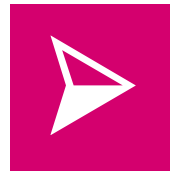




Annual Report and Accounts 2021

Reaching further every day



**Focused
strategy**



**Operational
excellence**



**Sustainable
future**

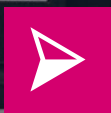


Welcome to our Annual Report and Accounts 2021

**The UK leader in news distribution...
reaching further every day**

Smiths News is the UK's largest newspaper and magazine wholesaler, supporting publishers and retailers for over 225 years.

Every day of the year, we use our experience and expertise to deliver a unique service to thousands of communities across the country.



Focused strategy

We are clear on our direction, with a vision to be the UK's preferred distribution and services provider in the newspaper and magazine market. Drawing on our experience and expertise, we work to secure continual improvement that delivers value for all stakeholders.

Read more on [pages 06 to 15](#)



Operational excellence

We are the experts in our field. Working in an ultra-time sensitive supply chain we deliver a uniquely efficient route to market which adds further value through the provision of information services. Every day of the year, our focus on service ensures we meet the most demanding KPIs for our supply chain partners.

Read more on [pages 16 to 29](#)



Sustainable future

We are committed to a sustainable future – for our business and its people, the customers and communities we serve, and the long-term needs of the planet. With clear targets and ambitious goals, we are working to make a positive difference to all our futures.

Read more on [pages 30 to 39](#)

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For the latest news and information on our Company and its activities please visit our corporate website.

www.corporate.smithsnews.co.uk

More online

At a Glance

Service, scale and value – specialists in news distribution

Smiths News is the UK's largest newspaper and magazine wholesaler, supporting publishers and retailers for over 200 years. Every day of the year, we use our experience and expertise to deliver a unique service to thousands of communities across the UK.

Who we are



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

The Company's strategy is focused on excellence in newspaper and magazine wholesaling, with competitive advantage derived from a combination of service quality, scale efficiencies and value for customers. These 'three essentials' underpin our partnerships with both publishers and retailers, and enable us to deliver sustainable, and relatively predictable, profit and cash flow.

1,603

Employees

24,000

Deliveries before 9:00am everyday

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

What we do



We provide a shared route to market for publishers and retailers with a high quality but low unit-cost service, supporting our communities and consumers across the UK.

Our core market is characterised by:

- high-density, time sensitive distribution
- a fragmented customer base with wide variability in size and location
- capability to manage a complex and fast-moving product range
- a total supply chain service including delivery, returns processing, information management and demand forecasting

This combination of customer and product fragmentation supports the role of an industry specialist and, together with our high levels of efficiency, discourages disintermediation in the supply chain.

55%

Market share

For more information

Non-financial Key Performance Indicators on page 28

Working the right way



With a strong track record of responsible practice, we care about the impact our operations have on the environment, our marketplace, the communities we serve and our people. For many years we have been working to reduce our emissions and lead our supply chain in the adoption of practical solutions.

Looking to the future we have clear Environmental, Social and Governance policies, shaped by the UN Sustainable Development Goals and the Global Reporting Initiative. And we are ambitious to embrace further change and technology in ways that meet the long term needs of all our stakeholders.

Safety is fundamental to our approach, with a commitment to learning from incidents and a culture of constructive challenge that supports continual improvement.



For more information

*Our Approach to Sustainability on page 33
Sustainability Report on page 32*

Our network of 5 super-hubs and 32 satellite depots make over 10,000 delivery runs every day.

Good to know

Supply chain solutions



Combining scale, technology and know-how, we offer a comprehensive supply chain solution, with unmatched service to publishers and retailers. Our market share and geographic coverage provide us with a unique insight into the news industry, enhanced by complementary services that add value for publishers and retailers.

smiths news

Smiths News is the UK's largest news wholesaler, operating from 37 distribution centres and serving 24,000 customers every day of the year. As well as delivering supplies, we collect and recycle returns, forecast future demand and work closely with publishers and retailers to meet the needs of millions of consumers across the UK.



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

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

For more information

Strategy and Business Model on [page 08](#)
Operating Review on [page 18](#)

Delivering value



We are focused on delivering value for all our stakeholders with a commitment to strong investor returns while meeting the investment needs of the network and its support services.

Our business model delivers positive and relatively predictable cash flow, and with close control of capital expenditure we are on track to reduce net debt to 1x EBITDA by the end of FY2023. In parallel, we have adopted a dividend policy that aims to provide investors with growing cash returns in line with our financial progress.

£68.1m

Free cash flow generated
FY2019 to FY2021 inclusive

For more information

Chairman's Statement on [page 04](#)
Chief Executive Officer's Review on [page 12](#)

Strong returns

Total Statutory Revenue £m

£1,109.6m

2021	1,109.6
2020	1,164.5

Adjusted EBITDA (Excluding IFRS 16) £m

£42.6m

2021	42.6
2020	39.1

Adjusted Profit Before Tax £m

£30.9m

2021	30.9
2020	27.9

Statutory Profit Before Tax £m

£30.6m

2021	30.6
2020	14.8

Free Cash Flow £m

£24.0m

2021	24.0
2020	10.9

Bank Net Debt £m

£53.2m

2021	53.2
2020	79.5

Adjusted Earnings per Share	p	Dividend per Share	p
-----------------------------	---	--------------------	---

10.8p

2020: 9.7p

1.5p

2020: Nil

For more information

Financial Key Performance Indicators
on [page 29](#)

Chairman's Statement**After a strong year we are
looking forward with confidence**

At the close of my first full year as Chairman, I'm pleased to report on a year of progress that has seen us meet both our financial expectations and strategic priorities for the period.

Founded in 1792, Smiths News has been delivering newspapers to retailers for over 225 years.

Good to know

Dear Shareholder

At the close of my first full year as Chairman, I'm pleased to report on a year of progress that has seen us meet both our financial expectations and strategic priorities for the period. In what has remained a challenging environment with significant disruption in the wider economy, the foundations we laid last year have been the bedrock of this year's solid performance, allowing us to concentrate on the service and efficiency measures that are the building blocks of our business model. As a consequence, we have also met our capital management goals, strengthened the balance sheet and returned to the payment of regular dividends.

The year in review

Adjusted profit before tax from continuing operations of £30.9m is up by 10.8% (FY2020: £27.9m) and Adjusted earnings per share of 10.8p is up 11.3% (FY2020: 9.7p). Adjusted EBITDA was £42.6m, up 9.0% (FY2020: £39.1m) and free cash flow from continuing operations was £24.0m (FY2020: £10.9m). Statutory profit before tax from continuing operations was £30.6m, up by 106.8% (FY2020: £14.8m) reflecting the underlying strength of the Company's balance sheet, our focus on prudent capital management and close attention to the investment criteria for capital expenditure.

Bank net debt closed the year at £53.2m (FY2020: £79.7m), and though this is flattered by some end of year timing of payments we are on track to reduce bank net debt to 1x EBITDA, ahead of our initial target of the end of FY2023.

That this performance has been achieved in a period of widespread disruption and uncertainty speaks to the resilience of our business model, the expertise and diligence of our people and their control of our critical systems and processes. The restrictions first introduced in March 2020 at the onset of the Coronavirus pandemic required us to adapt, however the operating principles we embraced last year have proved their worth in ensuring a full daily distribution to all the communities we serve, helping sales to recover from the lows of the initial lockdown. As restrictions

eased and volumes recovered, we have been able to maintain many of the new efficiencies that were established, taking long term gains from otherwise challenging circumstances.

The sale of Tuffnells in May 2020 also created an opportunity to simplify our central functions, reducing costs while providing a more focused support for the news wholesaling operations. This strategy has been a great success, driven by a restructuring programme that has reduced overheads but maintained those skills and services which add real value to our physical operation and support our market leadership.

of the retail closures and disruption of the previous period brought on by the onset of the COVID-19 pandemic. Sales in the second half have shown year on year growth of 3.1% following the anniversary of the first and most severe lockdown in March 2020. The recovery is an indicator of the strength in the underlying demand of news and magazine products and gives us confidence in forecasting solid cash flows over the lifetime of our publisher contracts.

Dividends

In this regard, our return to the payment of dividends in July 2021 is consistent with our intent to

retirement earlier this year and will step down from the Board on 30 November 2021 and leave at the end of the calendar year.

Board and colleagues

Meanwhile, I am delighted to welcome Paul Baker to the Board as Tony's successor and am looking forward to drawing on his experience and expertise as we embed the progress made to date. As always, the contributions of my other Board members have been invaluable in steering our course this year; I'm grateful for their insightful counsel. My particular appreciation is due to Jonathan Bunting, who has led the business with great skill, demonstrating a passion that comes from his deep commitment to its people, industry partners and long term performance. And last, but certainly not least, my thanks to the colleagues throughout the Company who have worked so tirelessly to deliver our performance this year.

A positive outlook

As I write this review, we are all hopeful that the worst of the pandemic is behind us and, while mindful that many uncertainties remain, I too am optimistic about the prospects for a wider recovery. Last year I concluded my review by stating that our direction was clear and the actions we were taking were firmly focused on the delivery of value to all our stakeholders. This has not changed and, as the wider economy and social patterns stabilise, we have every opportunity to build on the progress of the last 12 months. I therefore look forward to what I believe will be another successful year ahead.

David Blackwood Chairman

3 November 2021

That this performance has been achieved in a period of widespread disruption and uncertainty speaks to the resilience of our business model.

The focusing of the Company on news wholesaling, and our renaming in November 2021 to Smiths News plc, was an appropriate juncture to refresh our Environmental, Social and Governance goals. Building on much good work that has already been done, we have established a new framework for responsible governance, target and activity setting and progress. The five pillars described in the Sustainability report on pages 34 to 35 will form the basis of realistic but stretching and measurable targets that help us to move forward in a way that shows industry leadership and keeps pace with opportunities and progress in the wider field of physical distribution.

Returning to this year's performance, the newspaper and magazine markets have continued to provide the scale and relative stability of volumes that allow us, through operating efficiencies, to offset the impact of a structural decline in sales. Overall revenue for the year was down by 4.7%, a remarkably resilient performance in the light

ensure the benefits of recovery are shared with shareholders after what had previously been an extremely challenging period. In line with the terms and covenant tests of our banking facilities, the Board has therefore recommended a further and final dividend of 1.0p (FY2020: 0.0p), bringing the total dividend for the year to 1.5p (FY2020: 0.0p). Looking ahead, the Board is committed to the payment of regular dividends and the delivery of attractive returns for shareholders.

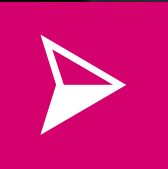
Strong financial performance

Stable finances, underpinned by a strong balance sheet, remain a priority goal. The reduction in our debt, together with improvements in cash and capital management, have been hard won but we are determined to maintain this progress and confident that further improvements can be made. I would like to thank Tony Grace for the outstanding contribution he has made to these achievements during his three years as Chief Financial Officer. Tony announced his

Reaching further every day...

Our mission is to be the UK's preferred distribution and services provider in the newspaper and magazine market. To achieve this, we partner with publishers and retailers, ensuring we deliver a service that is efficient, reliable and early, every morning.

...with a
focused
strategy



Highlights



Contracts secured

We completed the renegotiation of our contracts and now have long term agreements with all the national newspaper and magazine publishers through to at least 2024. This allows us to plan with confidence, investing in service and securing operating efficiencies across our network.

Service maintained

We maintained a full service to all our customers throughout the pandemic, exceeding our performance targets in the most challenging of circumstances. We continue to rank as the leading wholesaler for service as measured by our publisher clients and retail customers.

Restructure and focus

Over the last 18 months we have refocused on our core strengths, simplifying our central support services and delivering long term savings that strengthen our ability to deliver value for all our stakeholders.

Capital management

Our capital management policy seeks to provide attractive returns for shareholders, while meeting the requirements of other stakeholders and the investment needs of the business.

Strategy and Business Model

Expertise, experience and efficiency

Mission

Our mission is to be the UK's preferred distribution and services provider in the newspaper and magazine market. To achieve this, we partner with publishers and retailers, ensuring we deliver a service that is efficient, reliable and early, every morning. With an unwavering commitment to serving our customers, our experience and expertise underpin a uniquely efficient supply chain that supplies thousands of communities across the UK every day of the year.

Strategy

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

Expertise

Our strategy continues to be founded on our leadership and expertise in newspaper and magazine wholesaling. Leveraging our core competencies, we work to secure continual improvement that delivers value for all stakeholders. We have an excellent track record of achieving this and are confident in our ability to continue to do so.

Focus

The simplification of the Company last year, including the sale of Tuffnells in May 2020, has provided an opportunity for a significant reduction in central costs, as well as removing the drag on cash and profitability created by its loss making performance. Much progress has been made and with a leaner operating model, the business is well placed to continue its quest for efficiencies that offset the structural decline in core sales.

Value

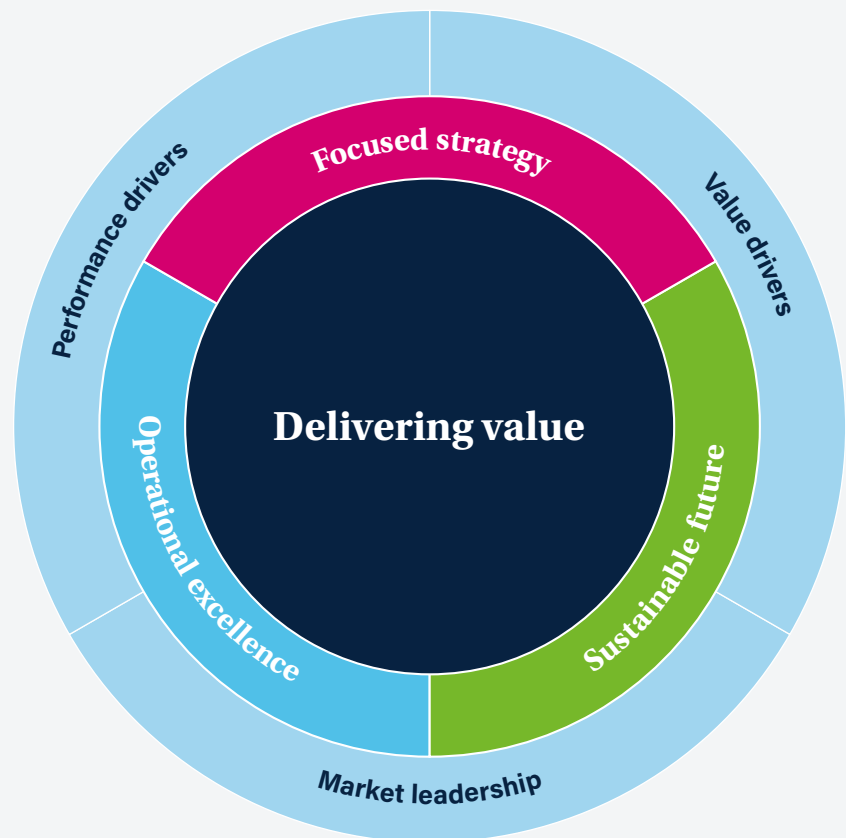
From a financial perspective, we aim to deliver attractive returns to shareholders, underpinned by our long term contracts and relatively predictable cash flows. The Board continues to take a prudent approach to capital management, balancing a priority commitment to reducing net debt with the payment of regular dividends, while continuing to meet the investment needs of the business.

Potential

Our strategy remains open to the medium term potential for opportunities which dovetail with the core skills and infrastructure of Smiths News. We are clear, however, that any such opportunities must meet strict investment criteria that are compatible with our prudent capital management objectives.

Business model

Our business model is underpinned by both the breadth of our operations and the depth of our experience and expertise in news wholesaling.



The UK's newspaper and magazine market remains large and resilient, albeit challenged by a structural decline of sales volumes. To deliver sustainable returns we must therefore find efficiencies to offset the reduced gross margin from our core sales on an annual basis.

In pursuing this task, we are aided by the scale of our operation, together with the relative predictability of our sales and costs. The security afforded by long term contracts further supports long term planning, for the delivery of efficiencies that underpin our profit and cash flow.

Our business model is therefore founded on a combination of performance and value drivers, supported by a commitment to proactive market leadership.

Our strategy and business model underpin our ambition for a more sustainable future for the industry. For more information see Sustainability Report on **pages 32 to 39**

Good to know

Performance drivers

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

Service

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

Efficiency

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

Adjacent services

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

Value drivers

Value drivers are founded on our long term publisher contracts and diversified income streams – these underpin the level of certainty that allows for investment in service and efficiencies. The relative predictability of sales and positive cash flow are further value driving characteristics.

Long term contracts

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

Predictable revenue streams

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

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

Positive cash flow

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

Market leadership

Market leadership at Smiths News is about more than being the UK's largest news wholesaler. We take pride in the service we deliver and strive not only to achieve the best industry standards but also to add value by leading the way in new technology, innovative solutions and responsible practice. From track and trace technology to EPoS based replenishment and automated returns processing, many of what are now industry standard solutions were pioneered and developed by Smiths News.

