new content and pages being added weekly. Regular competitions and interactive polls are maintaining high levels of engagement and the newly introduced 'Tech Hubs' in our Birmingham and Hemel depots mean access for depot-based colleagues is even easier. Our Town Hall format of delivering business updates to all colleagues continues to develop, with quarterly updates now being run face-to-face across the business. Executive Team members have been 'partnered' to certain depots and offices, to ensure there is a good balance of Company messages alongside local stories and celebrations, each delivered in person, offering an enhanced opportunity for Q&A.

Measuring the impact of our interventions and approach continues to be important to us. We conducted two pulse engagement surveys in the year (a third survey was focused on our colleagues' appetite and insight in respect of diversity and inclusion matters), with engagement scores of 7.2 and 7.1 both scoring over our target of 7. Our participation rate for these surveys continues to be strong, with 84% of colleagues completing our May 2023 survey. The Board duly plays an active role in reviewing these results and in reviewing and/or setting action plans and priorities.

In line with our culture and Value of being 'creative', we are always exploring innovative approaches and opportunities to deliver services more efficiently. As a result of colleague feedback, we have conducted a review of our engagement survey platform, investigating what alternative providers offer. As a result, a decision has been made to transition to a new provider ahead of the start of the new financial year (FY2024). The new provider will offer increased consultancy support and greater flexibility in how we conduct surveys, as well as releasing significant cost savings. A project group, including representatives from our technology and operations teams, has worked together to select the new solution and will support in its implementation. This will also provide the opportunity to revisit our survey methodology and frequency to ensure that it is fit for purpose.

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. Development for all continues to be important, and we have therefore continued to promote our Trusted Leadership programme which was launched in FY2023 and have seen more colleagues starting apprenticeships. This is supported by our robust talent and succession planning process, which enables us to identify gaps, themes and potential future talent risks.

Our approach to workforce remuneration is set out in more detail within our Directors' Remuneration report on pages 104 to 125. Management also 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, CEO and CFO engaged with some of our largest shareholders to discuss matters of governance, business performance and strategy; diversification opportunities and process; to better understand our investors' views on the merits of share buy-backs, distributions and dividends; to provide information on the Company's refinancing strategy and proposals; and to inform investors about any inorganic/M&A plans and ambitions. Further, as part of an informed investor engagement process, key investor views were also canvassed following a 'significant vote' being recorded against resolution 13 (which had sought investor approval (on a precautionary basis only) to make political donations under the Companies Act 2006) at our 2023 AGM (the resolution having been carried at 78.77% of votes cast).

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

4. Votes Against Proposed Resolutions

At the Company's 2023 AGM (held on 24 January 2023) there were a significant number of dissenting votes cast by one of the Company's largest shareholders against resolution 13, which had proposed the Board's authority to make political donations of up to £50,000 in accordance with Sections 366 and 367 of the Companies Act 2006. The resolution carried at 78.77% of votes cast.

The Company's Notice of Annual General Meeting dated 8 December 2022 had stated that the Board had proposed resolution 13 purely on a precautionary basis and that, whilst neither the Company nor any of its subsidiaries made, nor intended to make, any political donations or incur any political expenditure whatsoever, the reason it had been proposed was because the Companies Act 2006 defines 'political party', 'political organisation', 'political donation' and 'political expenditure' widely. As a result, there is a general consensus in the market that such restrictions in the Companies Act can potentially cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform, each of which the Company and/or its subsidiaries may see benefit in supporting.

The Board acknowledges the significant number of dissenting votes which had been registered, as further noted and explained in the announcement of the AGM's voting results. The Board thereafter initiated dialogue with the single large shareholder who had cast dissenting votes against this resolution in order to seek to understand their views and/or any specific concerns in this area. Following a period of engagement, the shareholder is now better informed of the Company's rationale for seeking this resolution but is understood to still hold some general reservations against this resolution. However, in line with normal market practice in the UK, the Board nevertheless believes that the resolution should continue to be proposed on a precautionary basis at future Annual General Meetings, being of the view that the flexibility afforded by this authority was (and continues to be) in the best interests of the Company and shareholders, and to ensure that neither it, nor its subsidiaries, may inadvertently commit any breaches of the Companies Act 2006 through the undertaking of routine activities which would not normally be considered to result in the making of political donations and/or political expenditure being incurred. Either way, the Board can confirm that neither the Company nor any of its subsidiaries makes, nor has any intention of making, any political donations or incurring any political expenditure whatsoever and would welcome support for this resolution at future Annual General Meetings.

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 adopted by the Board to promote workforce engagement, undertaken through the appointment of a designated non-executive director (Michael Holt), who informally updates the Board following his attendance at both the National Colleague Engagement Forum meetings (which are held quarterly) and (in some cases virtually) at local depot sites to meet with colleagues and to better understand their views and opinions on the Company, its business performance and strategy and diversification opportunities and process. The views of colleagues expressed within these forums have given the Board direct access to the important views and voice of our frontline and corporate centre colleagues and have directly impacted decision-making. Key issues discussed in the year included the national network rollout of Smiths News Recycle and any operational challenges or concerns, the cost of living challenges being keenly felt by colleagues, the impact of a reduction in the volume of newspapers and magazines, the introduction of flexible bank holidays and a fairer treatment of time-off for non-standard working patterns, the introduction of a 24-hour whistleblowing line managed by a third-party service provider and the commitment and scope of capital expenditure investments to be made across our locations.

Compliance with Principle/Provision disclosure

1. Board Leadership and Company Purpose continued

5. Stakeholder Engagement – Workforce continued
Additional workforce engagement methods which have taken place in the year include:

- the Company's local and regional colleague 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;
- pulse engagement surveys (with outcomes reviewed by the Board, to inform action planning, priorities and impact on future decision-making) and a newly introduced D&I survey;
- quarterly face-to-face 'Town Hall' meetings hosted by the Executive Team, targeting two-way communication with all colleagues; and
- newsworthy items and updates published on the Company-wide intranet 'SmithsZone' and/or in the Company's quarterly newsletters ('Our News') which is made available to all colleagues, either as paper copies or digitally.

The Executive Team and Board members have also undertaken site visits, with a combination of day and 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.

6. Whistleblowing
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 a refreshed Whistleblowing Policy which seeks to better raise awareness amongst colleagues and encourage a culture of appropriately calling-out any concerns that they may have.

During the year, the Company's whistleblowing processes were also revamped, leading to the appointment of a dedicated third-party service provider to manage our hotline and reporting processes, resulting in an increased confidence amongst colleagues in the protection of their confidentiality, of impartiality and an enhanced accessibility channel for reporting matters of concern to them, each of which can now be raised through multiple languages with 24 hours a day, 7 days a week availability.

The Board regularly receives whistleblowing and employee relations reports which detail the investigation and follow-up of all notifications.

7. Conflicts of Interest
The Board confirms that a formal system for the declaration of conflicts of interest 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. Where a business conflict arises in relation to a particular area of Board discussion the conflicted director is expected to recuse themself from the matter and comply with the terms of the Company's conflicts of interest guidance.

During the year, a new situational conflict of interest was notified to the Company in respect of Deborah Rabey, as Chief Customer Officer of Wilko (the mixed goods retailer), relating to the possibility of a potential conflict given that Wilko, at the time, procured goods or services directly or indirectly from Instore, a field merchandising and category compliance ancillary business within the Group. This conflict has since ceased as Deborah is no longer a director of Wilko Limited. For details of current situational conflicts notified by the directors please see the Other Statutory Disclosures on page 126.

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.

Compliance with Principle/Provision disclosure

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 is 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; 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 and 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 is set out in this Corporate Governance statement and is set out in writing and agreed by the Board.

10. Independence of Non-Executive Directors
During FY2023, all non-executive directors were, and continue to be, independent.

11. Board Independence
During FY2023, all four 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.

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

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

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

The Chairman held four meetings during the reporting period with the non-executive directors, without 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 the Corporate Governance report on page 70.

15. External Commitments
The Board is satisfied that the external commitments of the Chairman and each of 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 and General Counsel.

Corporate Governance Report continued

Compliance with Principle/Provision disclosure

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 pages 98 to 103. The Committee receives an annual update on succession planning for the Board and senior management.

Following the commitment made in last year's Nominations Committee report and having conducted an extensive search and recruitment process, on 1 March 2023 Deborah Rabey (independent non-executive director) was appointed to the Board and each of the Remuneration, Audit and Nominations Committees. Deborah brings with her a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector. The external search agency Ridgeway Partners was engaged to assist in this search process. Ridgeway Partners has no connection with the Company or the directors and the search criteria and selection decisions were each based on merit. As a result, the recruitment activities were considered to be fair and non-discriminatory at all times.

Further details are set out in the Nominations Committee report on pages 98 to 103.

K. Board Membership

A description of the work of the Nominations Committee is set out in the Nominations Committee report on pages 98 to 103.

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.

Having conducted an externally facilitated evaluation of the Board and its Committees by the Chartered Governance Institute (CGI) in FY2022, this year an internal evaluation of the Board and its Committees was facilitated by the Company Secretary by way of a questionnaire followed by a Board discussion of issues of both a specific and general nature emanating from the questionnaire-based exercise. The learnings and areas of constructive feedback identified by the evaluation process primarily related to the Board's composition and diversity awareness, succession planning, individual director performance evaluations, the clearer consideration of risk appetite within Board decision-making and the pace and/or scale of diversification activities underway within business adjacencies. See page 70 for further details.

As part of the evaluation process, the Board endorsed a number of action points to achieve ongoing continuous improvements in accordance with good corporate governance principles and has separately endorsed certain changes to its ways of working and governance processes. Following such 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.

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 out 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 pages 98 to 103.

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 they are accordingly proposed for re-election with full details of the reasons set out in the Notice of Annual General Meeting.

Name	Date of appointment	Date of intended Board retirement	Last AGM for annual re-election
Denise Collis	1 December 2015	On or before January 2025 AGM	January 2024
Mark Whiteling	1 September 2017	On or before January 2027 AGM	January 2026
Michael Holt	1 October 2018	On or before January 2028 AGM	January 2027
David Blackwood	13 May 2020	On or before January 2030 AGM	January 2029
Deborah Rabey	1 March 2023	On or before January 2033 AGM	January 2032

Compliance with Principle/Provision disclosure

3. Composition, Succession and Evaluation continued

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, in 2022 an external evaluation was 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 pages 98 to 103. See section L above for details of the Board evaluation process and the People report on pages 24 to 27 for details of the Company's policy on diversity and inclusion, its objectives and linkage to strategy and relevant diversity data metrics.

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, Balanced 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 52.

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 pages 88 to 97.

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 pages 88 to 97.

26. Work of Audit Committee
A description of the work of the Audit Committee is set out in the Audit Committee report on pages 88 to 97.

27. Fair, Balanced 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 52.

Corporate Governance Report continued

Compliance with Principle/Provision disclosure

4. Audit, Risk and Internal Control continued

28. Principal and Emerging Risks
The principal risks assessment is set out on page 62. 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 88.

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 60.

30. Going Concern Assessment
The Going Concern Statement is included within the Financial Review on page 52.

31. Viability Assessment
The Viability Statement is included within the Financial Review on page 52.

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 104.

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 104.

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. They further include 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 104.

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 104.

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

Compliance with Principle/Provision disclosure

5. Remuneration continued

36. Policies
The Remuneration Policy approved by shareholders at the 2023 AGM 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 to a five-year total vesting and holding period (comprising a 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 104.

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.

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 pages 104 to 125.

41. Description of the Work
A description of the work of the Remuneration Committee is set out in the Directors' Remuneration report on pages 104 to 125.

The Directors' Remuneration report sets out further details of the application of the Remuneration Policy in the reporting period. The revised Directors' Remuneration Policy was presented to the 2023 AGM for shareholder approval following engagements undertaken with each of the workforce and shareholders (it was carried at 91.34% of votes cast).

Approval

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

David Blackwood
Chairman

7 November 2023

Audit Committee Report

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 and 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 this Annual Report and Accounts, including the effectiveness of the Company's system of internal control and risk management.

Mark Whiteling
Audit Committee Chair

7 November 2023

Membership & composition:

- Mark Whiteling (Senior Independent Director)
- Denise Collis (Independent Non-executive Director)
- Michael Holt (Independent Non-executive Director)
- Deborah Rabey (Independent Non-executive Director)

Meets the 2018 UK Corporate Governance Code requirement that the members are independent non-executive directors and the Chairman of the Board is not a member of the Committee.

The Committee met four times during the year and all Committee members attended each of the meetings (Deborah Rabey attended the two meetings held following her appointment on 1 March 2023). At the invitation of the Committee, the Chairman of the Board and certain executive directors attended the meetings from time to time.

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.

Chairman's introduction

This year has again seen some turbulent economic conditions, with high inflation continuing in the United Kingdom, together with rising energy costs impacting particularly hard during the winter months. As a result, the Committee has paid close attention to any impact this backdrop may have on the Company, while also ensuring we resolutely fulfil our general oversight obligations. To this end, my report deals with the Company's internal controls, risk management, our corporate governance framework, and financial reporting and assurance of this Annual Report and the Group Financial Statements for the reporting period.

Achieving 'Cyber Essential Plus'

I am pleased to confirm that we were able to deliver on our commitment to achieve 'Cyber Essentials Plus' accreditation through the National Cyber Security Centre during FY2023 as a demonstration of our strengthened cyber security posture and preparedness. Despite this achievement, we continue to recognise the ever-present threat of cyber security (with a number of high-profile incidents having been reported in the media during the year) and remain mindful of the need to continue to focus on security awareness across our business. In support of this objective, we have overseen a detailed review of our IT environment, with management taking part in a mock incident response and crisis simulation exercise. This risk mitigation action has led to valuable learning points and improvements to be noted, together with a critical incident response plan being developed and a renewed commitment to continuing the focus on cyber security.

Internal controls

The Committee has continued to monitor and review our internal controls framework and the output of Internal Audit's activities in the year. This has included, in particular, the continued oversight of depot audits in order to maintain our high standards of excellence, the handover to the Board of reporting lines and oversight for H&S, the consideration of a payroll-led controls review and the review of our cash management and treasury policy. Further, following the successful transition to an in-house model of resourcing for the Internal Audit function in FY2022, this year has seen the Committee also oversee the resourcing of the Internal Audit function to meet its obligations and ensure effective reporting to the Committee.

Reviewing our risks and reporting

We have again revisited the Company's principal and emerging risks, with a renewed focus on the increasing impact of both climate change and the possible implications to the newspaper and magazine sector (with particular regard to demand-side risk and the possible risk of title closure or their migration to digital only) that the ongoing turbulent economic conditions which I have already referred to may present, whether in the near or longer term, the latter of which has led to the inclusion of a new principal risk. As set out above, we also remain conscious of the ever-present cyber security risk to our business.

Furthermore, as we develop the disclosures and assurances necessary to meet the reporting requirements of the Task Force on Climate-related Financial Disclosures (TCFD), this year we have agreed specific science-based emissions reduction targets in line with latest guidance and methodologies and have also begun to consider the reporting implications of IFRS S1 and S2 (Climate Related Disclosures) which will be effective for annual reporting periods beginning on or after 1 January 2024.

External audit and administration

Once again, BDO's audit processes have completed to the Committee's satisfaction and without any major issues to report. Accordingly, we can confirm that through ongoing monitoring and review, the independence and objectivity of the external auditor has been ensured. In this regard, I would like to take this opportunity to thank Sophia Michael, our BDO audit partner for the last five years, for her advice and support over this time and who now rotates off our account as lead partner. BDO's Ollie Chinneck will now assume that lead position for the FY2024 audit.

Finally, the Committee has also again undertaken an annual review of its terms of reference, and I am pleased to be able to confirm that we have acted in accordance with its terms at all times during the year and there are no major items or disclosure to bring to the attention of our shareholders.

Further information on the Committee can be found here, as well as in the Corporate Governance report on page 70.

Mark Whiteling
Audit Committee Chair

7 November 2023

Roles & responsibilities:

- 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 this 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;
- monitoring ESG narrative reporting and sustainability matters;
- 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.

Audit Committee Report continued

Membership

During the year, Michael Holt, Denise Collis and I were all members of the Committee. Deborah Rabey joined as a member of the Committee upon her appointment to the Board on 1 March 2023. All members of the Committee who served during the year were independent non-executive directors. David Blackwood, as Chairman of the Board, 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 UK Corporate Governance Code. Each of the other members of the Committee has extensive and highly relevant business, commercial and operational experience.

Corporate governance

As part of the Board's overall responsibility for the strategic direction and management of the Company, the Board undertakes an annual review of its risk appetite and its 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, its accounting policies, the maintenance of proper systems of risk management and internal control and of the monitoring of ESG reporting and sustainability matters. The Internal Audit function itself assists further in ensuring the adequacy and integrity of 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 Committee's 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. During FY2023, the terms of reference were revised to include specific provision for the monitoring of both ESG narrative reporting and sustainability matters in anticipation of a proposed Code amendment.

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. As reported in my introduction, 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 70.

How the Committee operates

The Committee met four times during the year as part of our schedule to consider matters planned around the Company's financial calendar. All Committee members were in attendance at each of the meetings, save for Deborah Rabey who only joined the Committee on 1 March 2023 but who attended all meetings following her appointment. For further details on attendance, please refer to the Corporate Governance report on page 70.

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 who, from time to time, presented reports specific to their areas of responsibility.

As Chair, I regularly engage with the external auditor (BDO) 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's business, 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 two separate private meetings 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.

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 and 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 this 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.

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, considering 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 62.

In line with our usual procedures, a refresh of the Company's principal and emerging risks was conducted at the half and full year, taking into account the change and transformation across our business (and industry sector), the increasing relevance of climate-related risks and cyber security (in relation to the former, considering both transitional and physical-related risks to both our business and through our supply chain) and, more recently, the continuing impact (both in relation to high inflationary pressures in the macroeconomy and its impact on the demand-side risk inherent in the print media business, our service performance and strategic planning programmes) of the well-publicised challenging economic market conditions.

This review and our experience in the reporting period have, in particular, led us to revisit the impact of both climate-related risks and cyber security and the inclusion of a new principal risk related to such demand-side print media risk, including the risk of title closures and/or the migration to digital media only (see page 63). 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 (both 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 reviews the business's risk management and internal controls framework, which includes the accepted three lines of defence, with day-to-day business operational and control processes falling within the responsibility of operational management (who constitute the first line of defence). Executive management and subject matter experts provide policy direction and oversight of operations (thereby representing the second line of defence). Finally, both the internal and external audit functions undertake a review of the effectiveness of the business's control functions and provide the third assurance level in respect of Company disclosures and upon which the Committee and Board can rely. As such, the Committee receives updates of the findings of Internal Audit's investigations at every meeting. Whilst it is the responsibility of functional team managers to assess and confirm (as first and second lines of defence) that controls and processes are being adhered to, these outputs are continually tested by the Internal Audit team as part of its annual work plan, which is agreed with the Committee and upon which we rely. Compliance with internal control systems is also further monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their respective operational teams and this (together with any areas of concern) is reported to the Committee.