Network

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

Technology

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

Committed partnerships

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

Stakeholder Engagement (S172 of the Companies Act 2006)

Putting stakeholders at the heart of everything we do

Stakeholder engagement is a priority for the Board, with a view to obtaining a wide range of views and achieving a common understanding of the opportunities and challenges that underpin a long term sustainable business plan.

Engagement typically takes place with stakeholders through both the Board and the Executive Team. Outcomes are reported through to the Board to enable the Board to have a holistic understanding of all stakeholder positions, to balance competing interests and to take into account various views when making decisions. The details of this stakeholder engagement, its outcome and how such engagement influenced the Board's activities are set out in the Corporate Governance report on page 62.

Selective illustrations of the highlights in respect of each stakeholder group are set out on the right.

Shareholders and Funders (including Lenders)



The Board engaged with shareholders following a significant number of dissenting votes at the 2021 AGM. The Board has also overseen the refinancing of the Company in November 2020 and engaged with the associated lenders. The Capital Management and Dividend Strategy was published in May 2021.

In light of the number of dissenting votes registered at the 2021 Annual General Meeting, the Board has engaged with our largest shareholders who had registered dissenting votes in order to better understand their views. Following the outcome of these engagements, the Board has not proposed a second/further pre-emption disapplication resolution of up to 10% of issued share capital at the 2022 AGM.

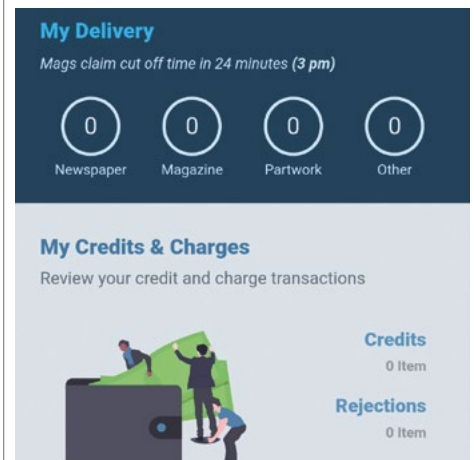
20.01.2022

Date of AGM

For more information

For further details please see the Corporate Governance report – pages 62 to 63

Suppliers & Customers (Key Publishers)



Significant outcomes from customer and supplier engagement have resulted in the adoption of an automated service failure payment scheme and the conclusion of new long term contracts with key publishers.

Following extensive reviews and understanding our customer behaviours and requirements, early last summer we decided to invest in our SNapp applications, redeveloping them and bringing them up to date using new, modern and secure technologies.

Following this upgrade we now have approximately 18,000 retailers registered on SNapp, using it as their primary channel for customer service, in preference to a telephone call into our contact centres.

The project has been a great demonstration of the Company and our retailers working together to deliver a value adding customer solution.

18,000

Retailers registered on SNapp

For more information

For further details please see the Corporate Governance report – pages 62 to 63

Our customer service teams receive approximately 15,000 calls each week, processing orders and assisting retailers to ensure supplies are right.

Good to know

Colleagues



The Board receives a number of reports including health & safety, whistleblowing, individual performance management, the 'What Matters' survey and from the colleague engagement forums. A designated non-executive director attends the National Colleague Engagement Forum.

Smiths News has successfully transitioned to the new ISO 45001 standard. This certification confirms our commitment to 'safety first' and to protecting our colleagues in the workplace.

Further to the accreditation, we were encouraged by the recognition of the 11 sites submitted for H&S awards this year: nine have achieved a RoSPA gold award and two a silver award, demonstrating our continued focus on health and safety and the wellbeing of our colleagues.

Following a request made through colleague engagement we have also now installed defibrillators (AED) at each of our depots.

11

Sites received RoSPA awards (nine gold and two silver)

For more information

For further details please see the People report – page 22

Community



Our commitment to our community is evidenced through our support of 'Pass It On', now a stand-alone charity, which undertakes the distribution of clothing, bedding and sustenance support to the homeless.

The charitable objective of 'Pass It On' is to prevent or relieve poverty and financial hardship in the UK by providing help to the homeless, including those at risk of becoming homeless.

During January 2021 we distributed over 500 care packages nationally, made possible through the generous donations of colleagues and supporting partners. In the year 'Pass It On' also increased its social media presence and has been added to the Smiths News payroll giving function; a donation was made from Smiths News for every colleague completing our What Matters survey. We are proud that 'Pass It On' won the NewstrAid Philanthropist of the Year award for 2021.

>500

Care packages distributed nationally

For more information

For further details please see the Sustainability report – page 39

Environment



The development of our Sustainability strategy has encompassed extensive engagement with all colleagues as part of the first steps in this journey and has included the balancing of conflicting stakeholder positions when determining sustainability objectives.

In an endeavour to meet our environmental responsibilities we set a goal of diverting 100% of our waste from landfill. Working with a new national waste management partner, we have achieved our goal in full for all Smiths News generated waste.

We continue to drive recycling improvements, innovations and operational efficiencies across our estate to enhance our environmental credentials even further.

100%

Smiths News diverted waste from landfill

For more information

For further details please see the Sustainability report – page 36

Chief Executive Officer's Review**A strong performance, delivering
on our commitments to stakeholders**

I have no doubt that the actions we took in the previous year have been vital in facilitating the environment that has helped us to meet our goals.

Preliminary results presentation – our latest presentation to analysts, including audiocast recording, is available on the Company website at www.corporate.smithsnews.co.uk

Good to know

Dear Shareholder

In reviewing our performance this year, I'm particularly mindful that the progress we have made is a consequence of our close attention to the key priorities we set out in November 2020 and a determination to minimise any distractions to this end. In what has remained a challenging and, at times, uncertain context, we have maintained a laser-like focus on those goals, stabilising the business after a period of both internal distraction and unprecedented external disruption. As a consequence, we have improved performance over a range of critical measures and re-established a reputation for the delivery of our commitments to stakeholders.

The range of our achievement is considerable. Throughout a year dominated by the pandemic, we have served our communities without fail, at the same time as restructuring our central support, making efficiency savings of £6m, driving one-off sales opportunities and working closely with our retailers and publishers as the markets emerged from the most disruptive period in recent memory. Our people are rightly proud of this performance for it is their commitment and initiative which have seen us through so successfully.

And as a direct consequence, we have made progress against all the key measures we set out to achieve. Adjusted EBITDA of £42.6m is up 9% from revenues that were down by 4.7%. Free cash flow has more than doubled to £24.0m and bank net debt at year end had reduced by a third to £53.2m. What's equally pleasing is that this progress is built on solid foundations and we are confident that the business is far better placed to deliver long term shareholder value than it has been for many years.

In this regard, I have no doubt that the actions we took in the previous year have been vital in facilitating the environment that has helped us to meet our goals. The operational decisions we took in the early days of the Coronavirus pandemic in March 2020 have proved their worth in a year that has continued to see significant impact to the wider economy. Equally, the removal of both management distraction and the uncertainty caused by the

ongoing losses and cash flow drag of the Tuffnells business has been important in allowing us to plan with confidence.

Focus and accountability

Last November, after a tumultuous six months, I explained how Smiths News had successfully navigated the greatest social and economic disruption in decades, maintaining its vital service to communities across the UK. In the same period, we had sold our loss making Tuffnells business, rebranded the Company to Smiths News plc and refinanced in what was a challenging context in which to reach a satisfactory agreement.

Markets and the impact of the pandemic

The newspaper and magazine markets have performed with typical resilience, albeit with varying year on year fluctuations that reflect the annualised impact of the pandemic, starting with the first lockdown in March 2020 and continuing with various regional restrictions and a second extended lockdown in the early months of 2021.

Our business model is founded on the belief that our markets will continue to be relatively predictable. The pandemic has tested this like never before, demonstrating that printed media remains a significant element

Looking ahead, there are opportunities for further market recovery in those sectors still materially impacted by the pandemic – notably, outlets serving international travel and domestic commuting markets. Typically, these are high volume locations often with bespoke requirements. We have made conservative assumptions on the gradual improvement of their sales and will work with our industry partners to restore service in line with any increase in demand.

Ancillary businesses

Our adjacent businesses have been more severely impacted by the pandemic than the core wholesale operations. Instore, our small field marketing business, has made a gradual recovery as larger retailers allow the return of merchandising to their stores, but its contribution remains significantly down on pre-pandemic levels. DMD, which supplies international travel outlets, continues to operate a much reduced service, as does Martin Lavell, which supplies offices in city centres. Overall, our ancillary businesses have returned a breakeven or better financial performance and we are planning prudently on there being only limited upside until these markets return to more normal demand patterns.

In reviewing our performance this year, I'm particularly mindful that the progress we have made is a consequence of our close attention to the key priorities we set out in November 2020 and a determination to minimise any distractions to this end.

Progress in FY2021 was therefore always going to be founded on the performance of our operations, with clear priorities for service, reductions in underlying costs and responsible capital management. Our goal was to reset the bearings of the business, fixing our compass on a path that was clear to our stakeholders and which could be sustainably maintained for the future. The progress this year is detailed in the table opposite, but it is the context and culture that I want most to highlight here.

For it is this close attention to our long term responsibilities that has guided the strategic decisions – and the inevitable choices they involve – this year. From the reduction of costs to the commitment to invest in our people and to explore more environmentally sustainable solutions, we have sought to create long term value rather than prematurely harvest what would be short term gains.

of our national culture and consumer buying habits. In the most testing of circumstances, the network of local retailers has ensured availability of news and magazine products to consumers was maintained at all times, the supply and demand of which quickly settled into new patterns. Furthermore, because we serve all retail channels our business model was well placed to absorb the change in shopping habits and shift to shopping more locally.

Overall revenue declined by 4.7%, within the range of our strategic expectations, giving us confidence that our plans for efficiency can continue to offset the margin impact of the decline in core sales. This year, we have benefited from additional sales of one-shot titles and sticker collection from the European football championships and Pokémon; these will not repeat next year and, in line with our policy of setting sustainable targets, we will not overtly seek to offset this one-off boost to sales.

Chief Executive Officer's Review continued



Society's awareness of the environment, ethical trading and the impact of business on communities has never been greater.



Progress against priorities

Working with the focus I have described above, we have made excellent progress against the priorities that were set out in November 2021.

Collectively, it is the pursuit of these priorities that balances the interests of our stakeholders, ensuring we provide attractive returns to shareholders while fulfilling our commitments to industry partners, our people and the long term investment needs of the business. Leadership in service and efficiency, for example, goes hand in hand with our long term contracts and the ability to strengthen our core finances; similarly, restructuring and investment provides opportunity for our people just as much as it helps to save on operating costs.

These are the principles by which we will continue to set our priorities, embedding them in our culture and delivering them in line with our values.

Progress against priorities FY2021

Last year we set clear priorities for the refocusing of the business. We have made good progress against all of our key goals.

Priority	Progress
 COVID-19 - remaining vigilant to changes in our markets and continuing to apply the lessons and principles which have guided our response to date.	<p>A full and safe service was maintained to all customers throughout.</p> <p>We have operated to the values and principles we set and have done so in tandem with finding efficiencies and improvements that can be sustained in the future.</p>
 Restructure and simplification - lowering central costs from a reduction in the scope of support functions, removing the former group layers that are no longer required.	<p>Central functions have been restructured and simplified following the sale of Tuffnells in May 2020, delivering long term savings and embedding a leaner support model for the future.</p>
 Operational savings - achieving core operational cost savings sufficient to mitigate the margin impact of the average decline in core sales revenues.	<p>We continue to find operational cost savings to offset the impact of core sales declines. The increase in volumes as the pandemic restrictions were lifted was absorbed within these parameters.</p>
 Service delivery - maintaining our market leading KPI performance to support efficiency and reduce waste.	<p>Service KPIs have remained high and report above our challenging targets. We continue to rank as the leading wholesaler for service in independently verified surveys for both publisher clients and retail customers.</p>
 Sales opportunities - ensuring that we take advantage of all opportunities presented by the return to more normal working patterns across the UK and the return of key sporting events.	<p>Sales patterns continued to be disrupted by the ongoing lockdown restrictions introduced as a result of the pandemic. Nonetheless, we have benefited from additional sales and profit resulting from the European Football Championships and Pokémon sticker collectables. More broadly, we have seen an increase in overall year on year sales in the second half of the financial year.</p>
 Capital management - continuing our commitment to prudent capital management, with strict criteria for capital expenditure while prioritising a reduction in net debt.	<p>Our capital management objectives are firmly on track, facilitating the return of dividend payments to shareholders and Bank net debt to 1x EBITDA by the end of FY2023.</p>

Sustainability

Society's awareness of the environment, ethical trading and the impact of business on communities has never been greater. It is therefore right that we relook at the policy and practice in our operations too. This year we initiated a ground-up review with widespread involvement and consultation across the Company and our stakeholders. In keeping with the principles of sustainability, this is not a one-off exercise; rather it is an acknowledgement that we need to establish a closer cultural connection to sustainability that is reflected in our policy and practice. It is also a recognition that sustainability is as much an ongoing journey as it is a series of tangible goals.

In building a new approach, we are working from a foundation of responsible practice. Over recent years we have made considerable progress in areas such as reducing our impact on the environment, improving safety and founding our trading partnerships on clear policies and standards. Going forward, we plan to harness the enthusiasm of our people, with a clear leadership commitment to taking the right decisions. Every member of the Executive Team sits on the Steering Group and is personally responsible for aspects of the plan. I too am fully committed to our making material progress, not only because it's the right thing to do, but also because it will strengthen our customer relationships and improve our offer at future contract renewals.

Good sustainability strategies combine long term vision with immediate action and demonstrable wins. That is why we have introduced electronic vehicles for our services to London airports, hosted a carbon neutral conference in October 2021 and have committed to buying all our electricity from renewable energy providers. In our depots, we have reduced our use of pallet shrink-wrap by 79% and by better sorting and recycling are now diverting 100% of our waste from landfill. These are tangible examples of the difference we can make.

Our greatest challenge, as with most distributors, is for our physical operations to evolve in a way that blends continual and meaningful improvement with commercial reality and the need to serve customers efficiently today. In this regard, the constructive dialogue we have initiated with our industry partners will be essential. What is clear is that we must explore avenues that we had, perhaps, previously considered impractical, embracing improvements in technology and being open to solutions that although not perfect now, can be scaled and improved over time.

Our definition of sustainability takes a broad interpretation, extending its reach to colleagues, communities and supplier relationships. These too are areas we have reviewed, with details of actions in the Sustainability Report on page 32.

People and progress

Our progress this year is a tribute to the commitment of my colleagues from all across the business. We all know the challenges that businesses have faced over the last 18 months and the necessary changes to the ways we work together. This is especially acute in what is an intensely physical operation with a network that requires time critical coordination and communication. I was therefore especially delighted that our colleague engagement scores increased this year; to maintain both motivation and service standards under these pressures, and at a time of considerable change to our central functions, is a remarkable achievement that must be acknowledged. I'm proud of what we have achieved together and deeply grateful for the contributions that my colleagues make every day.

Jonathan Bunting
Chief Executive Officer

3 November 2021

Priorities FY2022

Our priorities for the year remain focused on service and efficiency in our core operations, the recovery from the pandemic and the continuation of a prudent approach to capital management which underpins the sustainable delivery of shareholder value.

Priority



People first – driving our leadership capability with a strategic talent programme underpinned by development for all.



Culture and values – further embedding a performance culture founded on colleague engagement with regular communication channels to all levels. A proactive review of diversity and inclusion was completed in the year.



Costs and efficiencies – achieve cost savings sufficient to offset the impact of structural decline in core sales revenue; seek, where possible, to mitigate the additional inflationary pressures in distribution markets subject to sustainable solutions that maintain service KPIs.



Sustainability – develop and confirm transparent sustainability targets and embed their monitoring and measurement into our governance reporting and everyday performance management.



Ancillary businesses – seek to recover and reinstate lost business post COVID-19, returning the businesses to pre-pandemic contribution levels by FY2023.



Operations – conduct a 'last mile' process review to ensure continued progress on service KPIs while delivering targeted efficiencies across the network; a proactive approach to collaborative supply chain solutions with major trading partners.



Capital management – maintain progress on cash generation, reduction of net debt and control of capital expenditure.



Dividends – regular and growing payments.

Reaching further every day...



Throughout a year dominated by the pandemic, we have served our communities without fail...

Our people are rightly proud of this performance for it is their commitment and initiative which have seen us through so successfully.

Jonathan Bunting – CEO



**...through
operational
excellence**



Highlights



Operational efficiency

We secured overall savings of £6.0m in the year, more than offsetting the impact of the decline in core sales. With a track record of continual improvement, we are confident of our ability to maintain this momentum.

Resilient sales

Newspapers and magazines are a daily purchase for millions of people. Throughout the last 18 months demand has continued to be resilient, with sales now back to pre-pandemic trends.

Service excellence

Our service KPIs drive all that we do. Every day we deliver to over 24,000 customers in the tightest of time windows, and by tracking every step of the way we are providing transparent performance measures for our business and our customers.

Continual improvement

From the engagement of our people to the performance of our processes, we take an open approach to learning, improving how we work together to deliver the best possible results.

Operating Review

Focus pays dividends in a year of clear progress

In a year of ongoing and widespread uncertainty in the UK and global economies, we have returned a strong performance driven by close attention to the achievement of our stated strategic priorities. Across the key areas of operations, central restructuring and capital management we have met our objectives in a way that strengthens the fundamentals of the business, benefiting all stakeholders and supporting the return of regular dividend payments to shareholders.



In a year of ongoing and widespread uncertainty in the UK and global economies, we have returned a strong performance driven by close attention to the achievement of our stated strategic priorities.

Overview

At a time of wider disruption, the actions we took in the prior year, including the sale of Tuffnells, have been instrumental in our delivery of sustainable operational efficiencies and a leaner central support model for FY2021. Furthermore, the principles we adopted in managing through the pandemic have proved decisive as sales stabilised and steep declines of the early months of the pandemic in spring 2020 began to reverse. Critically, as both sales volumes and the number of deliveries have increased, we have been successful in keeping the consequential increase in base distribution costs in line with the benefit of additional sales.

Central support costs have reduced following the removal of former operational and central support structures that are no longer required in a leaner business. Further one-off overhead savings arose this year from certain aspects of managing through the pandemic including homeworking, reduced travel and ancillary expenses. Looking to the longer term, we have pursued solutions that deliver sustainable savings without compromise to the investment needs of the business and our position as market leader for service and innovation.

Our capital management goals were aided by the successful renewal of our banking facilities in November 2020. Good progress has been made in improving the key metrics of bank net debt, free cash flow and capital expenditure, and we are on track to reduce bank net debt to 1x EBITDA, ahead of our initial target of the end of FY2023. As a consequence, in July 2021 we reinstated the payment of regular dividends which we regard as an essential element of our ongoing capital management objectives.

Looking ahead, we expect newspaper and magazine sales trends to further stabilise, with potential opportunities from the gradual increase in travel and commuting. Inflationary pressures in distribution markets are an immediate challenge, but service and efficiency plans are in hand to deliver a sustainable offset to the long term decline in core sales.

We are working hard to minimise packaging waste – this year we have reduced our use of commercial pallet shrink-wrap by 79%.

Good to know

Capital management remains under tight control and we have clear sight of investment requirements over the lifetime of our publisher contracts. Building on these foundations, the business is well placed for the year ahead.

Strong financial performance

Adjusted EBITDA (excluding IFRS 16) of £42.6m was up by 9.0% (FY2020: £39.1m) from revenue of £1,109.6m that was down by (4.7%). Adjusted profit before tax from continuing operations of £30.9m was also up 10.8% (FY2020: £27.9m).

The underlying factors in driving this strong performance were:

- The management of a full service through the COVID-19 restrictions, minimising the impact on sales and retailer delivery service charges.
- The year-on-year sales recovery in H2 2021 (following the anniversary of the first lockdown) and the further capitalising of one-off sales opportunities, most notably the European Football Championship.
- The achievement in full of our operations and central savings targets, which have offset the impact of the anticipated structural decline in sales.
- Close control of capital expenditure and ancillary costs.

Continuing statutory profit before tax of £30.6m is up by 106.8% (FY2020: £14.8m). The increase was primarily driven by improved trading in Smiths News and DMD which drove higher operating profit, reductions in impairment charges and a decrease in network and reorganisation costs.

Adjusted earnings per share of 10.8p is 11.3% higher than the prior year (FY2020: 9.7p).

Free cash flow of £24.0m is up 120.2% (FY2020: £10.9m) reflecting the improved underlying performance, careful management of cash, and lower maintenance capex and adjusting items than in FY2020.

The working capital inflow of £1.0m was a £6.7m improvement on the prior year (FY2020: £5.7m) benefiting from the stabilisation of cash movements associated with the trading impact of COVID-19 in FY2020, including the temporary closure of many retail outlets and the return of unsold copies in the early months of the pandemic.

Resilient sales boosted by one-shot sticker collections

Revenue from combined newspaper and magazine sales declined by 4.7% in line with our long term expectations of market trends. Magazines, which attract a higher margin, performed more strongly than newspapers, with a particularly good performance from one-shot titles, including stickers and albums.

Performance varied across the year with sales being 11.5% down in H1 2021 but up 3.1% in H2 2021. This volatility primarily reflects the anniversary of the steep declines in sales in the immediate aftermath of the first lockdown in March 2020. In contrast, the impact of the regional restrictions in autumn 2020 and the second national lockdown in early 2021 were much reduced. Although some retailers remained closed (particularly in travel and commuting locations), our total market coverage meant we were able to substitute supplies and redirect sales to alternative outlets. Indeed, many smaller independent retailers have seen increases in sales as they became essential hubs for their local communities.

As we emerge from the pandemic there are encouraging signs that the market is continuing to recover some of its lost ground, with opportunities in the return to greater travel and commuting, sectors which have been especially hard hit by restrictions and changes to working patterns.

Adjusted EBITDA (Excluding IFRS 16) £m



Adjusted Profit Before Tax £m



Adjusted Earnings per Share p



Free Cash Flow £m



Sales and margin this year have been boosted by the European Football Championship and England's successful run to the final, together with an increase in Pokémon sticker collectables as children went back to schools. The benefit of these two opportunities in the year amounted to circa £1m of EBITDA. Although they will not be repeated in FY2022, the FIFA World Cup finals should once again boost sales in the first quarter of FY2023.

Service and efficiency

Working to the operational principles we established at the start of the pandemic, we are proud to have maintained full service throughout all periods of lockdown and ongoing restrictions in the United Kingdom. As always, the wellbeing of our colleagues and customers was paramount, shaping the introduction of new processes and safety procedures.

Despite this disruption, our service KPIs have remained above target, helping to reduce waste and support the efficient allocation of supplies. As the COVID-19 restrictions have eased and more retailers returned to full trading, we have been successful in keeping the cost of increased volumes in line with the benefit of additional sales.

Combined operational efficiencies and central savings of £6.0m have offset the margin impact of the decline in core sales in the year, with opportunities taken across network, staffing, routing and customer services. Looking ahead, we have actions in hand to maintain this offset and are confident of its continued delivery over the lifetime of our publisher contracts.

Operating Review continued

Spotlight on DMD



DMD has been a leading global provider of newspapers and magazines to airlines and rail operators for over 30 years. It specialises in supplying on-board and lounge services for international travellers, working closely with publishers as well as its end customers.

Serving airside locations requires accredited security status making DMD one of the most trusted suppliers in its sector. This year we have invested in electronic vehicles for its deliveries to airports, helping reduce the carbon footprint of its operations.

DMD works with many of the world's major premium travel companies, such as Emirates, Eurostar, Cathay Pacific, Qatar Airways and Singapore Airlines. Not only does DMD offer print reading material, it also offers airlines and passengers an enhanced digital experience, recently partnering with Sparc to provide instant, contactless access to over 6,000 newspapers and magazine titles, games and more on passengers' own devices.

The COVID-19 pandemic impacted the travel and tourism sector particularly heavily, but as the world returns towards normality, so too is DMD restarting its services to customers. Over the coming year its priority is to reinstate a full service, efficiently and sustainably.

For more information on DMD:
www.dmdglobal.com

Ancillary businesses impacted by COVID-19

Our ancillary businesses continue to be impacted by COVID-19 restrictions. DMD, which supplies airlines and travel points, is operating a much reduced service, albeit maintaining a breakeven position due to its operational integration with Smiths News. Instore, which supplies field marketing services to major retailers, has similarly been impacted by both the restrictions and a more general reduction in demand as retailers and suppliers adjust to the new environment. We continue to have confidence in the underlying business models of these smaller operations but, taking a prudent approach, our plans for FY2022 are not dependent on their further recovery.

Sustainability strategy

The focusing of the business on core news wholesaling has provided an appropriate opportunity to review our Environmental, Social and Governance goals and activity. In doing so, we aim to take a more active leadership role in the development of sustainable solutions for our supply chain, its customers and people. This is fully compatible with our values and strategy to offer the most effective and highest quality route to market for both publishers and retailers.

After consulting widely with colleagues and industry stakeholders, we have introduced a new framework for ESG sustainability that adopts both the principles of the UN Sustainable Development Goals and the structured disclosures-based reporting suite promoted by the Global Reporting Initiative. Our framework recognises the forthcoming obligation on the Company to report in line with the requirements of the Task Force on Climate-related Financial Disclosures and will include metrics and KPIs that are fully compliant. A key outcome of the review is the establishment of five pillars of focus and activity, each of which supports targeted actions and measurable goals. Collectively these capture the scope of our ESG strategy, and consist of: Governance; Environment; People; Community; and Responsible Partnerships.

In addition to the above, we have determined longer term goals that give appropriate priority to those aspects of our supply chain which we most directly impact and for which we can make the most tangible difference. In this regard, we are committed to the following ambitions:

- The migration of our subcontracted delivery service partners to sustainably fuelled vehicles by 2035 through the installation of supporting infrastructure at our sites by 2030.
- The migration of the Company's car fleet to sustainably fuelled/hybrid vehicles by 2025 and of our heavy goods vehicles to decarbonised technology by 2030.
- New warehouse locations to be net carbon neutral and current sites to be net carbon neutral by 2030.
- All gas and electricity to be sourced from 100% green/renewable sources by 2024.
- A colleague engagement score of 70% or greater each year and an improving trend of relevant 'promoters' within the underlying metrics.
- A material improvement in the ethnic and gender diversity of our leadership population.
- At least one Board member from a minority group and at least two female members by 2026.

People

The commitment of our 1,600 colleagues has been never more essential in both delivering our results and, throughout the pandemic, maintaining the daily distribution to thousands of communities across the UK. This year, we have invested significant time and resource in improving communications with our colleagues so that our network of 37 depots operates as one team, sharing goals and working closely with the support centres as we have restructured responsibilities and removed former group structures.

Although the majority of our people work in warehouse locations, a significant number of central support teams have been homeworking for up to 18 months. For these colleagues we are implementing a gradual return to office working and, where appropriate, have introduced hybrid models that blend home and office working in a flexible way. Mindful of the impact on wellbeing, we will monitor these transitions carefully and will provide additional support where necessary. The hardship fund we established for UK colleagues in the wake of COVID-19 has been extended to support our outsourced support centres in India, and will now be an ongoing element of our people policies. Training and development, spearheaded by our talent programme, will also be increased this year with a return of face to face sessions alongside online learning.

Dividend

In light of the Company's performance and consistent with our previously stated objective to return to regular dividend payments, an interim dividend of 0.5p was paid in July 2020. The Board has proposed a further final dividend of 1.0p, making a total dividend for the year of 1.5p (FY2020: nil p). The final dividend will be paid on 10 February 2022 to all shareholders who are on the register at the close of business on 14 January 2022; the ex-dividend date will be 13 January 2022.

Bank net debt

Bank net debt of £53.2m (FY2020: £79.7m) reflects the improvement in free cash flow resulting from a strong operating performance and the positive impact of the 52 week period end date being ahead of scheduled payments to publishers. In addition, in October 2020 the Company received £6.7m in repayment of the working capital loan provided to the purchaser of Tuffnells in FY2020.

It should be noted that, as a consequence of the timing of payments and receipts, intra-month debt typically fluctuates by up to £40m across the payment cycle, with average net debt of £82.6m (FY2020: £98.8m). Looking ahead, we are on track to reduce bank net debt to 1x EBITDA, ahead of our initial target of the end of FY2023.

Our ancillary businesses, DMD and Instore, enhance our core offer to publishers and retailers, offering further expertise and value.

www.dmdglobal.com
www.instore.co.uk

Good to know

Receipt of deferred consideration

In addition to the repayment of the working capital loan in October 2020, the Company received a payment of £6.5m on 2 November 2021 in relation to the first instalment of deferred consideration arising from the sale of Tuffnells in May 2020. A further payment of £4.25m is scheduled to be received in August 2022, and a final settlement of £4.25m is due on the third anniversary of sale in May 2023.

Receipt of pension surplus

The Trustee of the news section of the WHSmith Pension Trust has confirmed that the Company will receive the benefit of the cash surplus which will arise on the wind up of the scheme following the buyout of the scheme by Legal & General in March 2021. The surplus (net of professional fees and tax) of £8.0m is expected to be paid to the Company during November 2021. The proceeds will be used to reduce net debt in line with the terms of our banking agreements.

Appointment of Chief Financial Officer

Following the decision by Tony Grace to retire from his executive role on 31 December 2021 and to step down from the Board on 30 November 2021, Paul Baker has been appointed as a director of the Company and Chief Financial Officer with effect from 4 October 2021. Paul was formerly at Compass Group plc, prior to which he held various Finance Director roles within Iglo Group/ Birds Eye Limited and Cadbury Schweppes PLC.

The Board would like to acknowledge the outstanding contribution Tony Grace has made during his three years as CFO, including his critical role in strengthening the Company's finances and processes, the sale of Tuffnells, and the agreement of new banking facilities — all of which have underpinned our delivery of improved shareholder value while meeting the needs of wider stakeholders.

Outlook

Building on a successful year, we are confident in our ability to continue generating strong profits and cash, returning value to shareholders through a combination of lower bank net debt and regular dividends. The newspaper and magazine markets have made a resilient recovery from the uncertainties of the COVID-19 pandemic and, more broadly, continue to provide a solid foundation for the delivery of predictable cash flows. Although some uncertainty remains, the immediate outlook for our markets suggests a continued stabilisation of sales and a gradual improvement to the prospects of those retailers most affected by the pandemic.

The widely reported inflationary pressures in distribution labour markets began to impact the business in August 2021 and have increased since the period end. The situation is likely to be fluid for some months, hence we are monitoring the situation closely while seeking to make compensatory savings subject to maintaining our service KPIs. Currently, we estimate the impact on EBITDA in FY2022 to be in the region of £2m after mitigation.

Trading in the year to date is in line with the Board's expectations.

3 November 2021

Spotlight on Instore



One of Smiths News' ancillary businesses, Instore was founded in 2000 as a specialist newspapers and magazines field marketing company. It has subsequently diversified into related categories and has long standing strategic partnerships with its retailer and supplier clients.

Using its 300-strong field marketing team Instore provides daily nationwide coverage, with activities that include setting up promotional displays, stock audits, returns management and range relays, with all data capture and real time reporting. The dedicated account, field management and service support teams ensure a high focus on KPIs and continual review of their service offer.

Instore takes pride in the strong relationships it has built with stores across the country; clients include Sainsbury's, Lidl, Morrisons, Poundland and McColl's.

Since 2015, Instore Auditing has provided an additional service, auditing inbound deliveries from over 400 suppliers. And more recently, Instore has provided field sales solutions for suppliers, selling directly in to convenience stores and targeted outlets.

Instore is proud to have won a number of awards for its work and looks forward to growing its services in the future.

For more information on Instore: www.instore.co.uk/smiths-news

Our People

At Smiths News everyone makes a difference

Our values shape the way we work and the difference we make through shared goals and joint endeavour.



With over 1,600 colleagues, our people and their engagement are as critical to us meeting our long term goals as they are to the daily distribution that serves thousands of communities every day of the week across the UK.



Getting it right first time is key to efficiency – our pack accuracy of 99.7% ensures that waste and rectification are minimised.

Good to know

Our values



Quick

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



Creative

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



Open

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



Trusted

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



Friendly

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



Fair

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

Guiding principles of lockdown trading

Throughout the pandemic we have worked to additional operating principles, keeping colleagues and customers safe while maintaining our commitment to service and the long term needs of our supply chain.



1. Safety

The wellbeing of our colleagues and customers is paramount.



3. Capability

Mitigating actions must not damage our long term capability.



2. Service

Maintaining as full a service as possible.



3. Sustainability

Working with our partners to support the supply chain.

A unique team spirit

Being a colleague at Smiths News takes a special kind of collaboration and commitment: we work with one goal, often in testing conditions and timeframes, round the clock and in all weathers. Using a network of 37 hub and spoke depots, we must coordinate geographically, as well as ensuring efficient workflows between the day and night shifts, the support centres and our customer experience team. And we must do all of this in the tightest of time windows, where every minute counts because minor delays in one area can have a major impact on our customers.

Many of our colleagues are long serving, embedding a depth of knowledge and experience that can't easily be replaced, or replicated by competitors. And it's this extensive experience that keeps us alert to new ways of working, finding efficiencies and supporting each other in times of difficulty. For while we know that to stay ahead change is always necessary, we know too that in making progress our relationships and values count the most, helping us to succeed together and with our industry partners.