During the year, following a review of the Company's health & safety compliance and performance, it was identified and decided that this item should fall under the Board's direct remit as a standing agenda item given its materiality to the operations of the business and a general desire to continue effective monitoring on a more regular basis. Furthermore, the Committee's review of the risk management and internal controls included:

- a review of 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 such issues such as people management, operational depot processes, procure to pay, payroll services, cyber security, climate-related risk events, and the impact of the current inflationary economic pressures;
- a review of operational controls, processes and systems, together with robust BCP planning to mitigate a range of service interruption scenarios;
- a review of payroll controls to ensure that they are robust and remain fit for purpose going forward;
- a review of the Company's banking facilities signed in December 2021 and the ongoing impact this has on the Company's distribution rights, going concern and viability assessments;
- a review of the Company's whistleblowing processes and procedures;
- consideration of the cash management and treasury policy, with particular focus on a review of surplus cash held from time to time; 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.

That said, the Company's risk management and internal control system is designed 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.

Accordingly, the Committee believes that we have been able to respond quickly and efficiently to the ever-evolving risk environment that the business regularly faces head on and have deployed effective risk management processes across the Company. Accordingly, the Committee is satisfied (on behalf of the Board) 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 65.

IT systems and cyber security

As reported elsewhere, during the year we successfully achieved Cyber Essentials and Cyber Essentials Plus accreditation relating to our cyber security posture and preparedness. This included an external assessment, which validated our compliance against a framework of technical and procedural controls from the National Cyber Security Centre (NCSC), designed to help protect businesses from external cyber-attacks. The Company also undertook a regular assurance programme, which included specialist testing by a leading third-party security provider. This validated the effectiveness of our internal security controls, identified potential weaknesses and, in conjunction with regular internal vulnerability scanning, allowed issues to be assessed for risk, prioritised for remediation and to be managed as part of the Company's risk management programme. The Committee was presented biannually with a detailed Information Security Report from the Technology Director and Head of Information Security, which included recommendations for further reinforcement of our cyber security preparedness and a roadmap for further risk reduction.

There has been a great deal of focus on training during the year to ensure that the Company is best placed to deal with potential cyber security incidents. Incident response and mock crisis simulations have been held and a new Cyber Incident Response Plan has been developed and tested. Further exercises, reviews and updates will form part of an ongoing cycle of continual cyber security improvements in order to keep the business prepared for current and emerging threats.

Audit Committee Report continued

Whistleblowing, bribery, fraud and anti-trust matters

The Committee is responsible for reviewing the Company's bribery and fraud detection systems and controls to ensure the prevention of any inappropriate behaviour. The Company has both Anti-Fraud and Anti-Bribery policies in place, each of which are reviewed annually by the Committee. Separately, the Company has adopted a public statement reaffirming our zero tolerance stance in this regard, which is available on our website – Bribery and Corruption Statement. In support of this stance on the prevention of corruption, in the year we approved updated procedures for the acceptance and management of gifts and corporate hospitality in order to bring them into line with the new Delegation of Authority matrix and reporting procedures. All allegations of corruption are investigated by independent persons and our whistleblowing hotline (see below) is accessible for the reporting of any allegations of corruption, with the additional option to directly contact either our Internal Audit or legal departments as alternative confidential lines of reporting. Both our payment systems as well as our expense claims processes maximise the identification of possible corruption and these form part of both the internal and external audit mandate.

We also remain mindful of the need to secure the prevention of anti-competitive practices including market-sharing, abuse of a dominant position, price-fixing and/or the illegal sharing of competitive information. We have a Competition Policy (which is available on our website) in place which is reviewed annually by the Audit Committee. Any allegations of anti-competitive behaviour are reported and addressed in the same manner as instances of bribery and corruption and may be directly addressed with the Compliance Officer. We have a compliance certificate which must be completed annually by relevant colleagues as confirmation that no anti-competitive practices have taken place in the year and that required training has been undertaken where applicable.

Furthermore, during the year the Company's whistleblowing processes were overhauled, leading to the appointment of a dedicated third-party service provider to manage our hotline and reporting processes, which now includes a reporting facility with multiple language capability and 24 hours a day, 7 days a week availability. This confidential telephone hotline enables colleagues to 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 People Services team and an investigating manager appointed, with the findings reported to the Committee on completion of the investigation.

The Committee received quarterly reports on incidences of whistleblowing or other malpractices reported across the business. A total of eight (up from five in the previous year) incidences arose in the reporting period, but no such instances were considered to be material or of significance to the Company with the increase being attributable to the improved reporting system.

Overall, these risk management processes each aid and improve 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 70 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 successful transition to an in-house model of resourcing for the Internal Audit function in FY2022, I am pleased to confirm that this model continues to work well for the Company, with our Internal Audit function review supporting this position and delivering more meaningful levels of control and assurance across the business. During the review period we have overseen the resourcing of the team which is now largely complete. FY2023 saw Internal Audit deliver its plan in full and in a timely manner, with no audit outcomes indicating an unacceptable conclusion. This has resulted 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 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 the function is performing adequately.

From an audit and assurance perspective, the Committee is content that an adequate assurance process is in place in relation to the nature of the narrative disclosures in this Annual Report.

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.

What the Committee did during FY2023

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
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 the pending rotation of the lead partner), 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 • Reviewed cyber security controls and mitigation of risks • Received information on climate-related risks and reviewed TCFD reporting • Reviewed whistleblowing process and procedures and received whistleblowing reports • Reviewed findings and recommendations from Internal Audit reports • Received risk and internal control reports • Reviewed payroll controls • 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 and oversaw the resourcing of the Internal Audit function • Reviewed various legal reports and compliance and risk updates • Received updates on tax policy and the Company's approach to compliance and tax risk as well as a review of insurance and the risk profile of our insurance coverage • 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 • Conducted private meetings between the non-executive directors, Head of Internal Audit & Risk and the external auditor • Reviewed evolving ESG reporting standards • Reviewed the cash management and treasury policies, including the treatment of surplus cash held from time to time • 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

Audit Committee Report continued

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 26 August 2023 and for the half year to 25 February 2023, 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:

- 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 FY2023 Group Financial Statements are set out below. In light of these significant issues and key judgements, 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 62. 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 pages 143 to 144.

Significant matters and key judgements

Area	Matter considered	Outcome
IFRS 15 – 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 which is 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.
Carrying value of investment held by Smiths News plc in its subsidiary	The Committee considered management's conclusion that a reversal of previous impairment of the investment carrying value held by the Company in its subsidiary should be made. The following indicators of impairment or reversal of impairment are present: ▪ 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. 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 an improvement to the headroom available, driven by earnings generated during the year and the repayment of debt. The Committee agreed with management's conclusion that a £13.4m reversal of previous impairment 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. The definition of APMs can be found in the Glossary on page 174. The accounting policy on adjusted items is set out in Note 1 to the Group Financial Statements on page 145.

Audit Committee Report continued

Significant matters and key judgements

Area	Matter considered	Outcome
Property provisions	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 provisions held were 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 2034, 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 also 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 it 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 is 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, and 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 subsidiaries held by Smiths News Holdings Limited. 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 that an impairment reversal of £9.1m should be recognised at period end.

Adoption of new accounting standards

There have been no significant changes in accounting standards which are expected to materially impact the Company. However, we 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 continues to monitor the impact of the wide-ranging reforms in relation to 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") 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 58. The Committee noted that the Company had £64.0m of available facilities at the end of the reporting period (of which £4.2m was drawn at the end of the reporting period) and, therefore, achieved 0.1x leverage covenant of Bank Net Debt to adjusted EBITDA (pre-IFRS 16). 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 2026. The viability statement on page 58 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 therefore the final year in which Sophia Michael has been engaged as lead audit partner and, consequently, she will rotate off the account at the end of the FY2023 audit and Ollie Chinneck will assume that lead position for the FY2024 audit.

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 forwards, 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 £62,700 (FY2022: £97,000). 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 examines the effectiveness of the statutory audit process and, on behalf of the Board, is responsible for the relationship with BDO, the statutory auditor. BDO present the strategy and scope for the audit in respect of the financial year under audit, with key audit matters highlighted for special attention. Progress against the audit scope is presented at subsequent Committee meetings allowing for the Committee to monitor progress and raise any questions and challenge both management and BDO. 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. Prior to the Board's approval of the period-end financial statements, the Committee provides its view to the Board on the outcome of the statutory audit, explaining management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any); and how the statutory audit contributed to the integrity of the financial reporting process.

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 from 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 FY2022 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.

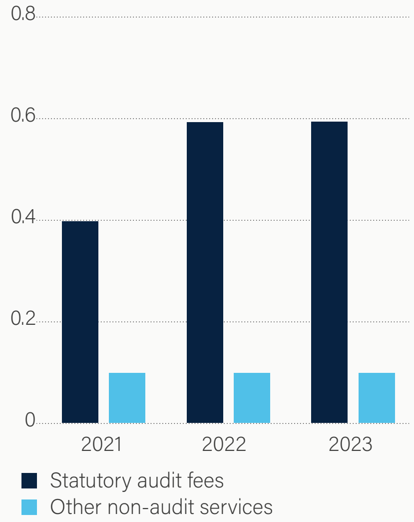
Approval

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

Mark Whiteling
Chairman

7 November 2023

Audit fees



Nominations Committee Report

I am pleased to report that, following a rigorous recruitment process, in March 2023 we successfully appointed Deborah Rabey as our second female non-executive director on the Board, thus achieving our Board gender-diversity target well before the previous target set.

David Blackwood
Nominations Committee Chair

7 November 2023

Membership & composition:

- David Blackwood (independent non-executive Chairman)
- Mark Whiteling (Senior Independent Director)
- Denise Collis (Independent Non-executive Director)
- Michael Holt (Independent Non-executive Director)
- Deborah Rabey (Independent Non-executive Director)

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

The Committee met three times during the year and all Committee members attended the meetings, save for Deborah Rabey who was only eligible to attend one meeting having joined in March 2023. At the invitation of the Committee, certain executive directors attended the meetings from time to time.

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.

Chairman's introduction

I am pleased to present the Nominations Committee report for FY2023, a year in which we have focused on our diversity and inclusion agenda and succession planning for each of the Board, Executive Team and senior management, as well as provided oversight of our talent pipeline and leadership structures. The interests of our colleagues continue to be a key area of our focus, in a way that this year has seen the Board and our management teams centred on effective and inclusive leadership, including the attraction, development and retention of our talent pool in order to help us deliver our strategy in a sustainable and inclusive manner.

I am particularly pleased to welcome Deborah Rabey as our second female non-executive director on the Board from 1 March 2023, thus achieving our Board gender-diversity target well before the previous target set for the Board, which had originally been set to coincide with the Senior Independent Director's nine-year tenure (i.e. during 2026). That said, we remain mindful of the fact that we still fall someway short of the FCA's new Listing Rule recommendations (which have been introduced this year on a 'comply or explain' basis) in relation to both gender and ethnicity targets and I have therefore taken the opportunity to set out in some detail in this report what we see as some of the challenges and how we propose addressing these.

During the year, we also concluded the appointment of a specialist D&I manager, as well as having developed a partnership with equality and diversity experts to help shape our strategy to promote diversity in its broadest forms. It is a welcome endorsement of these activities that we have seen an increased representation of women and ethnic minorities at leadership levels across the organisation.

We have also sought to adopt a different approach this year to our What Matters pulse surveys measuring colleague engagement, facilitating more regular 'check-ins' with our colleagues at different points throughout the year to better understand if our actions from previous surveys are making a positive impact, rather than relying on a single point of measurement each year. This 'pulse' approach gives us the opportunity to continue, tweak or amend these actions to ensure that our efforts are having the desired effect. Participation in these surveys remains high, with steady progress being made in the satisfaction scores. More information is available in the People report on page 24.

The Board's engagement process with our wider workforce has also continued, through the Board's representative non-executive director Michael Holt, who has attended quarterly National Colleague Engagement Forum meetings and reported feedback to the Board. We believe this process is working well after it was reviewed and refreshed in FY2022, best meeting the needs of our business and ensuring that the views of our colleagues are appropriately communicated back to the Board and considered in our decision-making. Accordingly, we fully expect to continue to adopt this approach going forward.

With the ongoing economic challenges remaining a concern for our colleagues, this has been the subject of intense discussions during the year, and we have therefore continued to promote and explain the colleague benefits that are available to assist them in these troubling times, as well as continuing to promote the 'colleague support fund' which aims to support colleagues where they may be suffering financial hardship. In further support of this endeavour, we have introduced technology assets at our locations to help colleagues access literature and relevant information where they may not otherwise have tools at their homes to access such information or training resources.

As we focus on succession planning, I can report that the Board is acutely aware of the current tenures of directors with regard to the '9-year independence' market expectation and its potential impact on both the chair of the Remuneration Committee (who is nearing the end of her third three-year term and may therefore be expected to retire from the Board by our 2025 AGM) and the chair of the Audit Committee (also Senior Independent Director, whose third such term is due to come to an end at our 2027 AGM).

Finally, on a governance-related matter I would like to flag that I have decided that colleague engagement and the outputs of both our pulse surveys and diversity updates (whilst continuing to be reported in this report and the People report on page 24) should, in fact, be broadened to specifically include the views of our executive directors and therefore are best suited for consideration as part of the main Board agenda.

Further information on the Committee can be found here, as well as in the Corporate Governance report on page 70.

David Blackwood
Nominations Committee Chair

7 November 2023

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.

Key actions from FY2023

November 2022

- Received reports on talent review and succession planning for Executive Team as well as retention strategies
- Received a Diversity and Inclusion update and reviewed an action plan developed following the external audit of the recruitment practices and policies
- Received results of colleague engagement surveys and considered colleague engagement processes and action plans
- Non-executive director recruitment process

January 2023 & February 2023

- Non-executive director recruitment process and recommendation for the appointment of a new non-executive director

April 2023

Although we had initially scheduled a Committee meeting in April 2023, it was decided that the pulse engagement survey feedback and diversity update should be considered as part of the main Board agenda as it was felt that the executive directors should also participate in these deliberations.

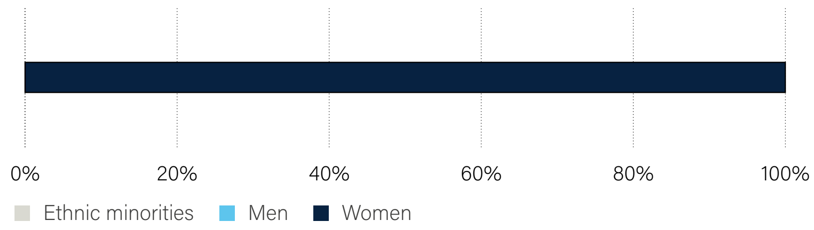
Issues such as Board structure, talent development and succession issues will continue be reserved for the Nominations Committee deliberations.

Nominations Committee Report continued

Recruitment and succession planning

Non-executive director

As I have reported above, the recruitment of Deborah Rabey as an additional non-executive director was concluded in February 2023 following a robust recruitment process which is outlined below, and which was supported by the external search agency Ridgeway Partners, who continue to be signatories to the enhanced voluntary code of conduct for executive search firms. Ridgeway Partners has no connection with the Company, or the directors and the search criteria and selection decisions were each based on merit. As a result, the recruitment activities were considered to be fair and non-discriminatory at all times.

Stage 1	• Appointment of search agency to deliver a candidate list through access to diverse data pools • Detailed role specification developed using objective criteria
The search focus included commercial insight, non-food retail experience, support of growth initiatives/change management and D&I agenda.	
Stage 2	Compilation of a longlist of candidates by search agency. 
Stage 3	Following on from confirmation of interest from candidates, a shortlist of three candidates was compiled based on 'strength of fit' with the role specification, and face-to-face meetings were scheduled with the Committee members and executive directors.
Stage 4	Deborah Rabey was identified as a sound fit, recognising her wealth of retail experience and her expected ability to support our growth and diversification strategy. She met the Board's aspirational D&I requirements, and it was agreed that her working style and culture & values would complement the Board and Company culture. Based on this assessment, a recommendation was made to the Board for her appointment on 1 March 2023, subject to shareholder approval being sought at the AGM in 2024. Deborah's full biographical details can be found on page 69.
Stage 5	Induction programme – following her appointment, Deborah Rabey participated in a comprehensive induction programme which included a refresh and sharing of our Directors' Toolkit, as well as dedicated one-to-one sessions with each of the Executive Team members to walk through their respective functional areas. The Company Secretary explained the Group structure, history and the overall regulatory regime governing the Company's position as a premium-listed issuer on the London Stock Exchange and the implications thereof. This was complemented by a night visit to our Birmingham depot to see operations first hand.

Board succession

As we consider the '9-year independence' provision applicable to non-executive directors pursuant to the UK Corporate Governance Code and market expectation, we are mindful of the need for orderly succession across the Board and its Committees. The Committee has therefore considered the current established composition of the Board as well as the spread of anticipated Board retirement dates (as set out below), noting specifically the positions of the Remuneration Committee Chair and the Senior Independent Director (who also chairs the Audit Committee), who are each expected to retire from the Board at the January 2025 AGM and January 2027 AGM respectively, upon conclusion of their respective third three-year terms.

Name	Date of appointment	Date of intended Board retirement – on or before	Last AGM for annual re-election
Denise Collis	1 December 2015	January 2025 AGM	January 2024
Mark Whiteling	1 September 2017	January 2027 AGM	January 2026
Michael Holt	1 October 2018	January 2028 AGM	January 2027
David Blackwood	13 May 2020	January 2030 AGM	January 2029
Deborah Rabey	1 March 2023	January 2033 AGM	January 2032

The staggering of the respective tenures of directors further ensures a period of continuity on the Board and helps to ensure the robustness of the Company's succession planning processes for the future. As we believe we have sufficient time to engage around these positions we will commence discussions in due course and will take this opportunity to look to further improve both the gender and ethnic diversification within the normal rotation period or terms of employment (as applicable). The Board evaluation process (for further details see the Corporate Governance report on page 70) continues to support the ongoing assessment of the Company's development needs, opportunities and shortcomings against the Board's current skills, experience, expertise and composition. Identified recommendations are aligned with our succession planning process, with the Board remaining committed to ensuring that it possesses 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. All non-executive directors sign appointment contracts which include the requirement to subject themselves to annual re-election by shareholders and to embrace the time commitment necessary to adequately meet the needs of the Company.

Talent reviews and recruitment

We operate a talent management process for our most senior leaders, undertaken twice a year in the business and reviewed once a year by the Board. This process identifies the performance and potential of individuals and ensures that those with high potential in particular have development action plans in place. These processes and development actions feed into the succession planning process.

Further, whilst FY2022 saw considerable effort put into the talent and succession agenda of the Company's senior leadership team through a variety of development and upskilling activities, this year has seen us continue to map our talent pool, undertake further talent development to support our proactive succession planning for key roles and the ongoing identification and development of a diverse pipeline. We continue to recognise that career progression and development remains a key aspect of attraction and retention of the right talent and, this year, we have therefore continued to promote development and upskilling activities including the promotion of our Trusted Leadership programme and dedicated leadership master classes which included 'leading and thriving through change.' A deliverable on the People team's objectives is around 'development for all.' Supporting colleagues with their development is designed to create a pipeline of talent who could be considered as future successors for more senior roles up to and including Executive roles. Successors are considered both from the perspective of short-term cover and for the potential full role, accepting that this will not always be the same person.