For whilst we are a business steeped in heritage and experience, we value fresh perspectives and welcome new colleagues to our teams, embracing the skills and competencies that they bring.

Our induction processes are designed to help new starters settle quickly and make a positive contribution by feeling comfortable in being themselves at work.

The result of all this is a unique team spirit and a commitment to collective delivery that's second to none.

Values driven

Values at Smiths News are more than words on a page: they shape the way we work and the difference we make through shared goals and joint endeavour. Our values are backed by clear communication on the strategy and performance of the business, so that the actions colleagues take – and the choices they make – are informed by both our guiding principles and practicalities of the challenges we face.

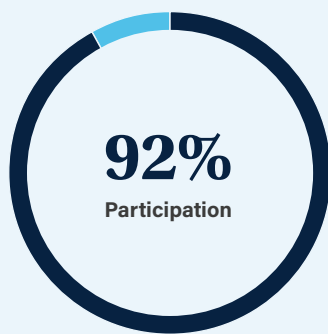
Over recent years we've worked to identify and embed values and aspirations that are collectively held, reflecting the real world of working in our depots and support centres. We've listened to each other and adapted our interpretations to changing circumstances. That's why we introduced additional principles to help us manage through the pandemic – and why, as this particular challenge recedes, we will take the lessons we have learned and apply these going forward.

This progressive attitude results in our working to 'values in practice' rather than on paper! It recognises that no one quality is enough on its own, and that a rigid approach is seldom sufficient. We are therefore values-driven in the dual sense of using them to improve performance today and to drive our prospects tomorrow.

Our People continued

'What Matters' - results and highlights

We publish results transparently and make action plans to address weaknesses; where we are unable to make the desired progress, or perhaps have issues of timing, we seek to explain and find more practical ways of addressing concerns.



Overall engagement score

7.0

2021	7.0	10.0
2020	6.0	10.0

Communication and engagement

Conveying information clearly and swiftly is second nature to the business, but deeper engagement, especially in times of change and challenge, requires communication of a different kind. We have therefore increased our investment and resources to ensure that our wider strategy and progress are regularly shared, and that everyone has the opportunity to voice concerns and suggestions.

Harnessing technology that's become more familiar to us all over these last 18 months, all-colleague online town-hall meetings with the Executive Team are now quarterly

This year's survey was conducted in November 2020, with 92% of colleagues choosing to participate. We use a net promoter score as the overall measure and internally express this on a scale from 1 to 10. The overall engagement score improved from 6 to 7, a significant and especially pleasing increase in challenging circumstances this year. A key action from the survey was the desire of colleagues to improve the communication of goal setting, ensuring individuals and teams understand what they are expected to deliver and how the work they carry out supports the goals of others in the workplace. Looking ahead we will move to regular pulse surveys for measuring engagement,



Our engagement scores are improving and we have clear goals that are founded on feedback and are responsive to the real concerns of colleagues.

events. We've also introduced regular briefings, a new colleague newsletter, and taken advantage of greater access to online communication. We aim to share news that ranges from small success stories to the attainment of key strategic goals, encouraging a meaningful involvement in the direction of the business and a pride in all of our successes, big and small.

Our 'What Matters' all-colleague engagement survey takes a more formal approach, measuring perspectives and opinions across a range of recognised performance measures.

We publish results transparently and make action plans to address weaknesses; where we are unable to make the desired progress, or perhaps have issues of timing, we seek to explain and find more practical ways of addressing concerns. As a result, our engagement scores are improving and we have clear goals that are founded on feedback and are responsive to the real concerns of colleagues.

ensuring a continuous measurement rather than a snapshot moment in the year. We believe this will provide a truer measure of engagement and will enable us to test the effectiveness of actions more swiftly. On this basis, it is our intention to run the next engagement survey in January 2022 and we are targeting a maintenance of 7.0 or higher throughout the year.

Talent and development

The return to a more focused business model has been an opportune time to re-evaluate and refresh our training and development programmes. During the pandemic we moved to a full digital format, using this as an opportunity to reach a greater number of colleagues, helping individuals and teams connect and reminding us all that our commitment to careers and progression remains unabated despite the disruptive period we have been working through.



Leadership Academy



Our Leadership Academy started with an intensive event at the end of 2019, and has since grown to become a full programme of development workshops scheduled throughout the year. Participants are drawn from across the business, combining different backgrounds with a common passion to learn and progress in their careers. That determination saw the programme continue throughout the COVID-19 pandemic with many of the learning opportunities moving online.

Committing the time and dedication to an extended personal development programme can be a challenge, but the benefits to colleagues and the Company are clear.

Andrea James, Head of Talent and leader of the programme, explains:

“One of the benefits of the Academy is bringing cross functional teams together, with colleagues sharing and learning from their respective knowledge and expertise. And by integrating live projects the programme takes that shared experience from the classroom to the workplace.”

Feedback from our participants confirms the success of the programme:

“The Academy has been a springboard for my self-development, reminding me how fun and engaging it is to network and collaborate! There wasn't a session where I didn't learn, and my mentor kept me on track and focused.”

**Paul Smith,
National Sales Manager**

“The ability to be so open and meet so many great people within the Academy has been one of the most enjoyable experiences this last year and I would highly recommend it.”

**Selina Rothwell,
Business Unit Manager**

In order to provide greater access to training and development and to allow flexibility in its content and delivery, we have rebalanced our programme to include greater emphasis on self-directed learning. Over 1,300 online modules have been completed since the beginning of 2020 in addition to mandated compliance learning and on-boarding modules. Our key self-directed courses include Health and Safety, GDPR, Customer Centricity, Managing Conflicts and COVID-19 Awareness.

At Smiths News we take pride in developing skills and talent, and it is significant that a high percentage of promotions and management roles are from internal appointments. Spearheading our long term needs is a refreshed Talent Academy that provides a comprehensive and, indeed, challenging programme for those colleagues we have identified as having significant potential. The programme blends classroom knowledge with workplace assignments and exposure to senior management which builds confidence – all participants are mentored throughout and future career paths identified and discussed.

This year, in response to feedback, we have trialled a new approach to help build more diverse project teams, opening applications for appropriate projects to all colleagues, moderated by a short selection process to ensure we have a mix of perspectives, skillsets and experiences. This approach has been especially successful in both our Sustainability and Diversity & Inclusion initiatives.

All of this adds up to a clear commitment to offering satisfying careers with the opportunity to progress at every level for those colleagues who have a commitment to learning and the ambition to succeed.

Supporting each other

We all know that the last 18 months has been a difficult time, with the pandemic impacting on health, wellbeing, finances and families. Furthermore, there is no single, or indeed typical, response to the difficulties we have each faced or the personal circumstances in which we find ourselves. Being mindful of this, we have established some headline support programmes; but just as importantly, we have taken a flexible approach, listening carefully and responding to the needs of individuals as they arise.

In March 2020 we established a hardship fund to help colleagues with temporary financial difficulties through the pandemic. A number of colleagues were furloughed for a period, others may have had partners or family members who lost work, all of which can cause financial hardship. Access to the fund has now been extended to our support centres in India and it will remain a permanent feature of our colleague wellbeing support. To further support those colleagues, we provided free or subsidised laptops to assist children studying at home during the pandemic. As previously reported, as of 30 August 2020 the Company ceased receiving support under the furlough scheme and we are delighted to have welcomed colleagues back for the full financial year.

To further support the health and wellbeing of colleagues, we have introduced a Health Shield plan for those colleagues who wish to participate. The scheme allows participating members to claim up to 100% cash back (subject to limits) for everyday healthcare costs such as dental, optical and physiotherapy. Colleagues are enrolled for the base service free of charge and can increase their level of cover at moderate and subsidised costs if they so wish, as well as extending cover to immediate family. Feedback on the introduction of the benefit has been universally positive, with all but a handful of colleagues taking up the opportunity to join the scheme.

Our People continued

Looking ahead, we recognise those colleagues who have been working from home will need support in returning to office locations. Where possible, and for those who wish to work this way, we have introduced a hybrid working model based on a 60:40 ratio of time in the office and home. Again, we are mindful that rigid policies are not always helpful in what are dynamic and varying circumstances. As such, requests for additional flexible working or particular arrangements for exceptional needs will be considered with goodwill, subject to meeting the needs of the business.

Diversity and inclusion

As a responsible employer, Smiths News has always adopted a zero tolerance approach towards discrimination and is committed to promoting and encouraging diversity, together with supporting an inclusive working environment. Supporting our determination to build a more inclusive and diverse workplace we have developed an Equality, Diversity and Inclusion Policy. This is a crucial step for the business, not only in formalising our approach, but in shaping a culture that embraces people from all backgrounds, experiences and orientations.

To help drive progress, we have an active Diversity and Inclusion Steering Group, which identifies and promotes regular 'Everyone IN' initiatives and communications. Its overarching goal is to embed an open and inclusive culture, valuing all individuals and encouraging a diversity of perspective which contributes to performance, increased employee wellbeing and engagement. In this spirit, the Steering Group includes volunteers from across the business, ensuring wide representation and perspectives. The Steering Group reports to the People Director and its recommendations are considered by the Executive Team.

To support us in our goal to become a more diverse and inclusive organisation we are also encouraging our colleagues to share information relating to their nationality, gender, sexual orientation and religious belief. This will allow us to better understand our colleague population at different levels of the organisation, helping us shape our People Policies and provide insight through enhanced reporting.

At a more detailed and formal level we have also made good progress in reviewing our processes, with interventions designed to support Diversity and Inclusion cascaded into the organisation. Examples of these can be seen in new guidance to recruiting managers, and our refreshed talent and succession approach to create development opportunities for all.

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

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

Everyone IN initiative



We are passionate about being a diverse and inclusive employer and are committed to our diversity and inclusion strategy. Therefore, we were excited to launch our first diversity and inclusion survey recently, to provide us with valuable insights into our colleagues' experiences, engagement and feelings about inclusion here at Smiths News.

We always encourage our colleagues to be open and honest, and we pride ourselves on listening to the feedback we receive. The findings of this survey will provide a comprehensive view of diversity and inclusion across the organisation, allowing us to know how colleagues currently feel, and use the feedback to find out where and how to improve. This valuable insight will not only help to foster a more inclusive company culture and create equal opportunities for all our colleagues, but will also help us to drive increased performance.

The Everyone In forum – our dedicated diversity and inclusion steering group – plays a big part in helping to nurture an inclusive working environment throughout the year by supporting, and encouraging participation in, national diversity and inclusion campaigns. These include Pride Month, National Inclusion Week, Black History Month and more. Colleagues across the organisation throw themselves behind these initiatives, hosting everything from bake sales and quizzes, to running workshops and discussions, to promote and celebrate the valuable cultural differences that run through the very heart of our workforce.

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 our values, which are integral to our People Policies and, more broadly, to the ways in which we work together. Proper and flexible consideration is given to people with disabilities and, should employees develop a disability while working for the Company, every effort is made to continue their employment and provide retraining for alternative roles if required.

Looking to our markets, we have policies in place for ethical trading standards and a commitment to combatting modern slavery, which we expect our supply chain partners to adhere to in our commercial relationships. 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 and on-boarding; contractor appointment and management; procurement and outsourcing; and by raising awareness of anti-slavery and human trafficking through widespread communication of policies and guidelines. The Company's Anti-Slavery and Human Trafficking Statement (September 2021) is available online at <https://corporate.smithsnews.co.uk/modern-slavery-statement>

Gender composition and pay gap reporting

We actively support gender equality in the workplace and are committed to improving the balance of gender composition over time. More broadly, we are committed to an environment that provides fair reward for all and ensures each and every colleague has access to personal development opportunities with the necessary support and tools to progress their career.

The gender composition as at 28 August 2021 and the equivalent table for the prior year can be seen in the table to the right.

The Company's overall gender pay gap as reported in the year* was an arithmetic mean average of 12.8% (FY2020: 5.4%) and a median distribution average of 4% (FY2020: 11.0%). There are a range of factors that impact the year-on-year movement in these figures, most notably the inclusion of Tuffnells at the date of calculation in 2020. This data was communicated in an open and transparent way to colleagues and other stakeholders, including publication on the relevant Government websites. A detailed report is available to view and download on the Company's website at: <https://corporate.smithsnews.co.uk/pdf/gender-pay-gap-report-2020>

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

Gender composition



All employees

- Male: 991 (2020: 1,129)
- Female: 612 (2020: 675)

Board of Directors

2021	5	1
2020	5	1

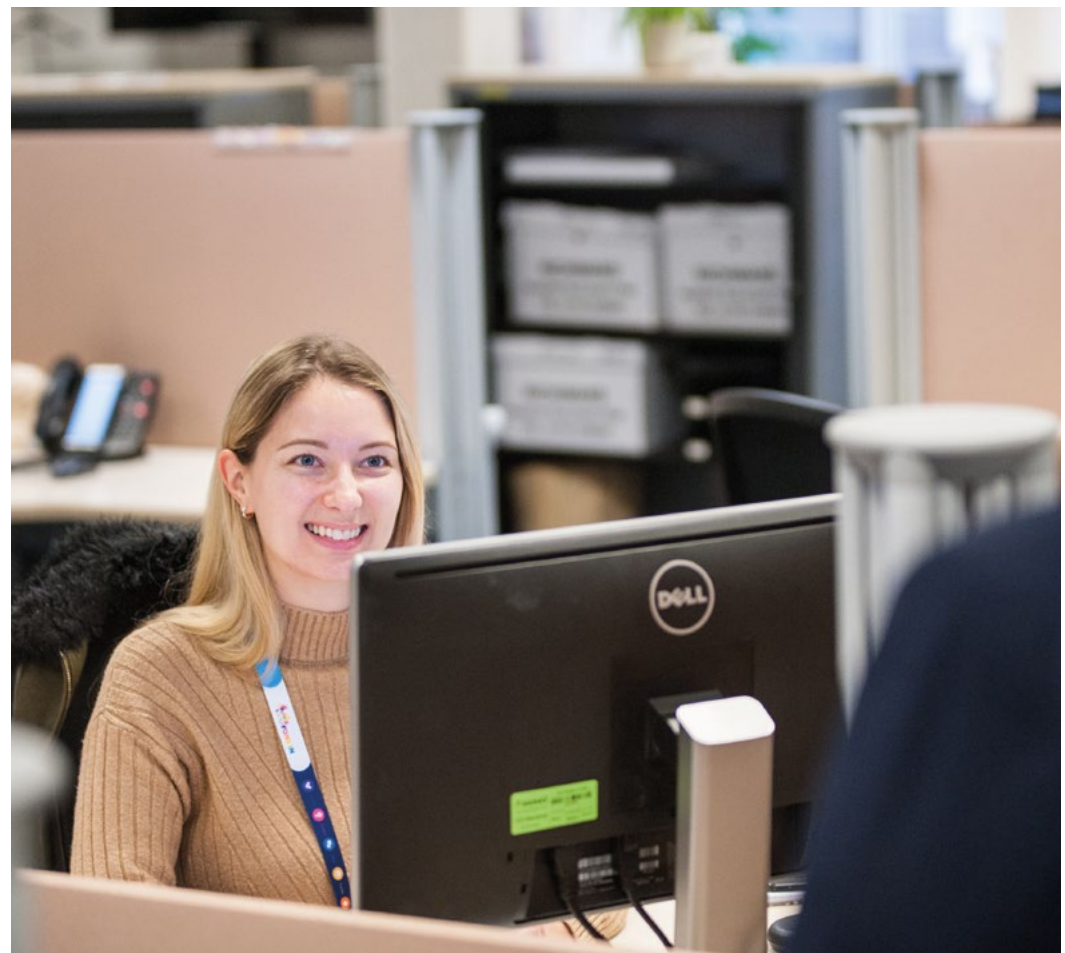
Executive Team

2020	7	2
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Executive Team and other Senior Managers

2021	16	5
2020	19	5

- Male
- Female



* Calculated on the defined snapshot date of 5 April 2020 and published before 4 April 2021 as required by Government reporting rules.