This year has also seen a reduction in some of the recruitment pressures experienced in previous years, with our job vacancies and resourcing pressures improving following a concerted action plan to seek to mitigate these pressures over previous years. As a result, we have seen a significant improvement in relation to driver recruitment and warehouse resourcing, although we remain mindful of the logistics sector's peak trading period being the lead up to Christmas and the consequential pressures that this brings to bear. We nonetheless continue to benchmark our retention strategies to ensure we remain competitive within our market.

Colleague engagement and pulse surveys

During the year we continued our approach to our 'What Matters' colleague engagement pulse surveys, facilitating more regular 'check-ins' with our colleagues at different points throughout the year to better understand if our actions from previous surveys are making a positive impact. This 'pulse' approach gives us the opportunity to continue, tweak or amend these actions to ensure that our efforts are having the desired effect. The survey itself measures 12 different areas of engagement, referred to as 'drivers' and, during the year, there was little change, with only a slight reduction in score across a handful of these drivers. This outcome was not altogether unexpected however given certain operational changes which were implemented across teams during the year. That said, we were delighted with the high levels of colleagues taking part in these surveys (ranging from 90% to 84% within our most recent May 2023 survey, up from 78% at the end of FY2022) and with an overall employee engagement score range of 7.1 to 7.2 (a strong result, remaining broadly consistent with the average score of 7.0 in FY2022) and with 2,157 narrative comments received to help aid a truer picture of colleague sentiments.

Overall, our Executive Team continues to analyse the organisational results, engage with the colleague forums and to develop and implement action plans to address and mitigate issues raised, specifically focusing on growth, reward and strategy elements of the surveys where the lowest scores were recorded.

Despite this progress, and as a result of the feedback we have received, we will be moving to a new engagement survey provider for FY2024 but we remain committed to our engagement survey processes and to ensuring that they are fit for purpose and deliver meaningful actions which better promote the issues that colleagues tell us about.

The National Colleague Forum engagement approach was refreshed during FY2022 and although the change was not immediate, we are now seeing an improvement with increased requests for feedback, sharing of views and, overall, a more active role in meetings. In January 2023 the format of 'all colleague Town Hall' meetings also changed to a more face-to-face format, with pre-recorded presentations still utilised across our sites, but with Executive Team members attending in person in order to meet colleagues and host live Q&A sessions.

Nominations Committee Report continued

In addition to our non-executive director representative (Michael Holt), the Chair of the Remuneration Committee has also engaged with our workforce and remains committed to promoting broader engagement with colleagues, specifically in relation to 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 70.

We are also pleased to report that our colleague-recognition 'Extra Mile' awards have been reinvigorated during the year, with the annual award process being redesigned by the National Colleague Engagement Forum to shortlist winners who are then selected through a voting process for national winners, truly recognising where colleagues have gone the extra mile for the business or for each other.

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. Following the launch of the Company's intranet 'SmithsZone' in FY2022 we are happy to confirm that this intranet-based portal has been a success and has extended accessibility across our colleagues who do not always have access to Company email addresses (and, therefore, previously had limited accessibility).

In addition to the activities detailed above, further highlights of our various colleague engagement activities in the year have included:

- 44 colleagues actively involved in either our newly established network group (Women in News) or one of our emerging network groups;
- implementation of flexible bank holidays across all colleague groups following a thorough and inclusive consultation process;
- improved direct communication with colleagues in a timelier manner enabled by automated letters through our People IT platform;
- dignity and respect workshops attended by all colleagues building on how we role model and demonstrate our Values in our everyday work; and
- conducted two formal talent reviews identifying succession and development gaps with targeted action plans built to address these.

Diversity and inclusion

	Female representation		
	2023	2022	2021
Board	**29%**	17%	17%
Executive Team	**33%**	33%	22%

As I have already mentioned, this year we have made progress against the Board's gender diversity targets through the appointment of Deborah Rabey as an additional independent non-executive director. Deborah brings with her a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector. Accordingly, the Board now comprises seven members, of which two are women (29%) and all are white. The chairperson of the Remuneration Committee is a woman, but the Board Chairman, CEO, CFO and Senior Independent Director are all men. Although progress has been made, we remain mindful of the fact that we still fall some way short of the FCA's Listing Rules recommendations (on a 'comply or explain' basis) in relation to both gender and ethnicity; that said, we do confirm that diversity and inclusion continues to be a key focal point for the Board. However, in the absence of appointing an additional Board member to help support the Company's pursuit of diversification and growth opportunities within our core markets, it is considered to be unlikely that the set targets (see LR9.8.6R(9) and FCA Diversity Targets 2022) will be met by the Board in the short to medium term. The Board has reached this position given the current established composition of the Board, the current tenures of directors (in which the Senior Independent Director is not expected to retire from the Board until the January 2027 AGM) and in light of recent evaluations of the Board reinforcing our view that the Board is operating effectively and in accordance with good corporate governance principles.

Accordingly, whilst the Board is keen to take steps to further improve its gender and ethnic diversification, it does not see a compelling rationale or need at this time to immediately replace any of the Chair, CEO, CFO or Senior Independent Director outside the normal rotation period or terms of employment (as applicable) and, in any case, we acknowledge that any such changes may otherwise take time, particularly when the broader corporate market is 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. Hence, whilst we aspire to make progress in this area and to meet the jointly held aspirations of our stakeholders, we remain committed to also ensuring that the Board possesses the right blend of skills, expertise, commitment and experience when selecting suitable candidates, while at the same time striving to reflect today's talent and customer pools to build balanced teams.

Our D&I survey held in the year showed an increase in participation rate from 65% to 80% and an improvement in the score from 7.7 to 8.0. Some 1,000 free narrative comments had been recorded which is a particularly pleasing outcome.

Our recruitment & selection policy is available on the Company's intranet and is accessible by all colleagues. The policy particularly highlights the importance of Diversity & Inclusion throughout the whole recruitment process, from identification of the vacancy to ensuring that a structured job description in a standard format is created for use across a variety of platforms, supported by adverts where language is carefully considered to attract a diverse range of candidates. The selection process is then carefully structured and recruiting managers trained in processes and supplied with appropriate materials to ensure the integrity of the process. This is an approach applicable to all roles within Smiths News up to and inclusive of the Executive Team.

During the year we have also taken other positive steps towards creating a diverse and inclusive culture, including:

- recruited and onboarded our first dedicated Inclusion Manager responsible for leading and guiding the business to drive a clear inclusion strategy built on data, colleague representation and education;
- established our first network group – WIN (Women in News), with a goal for Smiths News to be a place where gender, flexibility and parity are embraced and championed, and everyone has equal access to all opportunities;
- promoted our 'EveryoneIn' programme, encompassing several national initiatives and raising awareness through an agreed calendar of D&I events, such as National Inclusion Week, Black History Month, Pride, Ramadan etc;
- launched a flexible bank holiday approach enabling colleagues to take the time that is important to them in line with their cultural beliefs and family needs;
- driven awareness and education, supported by the rollout of 'Dignity and Respect' training to all our colleagues, reinforcing our new policy and our whistleblowing reporting line;
- achieved progress against our specific D&I targets, including the achievement of the Board's gender-diversity target of having two female directors by the end of FY2026 (which was met early in 2023) and continuing to promote 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 (a target which remains in place). As our D&I data-gathering exercise indicates that within our business diversity decreases with seniority, 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; and
- strengthened our data collection processes (which included requesting all new colleagues on a voluntary/self-reporting basis to provide data on ethnic origin, nationality, sexuality, religion, marital status, disability considerations and gender identity). We also continued to promote this ongoing drive for existing colleagues to complete personal and sensitive data within our People IT platform (which stood at 66% complete as at November 2022 (November 2021: 50%)) in order to facilitate the internal consideration of ethnicity pay gap for the first time. We continue to audit this data, focusing on the accuracy of data and statistics, current status and observations, key findings and recommendations.

Further information on gender and ethnic diversity, including the proportion of women in senior management (being for these purposes, the Executive Team and its direct reports as promulgated by the Hampton-Alexander Review) and within the organisation overall, is contained in the People report on page 24.

Approval

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

David Blackwood
Nominations Committee Chair

7 November 2023

Directors' Remuneration Report

Shareholder letter from the Chair of the Remuneration Committee

Membership & composition:

- Denise Collis (Independent Non-executive Director)
- David Blackwood (Independent Non-executive Chairman)
- Mark Whiteling (Senior Independent Director)
- Michael Holt (Independent Non-executive Director)
- Deborah Rabey (Independent Non-executive Director)

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

The Committee met three times during the year and all Committee members attended each of the meetings (Deborah Rabey attended the one meeting held following her appointment on 1 March 2023). At the invitation of the Committee, certain executive directors attended the meetings from time to time.

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.

Denise Collis
Remuneration Committee Chair

7 November 2023

Dear shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report for the 52-week period ended 26 August 2023.

In last year's report, following a period of consultation with our largest shareholders and institutional proxy advisory service bodies, we set out a new Remuneration Policy which was put to shareholder approval at our 2023 AGM. We were pleased to receive majority levels of shareholder support for this, with 91.3% of shareholders voting in favour.

Backdrop to the operation of the policy and our performance in FY2023

FY2023 presented a similar backdrop to FY2022, amidst macroeconomic headwinds impacting not only our business but also the livelihoods of our colleagues at all levels of the organisation, with a challenging labour market, an increasing/high inflationary environment and significant increases in both the cost of labour and energy prices. With that in mind, it is therefore pleasing to reflect on the good progress that the business has delivered in the year as also noted elsewhere in this Annual Report, in many cases meeting or exceeding the financial and operational targets that we set ourselves this time last year. These include delivering Group financial performance ahead of market expectations, a strong focus on cash management and the successful securing of new long-term publisher contract renewals with each of News UK, Associated Newspapers, Telegraph Media Group, Frontline and Seymour Distribution (together representing 65% of current newspaper and magazine revenues through to 2029). In addition, we have developed and enhanced our diversification and growth strategy, notably with the network rollout of our recycling proposition to existing retailers and the creation of a plan for tactical growth opportunities, combined with the unstinting customer service and operational successes through which we have maintained our high standards of excellence. We have also progressed a range of key initiatives important to our stakeholders such as the setting of science-based emission targets, the establishment of the 'Women in News' network group and its endeavours to champion female causes (including the promotion of a trial of free sanitary products to our female colleagues and an enhancement of our maternity support and policy), gaining accreditation in Cyber Essentials Plus, and the appointment of a new female non-executive director (Deborah Rabey), who I warmly welcome to the Committee, all whilst navigating the macroeconomic headwinds already touched upon.

Variable pay outcomes in FY2023

The FY2023 bonus was based 70% on Adjusted Operating Profit, 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 based on our operational KPIs. 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 Operating Profit of £38.85m for FY2023 and the successful delivery of the operational KPIs that the business set itself a year ago (see later in this report), the annual bonus payout is between target and maximum, resulting from:

- a payout for the financial metric at 54.55% (i.e. 38.18% of the 70% bonus opportunity); and
- for the personal element in respect of each executive director's performance against their respective personal objectives:
  - at 80% (i.e. 24.00% of the 30% bonus opportunity) for Jonathan Bunting; and
  - at 80% (i.e. 24.00% of the 30% bonus opportunity) for Paul Baker.

Overall, this has resulted in an annual bonus payout of 62.18% of the maximum 100% opportunity for both Jonathan Bunting and 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 FY2023 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), as a percentage of maximum reward opportunity, 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.

In last year's report, we disclosed the estimated vesting of the FY2020-22 LTIP award, which was based 50% on EPS targets and 50% on relative TSR targets. Following the conclusion of the performance period in December 2022 (which was after the date of my report last year) I am able to confirm an update to the estimated level of vesting of 72%. As reported last year, this estimate was based on a confirmed EPS payout of 44% of maximum and an estimated TSR payout of 100%. The three-year TSR performance period ended on 12 December 2022 and it is pleasing to see that the 100% performance level was maintained and so the final payout was confirmed at 72% of maximum.

In respect of the FY2021-23 LTIP award for which the performance period ended on 26 August 2023, this was weighted 30% against cumulative free cash flow targets and 70% against TSR relative to the FTSE Small Cap (excluding investment trusts). The cumulative free cash flow performance over the performance period was £112.1m, which is between the threshold and maximum target. This has resulted in a payout of 71.28% of the cumulative free cash flow metric. The performance period for the TSR element of the FY2021-23 LTIP award ended on 26 August 2023. Based on the Company's performance against the FTSE Small Cap, this results in a payout of 100% of the TSR metric, representing maximum TSR outperformance vs the peer group over the three-year performance period and an absolute TSR of 201%. Overall, the vesting outcome for the FY2021-23 LTIP award is 91.38% of maximum. The Committee has considered the formulaic out-turn and confirms that it remains comfortable that the payout 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. In addition to looking at our performance in the round, the Committee considered whether the share price increase from grant for both awards represented a 'windfall gain.' In considering this potential issue the Committee noted that the FY2020-22 LTIP grant had been made in December 2019, at a time prior to the impact of the COVID-19 pandemic on the share price, and the FY2021-23 LTIP grant had been made in November 2020, at a time after the share price had recovered from the initial impact of the COVID-19 pandemic in the first part of that calendar year, where the share price had, at the height of the pandemic, dropped to c.20p. The Committee further noted that both awards had been granted with an underpin share price condition of 30p and since then the share price has increased by 69% at vesting for the FY2020-22 LTIP and by 43% at 26 August 2023 for the FY2021-23 LTIP award.

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
- Set terms of reference for the remuneration consultant

This share price performance for each award represents above upper quartile performance against the TSR peer group. Taking these factors into consideration, the Committee was comfortable overall that there are no windfall gains that require a scale back of the vesting level for either award.

Board changes

As I have already mentioned, the Committee has been delighted to welcome Deborah Rabey (independent non-executive director) to the Board with effect from 1 March 2023. Deborah brings a wealth of experience across supply chains, global sourcing, change management and general marketing, particularly within the retail sector. Deborah shall be paid the standard annual non-executive director fee of £50,637.67 (an increase from £49,043.75 with effect from 1 September 2023) to cover all duties, including service on any Committees.

Operation of the Remuneration Policy in FY2024

The base salaries of the Chief Executive Officer and the Chief Financial Officer were each increased by 3.25%, with effect from 1 September 2023, which is below the average percentage increase awarded to our workforce, the majority of whom saw an increase of 9.7%. Separately, the Board has agreed an increase of 3.25% to the fee rates of the Chairman and 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 2023.

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, in line with the position last year.

The LTIP grant level for the FY2024-2026 award will continue to be 100% of base salary. However, for the first time this will now include an ESG measure representing a total greenhouse gas emissions reduction, which is being introduced in recognition of this area of growing importance to our stakeholders. In addition, the free cash flow measure (which has been in place for the past three years) will be replaced by profit generated from growth and diversified activities, in recognition of the increasing strategic imperative to diversify and explore new revenue and strategic opportunities within our core markets and other adjacent categories. Accordingly, performance will be assessed at a revised weighting of 60% on a relative TSR measure over a three-year performance period, 30% on final-year profit from growth and diversified activities and 10% on Scopes 1, 2 and 'controllable' Scope 3 emissions reduction in the final year of the performance period. Further details on the performance measures and target ranges can be found on page 114.

Directors' Remuneration Report continued

Broader employee remuneration considerations and employee engagement

The Committee has 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 2023, with a particular focus on the following areas:

- Considering the impact and scale of the National Living Wage increase effective 1 April 2023, in the context of the current financial climate and high inflationary environment;
- Considering the benefits package available to colleagues and new enhancements made during the year (e.g. to the maternity policy and support) to ensure the current offering is competitive;
- Noting the update on the review of the leadership grading framework and pay structure;
- Approving the increase to the discount funded by the Company under the SAYE plan, from 7.5% to 20%, and noting the significant increase in participation rates for the 2023 award; and
- Noting the continued support to colleagues in the UK and India through the colleague hardship fund, which has been in place now since the height of the pandemic in 2020.

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 wider workforce pay were discussed alongside reward matters and sharing our aspirations around equitable reward. A particularly important aspect of these discussions was the opportunity to help colleagues to better understand the role and purpose of the Remuneration Committee and associated governance surrounding remuneration in a listed-plc environment, particularly in the context of balancing responsibility to both colleagues and shareholders alike. Helping our colleagues to understand this structure led to far more open and informed discussions resulting in more valuable outcomes. These included an audit of the current benefit offering to identify desirability by different colleague groups to each of the offerings, along with uptake, in line with our Diversity & Inclusion agenda. The outcomes have been built into the reward agenda for the forthcoming financial year.

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

7 November 2023

Directors' Remuneration Policy

At-a-glance summary

A summary of the shareholder approved policy and its application for FY2024 is shown below.

Policy element	Jonathan Bunting Chief Executive Officer	Paul Baker Chief Financial Officer
Annualised base salary from 1 September 2023	£499,106	£325,147
% increase from prior year	3.25%	3.25%
Pension for FY2024	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 (60%) Profit from growth and diversified activities (30%) ESG Scope 1, 2 and 3 emissions (tCO_2e) reduction (10%)	
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 was approved by shareholders at the Annual General Meeting on 24 January 2023. It is intended that the Directors' Remuneration Policy will apply from this date 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.

Directors' Remuneration Report continued

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 payout 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.

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.

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 below).	The maximum bonus opportunity in respect of a financial year is 125% of salary. The threshold payment level for the financial performance condition is 0% and up to 50% of the maximum may be payable for target performance. The Company's largest shareholders would be consulted beforehand if the bonus opportunity increases above 100% of salary (the currently applied maximum level).	Annual measures and targets will be set by the Committee at the start of the financial year. The majority of the bonus will be based on financial performance, with the remaining performance condition attributable to 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 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 provisions apply (see the notes below). The value of dividends payable over the vesting period may be paid, normally in the form of shares.	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. A majority of the award will be based on financial and/or TSR based conditions.

Directors' Remuneration Report continued

Element	Purpose and link to strategy	Operation	Maximum	Performance 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.		

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.

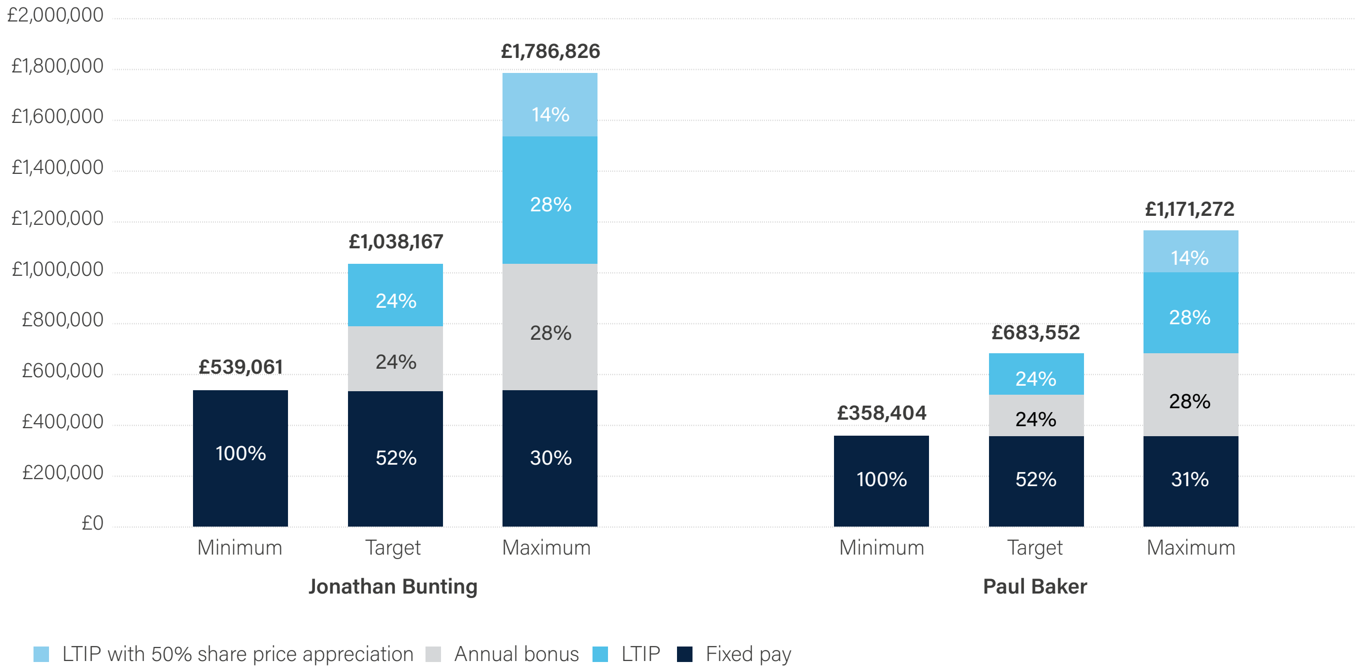
c) Legacy and mandated payments – the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above: (i) where 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 Directors' 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 policy for FY2024. Each element (as a percentage of total remuneration) and the total values have been set out.



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 FY2023.
(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 is 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 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:

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, any 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 last year. There were no matters during FY2023 that required shareholder consultation.

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
Deborah Rabey	27 February 2023	3 months	3 months	2027 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 FY2023 (audited)

The total remuneration for each director for FY2023 and the prior year is set out below.

	Jonathan Bunting		Paul Baker	
Fixed pay	**FY2023 '000**	FY2022 '000	**FY2023 '000**	FY2022 '000
Salary	**483**	468	**315**	278
Benefits (a)	**15**	14	**17**	10
Pension benefits	**24**	23	**15**	12
Total fixed pay	**522**	505	**347**	300
Performance-related pay				
Annual bonus payments	**301**	322	**196**	183
LTIP award vesting (b) (c)	**692**	516	**–**	–
Dividend equivalent payments (d)	**101**	69	**–**	–
Total variable pay	**1,094**	907	**196**	183
Total single figure	**1,616**	1,412	**543**	483

Notes
(a) Benefits include the taxable value of a car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year, as applicable to each director.
(b) The FY2020-2022 LTIP awards were granted on 13 December 2019. Based on a final assessment against the EPS and TSR performance conditions, 72% of the awards vested on 27 January 2023 resulting in 1,016,524 shares vesting for Jonathan Bunting. The award has been valued at 50.80p per share, being the closing market price of the Company's shares on the date of vesting (27 January 2023).
(c) The FY2021-2023 LTIP awards were granted on 27 November 2020. As a result of the final assessment against the free cash flow and TSR performance conditions, 91.38% of the awards vested on 7 November 2023 (based on performance to 26 August 2023) resulting in Jonathan Bunting's vested award being in respect of 1,398,114 shares. The vested award has been valued at 49.50p per share, being the opening market price of the Company's shares on the date of vesting (7 November 2023). Further details on the FY2021-2023 award and vesting can be found on page 117.
(d) Dividend payments equivalent to the aggregate of all dividends paid during the vesting period applicable to the LTIP vesting noted in notes (b) and (c) above, paid in shares.

Remuneration and link to performance during the year (audited)

Annual bonus

In FY2023, the executive directors had a maximum opportunity under the annual bonus of 100% of salary, split 70% on financial performance and 30% on personal objectives. Performance measures and actual performances are set out in the table below:

		Targets			
Measure	**Weighting**	**Threshold (0%)**	**Target (50%)**	**Max (100%)**	**Actual result (£m)**
Group adjusted operating profit	70%	£36.00m	£38.50m	£42.35m	£38.85m
Personal objectives	30%	See detail on the following page			See detail on the following page

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					
Publisher contract renewal	40%	Agree new contracts with newspaper and magazine publishers representing 75% of Smiths News' current revenues	65% of current revenues through to 2029 have been secured through successful publisher contract renewals, with further renewal negotiations underway	100%	40%
Diversification	25%	To scan the market for attractive acquisition opportunities and complete one acquisition if deemed appropriate	Although an acquisition target was identified during HY2023, the Board subsequently concluded that the deal structure desired by the vendors was not in the best interests of Smiths News and all stakeholders. It was therefore determined that stepping away from the deal was the most appropriate course of action	45%	11%
Strategy	25%	To create a revised 3-5yr strategy for the business in light of delivering objectives noted above	Strategic direction established and 3-year business plan in place, together evolving based on balance of organic vs inorganic diversification opportunities	80%	20%
People	10%	To lead by example in creating a performance culture that embraces difference and is right for each business unit	Significant progress has been made through the establishment of networks representing minority groups in the business. These groups have moved the D&I agenda forward from the raising of awareness and education through to influencing policy, reward and the culture of Smiths News. The recruitment of an Inclusion Manager along with utilising results from our D&I survey is enabling management to make data-led decisions and drive tangible results	90%	9%
Total (out of a maximum 30% bonus opportunity)	**100%**				**80%**

Directors' Remuneration Report continued

Personal objective	Weighting of objective	Target	Achievement	Outcome (%)	Bonus paid (%)
Paul Baker					
Sustainability	22.5%	Embed science-based target approach to ESG and ensure sustainability strategy published 6 monthly supporting TCFD approach to governance and disclosures	TCFD report produced with science-based targets now embedded in the business, and appropriate KPIs developed and reported against. The metrics demonstrate tangible areas of progress against the 18 deliverables within our sustainability strategy	100%	22.5%
Finance efficiency	22.5%	Step change the financial close process from 8 days to 5 days, to allow for more timely information to be provided to the business and for the Finance team to spend more time supporting and challenging business decision-making	The financial close process has transitioned from 8 days to 5 days enabling the development of a new and robust reporting structure for growth activities and promoting greater efficiency	100%	22.5%
Costs	10%	Upgrade the reporting across functions and other business units, to drive visibility of returns on investment	A new template has been developed for all support functions, ensuring more detailed analysis and explanation of costs	75%	8%
Growth	25%	Drive value creation across growth agenda, leading any acquisition process within inorganic opportunities Ensure clear articulation of shareholder returns of any organic or inorganic investments	Led the acquisition process to the point at which the deal aborted, given the Board's conclusion that the deal structure desired by the vendors was not in the best interests of Smiths News and all stakeholders	45%	11%
People	10%	To lead the business in a way that role models the values and inclusive culture for the business To score not less than 7.0 from the Company-wide engagement survey and remain in the upper quartile for the D&I survey	Finance team engagement score of 7.4. Gender and ethnic diversity in the function has improved following successful recruitment processes	80%	8%
Control	10%	Review and ensure new delegation of authority is embedded and operational within the business Ensure the Internal Audit function supports the business to improve the control environment	New delegation of authority framework established and embedded within the senior leadership team Principal risk process has been reviewed and updated to ensure closer alignment with functional plans	75%	8%
Total (out of a maximum 30% bonus opportunity)	**100%**				**80%**

Further detail on our key strategic objectives and performance against those objectives is provided in the Strategic Report on pages 2 to 65.

As a result of the financial performance and each director's respective personal performances as noted above, the overall bonus outcomes are as follows:

	Financial performance (out of 70%)	Personal performance (out of 30%)	Total bonus outcome for FY2023 (% of base salary)	Total bonus payment[1]
Jonathan Bunting	54.55%	80%	62.18%	£300,584
Paul Baker	54.55%	80%	62.18%	£195,818

1. 50% of the bonus payment is deferred into shares 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

As reported last year, Jonathan Bunting was granted an LTIP award for FY2020-2022 on 13 December 2019 which was subject to performance assessed in FY2022 for EPS and, over a three-year performance period from grant (i.e. to 12 December 2022) for TSR relative to the FTSE Small Cap (excluding investment trusts). The targets set and, by way of an update to the estimated vesting level reported last year, the final level of vesting on 27 January 2023 for both measures is 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	Above upper quartile	50% (of 50%)
Final total vesting (% of max)					**72%**

(a) The FY2020-2022 award was set on an IAS 17 basis which gives an adjusted basic EPS result of 10.9p.

The actual level of vesting for this FY2020-2022 award of 72% of maximum is unchanged from the estimated vesting level reported last year. Accordingly, the Committee considered the appropriateness of the rate of vesting at 72% and remains comfortable that the payout level is appropriate in light of the overall performance and shareholder experience over the three-year performance period, and that no discretion was necessary to adjust the outturn.

The table below shows the number of shares that actually vested and the value of these shares on vesting for the FY2020-2022 award:

	Number of shares at grant	Value at grant (30.0p)	Total vesting outcome	Number of shares vested	Value on vesting[(a)]	Value attributable to share price growth on vested awards	Dividend payment
Jonathan Bunting	1,411,840	£423,552	72%	1,016,524	£516,394	£211,437	£69,123

(a) The FY2020-2022 LTIP awards have been valued at 50.80p per share, being the closing share price on the date of vesting (27 January 2023).

Separately, Jonathan Bunting was granted an LTIP award on 27 November 2020 which was subject to performance over a three-year performance period FY2021-2023 for the two performance measures, cumulative free cash flow and TSR relative to the FTSE Small Cap (excluding investment trusts). The targets set and the final level of vesting for both measures are set out in the table below.

FY2021-2023 award	Weighting	Threshold (20% vesting)	Maximum (100% vesting)	Actual performance	Vesting
Cumulative Free Cash Flow	30%	£98m	£120m	£112.1m	21.38% (of 30%)
Total Shareholder Return vs FTSE Small Cap	70%	Median	Upper quartile	Above upper quartile	70% (of 70%)
Final total vesting (% of max)					**91.38%**

The Committee has considered the appropriateness of the rate of vesting at 91.38% and confirms that it is comfortable that the payout level is 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.

Directors' Remuneration Report continued

Accordingly, the table below shows the number of shares vesting and the value of these shares for the FY2021-2023 award:

	Number of shares at grant	Value at grant (30.0p)	Total vesting outcome	Number of shares vesting	Value on vesting[(a)]	Value attributable to share price growth on vesting	Dividend payment[(b)]
Jonathan Bunting	1,530,000	£459,000	91.38%	1,398,114	£692,066	£233,066	£100,664

(a) The FY2021-2023 LTIP awards have been valued at 49.5p per share, being the opening market price of the Company's shares on the date of vesting (7 November 2023).
(b) Dividend payments equivalent to the aggregate of all dividends paid during the vesting period, paid in shares.

Share plans – awards made during the year

LTIP awards granted in FY2023 (audited)

On 30 January 2023, executive directors were granted the following FY2023-2025 LTIP awards:

Executive director	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	50.66p	954,196	£483,396	20%	FY2023-2025
Paul Baker	50.66p	621,620	£314,913	20%	FY2023-2025

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	FY2025 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 30 August 2025	Below £36.6m	Below median rank	Zero
	£36.6m	Median	20%
	Between £36.6m and £41.2m	Between median and upper quartile	20%-100%
	£41.2m or more	Upper quartile or higher	100%

Deferred Bonus Plan awards granted in FY2023 (audited)

On 30 January 2023, the following awards were granted to the Chief Executive Officer and Chief Financial Officer under the DBP, equating to 50% of their FY2022 bonus payment, as follows:

Executive director	Share price at date of grant[1]	Number of nil cost options subject to award	Face value of award
Jonathan Bunting	50.66p	317,449	£160,820
Paul Baker	50.66p	180,508	£91,455

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 Registrars, in order to enforce the two-year deferral period and the associated share certificate retained by the Company.

Sharesave Scheme awards granted in FY2023 (audited)

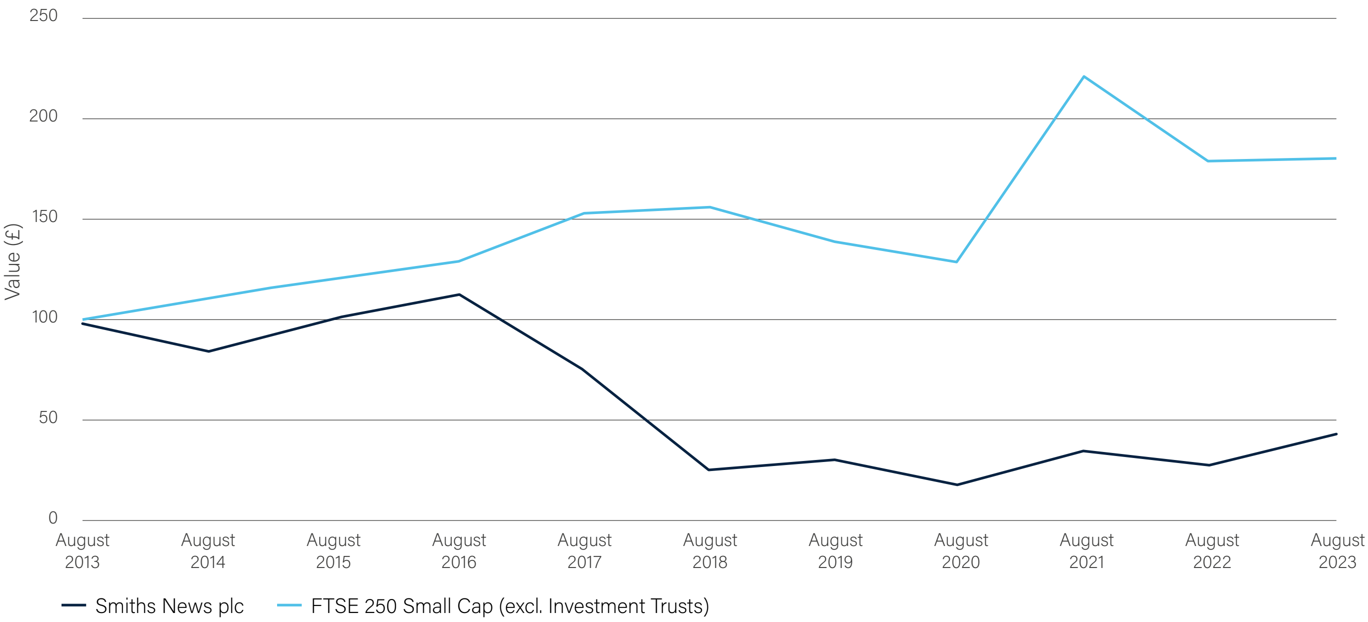
On 4 July 2023, the following award was granted to the Chief Executive Officer under the Company's SAYE Plan. Options were granted at a discount of 20% to the share price at grant and will vest after three years subject to continued employment.

Executive director	Share price at date of invitation[1]	Number of SAYE options awarded	Face value of award[2]	Percentage of awards released for achieving threshold targets	Performance period
Jonathan Bunting	55.40p	40,613	£4,500	N/A	N/A

1. The option price is the mid-market average share price in the three days immediately prior to the date of invitation. Following the closure of the invitation period, the award was subsequently granted on 4 July 2023.
2. Face value is the value of the 20% discount to the share price at the date of invitation.

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.



	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Chief Executive Officer Total remuneration (£'000)	970	1,095	882	794	539	537	596	917	1,209	**1,616**
Chief Executive Officer Annual bonus payment (% of maximum)	12.5%	71.3%	38.9%	15.0%	0.0%	0.0%	20.0%	82.2%	68.7%	**62.18%**
Chief Executive Officer EPP[1] payout (% of maximum)	55.1%	61.5%	72.0%	72.0%	0.0%	N/A	N/A	N/A	N/A	**N/A**
Chief Executive Officer LTIP vesting (% of maximum)	100.0%	63.5%	0.0%	0.0%	0.0%	0.0%	0.0%	27.6%	72%	**91.38%**

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.

		Chairman	CEO	CFO	D Collis	M Holt	D Rabey	M Whiteling	UK employees
	Base salary/fees	0.0	0.0	N/A	0.0	0.0	N/A	0.0	5.6
% change FY2020	Benefits	0.0	(30.8)	N/A	0.0	0.0	N/A	0.0	(1.0)
	Annual bonus	–	100.0	N/A	–	–	N/A	–	20.6
	Base salary/fees	0.0	2.0	N/A	0.0	0.0	N/A	0.0	(3.1)
% change FY2021	Benefits	0.0	(38.1)	N/A	0.0	0.0	N/A	0.0	0.0
	Annual bonus	–	346.7	N/A	–	–	N/A	–	282.1
	Base salary/fees	0.0	2.0	N/A	15.0	16.7	N/A	13.6	7.7
% change FY2022	Benefits	0.0	7.7	N/A	0.0	0.0	N/A	0.0	0.0
	Annual bonus	–	(14.6)	N/A	–	–	N/A	–	(3.1)
	Base salary/fees	3.25	3.25	3.25	3.25	3.25	N/A	3.25	7.7
% change FY2023	Benefits	–	5.1	45.5	–	–	–	–	0.0
	Annual bonus	–	(6.5)	7.1	–	–	–	–	3.8

1. The value of the Chairman's fee in FY2020 represents the combined remuneration for Gary Kennedy (to 13 May 2020) and David Blackwood (from 13 May 2020) and in each of FY2021, FY2022 and FY2023 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, FY2022 and FY2023 exclusively represent the remuneration of Jonathan Bunting.
3. 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
FY2023		Employee salary	£20,620	£21,910	£25,065
		Employee total remuneration	£20,620	£22,318	£25,829
		CEO to employee pay ratio	78.4:1	72.4:1	62.6:1
FY2022		CEO to employee pay ratio	63.3:1	57.8:1	43.9:1
FY2021	Option B	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 has 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 2023 and has been calculated at a full-time equivalent level, based on the full time hours for the role, to allow for direct comparison.

The composition of colleague population in each of the reporting years FY2018-FY2023 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 incentives.

In reviewing the pay ratio, 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 overall 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 FY2023 are higher than in FY2022 primarily as a direct result of an increased total remuneration for the CEO due to increases in the vesting level of the FY2021-2023 LTIP award (as reported earlier) and strong share price growth on the award. Comparing the pay data for FY2023 to FY2022 for colleagues, higher pay was experienced at the lower and median quartiles in FY2023 following the impact of a 9.7% National Living Wage increase in April 2023 and the implementation of a discretionary allowance to our lowest paid colleagues during the winter months from October 2022 to January 2023. Meanwhile, the 75th percentile indicator reflects the composition of the supervisory/first line management roles whose pay continued to also steadily increase in line with the lower quartile roles in order to maintain the differential between shifts/roles. The overall composition of colleagues and their associated total remuneration in FY2023 has therefore remained broadly consistent in approach to the remuneration benefits received by those colleagues at each of the quartiles in FY2022.

Furthermore, in each of FY2021 to FY2023 (inclusive), the pay ratio has risen 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. This is because for each of FY2020, FY2019 and FY2018 the ratios do not include the vesting of any LTIP awards 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 Operating Profit, corporation tax paid and distributions to shareholders by way of dividend payments.