Key Performance Indicators

Driving performance through focused measurement and regular review

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

Non-financial KPIs

<p>On time in full delivery %</p> <p>90.9%</p> <table border="1"> <tr><td>FY2021 actual</td><td>90.9%</td></tr> <tr><td>FY2021 target</td><td>90.0%</td></tr> <tr><td>FY2020 actual</td><td>92.9%</td></tr> <tr><td>FY2019 actual</td><td>92.0%</td></tr> </table> <p>Why do we measure this? On time delivery is the key service measure for customers, ensuring their supplies arrive in advance of their store opening.</p>	FY2021 actual	90.9%	FY2021 target	90.0%	FY2020 actual	92.9%	FY2019 actual	92.0%	<p>Customer pack accuracy %</p> <p>99.7%</p> <table border="1"> <tr><td>FY2021 actual</td><td>99.7%</td></tr> <tr><td>FY2021 target</td><td>98.0%</td></tr> <tr><td>FY2020 actual</td><td>99.3%</td></tr> <tr><td>FY2019 actual</td><td>99.3%</td></tr> </table> <p>Why do we measure this? Pack accuracy ensures customer supplies and invoicing are aligned, minimising queries and administrative corrections.</p>	FY2021 actual	99.7%	FY2021 target	98.0%	FY2020 actual	99.3%	FY2019 actual	99.3%	<p>Returns processing accuracy %</p> <p>99.9%</p> <table border="1"> <tr><td>FY2021 actual</td><td>99.9%</td></tr> <tr><td>FY2021 target</td><td>99.5%</td></tr> <tr><td>FY2020 actual</td><td>99.9%</td></tr> <tr><td>FY2019 actual</td><td>99.9%</td></tr> </table> <p>Why do we measure this? Unsold copies are credited to customers so accuracy is vital for credits and invoicing to both retailers and publishers.</p>	FY2021 actual	99.9%	FY2021 target	99.5%	FY2020 actual	99.9%	FY2019 actual	99.9%
FY2021 actual	90.9%																									
FY2021 target	90.0%																									
FY2020 actual	92.9%																									
FY2019 actual	92.0%																									
FY2021 actual	99.7%																									
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FY2021 actual	99.9%																									
FY2021 target	99.5%																									
FY2020 actual	99.9%																									
FY2019 actual	99.9%																									
<p>Returns collections %</p> <p>98.4%</p> <table border="1"> <tr><td>FY2021 actual</td><td>98.4%</td></tr> <tr><td>FY2021 target</td><td>98.0%</td></tr> <tr><td>FY2020 actual</td><td>98.2%</td></tr> <tr><td>FY2019 actual</td><td>98.0%</td></tr> </table> <p>Why do we measure this? Daily returns collections ensure that sales data (supplies minus returns) is processed within tight time windows, supporting sales forecasting and accurate invoicing.</p>	FY2021 actual	98.4%	FY2021 target	98.0%	FY2020 actual	98.2%	FY2019 actual	98.0%	<p>H&S RIDDORS No.</p> <p>11</p> <table border="1"> <tr><td>FY2021 actual</td><td>11</td></tr> <tr><td>FY2020 actual</td><td>7</td></tr> </table> <p>Why do we measure this? We measure RIDDORS so that we can learn from every incident in the workplace and to monitor any trends which emerge.</p>	FY2021 actual	11	FY2020 actual	7	<p>Colleague engagement net promoter score</p> <p>7.0</p> <table border="1"> <tr><td>FY2021 actual</td><td>7.0</td></tr> <tr><td>FY2020 actual</td><td>6.0</td></tr> </table> <p>Why do we measure this? Working productively together is central to our values. The engagement of colleagues underpins our performance at every level of the business.</p>	FY2021 actual	7.0	FY2020 actual	6.0								
FY2021 actual	98.4%																									
FY2021 target	98.0%																									
FY2020 actual	98.2%																									
FY2019 actual	98.0%																									
FY2021 actual	11																									
FY2020 actual	7																									
FY2021 actual	7.0																									
FY2020 actual	6.0																									

We recycle over 99% of unsold newspapers and magazines, collecting them from retailers at the same time as our daily deliveries and amending future orders to minimise waste.

Good to know

Financial KPIs reflect the most critical measures of success relating to our delivery of shareholder value and ongoing capacity to meet the long term needs of business.

Financial KPIs

Total Statutory Revenue £m

£1,109.6m

FY2021	1,109.6
FY2020	1,164.5
FY2019	1,303.5

Why do we measure this?

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

Earnings per Share p

10.8p

FY2021	10.8
FY2020	4.9
FY2019	9.0

Why do we measure this?

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

Bank Net Debt £m

£53.2m

FY2021	53.2
FY2020	79.7
FY2019	73.9

Why do we measure this?

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

Adjusted Profit before Tax £m

£30.9m

FY2021	30.9
FY2020	27.9
FY2019	37.6

Why do we measure this?

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

Adjusted Earnings per Share p

10.8p

FY2021	10.8
FY2020	9.7
FY2019	11.5

Why do we measure this?

Adjusted earnings per share measures the profit per share of the Company, excluding the same adjusted items as in Adjusted Profit Before Tax.

Continuing Statutory Profit before Tax £m

£30.6m

FY2021	30.6
FY2020	14.8
FY2019	30.3

Why do we measure this?

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

Free Cash Flow £m

£24.0m

FY2021	24.0
FY2020	10.9
FY2019	33.2

Why do we measure this?

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

Reaching further every day...

We aim to take an active role in the development of sustainable solutions for our supply chain, its customers and people. This is fully compatible with our values and strategy to offer the most effective and highest quality route to market for both publishers and retailers.

...creating a
sustainable
future



Highlights



Clear standards

We have adopted the framework of UN Sustainable Development Goals with the structured disclosures-based reporting of the Global Reporting Initiative. Together these provide robust standards for our strategy and its measurement.

Values driven

Our strategy is guided by our values and a commitment to playing our part in shaping a more sustainable future for our business, our industry and the communities we serve.

Multi-faceted

We measure our sustainability goals over five 'pillars' that are aligned to our reporting framework: governance, environment, people, community, responsible partnerships.

Ambitious vision

We have ambitious long term goals, giving clarity on a direction that's guided by an inspiring vision of how we can make a tangible difference every day.

Stretching targets

Building on a track record of improvement and progress, we blend quick wins with long term challenges, setting stretching but realistic targets that engage our people and our industry partners.

Sustainability Report**Committed to responsible practice**

We have a demonstrable track record of paying close attention to the impact our operations have on the environment, our marketplace, the communities we serve and our people. In order to maintain progress, we have taken the opportunity this year to review our approach to Environmental, Social and Governance goals, including their ongoing reporting, governance and measurement.



The adoption of the hybrid model is ongoing and we expect the specificity of our goals and transparency of reporting to build momentum in the coming year.

The Board takes an active role in stakeholder engagement, ensuring our sustainability strategy considers the full range of interested parties.

Good to know



A fresh and proactive approach

In conducting the review, our first objective was to identify a framework that would provide appropriate goals and measurements, allowing for meaningful targets and greater colleague engagement in their pursuit. After wide consultation with our colleagues, we have determined that a hybrid model would best suit the Company and our operations at this time, adopting the principles-based approach of the UN Sustainable Development Goals (SDGs) with the structured disclosures-based reporting suite promoted by the Global Reporting Initiative (GRI).

- The UN SDGs define global sustainable development priorities and aspirations for 2030, seeking to mobilise global efforts around a common set of goals and targets. The SDGs call for worldwide action among governments, business and civil society to end poverty and create a life of dignity and opportunity for all, within the boundaries of the planet. The Sustainable Development Goals were launched in 2015 by the UN.
- The GRI was first established in partnership with the United Nations' Environment Programme. The programme has since grown and developed sustainability reporting guidelines that strive to increase transparency and accountability of economic, environmental and social performance, working to a comprehensive sustainability reporting framework that is widely used around the world.

By adopting a hybrid model we aim to encourage a broad principles-focused approach to sustainability that is tailored and meaningful to our operations, complemented by a structured reporting suite that captures not only the physical activity of our business, but also the wide impact of our operations on our industry and communities across the UK. We believe that this framework is fully compatible with our Company values and will enhance, not compromise, our service to publishers and retailers.

The adoption of the hybrid model is ongoing and we expect the specificity of our goals and transparency of reporting to build momentum in the coming year. In particular, whilst the UN SDGs have been the primary focus of activity to date in aiding us to identify and set meaningful objectives, activity and metrics, the intention will be to introduce the rigours of the disclosures-based reporting suite promoted by GRI during FY2022. Furthermore, we are mindful of the forthcoming obligation on the Company to report in line with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) and will be seeking to ensure our metrics are fully compliant. Meanwhile, for this report, we have set our intended approach while still providing measurements that were made under the previous framework and which continue to show progress and responsible practice in all key areas.

Governance

The Company is fully committed to responsible practice and works to deliver its services with due regard to Health & Safety, the environment, the communities we serve, our commercial partnerships and our people. The Board takes an active interest in sustainability issues, regularly reviewing progress and addressing any concerns as they arise.

In conducting this year's review, we have established a Steering Group and separate project team that draws on a well of experience in the business, while blending fresh perspectives and external consultancy. The Steering Group is chaired by Jonathan Bunting (CEO) and comprises members of the Executive Team. The project team is drawn from colleagues across the business with a passion for sustainability and appropriate experience in delivering projects. The strategy, findings and actions of the Steering Group and Project Team have been carefully considered by both the Executive Team and the Board. Going forwards, our new Chief Financial Officer (Paul Baker) will take over executive accountability for our sustainability programme, supported by a dedicated Steering Group who will continue to assist functional subject matter experts in delivery of objectives, targets and plans.

At an operational level our sustainability goals are owned and managed by a relevant executive director with support from functional experts and teams where necessary. Targets and priorities are agreed by the Steering Group with the Executive Team and the Board and progress is reviewed quarterly throughout the year. In practice, our sustainability programme is integrated into operational objectives and cross-functional involvement is widespread.

This year we have increased our communication of sustainability goals, seeking a greater awareness and engagement with our direction. Colleagues and industry partners have been overwhelmingly supportive, expressing their desire to see further progress so that we play our part in making a positive difference to our futures.

Sustainability Report continued

Our new pillars will guide us into the future

Sustainability pillars

We propose to structure and measure our sustainability goals over five 'pillars' which align to our hybrid reporting framework referred to above.

Each pillar will be assigned targets and priorities, backed by action plans that ensure we allocate resources appropriate to their attainment.

Next steps on our journey

As we go forward, we will plan on the basis of ambitious but realistic goals for each of our five pillars. Our preferred approach is to blend a directional vision with tangible achievements that help to confirm progress and demonstrate the difference we can make. For the coming year we have identified the opportunities in the table below as of particular relevance for Smiths News and therefore as priorities for immediate action planning and progress.

Governance



Incorporating not only the formal reporting structures, but also the ownership and communication of targets, compliance reporting and transparency, and more widely the involvement of all colleagues in the delivery of objectives and commitment to a more sustainable future. Because of its vital importance to all colleagues and partners we include Health and Safety reporting under this pillar too.

Objectives

To provide a trusted, transparent, responsible and legally compliant service, and an environment that is safe for colleagues to operate

Activities and targets

- Operating with a zero tolerance approach to regulatory breaches – no regulatory investigations / breaches in FY2022
- Secure key accreditations in FY2022 including ISO 45001, RoSPA, FORS, BSI
- Introduce and promote a transparent Sustainability governance framework in FY2022, consistent with our values
- Integrate our new digital Safety Management System in FY2022 and implement RoSPA accreditation standards across our estate to achieve 50% of depots certified by FY2024

Environment



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

Objectives

To reduce the impact of our activities on the planet and to take action promoting the protection of the environment

Activities and targets

- 100% of our generated waste to be recycled and reused within 12 months
- All gas and electricity to be sourced from 100% green / renewable sources by 2024
- 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

People



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

Objectives

To ensure that colleagues remain at the heart of our business, promoting our core values and realising their potential


Activities and targets

- Achieve a 30% increase in the number of colleagues from minority groups recruited into leadership positions over the next five years
- Maintain an inclusion score within the upper quartile of peer benchmarked data on an annual basis
- Achieve a colleague engagement score of at least 70% on an annual basis and an improving trend of relevant 'promoters' within the underlying metrics
- Increase access to development opportunities, with a year-on-year increase in the % of colleagues having access to such LMS systems

We align our sustainability strategy to both the UN Sustainability Goals and the GRI sustainability principals. Find out more about them online:
UNSDG: sdgs.un.org/goals
GRI: www.globalreporting.org/standards


Good to know

Community



Conscious that our business not only serves communities but also thrives from their success, we plan to enhance the opportunities for colleagues and the Company to make a greater contribution to wider causes and charitable giving. Feedback from our colleagues makes clear that they would like to make a greater difference to their local communities, being 'good neighbours' and positive contributors. We will seek to provide greater opportunities and measure our impact on the communities we serve and support.

Responsible partnerships



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



Objectives

To support our local and national communities, enabling colleagues to make a contribution to the communities and causes that matter to them

Activities and targets

- Ensure local businesses are considered when sourcing
- Continue to support Pass It On as its anchor sponsor

Objectives

To support the future of our industry and supply chain, delivering a trusted service to our customers, thereby contributing to our ongoing success

Activities and targets

- To partner only with businesses which align to our Supplier Code and Ethical Trading Policy
- To develop and expand our Sustainability Procurement Policy
- Achieve Cyber Essentials Plus Certification in FY2022 – a rigorous test of cyber security systems, ensuring we are protected against hacking and phishing attacks
- Finding and improving new sustainable ways of working with our supply chain partners



Sustainability Report continued

Long term commitments

Looking further ahead, we have also committed to longer term ambitions that give appropriate priority to those aspects of our supply chain which we most directly impact and which we believe can make the most tangible difference.

- The migration of our subcontracted delivery service partners to sustainably fuelled vehicles by 2035 through the installation of supporting infrastructure at our sites by 2030
- The migration of the Company's car fleet to sustainably fuelled / hybrid vehicles by 2025 and of our heavy goods vehicles to decarbonised technology by 2030
- New warehouse locations to be net carbon neutral and current sites to be net carbon neutral by 2030
- All gas and electricity to be sourced from 100% green / renewable sources by 2024
- A colleague engagement score of 70% or greater each year and an improving trend of relevant 'promoters' within the underlying metrics
- A material improvement in the ethnic and gender diversity of our leadership population
- At least one Board member from a minority group and two female members by 2026

Supporting all of the above, we will continue to develop our sustainability framework, refining and communicating our strategy in ways that seek to engage all stakeholders in the drive for sustainable practice. In conjunction with our Operations and People teams, we are currently focusing on embedding the necessary culture into our everyday behaviours, such that a mindset founded on sustainable practices becomes core to our business model and ways of working.

Environmental impacts

As a physical distributor serving customers every day of the year our environmental impact is most significantly influenced by our vehicle emissions. Further significant impacts include energy consumption at our depots and office locations, waste disposal and recycling of product and packaging.

Streamlined Energy & Carbon Reporting disclosure

September 2020 – August 2021	Current year (UK & offshore)	Previous year* (UK & offshore)
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use / tCO ₂ e	983.7	29,196
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location based) / tCO ₂ e	1,005	1,690
Total gross emissions / tCO ₂ e	1,988	30,886
tCO ₂ e per million £ turnover	1.8	24.46
tCO ₂ e per FTE	1.2	7.39
Energy consumption used to calculate above emissions / kWh	9,680,529	129,448,683
Estimated emissions from the mileage covered by our outsourced delivery drivers (tCO ₂ e)	9,032	11,255

* Previous year includes Tuffnells up to its disposal in May 2020.

Continuing operations** – September 2020 – August 2021	Current year (UK & offshore)	Previous year** (UK & offshore)
Emissions from the combustion of fuel or the operation of any facility including fugitive emissions from refrigerants use / tCO ₂ e	983.7	1,446
Emissions resulting from the purchase of electricity, heat, steam or cooling by the Company for its own use (location based) / tCO ₂ e	1,005	1,184
Total gross emissions / tCO ₂ e	1,988	2,630
tCO ₂ e per million £ turnover	1.8	2.26
tCO ₂ e per FTE	1.2	1.46
Energy consumption used to calculate above emissions / kWh	9,680,529	10,803,390
Estimated emissions from the mileage covered by our outsourced delivery drivers (tCO ₂ e)	9,032	11,255

** Continuing operations excludes Tuffnells in previous year.

Consequently, these represent our primary areas of focus for environmental impact improvement.

Reducing the fuel used by our fleet and that of our delivery service contractors is among the most substantial of the opportunities for reducing the environmental emissions of our operations. At present, our primary focus is on route optimisation and, this year, we have reduced mileage from trunking and local deliveries by an estimated 5.3%, amounting to 1,121,801 miles. This progress was assisted by the introduction of smaller, more efficient tote box solutions, which reduce weight, allowing for new route configurations and overall lower emissions.

We continue to monitor the growing potential for electric vehicles but, at present, we believe the technology is not yet adequate nor sufficiently widespread to meet our mainstream delivery requirements.

Nonetheless, we have introduced electric-only transport for our services from our DMD operations, serving airports and travel locations, and will carefully review their effectiveness and potential application to other locations, such as city centres or tightly geographically defined delivery runs.

Following policy changes made in 2020 the size of the Company's own vehicle fleet (including company cars, long term hire cars and commercial vehicles) has reduced by 29.5% from 68 to 48 vehicles.

Good progress has also been made with waste and recycling. A roll out of a new packing system has reduced paper wrapping across all our 37 depots and investment in tote storage dollies has reduced the usage of shrink-wrap by 79%.

Over recent years we have worked hard to ensure that over 80% of the Company's waste was diverted from landfill; this year, in partnering with a new specialist services provider we are delighted that 100% of our waste will now be similarly diverted. These are typical examples of continual review of operational processes to find solutions that deliver efficiency and sustainability.