	FY2023 £m	FY2022 £m	% change
Total employees pay	**45.2**	44.9	0.7%
Adjusted Operating Profit	**38.85**	38.1	2.0%
Corporation tax paid	**6.6**	5.3	24.5%
Dividends paid	**9.8**	6.1	60.7%

The figures above are principally set out in the income statements on page 138 and on pages 154, 156 and 168 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 the key financial metric which the Board considers when assessing the Company's financial performance. Corporation tax paid and dividends paid have also been used as a comparison as these together indicate the sustainable after tax and dividends paid position of the Company for reinvestment.

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. During FY2023, Tony Grace's FY2020-2022 LTIP vested at the vesting rate of 72% of maximum. As such, 550,666 shares vested representing a pro-rated entitlement for 28 months of the 36-month performance period and carrying a valuation of £279,738 (based on a share price of 50.80p per share, being the closing share price on the date of vesting (27 January 2023)). In addition, Tony Grace received a dividend equivalent payment of £37,445. Tony Grace received no further payments during the year.

There were no payments for loss of office made during the year.

Directors' Remuneration Report continued

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 26 August 2023 was 10,613,896 ordinary shares.

The Board has resolved that all employee share scheme exercises in FY2023 and, until otherwise agreed, all future employee share scheme exercises in FY2024 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 26 August 2023, 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 26 August 2023 under the LTIP and DBP (covering deferred annual bonus awards), together with exercises made during the year under both the LTIP and DBP. 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.

	Unvested subject to performance measures[1]	Unvested without performance measures[2]	Vested but unexercised	Vesting during the year[3]
Jonathan Bunting	3,594,166	83,470	0	1,333,973
Paul Baker	1,430,638	0	0	180,508

1. These unvested awards relate to the FY2021-FY2023 LTIP which have vested at 91.38% of maximum in November 2023, and the FY2022-FY2024 and FY2023-FY2025 LTIPs. All awards are subject 70% to TSR and 30% to free cash flow performance conditions.
2. These awards relate to awards made under the Company's SAYE plan in FY2020 (42,857) and FY2023 (40,613).
3. These awards relate to both the immediately vesting annual bonus deferred shares (which were granted to executive directors under the DBP on 30 January 2023, equating to 50% of their respective FY2022 bonus) and the FY2020-2022 LTIP for Jonathan Bunting only. These awards must each be held for at least two years.

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 27 August 2022	Holding on 26 August 2023	Valuation of current holding[1]	% of salary held compared to 200% of salary target shareholding	Shareholding requirement met?
Jonathan Bunting	£483,396	918,188	**1,695,080**	£728,884	151%	No
Paul Baker	£314,913	80,000	**175,370**	£75,409	24%	No

1. Using the closing share price of 43.00p as of 26 August 2023.

Between 26 August 2023 and 7 November 2023 (the publication date of this report), there has been no other change in the executive directors' shareholdings shown above.

Non-executive directors

Non-executive directors' fees

The following fees were paid to non-executive directors for FY2023 and FY2022 (audited):

	Year	Base fee £000	Additional fees £000	Benefits[1] £000	Total fees £000
David Blackwood[2]	**FY2023**	**144.5**	**–**	**1.4**	**145.9**
	FY2022	140	–	1.5	141.5
Denise Collis[3]	**FY2023**	**49.0**	**10.3**	**1.0**	**60.3**
	FY2022	47.5	10.0	0.0	57.5
Michael Holt[4]	**FY2023**	**49.0**	**5.1**	**0.2**	**54.3**
	FY2022	47.5	5.0	0.0	52.5
Mark Whiteling[5]	**FY2023**	**49.0**	**15.4**	**0.8**	**65.2**
	FY2022	47.5	15.0	0.0	62.5
Deborah Rabey[6]	**FY2023**	**24.5**	**0.0**	**0.3**	**24.8**
	FY2022	–	–	–	–

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 received an additional £10,325 per year as chair of the Remuneration Committee.
4. Michael Holt is responsible for Board colleague engagement and is chair of the National Colleague Engagement Forum. He received an additional £5,162.50 per year for this role.
5. Mark Whiteling is Senior Independent Director and received a fee of £5,162.50 per year for this role plus a fee of £10,325 per year as chair of the Audit Committee.
6. Deborah Rabey joined the Board on 1 March 2023.

Non-executive directors' shareholdings (audited)

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

	26 August 2023	27 August 2022
David Blackwood	**284,510**	284,510
Denise Collis	**48,846**	48,846
Michael Holt	**0**	0
Mark Whiteling	**80,000**	80,000
Deborah Rabey	**0**	N/A

There has been no change in the non-executive directors' shareholdings shown above between 26 August 2023 and 7 November 2023 (the publication date of this report).

Implementation of the Remuneration Policy in FY2024

Executive directors

Base salary

The base salary for the Chief Executive Officer increased by 3.25% to £499,106, and the base salary for the Chief Financial Officer increased by 3.25% to £325,147 with effect from 1 September 2023, each of which is below the average percentage increase awarded to our workforce, the majority of whom saw an increase of 9.7%.

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 FY2024 profit performance. 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 FY2023 covering the performance period FY2024-2026.

The LTIP grant level for the FY2024-2026 award will be 100% of base salary. For the first time this award will now include an ESG measure representing a total greenhouse gas emissions reduction, and a measure related to profit generated from growth and diversified activities. The free cash flow metric has been removed. Accordingly, performance will be assessed at a revised weighting of 60% on a relative Total Shareholder Return measure over a three -year performance period, 30% on final-year profit from growth and diversified activities and 10% on Scopes 1, 2 and 'controllable' Scope 3 emissions reduction (representing classes 1, 4 and 6 of Scope 3 emissions) in the final year of the performance period. For further details please see the TCFD report on pages 38 to 51.

The performance targets are set out below:

Measure	Weighting	Threshold (20% vests)	Maximum (100% vests)
Relative TSR versus the companies comprising the FTSE Small Cap index (excluding investment trusts) as at the date of grant	60%	Median	Upper quartile
Profit from growth and diversified activities in the final year (FY2026) of the three-year performance period	30%	£3.50m	£6.00m
ESG measure – 4.96% absolute reduction in Scope 1, 2 and 'controllable' Scope 3 emissions (tCO_2e) in the final year (FY2026) of the three-year performance period	10%	238,970 tCO_2e (representing an 8% reduction from plan)	205,203 tCO_2e (representing a 21% reduction from plan)

TSR provides a strong and direct incentive to continue to focus on share price growth and shareholder value whilst the introduction of an ESG measure is a reflection of the Board's increasing oversight of TCFD reporting and its ambitions in this area to improve our environmental footprint. The profit generated from growth and diversified activities measure represents the growing importance of the strategic imperative for the Company to successfully diversify and explore new revenue opportunities within its core markets and other adjacent categories and aligns with the Board's ambitions to measure the success of management's endeavours in this important area. The target range from 87.5% of target (at threshold) through to 150% of target (at maximum) reflects the Company's stretching growth and diversification ambitions. The significant stretch above target has been set based on an expected mix of both organic growth and growth by acquisition, in line with the business strategy.

Non-executive directors

Non-executive directors' fees in FY2024

The Company Chairman's fee rate increased by 3.25% from £144,550 to £149,247.88 with effect from 1 September 2023, and the non-executive directors' fees similarly increased by 3.25% with effect from 1 September 2023, such that the following rates now apply:

- the base fee rate increases from £49,043.75 per annum to £50,637.67;
- the additional fee for chairing the Board's Committees increases from £10,325 per annum to £10,660.56 per annum; and
- the additional fees for the role of Senior Independent Director and/or chairing the National Colleague Engagement Forum increase from £5,162.50 per annum to £5,330.28 per annum.

Consideration by the directors of matters relating to directors' 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	3	3
David Blackwood	3	3
Michael Holt	3	3
Mark Whiteling	3	3
Deborah Rabey	1	1

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 £29,120 (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 and 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 and the Directors' Remuneration report at the 2023 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 (2023 AGM)	130,074,330	91.34%	12,336,356	8.66%	142,410,686	86,953
To approve the Directors' Remuneration report for the year ended 27 August 2022 (2023 AGM)	133,779,186	93.92%	8,659,997	6.08%	142,439,183	58,456

Approval

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

Denise Collis
Remuneration Committee Chair

7 November 2023

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 26 August 2023. 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 65;
- Corporate Governance report on page 70;
- Audit Committee report on pages 88 to 97;
- Nominations Committee report on pages 98 to 103;
- Directors' Remuneration report on pages 104 to 125;
- TCFD report on pages 38 to 51;
- this section, Other statutory disclosures;
- Directors' Responsibilities statement on page 130; 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 8;
- 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 32 to 37;
- 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 60;
- all Key Performance Indicators (KPIs), including those in relation to non-financial matters, are on page 28;
- the Financial Review, which includes, where appropriate, references to, and additional explanations of, amounts included in the Group Financial Statements on page 138;
- 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 78; and
- future developments in the business on page 18.

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, was £25.1m (FY2022: £23.4m). All statutory profit was from continuing operations.

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 8 February 2024 to all shareholders who are on the register of members at close of business on 12 January 2024. Accordingly, the total dividend for the 52 week period ended 26 August 2023 is 4.15p per ordinary share (FY2022: 4.15p). 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.

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 104.

Purchase of own shares

At the Annual General Meeting held on 24 January 2023, 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 FY2023. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2024 to renew the authority for a further year.

Issue of new ordinary shares

The Board has resolved that all employee share scheme exercises during FY2023 and, unless otherwise agreed, all future employee share scheme exercises in FY2024 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 122). Accordingly, during the 52 week period ended 26 August 2023, 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.

Directors' Report – Other Statutory Disclosures continued

Interests in voting rights

As at 26 August 2023, 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	14.29
FORUM Family Office Value Fund	9.84
Fidelity International Limited	9.84
Hargreaves Lansdown (Stockbroker)	5.29
FORUM Smallcap Fund	4.42
M&G Investments	4.38
Smiths News Employee Benefit Trust	4.30
Worsley Investors Limited	4.23
Interactive Investor	4.02
The Wellcome Trust	3.79

In the period 26 August 2023 to 7 November 2023, 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 pages 68 and 69.

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 122.

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 pages 24 to 27 and in the Corporate Governance report on page 70.

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 70.

Greenhouse gas emissions

Details of the Company's greenhouse gas emissions and SECR disclosures are set out in the TCFD report on pages 38 to 51.

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 pages 38 to 51. 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 58). 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 (FY2022: £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 are 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 wellbeing 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 pages 32 to 37.

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 2024 Annual General Meeting.

Annual General Meeting

The 2024 Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Wednesday 31 January 2024 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 and General Counsel

7 November 2023

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;
- 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 this 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 this 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
- This 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 7 November 2023 and signed on its behalf by:

Jonathan Bunting
Chief Executive Officer

7 November 2023

Paul Baker
Chief Financial Officer

7 November 2023

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 26 August 2023 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 26 August 2023 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement 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 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 5 years, covering the years ended 31 August 2019 to 26 August 2023. 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 16 months from the date of approval of the financial statements, being the period used by the directors to assess going concern. This included testing that the forecasts were consistent with the latest Board approved budgets;
- Considered whether the period used by the directors to assess going concern which was based on cash flow forecasts to February 2025 was appropriate – this included assessing any significant events or conditions expected beyond the period of management's assessment and considering the implication thereof;
- Assessed 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;
- Tested the numerical accuracy and mechanics of the model used to prepare the forecasts;
- Agreed a sample of the Group cash balances from the forecasts to post year end bank statements and compared the Group cash balance to the forecasted amount to identify any potential liquidity issues;
- Tested 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;
- Challenged the directors' 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;
- Scrutinised 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 considered the directors' assessment that it was remote for such a reduction to occur;
- Compared the post year end trading results to the forecasts to evaluate the accuracy and achievability of the forecasts prepared;
- Evaluated the accuracy of management's historical forecasting; and
- Evaluated 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.

Independent Auditor's Report continued
to the Members of Smiths News plc

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% (2022: 99%) of Group profit before tax 99% (2022: 99%) of Group revenue 98% (2022: 98%) of Group total assets		
Key audit matters		**2023**	**2022**
	Carrying value of the investments in Smiths News plc (Parent Company)	✓	✓
	Revenue recognition	×	✓
	Revenue recognition is no longer considered to be a key audit matter following our re-assessment of risk performed in the current year.		
Materiality	**Group financial statements as a whole** £1.55m (2022: £1.49m) based on 4.8% (2022: 4.8%) of adjusted profit before tax		

1 These are areas which have been subject to a full scope audit by the group engagement team and specified audit procedures performed by the group engagement team and the component auditor teams.

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 form 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.

Climate change

Our work on the assessment of potential impacts on climate-related risks on the Group's operations and financial statements included:

- Enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the Annual Report;
- Our own qualitative risk assessment taking into consideration the sector in which the Group operates and how climate change affects this particular sector;
- Our risk assessment included the use of external sources for research such as SASB metrics for the industry (SASB is a globally accepted set of standards for sector-specific sustainability matters) and SBTi register to identify any Science Based Target Initiatives to the Group's emissions reductions; and
- Review of the minutes of Board and Audit Committee meetings and other papers related to climate change and performed a risk assessment as to how it may affect the financial statements and our audit.

We challenged the extent to which climate-related considerations, including the expected cash flows from the commitments, have been reflected, where appropriate, in management's going concern assessment and viability assessment.

We also assessed the consistency of management's disclosures included as 'Other Statutory Disclosures' on page 126 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

Key audit matter

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period and includes 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. The matter was 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 the matter.

Key audit matter		How the scope of our audit addressed the key audit matter
Carrying value of investments in Smiths News plc (Parent Company) Refer to the Accounting policies (page 143); and Note 3 of the Parent Company Financial Statements (page 179)	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. 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. The preparation of the value in use model therefore requires notable levels of judgement and assumptions; from electing a discount rate that appropriately reflects current market conditions and sufficient level of risk, to accurately reflect forecast revenue levels in a declining market. As a result of the highly sensitive nature of the model to key assumptions and the proportion of time spent in auditing this judgemental area, we determined it to be a Key Audit Matter.	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; and • holding discussions with operational team members who were separate to the finance team and by assessing against market benchmarks and historical trends. We challenged the extent to which climate-related considerations, including the expected cash flows from the commitments have been incorporated. In conjunction with our valuation specialists, we 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. 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 flow assumptions based on our knowledge of the business, contractual revenue streams and the economic outlook. We tested the arithmetic accuracy of the impairment model. The resulting value in use model indicated material headroom above the carrying value of the investment. The audit team challenged management to evaluate this headroom and ascertain the impact of this in respect of the indicators of reversals identified and consider if this represented an impairment reversal which should be recorded. This was also evaluated by the audit team against the indicators of impairment and reversals. 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. We assessed whether the disclosures in the financial statements were complete and accurate and included the detail of key judgements within the impairment model and sources of estimation uncertainty. **Key observations:** Based on the procedures carried out we consider the assumptions and judgements made by management in determining the carrying value of investments in the Parent Company to be reasonable, and the level of reversal of the impairment to be appropriate. This was based on both qualitative and quantitative factors.

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	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
Materiality	1.55	1.49	0.93	0.89
Basis for determining materiality	4.8% of profit before adjusting items and tax		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 considered to be a key measure for stakeholders.		Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.	
Performance materiality	1.08	1.04	0.65	0.59
Basis for determining performance materiality	70% of materiality		70% of materiality	
Rationale for the percentage applied for performance materiality	Based on our experience and knowledge of the Group, the Group structure, planned testing approach, and history of errors.		Based on our experience and knowledge of the Parent Company, planned testing approach, and history of errors.	

Component materiality
For the purposes of our Group audit opinion, we set materiality for the significant component of the Group, apart from the Parent Company whose materiality is set out above, at £1.4m based on a percentage of 90% of Group materiality, based on the size and our assessment of the risk of material misstatement of that component. We further applied performance materiality level of 70% of the component materiality 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 £62k (2022: £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 page 56; 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 56.
Other Code provisions	• The directors' statement on fair, balanced and understandable set out on page 94; • The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 62; • The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 90; and • The section describing the work of the Audit Committee set out on pages 89 and 93.

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.

Responsibilities of Directors

As explained more fully in the Directors' responsibility 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.

Independent Auditor's Report continued

to the Members of Smiths News plc

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the legal and regulatory frameworks applicable to the Parent and Group and the industry in which it operates;
- Discussion with management and those charged with governance including legal counsel;
- Obtaining an understanding of the Group's policies and procedures regarding compliance with laws and regulations; and
- Considering the nature of the industry, control environment and business performance, including design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets.

We considered the significant laws and regulations 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 Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. 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.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- The audit team engaged an internal tax specialist to analyse the Group's compliance with local tax regulations;
- Review of whistleblowing reports for any known or suspected instances of non-compliance with laws and regulations;
- Review of legal expenditure accounts to understand the nature of expenditure incurred; and
- Discussions with management, those charged with governance, in-house legal counsel and the Audit Committee to identify any instances or potential instances of non-compliance with laws and regulations.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, those charged with governance, in-house legal counsel and the Audit Committee regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Review of whistleblowing reports for any known or suspected instances of fraud;
- Discussion amongst the engagement team and an internal forensics specialist as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be journals posted to revenue and management override of controls.

Our procedures in respect of the above included:

- Audit procedures to address each identified fraud risk by assessing the potential for manipulation or override and then performing targeted testing on this risk.
- Selecting a sample of journal entries throughout the year and post year end, which met a defined risk criteria which included revenue journals with unusual account combinations and agreeing to supporting documentation;
- Assessing 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.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

7 November 2023

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 26 August 2023

		2023			2022		
£m	Note	**Adjusted***	**Adjusting items**	**Total**	Adjusted*	Adjusting items	Total
Revenue	2	**1,091.9**	**–**	**1,091.9**	1,089.3	–	1,089.3
Cost of sales	3	**(1,019.4)**	**–**	**(1,019.4)**	(1,016.6)	–	(1,016.6)
Gross profit	3	**72.5**	**–**	**72.5**	72.7	–	72.7
Administrative expenses	3	**(33.7)**	**(0.5)**	**(34.2)**	(35.0)	(2.5)	(37.5)
Net impairment loss on trade receivables	4	**(0.1)**	**–**	**(0.1)**	–	(4.4)	(4.4)
Other income		**–**	**–**	**–**	0.1	–	0.1
Income from joint ventures	13	**0.1**	**–**	**0.1**	0.3	–	0.3
Impairment reversal of joint venture investment	13	**–**	**–**	**–**	–	1.2	1.2
Operating profit	2,3	**38.8**	**(0.5)**	**38.3**	38.1	(5.7)	32.4
Finance costs	7	**(6.5)**	**–**	**(6.5)**	(7.0)	–	(7.0)
Finance income	7	**–**	**–**	**–**	–	2.5	2.5
Profit/(loss) before tax		**32.3**	**(0.5)**	**31.8**	31.1	(3.2)	27.9
Income tax (expense)/credit	8	**(6.7)**	**–**	**(6.7)**	(5.4)	0.9	(4.5)
Profit/(loss) for the year attributable to equity shareholders		**25.6**	**(0.5)**	**25.1**	25.7	(2.3)	23.4
Earnings per share							
Basic	10	**10.8**		**10.6**	10.8		9.8
Diluted	10	**10.2**		**10.0**	10.2		9.3
Equity dividends per share (paid and proposed)	9	**4.15**		**4.15**	4.15		4.15

* This measure is described in Note 1(4) of the accounting policies and the Glossary to the Accounts on page 174. Adjusting items are set out in Note 4 to the Group Financial Statements.

Group Statement of Comprehensive Income

for the 52-week period ended 26 August 2023

£m	Note	2023	2022
Items that will not be reclassified to the Group Income Statement			
Reassessment as to recoverability of retirement benefit scheme surplus	6	–	14.8
Tax relating to components of other comprehensive income that will not be reclassified	6	–	(5.1)
		–	9.7
Other comprehensive result for the year		–	9.7
Profit for the year		**25.1**	23.4
Total comprehensive income for the year		**25.1**	33.1

Group Balance Sheet

as at 26 August 2023

£m	Note	2023	2022
Non-current assets			
Intangible assets	11	**1.9**	1.7
Property, plant and equipment	12	**8.8**	8.6
Right-of-use assets	19	**21.8**	26.3
Interest in joint ventures	13	**4.4**	4.2
Deferred tax assets	20	**1.7**	1.1
		38.6	41.9
Current assets			
Inventories	14	**17.7**	15.6
Trade and other receivables	15	**101.1**	95.7
Cash and bank deposits	17	**37.3**	35.3
Corporation tax receivable		**0.6**	0.9
		156.7	147.5
Total assets		**195.3**	189.4
Current liabilities			
Trade and other payables	16	**(141.5)**	(140.3)
Bank loans and other borrowings	17	**(10.0)**	(8.0)
Lease liabilities	19	**(4.9)**	(5.9)
Provisions	21	**(2.5)**	(3.0)
		(158.9)	(157.2)
Non-current liabilities			
Bank loans and other borrowings	17	**(30.2)**	(39.1)
Lease liabilities	19	**(18.3)**	(21.7)
Non-current provisions	21	**(4.2)**	(3.4)
		(52.7)	(64.2)
Total liabilities		**(211.6)**	(221.4)
Total net liabilities		**(16.3)**	(32.0)
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)	**(4.4)**	(4.6)
Translation reserve	26(c)	**0.4**	0.4
Retained earnings	27	**194.9**	179.4
Total shareholders' deficit		**(16.3)**	(32.0)

The accounts were approved by the Board of Directors and authorised for issue on 7 November 2023 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 26 August 2023

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging and translation reserve	Retained earnings	Total
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 scheme 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)**
Profit for the year		–	–	–	–	–	25.1	25.1
Total comprehensive expense/income for the year		**–**	**–**	**–**	**–**	**–**	**25.1**	**25.1**
Dividends paid	9	–	–	–	–	–	(9.8)	(9.8)
Employee share scheme purchases		–	–	–	(1.7)	–	–	(1.7)
Employee share scheme awards		–	–	–	1.9	–	(1.9)	–
Recognition of share-based payments net of tax		–	–	–	–	–	1.5	1.5
Deferred tax recognised in equity		–	–	–	–	–	0.6	0.6
Balance at 26 August 2023		**12.4**	**60.5**	**(280.1)**	**(4.4)**	**0.4**	**194.9**	**(16.3)**

Group Cash Flow Statement

for the 52-week period ended 26 August 2023

£m	Note	2023	2022
Net cash inflow from operating activities	24	**36.4**	49.8
Investing activities			
Dividends received from joint ventures		**0.2**	0.2
Purchase of property, plant and equipment		**(2.6)**	(1.3)
Purchase of intangible assets		**(0.8)**	(0.7)
Investment in joint venture	13	**(0.3)**	–
Net proceeds on sale of property, plant and equipment		**–**	0.1
Deferred consideration receipts		**–**	14.0
Net cash (used in)/generated from investing activities		**(3.5)**	12.3
Financing activities			
Interest paid		**(5.3)**	(5.1)
Arrangement fees paid		**–**	(2.9)
Dividend paid	9	**(9.8)**	(6.1)
Repayments of lease principal		**(6.1)**	(6.4)
Repayment of term loan		**(8.0)**	(83.0)
New loans issued		**–**	60.0
Purchase of shares for Employee Benefit Trust		**(1.7)**	(2.6)
Net cash (used in)/generated from financing activities		**(30.9)**	(46.1)
Net increase in cash and cash equivalents		**2.0**	16.0
		2.0	16.0
Opening net cash and cash equivalents		**35.3**	19.3
Closing net cash and cash equivalents	17	**37.3**	35.3

Notes to the Accounts

for the 52-week period ended 26 August 2023

1. Accounting policies

(1) Basis of consolidation

Smiths News plc ('the Company') is a company incorporated in England, UK under the Companies Act 2006. The Group Accounts for the 52-week period ended 26 August 2023 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 26 August 2023 and are included in the Group Accounts.

Unless otherwise noted references to 2022 and 2023 relate to a 52-week period ended 27 August 2022 and 26 August 2023 as opposed to calendar year.

The Accounts were authorised for issue by the directors on 7 November 2023.

(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 the Group Accounts. Unrealised gains and losses arising from transactions with joint ventures are eliminated to the extent of the Group's interest in these 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 28 February 2025, the going concern period.

The Group currently has a net liability position of £16.3m as at 26 August 2023. All bank covenant tests were met at the year end. The key Bank Net Debt: EBITDA (ex. IFRS 16) ratio of 0.1x was below the covenant test threshold of 1.75x. The threshold reduces to 1.5x from 25 February 2024.

The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing averaging £28.7m during 2023. This results in a predictable fluctuation of bank net debt during the course of the month compared to the closing net debt position. The Group's average net borrowings during 2023 were £25.0m (2022: £49.8m). The Company utilises the revolving credit facility (RCF) to manage the cash swing. At the year end, £21.0m of the RCF was available and the Company had £37.3m of cash on hand, giving headroom of £58.3m.

3i) Bank facility

The Group has a facility of £64.0m at the balance sheet date, comprising a £41.5m amortising term loan and an RCF with a limit of £22.5m.

The Group's banking facility was amended and extended in December 2021 and has a final maturity date of 31 August 2025. The facility comprised an initial £60m amortising term loan, of which the Group has since repaid £18.5m as at the balance sheet date and an RCF comprising an initial £30m, of which £22.5m is available less committed letters of credit amounting to £1.5m (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 £10m per annum 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 28 February 2025 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 2025 if EBITDA was 48% below the Board approved three-year plan. Facility headroom of £3m 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 publisher contracts are secured for 65% of revenue until 2029; 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 26 August 2023

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 averaging £28.7m in 2023;
- utilising existing vendor management finance arrangements with retailers and optimising contractual payment cycles to suppliers which would improve liquidity headroom;
- not pay planned dividends;
- 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 2023 nor 2022 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) Alternative 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 174), 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 it 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 £926.5m (2022: £921.3m).

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 vehicle 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 considered to be unrelated to the Group's ordinary activities or 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 APMs in the Glossary on page 174.

Based on the nature of the transactions, adjusting items after tax totalled £0.5m (2022: £2.3m) and a breakdown is included within Note 4.

Key sources of estimation uncertainty

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

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

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 prior period ended 27 August 2022, the Company had reviewed the business plan for the Rascal Joint Venture, and it was determined that the potential challenges anticipated to arise in 2021 had not materialised, with the successful renewal of contracts previously considered to be at risk. The Company therefore chose to reverse the impairment previously booked by £1.2m. In the period ended 26 August 2023, a value in use of £4.3m was calculated based on the future cash flows of the Rascal business, which were discounted at a rate of 13% and a terminal growth rate applied of 0%. As a result, there was no further adjustment to the carrying value of the investment in the Rascal Joint Venture in the current period. 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 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 provision's carrying value at the year end is £4.9m (2022: £4.4m).

Net impairment loss on trade receivables

During the prior period ended 27 August 2022 McColl's Retail Group had gone into administration and an impairment loss provision of £4.4m was recognised. During the current period the administrators issued an update, stating that unsecured creditors can be expected to receive between 20-50% of approved claims (2022: 20-40%). Management has determined that a best estimate is that only 20% of the outstanding balance remains recoverable. The Company has therefore continued to hold a net impairment loss of £4.4m (2022: £4.4m), representing 80% of the total balance of £5.5m (2022: £5.5m) in the current financial period. If the Company had considered 50% of the total balance of £5.5m to be recoverable in line with the upper range of the administrator's estimate, the provision recognised would have been £2.8m (2022: 40%, £3.3m).

In the prior period, the net impairment loss of £4.4m was disclosed separately as a specific provision for doubtful debts and presented in adjusting items as it did not have an impact on the Group's assessment of its expected credit losses in respect of its remaining trade receivables.

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

1. Accounting policies continued

(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. During the current period, the Company is no longer presenting cash outflows from these provisions as discontinued operations, comparatives have not been restated.

(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 recyclable 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 tends), 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 net 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) is recognised for the products expected to be returned.

No element of financing is deemed present because the sales are made with short credit terms, which is consistent with market practice.

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

(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.

1. Accounting policies continued

(12) Joint ventures

The Group Financial Statements 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.

(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 basis 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.

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

1. Accounting policies continued

(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 payments 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.

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 reassesses 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 and bank borrowings.

1. Accounting policies continued

(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.

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 receivables 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 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.

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

1. Accounting policies continued

(20) Treasury continued

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 the 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.

(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 two 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

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 prior 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.

(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.

1. Accounting policies continued

(25) Changes in accounting policies

The Group has not applied any new standards or amendments for the annual reporting period commencing 28 August 2022.

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;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12; and
- Lease Liability in a Sale and Leaseback – IFRS 16 Leases.

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 segment's 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 23,000 retailers across England and Wales.

Dawson Media Direct (DMD)

Supplies newspapers, magazines and inflight entertainment to airlines and travel points worldwide.

Instore

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

Other businesses

A number of ancillary businesses 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	**2023**	2022
Smiths News	**1,091.9**	1,089.3
Total revenue from contracts with customers	**1,091.9**	1,089.3

The Company's revenue by geographical location is UK 99.8% (2022: 99.9%) and Rest of World 0.2% (2022: 0.1%).

Information about major customers

Included in revenues arising from Smiths News are revenues of approximately £99.5m (2022: £102.5m) which arose from sales to the Group's largest customer. Three other customers contributed 13.1% or more of the Group's revenue in 2023 (2022: 13.3%).

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

3. Operating profit
The Group's results are analysed as follows:

£m	Note	2023 Adjusted	2023 Adjusting items	2023 Total	2022 Adjusted	2022 Adjusting items	2022 Total
Revenue		**1,091.9**	**–**	**1,091.9**	1,089.3	–	1,089.3
Cost of inventories recognised as an expense		**(926.5)**	**–**	**(926.5)**	(921.3)	–	(921.3)
Distribution costs		**(92.9)**	**–**	**(92.9)**	(95.3)	–	(95.3)
Cost of sales		**(1,019.4)**	**–**	**(1,019.4)**	(1,016.6)	–	(1,016.6)
Gross profit		**72.5**	**–**	**72.5**	72.7	–	72.7
Other administrative expenses		**(23.4)**	**(0.5)**	**(23.9)**	(23.3)	(2.5)	(25.8)
Share-based payment expense	28	**(1.1)**	**–**	**(1.1)**	(1.2)	–	(1.2)
Net impairment loss on trade receivables		**(0.1)**	**–**	**(0.1)**	–	(4.4)	(4.4)
Impairment reversal of joint venture investment		**–**	**–**	**–**	–	1.2	1.2
Other income		**–**	**–**	**–**	0.1	–	0.1
Share of profits from joint ventures	13	**0.1**	**–**	**0.1**	0.3	–	0.3
EBITDA		**48.0**	**(0.5)**	**47.5**	48.6	(5.7)	42.9
Depreciation on property, plant and equipment	12	**(2.2)**	**–**	**(2.2)**	(2.3)	–	(2.3)
Depreciation on right-of-use assets	19	**(6.4)**	**–**	**(6.4)**	(6.9)	–	(6.9)
Amortisation of intangibles	11	**(0.6)**	**–**	**(0.6)**	(1.3)	–	(1.3)
Operating profit		**38.8**	**(0.5)**	**38.3**	38.1	(5.7)	32.4

Operating profit is stated after charging/(crediting):

£m	Note	2023 Total	2022 Total
Depreciation on property, plant and equipment	12	**2.2**	2.3
Amortisation of intangible assets	11	**0.6**	1.3
Depreciation on right-of-use assets	19	**6.4**	6.9
Short-term and low-value lease charges on equipment and vehicles		**0.4**	0.3
Lease rental income – land and buildings		**(0.4)**	(0.4)
Staff costs (excluding share-based payments)	5	**44.1**	43.7

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	2023	2022
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**	0.4
Total non-audit fees	**0.1**	0.1
Total fees	**0.7**	0.7

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on page 88.

4. Adjusting items

£m		2023	2022
Aborted acquisition costs	(a)	**(0.6)**	–
Tuffnells provision	(b)	**(0.4)**	–
Network and reorganisation credits	(c)	**0.5**	0.2
Pension	(d)	**–**	(1.8)
Transformation programme planning costs	(e)	**–**	(0.9)
Administrative expenses		**(0.5)**	(2.5)
Net impairment loss on trade receivables	(f)	**–**	(4.4)
Asset impairment reversal/(charge)	(g)	**–**	1.2
Total before tax and interest		**(0.5)**	(5.7)
Finance income – unwind of deferred consideration	(h)	**–**	2.5
Total before tax		**(0.5)**	(3.2)
Taxation		**–**	0.9
Total after taxation		**(0.5)**	(2.3)

The Group incurred a total of £0.5m (2022: £3.2m) of adjusting items before tax and £0.5m (2022: £2.3m) after tax respectively. All adjusting items relate to continuing operations.

Adjusting items are defined in the accounting policies in Note 1 and in the Glossary on page 174. In the directors' opinion, 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:

Administrative expenses £0.5m (2022: £2.5m)

(a) Aborted acquisition costs: £0.6m (2022: £nil)

During the period the Company incurred due diligence and legal costs associated with an aborted acquisition. The cash impact of these items was an outflow of £0.6m (2022: £nil).

(b) Tuffnells provision: £0.4m (2022: £nil)

As part of the sale of Tuffnells Parcels Express Limited (Tuffnells) in May 2020, a contractual agreement was put in place in respect of the future treatment and responsibility of certain insurance claims brought or notified to insurers. This agreement extinguished the Group's exposure to new accident and insurance claims brought after the sale of Tuffnells but which related to the Group's period of ownership of Tuffnells up to May 2020. However, as a result of Tuffnells falling into administration in June 2023, the enforceability of, and subsequent recoverability under, this contractual agreement has been negatively impacted and the Company's insurers have looked to the Company to stand behind the excess/deductible limit of such claims.

Costs of £0.4m were incurred to increase the existing insurance provisions, which represents a best estimate of claims brought in relation to the period in which Tuffnells was part of the Group and that therefore are now probable to be paid by the Group as a result. The cash impact of utilisations on existing claims was a £0.2m outflow (2022: £0.5m, presented as discontinued operations).

(c) Network and reorganisation: £0.5m credit (2022: £0.2m credit)

During the period, there has been a reversal of accrued amounts of £0.6m relating to projects in connection with our outsourced Shared Service Centre (SSC) in India, where accrued costs relating to overheads on projects will no longer materialise. These amounts have been released to the income statement. The projects were concluded in 2022. This is partially offset by £0.1m of costs incurred in respect of simplifying the DMD group structure.

During the prior period, the Company restructured its support functions and put in place a reorganisation provision. This arose in 2021 as a result of the disposal of the Tuffnells business in May 2020, and subsequent lockdowns associated with the COVID-19 pandemic. The Company has released £0.2m of this provision in the prior period.

The cash impact of network and reorganisation was a £0.2m outflow (2022: £0.1m).

(d) Pensions: £nil (2022: £1.8m)

In the prior period the Trust completed the wind-up of the News Section of the WH Smith 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 GMP equalisation 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 were 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 in the prior period was a £7.9m inflow. An £8.1m inflow was received in the prior period from the return of the pension surplus, less a net £0.2m outflow in respect of the insurance run-off cover; see Note 24 for further details.

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

4. Adjusting items continued

Administrative expenses £0.5m (2022: £2.5m) continued

(e) Transformation programme planning costs: £nil (2022: £0.9m)

During the prior 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 £nil (2022: outflow of £1.3m); see Note 24 for further details.

(f) Net impairment loss on trade receivables: £nil (2022: loss of £4.4m)

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 latest issued notification from the administrators on 8 June 2023 states that unsecured creditors can be expected to receive between 20-50% of approved claims, previously 20-40%. Management has maintained a best estimate that only 20% of the outstanding balance is recoverable and that the level of provision in place is adequate. The Company has therefore maintained a net impairment loss of £4.4m, representing 80% of the total balance of £5.5m in the current financial period.

The Company continues to trade with McColl's as acquired by Wm Morrison Supermarkets Ltd (Morrisons) under a pre-packaged insolvency agreement with the administrator. 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 it is significant in nature and quantum, is considered a non-underlying item, outside the normal course of activity and aids 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.

(g) Asset impairment: Impairment reversal £nil (2022: £1.2m)

During the prior 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 had 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. During the current period, no further impairment charge or reversal has been recognised.

The Group considers the impact of the above to be adjusting given the impairment charges were significant in both quantum and nature to the results of the Group.

(h) Finance income deferred consideration £nil (2022: £2.5m credit)

During the prior period, £2.5m has been recognised in finance income 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 that was then received. The deferred consideration relates to the disposal of Tuffnells that took place in May 2020 and for that reason has been classified as adjusting because it does not relate to the Group's ordinary activities.

5. Staff costs and employees

(a) Staff costs

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

£m	Note	2023	2022
Wages and salaries		**39.2**	39.2
Social security		**3.7**	3.4
Pension costs	6	**1.2**	1.1
Share-based payments expense		**1.1**	1.2
Total		**45.2**	44.9

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	2023	2022
Operations	**1,368**	1,425
Support functions	**140**	149
Total	**1,508**	1,574

6. Retirement benefit obligation

Defined contribution schemes

The Group operates two defined contribution schemes. For the 52 weeks ended 26 August 2023, contributions from the respective employing company for continuing operations totalled £1.2m (2022: £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.

Defined benefit pension schemes

During the prior period, the Group operated one defined benefit scheme, the News Section of the WH Smith Pension Trust (the 'Pension Trust').

On 25 February 2022 the scheme was wound-up with a Deed of Termination being signed by the Company and the Trustee at that date.

In the prior period to February 2022, £14.8m was recognised through other comprehensive income after the previously unrecognised IAS 19 pension asset was received in cash, net of £5.1m tax and administrative expenses of £1.6m.

An asset was not previously recognised as the Company did not have an unconditional right to the surplus and, therefore, the surplus in the scheme was restricted with an IFRIC 14 asset ceiling. This was reversed during the prior financial period, enabling the Company to receive the sum of £8.1m (net of tax and costs) following finalisation of the buy-out of the defined benefit liabilities in the News Section of the Pension Trust.

The return of the surplus preceded the formal winding up steps of the News Section, the winding up of the News Section being formally completed during the prior year on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC.