The Company's electricity is now sourced solely from renewable energy providers at the point of contract renewal. By using SMART metering with live reporting dashboards across our estate, we monitor usage of electricity and gas on a daily basis, allowing us to react to any spikes with appropriate action. We continue to roll out the installation of LED lighting to the last few remaining locations and are trialling investment in upgraded boiler and air conditioning systems in one location to measure benefits and effectiveness.

Smiths News processes over 99% of unsold newspapers and magazines for credit and recycling, using specialist partners who collect in bulk and minimise transportation.

Good to know



Making a difference today

Balancing long term progress with quick wins and tangible progress is key to our sustainability strategy. This year we have made excellent progress towards that goal.

Pallet shrink-wrap – usage reduced by 79%

Waste to landfill – 100% diverted from landfill

Recycling – over 99% of unsold copies are processed for paper recycling

Hardship fund – colleague support increased and extended

Electric vehicles – acquired for deliveries to London airports

Renewable energy – electricity sourced from renewable energy suppliers

Pass It On – our Company-sponsored initiative became an independent registered charity

People

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

In support of these goals, we have an extensive people programme, underpinned by clear and well publicised policies that are founded on principles of proactive colleague engagement, diversity and inclusion and responsible practice throughout the Company.



The Company takes a progressive approach to supporting colleagues in the workplace, making a positive difference to their lives, prospects and wellbeing.

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

A comprehensive People report on pages 22 to 27 considers all these issues in greater detail, including the statutory disclosures of employee headcount, gender composition and pay gap reporting, workplace responsibilities and human rights. The report also explores our approach and the progress made on several associated initiatives in the year.

Marketplace

Smiths News plays an active role in monitoring and improving supply chain standards, playing a full role in industry bodies and adopting the voluntary codes of the Press Distribution Forum (PDF).

In April 2021, the PDF Charter was relaunched in digital format with a new website allowing quick and easy access to retailers with a simplified online complaints process and improved user guidance for retailers. The most significant change in the Charter's complaints process itself was a shift from a three to a two-stage model, speeding escalation and resolution of more serious concerns for retailers.

Sustainability Report continued

The year to the end of 2020 saw a significant reduction in the number of complaints, which the PDF believed was a consequence of the COVID-19 pandemic and reduction in the number of retailers trading. As a consequence, there has been an increase in year-on-year complaints in the first half of 2021, but these remain at a low level given the number of daily deliveries across the industry. For the period January to June 2021 there were a total of 55 breaches of standards of which only three were escalated to stage 2.

Smiths News continues to apply an automatic service failure payment scheme in cases where the daily news is delivered over two hours late, irrespective of inbound delivery times, which are beyond our control. This scheme, which goes beyond the PDF code and our contractual obligations, has been well received by retailers and the trade bodies which represent them. In the year of operation, 3,543 payments were made to retailers from approximately 8.8 million deliveries made, representing 0.04% 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 the Supplier Zone of our website at <https://www.corporate.smithsnews.co.uk/suppliers>

Health & Safety

The Board is committed to achieving the highest standards of Health & Safety, ensuring that the appropriate resources are available for improvements to our culture, performance and practice.

Our operations are supported by specialist Health & Safety teams that provide guidance, training and support in relation to particular risks and priorities. A Health & Safety report is provided to the Audit Committee on a standing item basis; and the Audit Committee and Board each conduct regular reviews of incidents, trends and overall performance. The result is a continual focus on Health & Safety at all levels.



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

	2021	2020
Specified Injuries	0	7
Injuries resulting in over 7 days absence from work	11	32
Dangerous diseases resulting in over 7 days absence from work*	6	0
All RIDDOR	17	39

Continuing operations**

	2021	2020
Specified Injuries	0	0
Injuries resulting in over 7 days absence from work**	11	7
Dangerous diseases resulting in over 7 days absence from work*	6	0
All RIDDOR	17	7

* Taking a precautionary approach, the Company chose to classify any positive COVID-19 case that it believed might reasonably have been connected to the workplace as a RIDDOR.

** Continuing operations excludes Tuffnells in FY2020.

The Company has a robust culture of attention to Health & Safety. We strive to embed positive behaviours and encourage proactive reporting of all incidents so that lessons can be learned and appropriate action taken. Using qualified Health & Safety practitioners, we review all recorded accidents, near misses and any concerns raised by colleagues in pursuit of continual improvement to our processes and performance. We continue to pursue a zero exceptions policy to accurately reporting and categorising all incidents, followed up by training and corrective action for all significant events.

The total of 11 reportable incidents in FY2021 (excluding COVID-19 incidents) is a small increase on the previous year. However, this is not considered a significant trend given the very small numbers. Taking a highly precautionary approach, the Company chose to classify any positive COVID-19 case that it believed might reasonably have been connected to the workplace as a RIDDOR under the classification of dangerous diseases. We are pleased to report that no specified injuries (representing more serious occurrences) were reported this year.

In addition to RIDDORS, the Company tracks all incidents and injuries in the workplace, however minor they may be. This year, we recorded 109 incidents (FY2020: 94 incidents) representing 1.85 incidents per 100,000 hours. This compares favourably to the industry average of 2.9 incidents per 100,000 hours for warehouse locations in the Transportation and Storage sector, as reported by the UK Health and Safety Executive in 2020.

During the year Smiths News successfully achieved accreditation to the new standard ISO 45001, upgrading from the former ISO 18001. Furthermore, a total of 11 key sites across the network also achieved RoSPA (Royal Society for the Prevention of Accidents) Gold and Silver awards: Newcastle, Nottingham, Stockport, Birmingham, Hemel Hempstead, London Travel, Newport, Bristol, Liverpool, Hornsey and Southampton.

In support of ongoing management, we have trained additional colleagues to the NEBOSH (National Examination Body of Safety and Health) General Certificate standard, further boosting our regional expertise and support. We have also partnered with a specialist external training provider to develop a bespoke Safety Leadership course that is accredited to IIRMS, a professional body dedicated to managing risk. This training programme is specifically designed for our management teams, with directly relevant examples and case studies relating to our operating circumstance. To date, all our depot managers have now attended, and the course (or its equivalent) will be a mandatory requirement of future managerial appointments, helping drive a culture of positive behaviour and open reporting to ensure learning and progress is taken from any incidents.



Smiths News has been crucial to our development. Without their support, and the enthusiasm of their colleagues, we would not be able to help the thousands of people who live on our streets.

***Mike Makinson,
Chair of Pass It On Trustees***

Smiths News successfully achieved accreditation to the new standard ISO 45001, and 11 sites across the network achieved RoSPA Gold and Silver awards

<https://www.rospa.com/>

Good to know

Pass It On



Since 2017 colleagues at Smiths News have been helping homeless and vulnerable people on the streets of cities across the UK. With the full support of the Company, we have supported over 4,500 individuals with donations of winter clothing, care packs, warm drinks and nutritious foods. Indeed, the initiative, which began as a single winter campaign, has grown so much that by 2020 it was decided that a longer term and more structured vision was needed.

We are delighted that in September 2020 Pass It On became a registered charity. Smiths News will remain a primary sponsor, but as an independent body the charity now has more options to develop its programme of support and raise funds for its charitable causes.

This year, the COVID-19 pandemic meant that although the need was as great as ever, there would be difficulties in running the usual winter campaigns. Nonetheless, with creativity and determination we partnered with several other charities to find new ways of reaching those in need. Safety concerns meant that the recycling of quality warm clothing had to be temporarily suspended, so instead we focused on the distribution of food, drinks and care products. Generous donations were supplied by partner companies including Amazon, Ipro drink and Go 2 Dave. Our industry colleagues at News UK also donated £5,000 to Pass It On's campaign fund, with every penny going directly to support those in need.

Pass It On's efforts continued into summer, with the delivery of care packages that included sun screens, sanitary and nutrition products. The volunteers on the streets reported large increases in the number of people needing help and gave regular feedback that the pandemic had impacted the vulnerable particularly hard.

This winter, Pass It On is planning on running its biggest ever campaign – and looking further ahead, there are plans for providing new services such as hairdressing and healthcare.

Talking of this year's developments, Jonathan Bunting, Smiths News CEO, said, "Pass It On may have become independent, but Smiths News will continue to actively support its goals, donating time and resources, and encouraging colleagues to get involved as volunteers or participating as trustees and project coordinators. We are proud to have been the founders of a charity which can make such a tangible and immediate difference to those in need."

For more details go to <https://passitonofficial.org/>

Financial Review

Strong financial positioning



The underlying strength of our financial position is evidenced by the Group's profit, cash and debt metrics in a year impacted by further COVID-19 restrictions and a depressed economy.

Investor hub – the investor section of our corporate website has extensive information and tools for shareholders including a detailed archive of results and presentations.

www.corporate.smithsnews.co.uk/investors

Good to know

Overview

The underlying strength of our financial position is evidenced by the Group's profit, cash and debt metrics in a year impacted by further COVID-19 restrictions and a depressed economy. Free cash flow of £24.0m reduced bank net debt to £53.2m as the benefit of cost savings actioned at the end of FY2020 drove a 12.8% year-on-year increase in Adjusted operating profit to £39.6m. On a statutory basis, operating profit increased 69.7% to £35.8m (FY2020: £21.1m) as the level of asset impairments and reorganisation costs incurred in the prior year resulting from the impacts of the COVID-19 pandemic and Tuffnells disposal were not repeated.

The increase in operating profit underpins the £3.5m increase in Adjusted EBITDA to £42.6m (FY2020: £39.1m) which is the profit metric used for banking covenants and internal management reporting. Of particular note is Bank Net Debt: EBITDA of 1.2x and free cash flow less dividends/ EBITDA of over 50%. Reported Bank Net Debt benefited from the timing of c.£20m of publisher payments which fell due in the following financial period. Free cash flow of £24.0m and the full £6.7m receipt in October 2020 of the working capital loan made to Tuffnells comfortably accommodate the amortisation of debt facilities and payment of dividends. Debt was reduced through agreed amortisation repayments of £7.5m in April 2021 and a further £7.5m in October 2021. An interim dividend payment of £1.2m was made in July 2021, with a final dividend of £2.4m proposed for approval at the AGM in January 2022 (and payment in February 2022).

Continuing adjusted results (Table A)

Group

Continuing Adjusted operating profit of £39.6m was an increase of £4.5m (12.8%) on the prior year. The impact of lower revenue was more than offset by better wholesale margin due to the product mix and cost savings both in depot and overheads.

Table A: Continuing adjusted results

Group	2021	2020	Change
Continuing Adjusted results £m			
Revenue	1,109.6	1,164.5	(4.7)%
Adjusted EBITDA (excluding IFRS 16)	42.6	39.1	9.0%
EBITDA (including IFRS 16)	50.3	45.7	10.1%
Operating profit	39.6	35.1	12.8%
Net finance costs	(8.7)	(7.2)	(20.8)%
Profit before tax	30.9	27.9	10.8%
Taxation	(4.6)	(4.2)	9.5%
<i>Effective tax rate</i>	14.9%	15.1%	
Profit after tax	26.3	23.7	11.0%

In particular, trading patterns in the second half of the year were strong in comparison to FY2020, with the result that the H1 2021 adverse variance in adjusted operating profit of £1m was offset by £5m higher profit in H2 2021. In the first half of FY2020, the Company experienced normal trading conditions other than in DMD, which had started to be impacted by restrictions to international travel in early calendar year 2020. Trading in Q3 FY2020 was severely affected by store closures following the first lockdown in March 2020, but recovered from this low point into Q4 FY2020. As reported in our half year announcement on 5 May 2021, trading was then stable through the first half of FY2021, even in the light of subsequent lockdowns. Since the half year, trading has continued to improve gradually as the overall economy has started to recover.

Revenue was £1,109.6m (FY2020: £1,164.5m), down 4.7% on the prior year, which is within the historical trend of -3% to -5% annual revenue decline. H1 2021 revenue was down 11.5% compared to the prior year, but was up 2.9% in H2 2021 year-on-year (on a comparative period impacted by COVID-19). Revenue grew by 1% between the first and second half of FY2021 compared to a pre-COVID trend of circa 4%. The year-on-year sales recovery in H2 2021 (following the anniversary of the first lockdown) benefited from one-off sales opportunities, most notably the sales of Euro 2020 stickers and Pokémon trading cards.

Newspaper sales for FY2021 were down 4.3% (FY2020: 6.9%) and magazine sales were down 4.2% (FY2020: 16.3%). Newspapers had been 8.8% down in H1 2021 but were 0.6% up in H2 2021 year-on-year. Magazines were 14.9% down in H1 2021 but were 9.4% up in H2 2021. The newspaper market stabilised quicker than the magazines market in Q4 2020 with consumer purchasing shifting towards local stores rather than supermarkets and this gave a stronger comparative in H2 FY2021 for newspapers than magazines.

DMD revenue of £3.3m (FY2020: £10.5m) was down £7.2m (68.6%), due to travel restrictions impacting airlines and airports. DMD's operating profit of £0.1m was £0.6m higher than FY2020 due to full period benefit of cost restructuring activities implemented in Q4 2020 and lower depreciation charges following asset write offs in FY2020.

The increase in Adjusted operating profit of £4.5m to £39.6m (FY2020: £35.1m) can be attributed to:

- Smiths News network efficiency programme, which generated £5.0m of year-on-year savings from the labour and distribution cost base. These savings more than offset the £2.2m year-on-year reduction in net margin originating from lower sales. Network savings were generated largely from final mile route reductions as the cost base was flexed downwards on lower volumes;
- DMD Adjusted operating profits increased by £0.6m year-on-year; and

- Central cost overheads were reduced by £1.0m comprising the full year benefit to back office costs following the disposal of Tuffnells in May 2020, partly offset by the increase in colleague and management incentives following the above target performance in FY2021.

Net finance charges of £8.7m (FY2020: £7.2m) were up on the prior year by £1.5m due to a higher level of amortisation of bank arrangement fees £2.0m (FY2020: £0.5m) following renewal of the Company's banking facilities in November 2020. The effective interest rate is 5.27% (FY2020: 4.45%).

Adjusted profit before tax was £30.9m, up 10.8% on last year. Taxation of £4.6m indicates a marginally lower effective tax rate of 14.9% compared to the prior year (FY2020: 15.1%) for continuing operations driven by an adjustment in respect of the prior period (higher group relief from Tuffnells) and the unwind of the discount on the Tuffnells deferred consideration which is not subject to corporation tax.

Financial Review continued

Statutory results (Table B)
Group

Statutory continuing profit before tax of £30.6m was a £15.8m increase on the prior year (FY2020: £14.8m). The increase was primarily driven by improved trading in Smiths News and DMD which drove £4.5m higher operating profit; reductions in impairment charges of £4.8m; and decrease in network and reorganisation costs of £6.9m.

The effective statutory income tax rate for the continuing operations was 14.1% (FY2020: 18.9%). Although the prior year benefited from the Group relief relating to losses in Tuffnells, this was more than offset by the impact of a reduction in the expenses not deductible for tax purposes and income not subject to tax in the current year.

Statutory continuing profit after tax of £26.3m is up by £14.3m (FY2020: £12.0m), and statutory continuing profit per share of 10.8p is up 5.9p (FY2020: 4.9p).

The Company has net liabilities of £57.7m on its balance sheet (FY2020: £81.6m) largely as the result of impairments to the assets and goodwill of the Tuffnells business in prior years.

The Company-entirety balance sheet continues to have distributable reserves of £124.9m to allow for future dividend payments.

Earnings per share (Table C)

Statutory continuing earnings per share is up 5.9p to 10.8p (FY2020: 4.9p per share) and reflects the reduction in impairment charges and decrease in network and reorganisation costs in the current year.

Earnings attributable to shareholders on a continuing Adjusted basis of £26.3m resulted in an Adjusted EPS of 10.8p, an increase of 1.1p on the prior year driven by the improved trading of the business.

The fully diluted weighted number of shares was 254.8m (FY2020: 247.2m). Fully diluted shares include an 11.3m diluted share adjustment for employee incentive schemes (FY2020: 2.6m).

Table B: Statutory results

Group	2021	2020	Change
Continuing operations £m			
Revenue	1,109.6	1,164.5	(4.7)%
Operating profit	35.8	21.1	69.7%
Net finance costs	(5.2)	(6.3)	(17.5)%
Profit before tax	30.6	14.8	106.8%
Taxation	(4.3)	(2.8)	53.6%
<i>Effective tax rate</i>	14.1%	18.9%	
Profit after tax	26.3	12.0	119.2%
Discontinued operations £m			
Loss for the year from discontinued operations	(0.1)	(18.7)	99.5%
Profit/(loss) attributable to equity shareholders continuing and discontinued operations	26.2	(6.7)	491.0%

Table C: Earnings per share

Earnings per share	Continuing 2021	Adjusted 2020	Continuing 2021	Statutory 2020
Earnings attributable to ordinary shareholders (£m)	26.3	23.7	26.3	12.0
Basic weighted average number of shares (millions)	243.5	244.5	243.5	244.5
Basic Earnings per share	10.8p	9.7p	10.8p	4.9p
Diluted weighted number of shares (millions)	254.8	247.2	254.8	247.2
Diluted Earnings per share	10.3p	9.6p	10.3p	4.9p

Table D: Dividend

Dividends	2021	2020
Dividend per share (paid & proposed)	1.5p	nil
Dividend per share (recognised)	0.5p	1.0p

Table E: Adjusted items

Adjusted items	2021	2020
Transformation programme planning costs	(1.1)	-
Pensions	(1.0)	(0.9)
Share of profits from joint ventures	(0.3)	-
Asset impairments	(1.6)	(6.4)
Network and reorganisation costs	0.1	(6.8)
Other	0.1	0.1
Total before tax and interest	(3.8)	(14.0)
Finance income – unwind of deferred consideration	3.5	0.9
Total before tax	(0.3)	(13.1)
Taxation	0.3	1.4
Total after taxation	-	(11.7)

Dividend (Table D)

The Board is proposing a final dividend of 1.0p, taking the full period dividend to 1.5p (FY2020: nil p). The proposed final dividend for the period ended 28 August 2021 of 1.0p is subject to approval by shareholders at the Annual General Meeting on 20 January 2022 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 10 February 2022 to shareholders on the register at close of business on 14 January 2022. The ex-dividend date will be 13 January 2022.

Adjusted items (Table E)

Adjusted items of £0.3m relating to continuing operations were a £12.8m reduction on the prior year (FY2020: £13.1m). Network and reorganisation costs (FY2020: £6.9m lower) and asset impairments (£4.8m lower) reduced significantly, the costs in FY2020 having been both the result of internal restructuring and a response to the initial phase of COVID-19.

Adjusted items are defined in the accounting policies in Note 1 of 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 periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team. Alternative Performance Measures (APMs) should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

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

Adjusted items from continuing operations before tax was £0.3m (FY2020: £13.1m).

During the year, the Company incurred professional fees in relation to transformation programme planning of £1.1m. These included professional fees related to the rationalisation of DMD's corporate structure (£0.4m) to minimise the cost base of this business.

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

Rascal Solutions Limited, a joint venture, has fully impaired an intangible asset in its annual accounts to 31 August 2021 because it is considered no longer to have future economic value. The net book value of this asset was £0.6m of which 50% (£0.3m) of the write off is attributed to the Group.

Asset impairment charges of £1.6m were recognised in the period (FY2020: £6.4m) in respect of the joint venture investment in Rascal driven by increased market competition. The largest component of the £6.4m charge in the prior year was the £5.7m write down of goodwill in DMD, which trades primarily in the global travel market.

Network and reorganisation costs were a credit of £0.1m in FY2021 owing to an overprovision of redundancy costs in the prior year. The decrease in costs of £6.9m since FY2020 represents an absence of material one-off projects compared to last year. Costs of a similar nature have been incurred in FY2021 to support depot and cost reduction plans but were not of sufficient materiality to be considered for adjustment.

In the prior year, network and reorganisation costs of £6.8m related to the outsourcing of central functions (£1m); the restructuring of our magazine hubs (£1.9m – mainly redundancy costs); and redundancies in DMD, Instore and in our central functions of £2.7m, as a consequence of both the disposal of Tuffnells and the impact of COVID-19 lockdowns on our trading; with the balance of costs being related to changes in the Executive Team.

Table F: Free cash flow

£m	2021	2020
Operating profit continuing (including Adjusted items)	35.8	21.1
Adjusting items	3.8	14.0
Depreciation & amortisation	10.7	10.6
Adjusted EBITDA (including IFRS 16)	50.3	45.7
Working capital movements	1.0	(5.7)
Capital expenditure	(2.4)	(7.0)
Lease payments	(5.9)	(6.8)
Net interest and fees	(9.5)	(6.5)
Taxation	(6.3)	(2.2)
Other	0.8	0.7
Free cash flow (excluding Adjusted items)	28.0	18.2
Adjusted items – cash effect	(4.0)	(7.3)
Continuing Free cash flow	24.0	10.9



Free cash flow generation remains one of the Company's key strengths.

A finance income credit of £3.5m (FY2020: £0.9m) arises on a full period of unwind of the discount on the Tuffnells deferred consideration. The tax credit on continuing adjusted items was £0.3m (FY2020: £1.4m). Adjusted items before tax for discontinued operations in the prior year all related to the Tuffnells business, with asset impairments of £0.6m; the net impact of the sale and leaseback of properties of £1.0m; the net profit of £0.6m following the strategic review and sale of Tuffnells; and depot closures and executive redundancies of £1m prior to disposal. Tax charges on discontinued adjusting items totalled £3.6m in FY2020.

Free cash flow (Table F)

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

The Company generated £24.0m of free cash flow which was £13.1m higher than FY2020 (FY2020: £10.9m). Throughout the COVID-19 pandemic, the Company has continued to generate strong levels of cash, enabling it to continue to reduce debt and to pay dividends.

Financial Review continued

Adjusted EBITDA of £50.3m is up by £4.6m (10.1%) compared to FY2020 of £45.7m. The primary drivers are consistent with those which supported the increase in operating profit, being significant depot cost reductions which more than offset margin declines and lower overheads.

The increase in working capital in the year was £1.0m (FY2020: decrease of £5.7m). Working capital is affected by the billing cycles of both publishers and retailers and leads to intra-month working capital movements of up to £40m. Those cycles were consistent at the FY2021 and FY2020 period end cut-off points, resulting in only a £1.0m movement during the year.

Cash capital expenditure in the year was £2.4m (FY2020: £7.0m), a decrease of £4.6m. Depot and network investments were £2.3m (FY2020: £3.9m) and technology investment was £1.1m (FY2020: £3.1m). Of these investments, £1m remained unpaid at period end as a capital creditor. The prior period included cash payments made in early FY2020 from capital commitments and creditors unpaid from the end of the FY2019 financial period of £4.3m.

Lease payments of £5.9m (FY2020: £6.8m) have decreased by £0.9m due to leases expiring during the period.

Net interest and fees of £9.5m (FY2020: £6.5m) has increased by £3.0m, due to the payment of arrangement fees in relation to the Company's refinancing of its debt facilities in November 2020.

Cash tax outflow of £6.3m was a £4.1m increase on the prior period (FY2020: £2.2m outflow) owing principally to the move to the quarterly instalment payment regime in FY2021, resulting in a one-off negative cash flow impact in the year.

The total net cash impact of Adjusted items was £4.4m (FY2020: £7.3m). This comprised: £3.4m (FY2020: £6.4m) of network reorganisation, other strategic and restructuring costs; and pension buy-in costs of £1.0m (FY2020: £0.9m).

Table G: Net debt

£m	2021	2020
Opening net debt	(79.7)	(72.1)
Continuing operations free cash flow	24.0	10.9
Discontinued operations free cash flow	(0.4)	(4.9)
Free cash flow	23.6	6.0
Lease creditor & other movement	-	0.5
Dividend paid	(1.2)	(2.4)
Purchase of own shares for employee share schemes	(2.6)	(0.7)
Disposal costs	-	(3.7)
Discontinued operations – pension deficit recovery	-	(0.8)
Discontinued operations – Tuffnells working capital loan	6.7	(6.5)
Bank Net Debt	(53.2)	(79.7)
Unamortised arrangement fees	1.2	0.2
IFRS 16 leases	(29.2)	(33.4)
Closing net debt	(81.2)	(112.9)

Net debt (Table G)

Bank Net Debt (excluding IFRS 16 Leases) closed the period at £53.2m compared to £79.7m at August 2020, a decrease of £26.5m. The reduction in debt was driven by free cash flow from continuing operations of £24.0m and £6.7m from the full repayment in October 2020 of the working capital loan made to Tuffnells as part of the sale agreement in May 2020. These inflows were offset by the payment of the interim dividend of £1.2m in July 2021 and a loan made to the Company's Employee Benefit Trust to purchase shares for the satisfaction of future share scheme awards of £2.6m.

The Company's Bank Net Debt/EBITDA ratio decreased to 1.2x (FY2020: 2.0x). The period end fell just before major publisher payments of c.£20m were made, benefiting reported net borrowings. Net debt rose to £69.3m on 1 September 2021 and to £72.2m on 23 September 2021 which was the peak debt point for the month.

The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing of up to £40m within the overall bank facility of £112.5m at the period end. This results in a predictable fluctuation of net debt during the course of the month compared to the closing net debt position.



The Company's Bank Net Debt/EBITDA ratio decreased to 1.2x (FY2020: 2.0x).

Our average daily Bank Net Debt during FY2021 was £82.6m (FY2020: £98.8m).

The Bank Net Debt to EBITDA covenant of 1.2x is comfortably within our main leverage covenant ratio of 2.75x and we remain well within all of our other bank covenant tests at period end.

Several items impacting the prior year did not recur or only partially reoccurred in FY2021. Discontinued operations cash flow of £4.9m related to the net cash loss made by Tuffnells prior to disposal. In FY2021, there was a further £0.4m cash outflow in relation to the payment of insurance claims made against Tuffnells which had existed at the date of sale. The lease creditor movement in FY2020 was the result of the transition into IFRS 16 and did not reoccur. Disposal costs of £3.5m in FY2020 related to Tuffnells as did pension deficit recovery payments of £0.8m in FY2020. Pension deficit repair payments are considered as a non-free cash flow item. The Tuffnells working capital loan which was an £6.5m outflow in FY2020 was repaid in full in October 2020 including accrued interest of £0.2m, giving an FY2021 inflow of £6.7m.

Closing net debt (including IFRS 16 Leases) is £81.2m at the end of FY2021, representing a decrease of £31.7m on the prior year.



Going concern

Having considered the Company's banking facility, the impact of COVID-19 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 22 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

The Company operated a defined benefit scheme, the news section of the WH Smith Pension Scheme, which as at 28 August 2021 had an IAS 19 pre-tax surplus of £14.8m (FY2020: £15.2m). The Smiths News section is both closed to new entrants and closed to future accrual.

During the year, there was a reduction in equalisation liabilities by £2.8m to £5.4m. The £2.8m movement is considered an actuarial remeasurement recognised within other comprehensive income and is offset by the release of the IFRIC 14 liability. On 17 February 2021, the WH Smith Pension Trust purchased an additional insurance backed annuity 'buy-in' to cover the additional equalisation liabilities not covered by the original 'buy-in' in October 2018 at a cost of £6.2m.

The High Court handed down its judgment in the latest instalment of the Lloyds cases in November 2020, this time in relation to equalising past transfers for inequalities in Guaranteed Minimum Pension (GMP) benefits. The judgment created an additional liability of £0.4m which is not covered by 'buy-in' insurance. At the balance sheet date, £0.3m of the amount owed has been paid and a further £54k of liability is still to be traced.

On 26 February 2021, the Company gave notice to terminate its liability to the pension scheme with effect from 2 March 2021. This notice was accepted by the Trustee and the wind-up of the pension scheme commenced. On 31 March 2021, the pension liabilities covered by the buy-in insurance, which had been undertaken in October 2018, transferred over to the new pension provider L&G and the 'buy-out' concluded, removing the Company's obligation to the members.

At the balance sheet date, the Company did not recognise the £14.8m pre-tax surplus as an asset, as it did not have an unconditional right to the asset. The right of return is dependent on the Trustee reaching a position where it is advised that it can legally distribute the surplus to the employer and on completion of activities to trace former members of the Trust impacted by the GMP ruling.

Subsequent to the balance sheet date, the Trustee confirmed its intention to return the surplus to the Company. The surplus, net of additional professional fees and tax charged at a rate of 35%, is expected to be paid to the Company in November 2021. The surplus received by the Company will be used to reduce the Company's net debt as required by the terms of our debt facility agreement.

Tony Grace Executive Director

3 November 2021

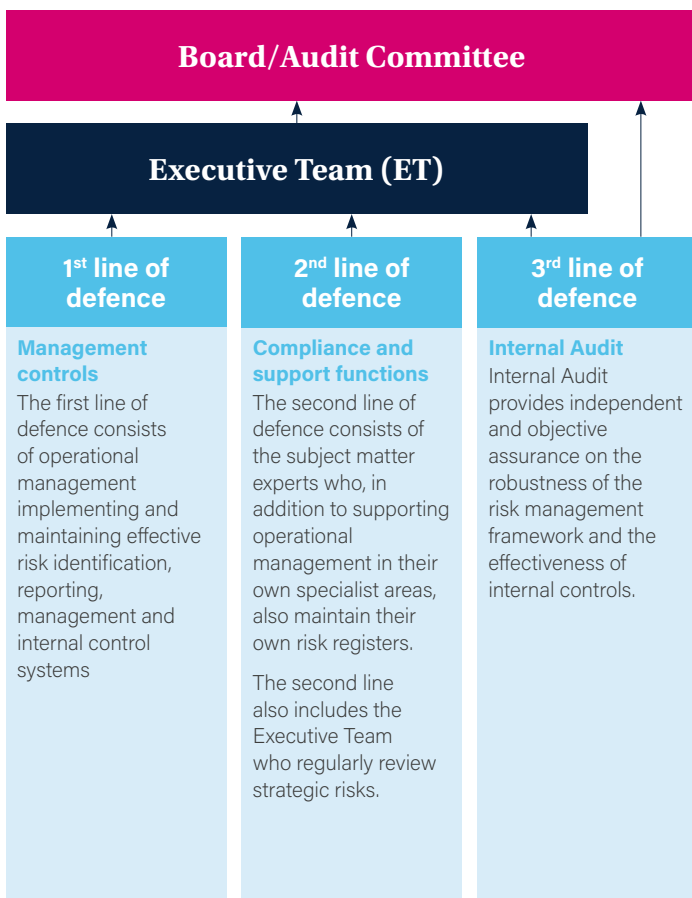
Principal and Emerging Risks

We are committed to clear and responsible 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.

Risk control model

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



Risk management process



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

Principal and emerging risks

The Company has a clear framework in place to continuously identify and review both the principal and emerging risks it faces. This includes, amongst others, a detailed assessment of business and functional teams’ principal risks and regular reporting to and robust challenge from both the Executive Team and Audit Committee. The directors’ assessment of these principal risks is aligned to the strategic business planning process.

Specifically, key risks are plotted on risk maps with descriptions, owners, and mitigating actions, reporting against a level of materiality (principally relating to impact and likelihood) consistent with its size. These risk maps are reviewed and challenged by the Executive Team and Audit Committee and reconciled against the Company’s risk appetite. As part of the regular principal risk process, a review of emerging risks (internal and external) is also conducted and a list of emerging risks is maintained and rolled-forward to future discussions by the Executive Team and Audit Committee. Where appropriate, these emerging risks may be brought into the principal risk registers. Additional risk management support is provided by external experts in areas of technical complexity to complete our bottom-up and top-down exercises.

As part of the Board’s ongoing assessment of the principal and emerging risks, the Board has considered the performance of the business, its markets, the changing regulatory landscape and the Company’s future strategic direction and ambition. 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.

Risks are still subject to ongoing monitoring and appropriate mitigation.

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

Principal risks and potential impact	Mitigations	Strategic link/Change
Macro-economic uncertainty		
<p>Deterioration in the macro-economic environment results in supply side cost inflation.</p> <p>The Company is presented with cost challenges in a number of areas which are being driven by increased competition in the distribution labour market and rises in fuel and utility prices. These cost increases present a risk when they cannot be fully mitigated through increased prices or other productivity gains.</p> <p>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.</p>	<ul style="list-style-type: none"> Annual budgets and forecasts take into account the current macro-economic environment to set expectations internally and externally, allowing for or changing objectives to meet short and medium term financial targets. Weekly cost monitoring enables oversight and action on a timely basis. Predictable level of volume decline within the core business enables cost optimisation planning. The Company continues to be significantly cash generating to support its strategic priorities. 	<p>Strategic Link: Cost and efficiencies, Operations</p> <p>Change: Increasing</p>
Acquisition and retention of labour		
<p>Due to the current competition in the distribution labour market the Company is facing an increased risk of being unable to recruit and retain warehouse colleagues and support staff.</p> <p>The same pressures are also being felt in sourcing and retaining delivery sub-contractors.</p> <p>A failure to maintain an appropriate level of resourcing could result in increased costs, employee disengagement and/or loss of management focus and underpins the ability to address the strategic priorities and to deliver the forecast performance.</p>	<ul style="list-style-type: none"> 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. 	<p>Strategic Link: People first, Culture and values, Costs and efficiencies</p> <p>Change: Increasing</p>
IT infrastructure and cyber security		
<p>To meet the needs of our stakeholders, our IT infrastructure needs to be flexible, reliable and secure.</p> <p>Secure infrastructure prevents external cyber-attack, insider threat or supplier breach could cause service interruption and/or the loss of Company and customer data.</p> <p>Cyber incidents could lead to major adverse customer, financial, reputational and regulatory impacts.</p> <p>Flexible and reliable IT infrastructure means the Company is able to meet its strategic goals and react quickly to changing events. The lack of this could lead to the Company being unable to execute its strategic goals.</p>	<ul style="list-style-type: none"> 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 mitigate common threats. Dedicated information security investments and access to third-party cyber security specialists. The Company encourages a cyber aware culture by undertaking exercises such as computer-based training and more regular communications about specific cyber threats. 	<p>Strategic Link: Technology</p> <p>Change: Increasing</p>
Legal and regulatory compliance		
<p>The Company is required to be compliant with all applicable laws and regulations. Failure to adhere to these could result in financial penalties and/or reputational damage.</p> <p>Key areas of legal and regulatory compliance include:</p> <ul style="list-style-type: none"> GDPR Health and Safety Tax compliance Environmental legislation Employment law 	<ul style="list-style-type: none"> 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. 	<p>Strategic Link: Technology, Sustainability, Operations</p> <p>Change: Stable</p>

Viability Statement

Assessing our business activities and prospects

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 49. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 40 to 45. 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 October 2021, 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 affecting delivery and warehouse operations and business strategy.