A summary of the movements in the net balance sheet asset/(liability) and amounts recognised in the Company income statement and other comprehensive income in the prior period 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 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 27 August 2022	**–**	**–**	**–**	**–**
At 26 August 2023	**–**	**–**	**–**	**–**

On winding up of the News Section of the Pension Trust, the Company has agreed run-off indemnity coverage for any member claims that are uninsured liabilities capped at £6.5m over the following 60 years.

7. Finance costs

£m	Note	2023	2022
Interest on bank overdrafts and loans		**(3.9)**	(3.5)
Amortisation of loan arrangement fees		**(1.1)**	(1.7)
Interest payable on leases		**(1.4)**	(1.6)
Total interest cost on financial liabilities at amortised cost		**(6.4)**	(6.8)
Unwinding of discount on provisions – trading	21	**(0.1)**	(0.2)
Finance costs		**(6.5)**	(7.0)
Interest income on loans and deferred consideration	4	**–**	2.5
Net finance costs		**(6.5)**	(4.5)

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

8. Income tax expense

£m	2023 Adjusted	2023 Adjusting items	2023 Total	2022 Adjusted	2022 Adjusting items	2022 Total
Current tax	**6.5**	**–**	**6.5**	5.7	(0.9)	4.8
Adjustment in respect of prior year	**0.2**	**–**	**0.2**	(0.8)	–	(0.8)
Total current tax charge/(credit)	**6.7**	**–**	**6.7**	4.9	(0.9)	4.0
Deferred tax – current year	**0.5**	**–**	**0.5**	(0.3)	–	(0.3)
Deferred tax – prior year	**(0.4)**	**–**	**(0.4)**	0.6	–	0.6
Deferred tax – impact of rate change	**(0.1)**	**–**	**(0.1)**	0.2	–	0.2
Total tax charge/(credit)	**6.7**	**–**	**6.7**	5.4	(0.9)	4.5
Effective tax rate	***20.7%***		***21.1%***	*17.4%*		*16.1%*

The effective adjusted income tax rate in the year was 20.7% (2022: 17.4%). After the impact of Adjusting items of £nil (2022: £0.9m), the effective statutory income tax rate was 21.1% (2022: 16.1%).

Corporation tax is calculated at the main rate of UK corporation tax, being a blended rate of 21.5% (2022: 19.0%). The UK Finance Act 2021 increased the corporation tax rate to 25% effective from 1 April 2023 and in the current period this results in a blended rate. 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	2023	2022
Profit before tax	**31.8**	27.9
Tax on profit at the standard rate of UK corporation tax 21.5% (2022: 19.0%)	**6.8**	5.3
Income not subject to tax	**0.1**	(1.0)
Expenses not deductible for tax purposes	**0.1**	0.2
Adjustment in respect of prior years	**(0.2)**	(0.2)
Impact of change in UK tax rate	**(0.1)**	0.2
Tax charge	**6.7**	4.5

Income not subject to tax in the prior period comprised mainly the tax effect of the Tuffnells discount unwind.

Amounts recognised directly in equity

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 credited/(charged) to equity was as follows:

£m	2023	2022
Current tax: share-based payments	**–**	(0.1)
Deferred tax assets: share-based payments	**0.6**	(0.2)

9. Dividends

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

Paid and proposed dividends for the year	2023 Per share	2022 Per share	2023 £m	2022 £m
Interim dividend – paid	**1.40p**	1.40p	**3.3**	3.3
Final dividend – proposed	**2.75p**	2.75p	**6.7**	6.7
	4.15p	4.15p	**10.0**	10.0
Recognised dividends for the year				
Final dividend – prior year	**2.75p**	1.15p	**6.5**	2.8
Interim dividend – current year	**1.40p**	1.40p	**3.3**	3.3
	4.15p	2.55p	**9.8**	6.1

A final 2.75p dividend per share is proposed for the 52 weeks ended 26 August 2023 (2022: 2.75p), which is expected to be paid on 8 February 2024 to all shareholders who are on the register of members at close of business on 12 January 2024. The ex-dividend date will be 11 January 2024.

10. Earnings per share

	2023			2022		
	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)		**(10.4)**			(9.2)	
Basic earnings per share (EPS)						
Adjusted earnings attributable to ordinary shareholders	**25.6**	**237.3**	**10.8**	25.7	238.5	10.8
Adjusting items	**(0.5)**	**–**	**–**	(2.3)	–	–
Earnings attributable to ordinary shareholders	**25.1**	**237.3**	**10.6**	23.4	238.5	9.8
Diluted earnings per share (EPS)						
Effect of dilutive share options		**12.6**			13.5	
Diluted adjusted EPS	**25.6**	**249.9**	**10.2**	25.7	252.0	10.2
Diluted EPS	**25.1**	**249.9**	**10.0**	23.4	252.0	9.3

Dilutive shares increase the basic number of shares at 26 August 2023 by 12.6m to 249.9m (27 August 2022: 252m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 12.6m dilutive shares (27 August 2022: 13.5m). All earnings relate to continuing operations.

11. Intangible assets

		Acquired intangibles				
£m	Goodwill	Customer relationships	Trade name	Internally generated development costs	Computer software costs	Total
Cost:						
At 27 August 2022	5.7	2.4	0.2	3.2	7.4	18.9
Additions	–	–	–	0.5	0.3	0.8
Disposals	–	–	–	(1.9)	(4.9)	(6.8)
At 26 August 2023	**5.7**	**2.4**	**0.2**	**1.8**	**2.8**	**12.9**
Accumulated amortisation and impairment:						
At 27 August 2022	(5.7)	(2.4)	(0.2)	(2.1)	(6.8)	(17.2)
Amortisation charge	–	–	–	(0.2)	(0.4)	(0.6)
Disposals	–	–	–	1.9	4.9	6.8
At 26 August 2023	**(5.7)**	**(2.4)**	**(0.2)**	**(0.4)**	**(2.3)**	**(11.0)**
Net book value at 26 August 2023	**–**	**–**	**–**	**1.4**	**0.5**	**1.9**
Cost:						
At 29 August 2021	5.7	2.4	0.2	2.7	7.2	18.2
Additions	–	–	–	0.5	0.2	0.7
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)
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

Impairment of goodwill

Goodwill is not amortised but has been reviewed annually for impairment. As a result of these reviews goodwill is fully impaired at the end of 2023 and 2022.

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

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 27 August 2022	0.2	10.5	3.0	23.0	36.7
Additions	–	1.0	0.9	0.5	2.4
Disposals	–	(2.3)	(0.4)	(6.5)	(9.2)
At 26 August 2023	**0.2**	**9.2**	**3.5**	**17.0**	**29.9**
Accumulated depreciation:					
At 27 August 2022	(0.2)	(8.7)	(1.8)	(17.4)	(28.1)
Depreciation charge	–	(0.4)	(0.5)	(1.3)	(2.2)
Disposals	–	2.3	0.6	6.3	9.2
At 26 August 2023	**(0.2)**	**(6.8)**	**(1.7)**	**(12.4)**	**(21.1)**
Net book value at 26 August 2023	**–**	**2.4**	**1.6**	**4.8**	**8.8**
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

13. Interests in joint ventures

£m	2023	2022
At 28/27 August	**4.2**	2.9
Additions	**0.3**	–
Share of profit	**0.1**	0.3
Impairment reversal	**–**	1.2
Dividends received	**(0.2)**	(0.2)
At 26/27 August	**4.4**	4.2

The joint ventures listed below have share capital consisting solely of ordinary shares, which are held directly by the Group.

13. Interests in joint ventures continued

Nature of investments in joint ventures

Company name/(number)	Share class	Group %	Registered address	Measurement method
Rascal Solutions Limited 05191277	Ordinary A Shares	50%	Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF	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
Fresh On The Go Limited 08775703	Ordinary Shares	30%	61 Bridge Street, Kington, HR5 3DJ	Equity method
Lucid Digital Magazines Limited t/a LoveMedia 12738320	Ordinary Shares	50%	Rowan House Cherry Orchard North, Kembrey Park, Swindon, England, SN2 8UH	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.

During the period, the Group purchased 50% of the ordinary shares in Lucid Digital Magazines Limited t/a LoveMedia, a company incorporated in England. LoveMedia provides single use downloads of newspapers and magazines to consumers.

The Group has also provided a working capital loan of £0.3m to LoveMedia, which is presented within other debtors. There are no other commitments relating to its joint ventures.

All joint ventures are private companies and there is no quoted market price available for their shares.

Dividends of £0.2m (2022: £0.2m) were received in the 52 weeks to 26 August 2023 from joint ventures.

Rascal Solutions Limited investment

During the period Rascal Solutions Limited (Rascal) recorded a profit of £0.5m (2022: £0.6m). The Group holds £4.2m on the balance sheet comprising a £1.8m (2022: £1.8m) share of net assets and £2.4m (2022: £2.4m) of goodwill. 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.

During the prior period, the Company reviewed the business plan for the Rascal Joint Venture and it was determined that the potential challenges anticipated to arise in 2021 had not materialised, with the successful renewal of contracts previously considered to be at risk. The Company reversed the impairment previously booked by £1.2m.

The current period impairment review was performed, resulting in a value in use of £4.3m being calculated based on future cash flows of the Rascal business. These cash flows were discounted at a post-tax discount rate of 13.6% and a pre-tax discount rate of 18.1% (2022: 13.0% post-tax discount rate and pre-tax discount rate of 15.2%) and a terminal growth rate applied of 0% (2022: 0%). As a result, there was no further adjustment (2022: reversal of £1.2m impairment loss) to the carrying value of the investment in the Rascal Joint Venture in the current period.

Sensitivities to assumptions

If the post-tax discount rate had been increased by 1.0%, there would be an impairment of £0.2m, and if the post-tax discount rate had been reduced by 1.0%, there would be headroom of £0.4m.

14. Inventories

£m	2023	2022
Goods held for resale	**17.5**	15.5
Raw materials and consumables	**0.2**	0.1
Inventories	**17.7**	15.6

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

15. Trade and other receivables

£m	2023	2022
Trade receivables	**73.5**	69.0
Specific provision for doubtful debts[1]	**(4.4)**	(4.4)
Provision for expected credit losses	**(0.1)**	(0.1)
	69.0	64.5
Other debtors	**29.4**	28.6
Prepayments	**1.1**	1.0
Accrued income	**1.6**	1.6
Trade and other receivables	**101.1**	95.7

(1) Net impairment loss on trade receivables – McColl's Retail Group

During the prior period, the Company received notice that McColl's Retail Group had gone into administration. A statement of claim was filed with the administrators for an amount of £5.5m. The latest notification issued from the administrators on 8 June 2023 states that unsecured creditors can be expected to receive between 20-50% of approved claims, previously 20-40%. Management has maintained a best estimate that only 20% of the outstanding balance is recoverable. The Company has therefore maintained a net impairment loss of £4.4m (2022: £4.4m), representing 80% of the total balance of £5.5m in the current and prior period. For more information see Note 4.

The net impairment loss of £4.4m (2022: £4.4m) has been allocated to the 91-120 days overdue ageing bucket (2022: £1.3m to 61-90 days, £3.0m to 90-120 days), matching the ageing profile of the £5.5m total receivable due.

If the Company had considered 50% (2022: 40%) of the total balance of £5.5m to be recoverable in line with the upper range of the administrator's estimate, the provision recognised would have been £2.8m (2022: £3.3m), allocated to the 91-120 days overdue ageing bucket (2022: £1.0m to 61-90 days, £2.3m to 91-120 days).

Trade receivables

The average credit period taken on sale is 27 days (2022: 23 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 26 August 2023 under IFRS 9:

	2023				2022			
£m	Gross carrying amount	Specific provision for doubtful debts	Loss allowance	Net carrying amount	Gross carrying amount	Specific provision for doubtful debts	Loss allowance	Net carrying amount
Current (not overdue)	**67.8**	**–**	**(0.1)**	**67.7**	63.0	–	(0.1)	62.9
30-60 days overdue	**–**	**–**	**–**	**–**	0.2	–	–	0.2
61-90 days overdue	**–**	**–**	**–**	**–**	2.0	(1.4)	–	0.6
91-120 days overdue	**0.2**	**–**	**–**	**0.2**	3.8	(3.0)	–	0.8
Over 120 days overdue	**5.5**	**(4.4)**	**–**	**1.1**	–	–	–	–
	73.5	**(4.4)**	**(0.1)**	**69.0**	69.0	(4.4)	(0.1)	64.5

The following table provides information about the Group's loss rates applied against customer balances as at 26 August 2023 under IFRS 9:

%	2023	2022
Current (not overdue)	**<0.1**	0.1
30-60 days overdue	**<0.1**	–
61-90 days overdue	**<0.1**	1.2
91-120 days overdue	**<0.1**	0.1
Over 120 days overdue	**80.0**	0.1

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

- three customers (2022: two) had individual balances that represented more than 10% of the total trade receivables balance. The total of these was £30.3m (2022: £16.9m); and
- a further two customers (2022: three) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £9.0m (2022: £15.6m).

15. Trade and other receivables continued

Trade receivables continued

Movement in the allowance for doubtful debts:

£m	2023	2022
At 28/29 August	**4.5**	0.1
Impairment losses recognised	**0.1**	4.4
Amounts written off as uncollectible	**(0.1)**	–
At 26/27 August	**4.5**	4.5

The directors consider that the carrying amount of trade and other receivables approximates their fair value which is considered to be a level 2 methodology of valuing them. 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 losses in respect of McColl's Retail Group) and should the default rate change from expected:

- An increase in default rate by 2% would increase the expected credit loss by £1.3m.
- 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 £3.3m.
- A decrease in default rate would result in no credit losses.

Other debtors and prepayments

The largest items included within this balance are returns reserve asset of £16.8m (2022: £18.3m) (refer to Note 1, section 7) and £9.8m (2022: £7.9m) of publisher debtors.

16. Trade and other payables

£m	2023	2022
Trade payables	**(101.0)**	(98.6)
Other creditors	**(34.0)**	(35.1)
Accruals	**(6.4)**	(6.5)
Deferred income	**(0.1)**	(0.1)
	(141.5)	(140.3)

Included within other creditors is a balance of £19.7m (2022: £21.6m) relating to the returns reserve accrual. (Refer to Note 1, 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 32 days (2022: 31 days). No interest is charged on trade payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value using a level 2 valuation.

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

17. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2023	2022
Cash and bank deposits	36.2	0.7	0.3	0.1	**37.3**	35.3
Net cash and cash equivalents	36.2	0.7	0.3	0.1	**37.3**	35.3
Term loan – disclosed within current liabilities	(10.0)	–	–	–	**(10.0)**	(8.0)
Term loan – disclosed within non-current liabilities	(31.5)	–	–	–	**(31.5)**	(41.5)
Unamortised arrangement fees – disclosed within non-current liabilities	1.3	–	–	–	**1.3**	2.4
Total borrowings	(40.2)	–	–	–	**(40.2)**	(47.1)
Net borrowings	(4.0)	0.7	0.3	0.1	**(2.9)**	(11.8)
Total borrowings						
Amount due for settlement within 12 months	(10.0)	–	–	–	**(10.0)**	(8.0)
Amount due for settlement after 12 months	(30.2)	–	–	–	**(30.2)**	(39.1)
	(40.2)	–	–	–	**(40.2)**	(47.1)

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 a final maturity date of 31 August 2025. The facility comprised an initial £60 million amortising term loan (Facility A) and a £30 million revolving credit facility (RCF). The agreement is with a syndicate of banks comprising lenders HSBC, Barclays, Santander and Clydesdale Bank.

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; repayments of £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 £41.5m. The RCF was £22.5m at year end and will reduce 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% per annum over SONIA (in respect of Facility A and the RCF).

At 26 August 2023, the Company had £22.5m (2022: £30.0m) of fully undrawn committed borrowing and cash facilities in respect of which all conditions precedent had been met. This is partially reduced by letters of credit of £1.5m (2022: £2.4m); further details are included in Note 22.

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	28 August 2022	Financing cash flows	New leases	Disposals	Other changes	26 August 2023
Term loan	18	47.1	(11.9)	–	–	5.0	**40.2**
Leases		27.6	(7.5)	1.7	–	1.4	**23.2**
Total		**74.7**	**(19.4)**	**1.7**	**–**	**6.4**	**63.4**

£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
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**

Other changes include interest accruals and the amortisation of loan fees.

17. Cash and borrowings continued

Analysis of net debt

£m	Note	2023	2022
Cash and cash equivalents	18	**37.3**	35.3
Current borrowings	18	**(10.0)**	(8.0)
Non-current borrowings	18	**(30.2)**	(39.1)
Net borrowings		**(2.9)**	(11.8)
Lease liabilities	20	**(23.2)**	(27.6)
Net debt		**(26.1)**	(39.4)

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 17 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 net debt to EBITDA (ex. IFRS 16), fixed charge cover and interest cover under the terms of the banking 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 cap on dividends of £10.0m under the 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 1x by 2023, with repayment achieved through surplus free cash from operations. The Group's facilities include a 'frozen GAAP' clause in relation to IAS 17 and net debt: EBITDA is stated on this basis.

Liquidity risk

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

As at 26 August 2023, the Group had £64.0m committed bank facilities in place (2022: £79.5m). Bank facilities comprised:

- £41.5m amortising term loan (Facility A); and
- £22.5m revolving credit facility (RCF)

which together expire on 31 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 1.75x, reducing to 1.5x at 24 February 2024. At 26 August 2023 the ratio was 0.1x (2022: 0.3x);
- Interest cover – the consolidated net interest: adjusted EBITDA ratio which must remain above 4.0x. As at 26 August 2023 the ratio was 10.5x (2022: 12.0x);
- Fixed charge cover – the ratio of adjusted EBITDA (less rental charges) to consolidated fixed charges is not less than 2.0x. As at 26 August 2023 the ratio was 4.0x (2022: 4.3x); and
- Guarantor cover – the annual turnover, gross assets and pre-tax profits of the guarantors under the banking facilities contribute, at any time, 90% 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 Smiths News plc, comprise Smiths News plc, Smiths News Holdings Limited, and Smiths News Trading Limited.

At 26 August 2023, the Group had available £21.0m (2022: £27.7m) of undrawn committed borrowing facilities comprising the £22.5m (2022: £30.0m) RCF above less letters of credit of £1.5m (2022: £2.4m); further details are included in Note 22. 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 borrowing for the past year was £45.4m (2022: £62.3m). The Group has available funding via the undrawn RCF.

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18. Financial instruments continued

Liquidity risk continued

The following is an analysis of the undiscounted contractual cash flows payable under non-derivative financial liabilities. 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 26 August 2023				
Bank and other borrowings	(10.0)	(10.0)	(21.5)	–
Trade and other payables	(141.5)	–	–	–
Leases	(6.1)	(5.1)	(4.4)	(12.0)
Total	**(157.6)**	**(15.1)**	**(25.9)**	**(12.0)**
At 27 August 2022				
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)**

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 (2022: £0.6m) 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 26 August 2023 would decrease/increase by £0.2m (2022: £0.2m).

Credit risk

The Group considers its exposure to credit risk at 26 August 2023 to be as follows:

£m	2023	2022
Bank deposits	**37.3**	35.3
Trade and other receivables	**98.4**	93.1
	135.7	128.4

Further detail on the Group's policy relating to trade receivables and other receivables can be found in Note 15.

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 28 August 2022	1.7	42.1	43.8
Additions	0.3	1.4	1.7
Disposals	–	(5.1)	(5.1)
At 26 August 2023	**2.0**	**38.4**	**40.4**
Accumulated depreciation:			
At 28 August 2022	(1.0)	(16.5)	(17.5)
Depreciation charge	(0.4)	(6.0)	(6.4)
Disposals	–	5.3	5.3
At 26 August 2023	**(1.4)**	**(17.2)**	**(18.6)**
Net book value at 26 August 2023	**0.6**	**21.2**	**21.8**
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

Lease commitments

The Company has the following lease commitments:

	2023	2022
Due within one year	**4.9**	5.9
Due in more than one year, but no more than five years	**13.3**	15.2
Due in more than five years	**5.0**	6.5
Total lease commitments	**23.2**	27.6

Amounts recognised in the income statement

£m	**2023**	2022
Interest expense (included in finance cost)	**1.4**	1.6
Expense relating to low-value leases (included in cost of sales and administrative expenses)	**0.4**	0.3
Property rental income	**(0.4)**	(0.4)
Total cash outflow from leases	**6.5**	6.6

£m	**2023**	2022
Lease liabilities		
Current	**(4.9)**	(5.9)
Non-current	**(18.3)**	(21.7)
Total	**(23.2)**	(27.6)

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

20. Deferred tax
Deferred tax assets are attributable to the following:

£m	Fixed assets	Share-based payments	Other temporary differences	Total
At 28 August 2022	0.6	0.5	–	1.1
(Charge)/credit to income	(0.2)	(0.1)	0.3	–
Charge to equity	–	0.6	–	0.6
At 26 August 2023	**0.4**	**1.0**	**0.3**	**1.7**
Deferred tax assets	0.4	1.0	0.3	1.7
At 29 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

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. There were no deferred tax liabilities recognised in either reporting period.

The Group has capital losses carried forward of £20.2m (2022: £20.2m). Deferred tax assets of £5.1m (2022: £5.1m) 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 corporation 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 provisions	Property provisions	Total
At 28 August 2022	(0.5)	(0.9)	(0.6)	(4.4)	(6.4)
Charged to income statement	–	(0.7)	(0.4)	(0.4)	(1.5)
Credited to income statement	0.4	0.3	–	–	0.7
Utilised in period	0.1	0.3	0.2	–	0.6
Unwinding of discount utilisation	–	–	–	(0.1)	(0.1)
At 26 August 2023	**–**	**(1.0)**	**(0.8)**	**(4.9)**	**(6.7)**
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)

£m	2023	2022
Included within current liabilities	**(2.5)**	(3.0)
Included within non-current liabilities	**(4.2)**	(3.4)
Total	**(6.7)**	(6.4)

21. Provisions continued

Included within non-current liabilities is £4.2m (2022: £3.4m) relating to real estate property provisions.

Reorganisation provisions of £1.0m (2022: £0.9m) relates to the restructure of the DMD business, the Smiths News network and the Group's support functions, with new programmes announced during the period.

Insurance and 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 £0.8m (2022: £0.6m) relating to claims from the Tuffnells business prior to disposal.

The property provision represents the estimated future cost of 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 2034, however, a significant portion of the liability falls within ten years.

The Group has performed sensitivity analysis on the property provision using the possible scenarios below:

If the discount rate changes by +/- 0.5%, the property provision would change by +/- £0.1m (2022: +/- £0.1m).

If the repair cost per square foot changes by +/- £1.00p, the property provision would change by +/- £0.4m (2022: +/- £0.3m).

22. Contingent liabilities and capital commitments

£m	2023	2022
Bank and other guarantees	**1.5**	2.4

As reported in Note 4(b), following the administration of Tuffnells Parcels Express Limited (Tuffnells) in June 2023 a provision of £0.4m has been made in light of the probable outcome of certain insurance claims reverting to the Group which were previously being handled by Tuffnells. The Board has considered the administration and other associated processes in respect of Tuffnells and is not currently aware of any further provision which may be required.

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 in 2006, 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 26 August 2023 of £0.5m (2022: £0.5m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to £nil (2022: £nil).

As at 26 August 2023, the Group had approved letters of credit of £1.5m (2022: £2.4m) 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 WH Smith Pension Trust defined benefit pension scheme in December 2021, the Company has agreed run-off indemnity coverage for any member claims that were uninsured liabilities capped at £6.5m over the following 60 years. The Group is not aware of any claims brought during either the current or prior reporting period.

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	2023	2022
Within one year	**0.2**	0.2
In the second to fifth years inclusive	**0.6**	0.3
	0.8	0.5

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

24. Net cash inflow from operating activities

£m	Note	2023	2022
Operating profit	3	**38.3**	32.4
Impairment reversal of investment in joint venture	13	**–**	(1.2)
Share of profits of joint ventures	13	**(0.1)**	(0.3)
Adjustment for pension funding	6	**–**	8.1
Depreciation of property, plant and equipment	12	**2.2**	2.3
Depreciation of right-of-use assets	19	**6.4**	6.9
Amortisation of intangible assets	11	**0.6**	1.3
Share-based payments		**1.1**	1.2
Increase in inventories		**(2.1)**	(2.4)
(Increase)/decrease in receivables		**(5.5)**	1.7
Increase in payables		**1.9**	3.9
Increase/(decrease) in provisions		**0.2**	(0.4)
Non-cash pension costs		**–**	1.6
Income tax paid		**(6.6)**	(5.3)
Net cash inflow from operating activities		**36.4**	49.8
Net cash flow from operating activities is stated after the following adjusting items:	4		
Continuing operations			
Aborted acquisition costs		**(0.6)**	–
Tuffnells provision		**(0.2)**	–
Network and reorganisation and transformation programme planning costs		**(0.2)**	(1.3)
Pension		**–**	(0.2)
Return of pension surplus		**–**	8.1
		(1.0)	6.6
Discontinued operations[1]			
Insurance cost		**–**	(0.5)
		–	(0.5)
Total adjusting items cash flow		**(1.0)**	6.1

1 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. During the current period, cash flows of £0.2m are presented within continuing operations.

25. Share capital

(a) Share capital

£m	2023	2022
Issued, authorised and fully paid:		
247.7m ordinary shares of 5p each (2022: 247.7m)	**12.4**	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 27 August 2022 and at 26 August 2023	**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 26 August 2023 or the period to 27 August 2022.

(c) Share premium

£m	2023	2022
At 27 August 2022 and at 26 August 2023	**60.5**	60.5

26. Reserves

(a) Demerger reserve

£m	2023	2022
At 27 August 2022 and at 26 August 2023	**(280.1)**	(280.1)

This relates to reserves created following the capital reorganisation 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	2023	2022
Balance at 28/29 August	**(4.6)**	(3.9)
Acquired in the period	**(1.7)**	(2.2)
Disposed of on exercise of options	**1.9**	1.5
Balance at 26/27 August	**(4.4)**	(4.6)

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 26 August 2023 was 10,613,896 (2022: 12,084,239). 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	2023	2022
At 27 August 2022 and at 26 August 2023	**0.4**	0.4

27. Retained earnings

	£m
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**
Amounts recognised in total comprehensive expense	25.1
Dividends paid	(9.8)
Disposed of on exercise of options	(1.9)
Equity-settled share-based payments, net of tax	1.5
Deferred tax recognised in equity	0.6
Balance at 26 August 2023	**194.9**

Notes to the Accounts continued
for the 52-week period ended 26 August 2023

28. Share-based payments

The Group recognised a total charge of £1.5m (2022: £1.2m) related to equity-settled share-based payment transactions. The average share price throughout the year was 44.6p (2022: 35.6p).

The Group operates the following share incentive schemes:

Sharesave Scheme	Under the terms of the 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 up to 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 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 tenth anniversary of the date of grant.
LTIP	Under the terms of the 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 tenth anniversary of the date of grant.
Deferred Bonus Plan (DBP)	Under the terms of the 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).

Details of the options/awards are as follows:

	Sharesave		ESOS		LTIP		DBP	
Number of options/awards	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price (p)**	**No of shares**	**Weighted average exercise price (p)**
At 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	(5,964,046)	–	–	–
At 27 Aug 2022*	7,579,083	25.27	1,056,744	126.1	10,893,872	–	1,499,148	–
Granted	1,316,234	55.40	–	–	2,695,499		1,337,604	
Exercised	(264,430)	–	–	–	(2,791,373)		(1,614,771)	
Expired/Forfeited	(670,274)	30.01	(256,294)	137.8	(1,429,910)		–	
At 26 Aug 2023	7,960,613		800,450		9,368,088		1,221,981	
Exercisable at 26 Aug 2023	**–**	**–**	**800,450**	**125.3**	**–**	**–**	**–**	**–**
Exercisable at 27 Aug 2022	–	–	1,056,744	126.1	–	–	–	–

* During the current period, the opening number of options for the LTIP schemes was 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 26 August 2023	**1.4**	**5.2**	**1.2**	**1.5**
Outstanding at 27 August 2022	1.9	5.2	1.2	1.5

28. Share-based payments continued

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

	Sharesave	ESOS	LTIP	DBP
During 2023:				
Effective date of grant or commencement date	Jul 2023	–	Jan 2023	Jan 2023
Average fair value at date of grant or scheme commencement – pence	21.5	–	34.9	50.6
During 2022:				
Effective date of grant or commencement date	Jul 2022	–	Dec 2021	Dec 2020
Average fair value at date of grant or scheme commencement – pence	4.3	–	26.0	38.0

The options outstanding at 26 August 2023 had exercise prices ranging from nil to 139.5p (2022: nil to 167.8p).

The weighted average share price on the date of exercise was 48p (2022: 37p).

The Sharesave options granted during each period have been valued using the Black-Scholes model. The LTIP performance measures include a 70% Total Shareholder Return (TSR) metric which 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.

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

	Sharesave	LTIP	DBP
2023 options/awards:			
Share price at grant date – pence	55.4	51	51
TSR adjustment – pence	–	(23)	–
Exercise price – pence	44.3	–	–
Expected volatility – per cent	121.5	–	–
Expected life – years	3	–	–
Risk free rate – per cent	4.7	–	–
Expected dividend yield – per cent	8.83	–	–
Weighted average fair value – pence	22	28	51
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

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.

Notes to the Accounts continued

for the 52-week period ended 26 August 2023

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	**2023**	2022	**2023**	2022
Joint ventures	**0.4**	0.4	**–**	0.1

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

Non-trading transactions

	Loans to related parties	
£m	**2023**	2022
Joint ventures	**0.3**	0.1

In the prior period, £0.1m of the balances above were 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 prior period. The Chairman of Tuffnells Holdings Limited was also a non-executive director of Smiths News plc and recused himself from all discussions relating to this matter.

Directors' remuneration

£m	**2023**	2022
Salaries	**0.8**	0.9
Bonus	**0.5**	0.6
Non-executive director fees	**0.4**	0.3
	1.7	1.8

Information concerning directors' remuneration, interest in shares and share options is included in the Directors' Remuneration report.

There are two (2022: two) directors to whom retirement benefits are accruing in respect of qualifying services under money purchase schemes.

Directors made gains on share options of £nil (2022: £nil).

Key management personnel (including directors)

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

£m	**2023**	2022
Short-term employee benefits	**2.9**	2.8
Share-based payments	**1.0**	1.1
	3.9	3.9

31. Subsidiary and associated undertakings

The table below summarises the interests of the Group as at 26 August 2023:

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%			
Germany					
Dawson Media Direct GmbH HRB 96649	Ordinary Shares	100%	Johannstr. 39 40476 Dusseldorf, Germany		
Turkey					
Dawson Media Direct Anonim Sirketi 14449	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 Company Limited 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 26 August 2023, 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 26 August 2023. The members of these companies have not required them to obtain an audit of their financial statements for the 52 weeks ended 26 August 2023.

Glossary

Glossary – Alternative performance measures

Introduction

In the reporting of financial information, the directors have adopted various alternative performance measures (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				
Adjusting 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 unrelated to the Group's ordinary activities or 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*	Adjusting 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)	Adjusting 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)	Adjusting 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 adjusting items	Page 54	This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and adjusting items. This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted earnings per share	Earnings per share	Adjusting 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.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Cash flow statement				
Free cash flow	Net movement in cash and cash equivalents	Dividends, acquisitions and disposals, repayment of bank loans, EBT share purchases, pension deficit repair payments	Page 175	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 adjusting items	Note 24	Free cash flow (excluding adjusting items) is free cash flow adding back adjusting 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.

Reconciliation of free cash flow to net movement in cash and cash equivalents

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

£m	2023	2022
Net increase in cash and cash equivalents	**2.0**	16.0
Decrease in borrowings and overdrafts	**8.0**	23.0
Movement in borrowings and cash	**10.0**	39.0
Dividend paid	**9.8**	6.1
Investment in joint venture	**0.3**	–
Outflow for EBT shares	**1.7**	2.6
Continuing free cash flow	**21.8**	47.7
Discontinued free cash flow	**–**	0.5
Total free cash flow	**21.8**	48.2

Reconciliation of bank net debt to reporting net debt

£m	2023	2022
Bank net debt	**(4.2)**	(14.2)
Unamortised arrangement fees (Note 18)	**1.3**	2.4
IFRS 16 lease liabilities (Note 19)	**(23.2)**	(27.6)
Net debt (Note 17)	**(26.1)**	(39.4)

Company Balance Sheet

As at 26 August 2023

£m	Note	2023	2022 Restated*
Fixed assets			
Investments in subsidiary undertakings	3	**383.6**	370.2
Current assets			
Amounts owed by subsidiary undertakings	4	**30.6**	30.6
Total assets		**414.2**	400.8
Creditors: amounts falling due within one year	5	**(219.0)**	(209.2)
Net assets		**195.2**	191.6
Capital and reserves			
Called up share capital	6(a)	**12.4**	12.4
Share premium account	6(c)	**60.5**	60.5
Retained earnings	7	**122.3**	118.7
Total shareholders' funds		**195.2**	191.6

* Comparatives have been restated as detailed in Note 1(e).

The result for the year was profit of £13.4m (2022: a loss of £0.1m).

These accounts were approved by the directors on 7 November 2023.

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 26 August 2023

£m	Share capital	Share premium	Retained earnings	Total
Balance at 29 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**
Profit for the year and total comprehensive income	–	–	13.4	13.4
Dividend paid	–	–	(9.8)	(9.8)
Balance at 26 August 2023	**12.4**	**60.5**	**122.3**	**195.2**

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 been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

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

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

- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cashflows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of 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) Investments 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.

(e) Restatement of comparative information

During the reporting period £30.6m of receivables have been reclassified from creditors falling due within one year to amounts owed by subsidiary undertakings in the balance sheet. Previously this balance was presented net within creditors: amounts falling due within one year which was not compliant with IAS 32, 'Presentation of Financial Instruments' as there is no legally enforceable right to offset the balances due from and to different subsidiary entities.

Comparatives in the balance sheet have been restated as below with no impact to total comprehensive income or net assets.

£m	Published	Adjustment	Restated
Amounts owed by subsidiary undertakings	–	30.6	30.6
Total assets	370.2	30.6	400.8
Creditors: amounts falling due within one year	(178.6)	(30.6)	(209.2)
Net assets	191.6	191.6	191.6

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 £13.4m (2022: loss of £0.1m). There were no other recognised gains or losses. The dividend paid in the year is £9.8m (2022: £6.1m) (refer to Note 9 of the Group Financial Statements).

3. Investments in subsidiary undertakings

£m	2023	2022
Net book value:		
Balance at 28/29 August	**370.2**	370.2
Impairment reversal	**13.4**	–
Balance at 26/27 August	**383.6**	370.2

At 26 August 2023 the carrying value of the Company's investment in subsidiary was £383.6m (2022: £370.2m) with a cumulative impairment provision of £279.3m (2022: £292.7m). At the end of 2023, 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 was 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. The Group's FY2023 result (£39.9m EBITDA ex. IFRS 16) was aligned to the modelled and market expectation (£39.9m) and therefore there was no evidence of a significant change in the Group's current outlook.

As a result of the impairment review, the directors concluded that it was appropriate to reverse the previously recognised impairment by £13.4m representing the modelled estimate of the Group's value in use being higher than the carrying amount of the Company's investment in subsidiary.

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 with ongoing inflationary cost pressures and the change in the first forecast year in respect of corporation tax rate from 22% to 25% due to the increase to 25% being 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 11.6% (2022: 11.1%) for the primary Smiths News CGU. The pre-tax discount rate used for the Smiths News CGU is 15.5% (2022: 14.5%).

The core newspaper and magazine market (and associated revenues) is 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% (2022: 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.

	Terminal growth rate (TGR) %	Post-tax discount rate %	Headroom/ (impairment) £m
Expected case	0%	11.6	13.4
+1% Discount rate	0%	12.6	(3.3)
-1% Discount rate	0%	10.6	33.2
+1% TGR	1%	11.6	26.8
-1% TGR	(1%)	11.6	2.0
Scenario 1	0%	11.6	6.7
Scenario 2	0%	11.6	2.7

Scenario 1 – Assumes magazine revenue and gross margin are reduced by 3%

Scenario 2 – Assumes the Company growth targets are not achieved

Notes to the Company Balance Sheet continued

4. Amounts owed by subsidiary undertakings

£m	2023	2022*
Amounts owed by subsidiary undertakings	30.6	30.6

* Comparatives have been restated as detailed in Note 1(e).

Amounts owed by subsidiary undertakings are repayable on demand, unsecured, non-interest bearing and settled in cash. These amounts are not expected to be settled within the next 12 months.

5. Creditors: amounts falling due within one year

£m	2023	2022*
Amounts owed to subsidiary undertakings	(219.0)	(209.2)

* Comparatives have been restated as detailed in Note 1(e).

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

6. Share capital

(a) Share capital

£m	2023	2022
Issued and fully paid ordinary shares of 5p each		
At 27 August 2022 and at 26 August 2023	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 27 August 2022 and at 26 August 2023	247.7

(c) Share premium

£m	2023	2022
At 27 August 2022 and at 26 August 2023	60.5	60.5

7. Reserves

£m	Retained earnings 2023
At 27 August 2022	118.7
Profit for the period	13.4
Dividend paid	(9.8)
At 26 August 2023	122.3

8. Directors' emoluments and employees

The Company employed four (2022: three) non-executive directors. Smiths News Trading Limited, an indirect subsidiary, pays all remuneration without recharge for all directors and the amounts are disclosed within the Directors' Remuneration report.

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 – Registrars

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 Registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone +44 (0)371 384 2771.[1] For deaf and speech impaired customers, we welcome calls via Relay UK. Please see **www.relayuk.bt.com** for more information.

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 2024 Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Wednesday 31 January 2024 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 2024 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 email 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 Monday 29 January 2024.

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 Registrars. 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 Monday 29 January 2024.

Financial calendar (provisional dates)

Financial year end	26 August 2023
Results announced	8 November 2023
Annual Report published	15 December 2023
FY2023 Final Dividend Record Date	12 January 2024
Annual General Meeting	31 January 2024
FY2023 Final Dividend Payment Date	8 February 2024
Half-year end	24 February 2024
Interim results announced	2 May 2024
Financial year end	31 August 2024
Results announced	7 November 2024

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 $2^{13}/_{81}$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 $22^{6}/_{67}$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 $55^{5}/_{9}$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 $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$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 $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$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 $22^{6}/_{67}$p	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; and 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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