2. The assessment period

The directors have determined that a period of three years to August 2024 is an appropriate assessment period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above, and reflects the directors' best estimate of the future prospects of the business including the nature and potential impact of the principal risks that face the business. The Board noted in considering the appropriate assessment period that the Group's new banking facilities are due to expire in November 2023 and this also aligns with one of the publisher contract renewals which expires in July 2024. The Board also considered whether there are specific foreseeable events relating to the principal risks and climate change that could occur beyond the three year period that should be taken into account when setting the three year assessment period and concluded there were none. In the Board's assessment of viability, the scenarios have assumed that external debt is repaid as it becomes due, or will be refinanced as and when required (see also Note 20 of the Group Financial Statements on page 158).

3. Assessment of viability

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

1. Additional impact of inflationary pressures on the Group's delivery and warehouse operations cost base;
2. Continued decline in sales of printed media during the assessment period being offset by overhead efficiencies in the assessment period;
3. Retention of major publisher contracts in Smiths News at rates which maintain acceptable margins – 95% of future revenues are currently contracted to at least July 2024;
4. No major changes in working capital profile;
5. Successful renewal of banking facilities in the 12 month period before the facility expires in November 2023; 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 publisher contract expiring in July 2024 and no evidence exists to suggest this contract 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. This included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the Board considered the conclusions from its regular review of risk management and internal control systems (as described on page 74).

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 pages 46 to 47). The scenarios were overlaid into the business plan to quantify the potential impact of one or more of these crystallising over the assessment period. Whilst each of the principal risks on pages 46 to 47 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 on the table to the right.

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

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

In each of the stress scenarios 1-3, the Group would be able to continue operating within its existing debt covenants and liquidity headroom. Scenario 4 required such an extreme set of factors in unison that it is considered to be a remote likelihood and therefore does not represent a realistic threat to the viability of the Group but, rather, illustrates the factors that would result in a covenant or liquidity breach. The directors considered mitigating factors that could be deployed to counter the negative effects of the crystallisation of each of these risks. The main actions that could be taken in such circumstances include reducing any non-essential capital expenditure and operating expenditure on projects, working capital management to smooth debt peaks (including supplier chain finance arrangements), cancelling discretionary annual bonus payments, identifying other cost savings, as well as not paying dividends.



Contact us – we are here to help with shareholder queries and try always to respond promptly. If you can't find the information you need in this report or on our website, contact us using the options on

Good to know www.corporate.smithsnews.co.uk/contact-us

Scenario modelled	Link to principal risks
Scenario 1 Incremental inflationary pressures in delivery and warehouse cost base	
The business plan includes allowance for anticipated inflationary pressures linked to cost increases evident in UK supply chains. We have assumed a further 10% increase to inflation allowed for in the base case.	Risk 1: Macro-economic uncertainty and Risk 2: Talent acquisition and retention: The risk of increased costs establishing a workforce and network to meet contractual delivery commitments.
Scenario 2 Major publisher business failure	
The business plan assumes all major publishers will continue to operate over the forecast business. We have modelled a scenario that reflects one of the major publishers going out of business and/or moving to a digital only market.	Risk 1: Macro-economic uncertainty: The risk that cost pressures at publishers lead to print titles and volume permanently falling out of the newspaper and magazine market.
Scenario 3 Forecast savings targets are not met	
The business plan assumes both operational and overhead savings throughout the period in Smiths News. We have assumed 33% of these improvements are not achieved.	Risk 1: Macro-economic uncertainty and Risk 2: Talent acquisition and retention: The risk that inflationary cost increases, remediation actions and the absence of managerial talent prevent the execution of planned cost reduction.
Scenario 4 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.	Multiple risks: A combination of risks, also including those relating to IT infrastructure, cyber security and legal and regulatory compliance which are all inherently uncertain in value.

5. Viability statement

In light of the scenario modelling noted above, the directors therefore are confident that headroom under the existing bank facility remains adequate and future covenant tests can be met. This is based on the Board's approved three year business plan after allowing for a range of reasonable worst case downside sensitivity scenarios and which includes the additional impact of inflationary pressures within the Group's delivery and warehouse operations cost base.

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 2024.

6. Going concern

The Group meets its day to day working capital requirements through its bank facilities of £105m, agreed in November 2020, with a term of three years to 6 November 2023. The terms of the facility agreement include: an amortisation schedule of £15m per annum, agreed repayments arising from funds received in relation to both deferred consideration received following the sale of Tuffnells and any cash surplus arising from the buy-out of the Company's defined benefit pension scheme. The Group's forecasts, taking into account the Board's future expectations of the Group's performance, indicate that there is sufficient headroom within these bank facilities and the Group will be able to continue to operate within the covenants attaching to the new bank facilities.

Considering the principal and emerging risks discussed in this report, the directors have a reasonable expectation that the Group and the Company can meet its liabilities as they fall due for a period greater than 12 months (being an assessment period of 22 months) from the date of approval of the Group Financial Statements. Thus, the Group and the Company continue to adopt the going concern basis in preparing its consolidated financial statements which are shown on pages 115 to 177.

Governance

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

Responsible
governance
underpins our
performance

Governance

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Chairman's Introduction to Governance

Leading with attention to good governance



I would like to thank the Board for its dedication and contribution to the stability and success of the business.

Chairman's statement on corporate governance

Having now completed my first full year as Chairman of the Board, I'm pleased to present our Corporate Governance report for the 52 week period ended 28 August 2021. Reflecting on another year overshadowed for many by the COVID-19 pandemic, I am pleased to report that we have navigated these challenges, supported our colleagues and customers and, in doing so, continued to deliver a vital service to communities across the UK. At the same time we have continued to pay close attention to the embedding of a robust governance framework throughout our business.

Although it is our fervent hope that the COVID-19 pandemic is largely behind us, we cannot ignore the shadow that it has cast. While the legacy of this pandemic is still with us, I can confirm that Smiths News has continued to manage the associated challenges well and our actions, expertise, robust structures and controls have enabled us to mitigate the consequences, ensuring service levels to our customers and the public have been maintained, without compromise to the well being of our colleagues. By way of further context, it is reassuring to note that the market for newspapers and magazines has demonstrated considerable resilience throughout the pandemic.

In the year, we have looked for opportunities to enhance processes and controls, and to further embed our culture and values consistently across the Company. In particular, this has resulted in a review of our Internal Audit structure when, in January 2021, we concluded that an internal model would be better suited to our current business structure and strategy. Consequently, in the second half of the year we started to transition away from our previous outsourced model and have since made a number of internal appointments to lead our Internal Audit function. This change in approach is expected to facilitate a more targeted and business focused approach to the evaluation and effectiveness of risk management, control and governance processes across our business.

The Board has remained active throughout the year, continuously engaging with stakeholder groups.

Good to know

AGM results

At our 2021 Annual General Meeting (AGM), we were disappointed with the number of dissenting votes registered in respect of each of the Remuneration report (29.70%), the directors' authority to allot shares (20.04%) and the failure to carry the further resolution for the disapplication of pre-emption rights on a cash issue of shares associated with either an acquisition or a specified capital raising of up to 10% of issued share capital (25.39%). We welcomed the open and transparent dialogue that we had with the small number of identified shareholders who had registered dissenting votes and, as a consequence of this engagement, we have considered their views with the resulting decision not to present the further/second disapplication of pre-emption rights resolution at our 2022 AGM.

We remain committed to both the requirements and spirit of s172 of the Companies Act 2006, and to the promotion of the long term sustainable success of the Company. We have refreshed the way in which we report the nature and extent of our stakeholder engagements, as well as the impact these engagements have on the decisions of the Board. In this regard, I would refer you to our s172 statement in the Corporate Governance report on pages 52 to 71. While this report does not include all engagements undertaken, we have chosen to focus on the significant ones where demonstrable outcomes can be shared.

A sustainable focus

Having established a focused sustainability project team in the year, I'm particularly pleased to be able to present our sustainability strategy, with measurable deliverables and planned activities identified for the short and medium term, demonstrating our commitment to responsible governance, society and the environment. As a business, we had already made good progress in this area in the prior years, but our new project team has brought the individual areas of progress under one framework and introduced a governance structure and more structured reporting to our goals, which is to be welcomed.

Our three year cycle

In keeping with the three year cycle of board evaluation, this year the Board also undertook an internal evaluation process which focused on a limited number of topical areas which had been identified within the context of some of the action items arising from previous evaluation processes as well as trends developing within the governance forum more generally, such as sustainability and diversity. The overall process and outcome here was positive, with some areas identified for improvement as detailed in the Corporate Governance report on pages 52 to 71. One of the key areas identified in the review related

Board changes

As you are aware, all our directors are required to resign and stand for re-appointment annually at our Annual General Meeting. This year Tony Grace, Chief Financial Officer, announced his intention to retire from his executive role by 31 December 2021 and to stand down from the Board at the end of November. We are appreciative to Tony for his dedication and unstinting support in his three years with the Company and also his commitment to remain in situ until the end of the calendar year in order to support the Board through the finalisation of the

A positive outlook

In closing, I would like to thank the Board for its dedication and contribution to the stability and success of the business. To Jonathan Bunting (Chief Executive Officer), the Executive Team and all of our colleagues, I would like to, once again, express my and the Board's deep appreciation for your commitment and continued endeavours on a daily basis, which underpins the overall success of the Company. Finally, on behalf of the Board and myself I would once again welcome Paul Baker to Smiths News, to extend our sincere appreciation and express our collective thanks to Tony Grace for his guidance and expertise in his time with us, and to wish him a happy and healthy retirement.

David Blackwood
Chairman

3 November 2021



It is reassuring to note that the market for newspapers and magazines has demonstrated considerable resilience.

to diversity – here, the Board has reiterated its commitment to drive the diversity agenda with renewed focus on fostering an environment where minority groups can progress and flourish. As a Board, the overall sentiment was a confirmation that we continue to challenge constructively, debate robustly and value the different contributions of our directors, enriching the quality of boardroom discussions.

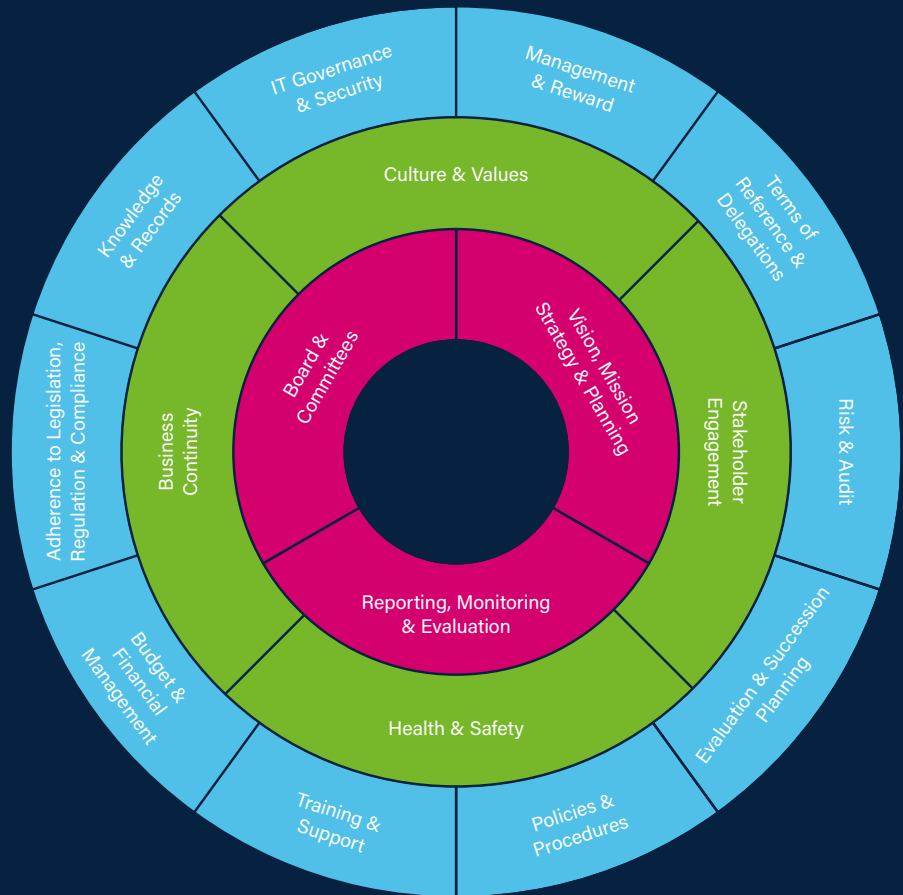
While this has been a good year for our core business, I appreciate that many of our partners and indeed the wider economy continue to experience challenges as we emerge from the pandemic. Despite this, I am confident that the Company remains well positioned to continue to deliver shareholder value in a sustainable manner and in the best interests of all our stakeholders. Following periods of online and virtual AGMs, I very much look forward to personally welcoming shareholders at our next AGM and would therefore encourage you all to attend and vote.

FY2021 audited results. Whilst Tony will be missed, I am pleased to confirm that, following a robust recruitment process overseen by the Nominations Committee and the Board, the Company has appointed Paul Baker as Chief Financial Officer (an executive position on the Board), effective from his starting date with the Company on 4 October 2021. I take this opportunity to welcome Paul to the Company with the belief that he will further enhance and broaden the Executive Team's capability and experience, bringing with him extensive experience of delivering strategic and operational change in fast moving environments. The period of overlap where Paul has been able to work with Tony has ensured a seamless handover and, together with a thorough induction process, I am confident Paul will be able to make an immediate and positive contribution to both the business and the Board.

Governance Framework

A framework of clear processes and good practice

Governance is embedded throughout our business. We adopt a holistic approach, incorporating structures and systems that make up a comprehensive and robust governance framework. This framework underpins our business activity and supports informed, transparent and accountable decision making.



Key:

- Focused strategy
- Sustainable future
- Operational excellence

Focused strategy

Vision, Mission, Strategy & Planning:

[Strategy and business model](#)

Board and Committees:

[Board Committees | Smiths News PLC](#)

Reporting, Monitoring & Evaluation:

[Reports and presentations](#)

Sustainable future

Culture & Values:

[Values | Smiths News PLC](#)

Stakeholder Engagement:

[Shareholder centre](#)
[Listening to our People](#)
[pages 10 to 11](#)

Health & Safety:

[Health & Safety](#)

Business Continuity

[COVID response & continuity](#)
[pages 18 to 21](#)

Operational excellence

Management & Rewards:

[People Report on pages 22 to 27](#)

Terms of Reference & Delegations:

[Terms of Reference](#)

Risk & Audit:

[Principal Risks](#)

Evaluation & Succession Planning:

[Nominations Committee Report on pages 80 to 83](#)

Policies & Procurement:

[Available on our intranet](#)

Training & Support:

[Developing our People](#)

Budget & Financial Management

[Financial Statements on pages 114 to 177](#)

Adherence to Legislation, Regulation & Compliance:

[Regulatory News](#)

Knowledge & Records

[Privacy and data management](#)

IT Governance & Security

[Audit Committee Report on pages 72 to 79](#)

Key:

- [Information found online](#)
- [Information within the report](#)

Our enhanced governance framework helps ensure high performance through regular review, constructive challenge and robust and open debate.

Good to know

Across our governance framework, we have relevant and adequate structures in place to ensure oversight, integrity and control in our business dealings. This structure cascades throughout our organisation, starting with our Chairman, who has overall responsibility for the management and operation of the Board, which in turn oversees the Company's strategy and performance and manages business requirements through a formal schedule of reserved matters for decision making. In addition to the Board Committees (Committees – Remuneration, Audit, Nominations, Approvals and Disclosures), we have also nominated a Senior Independent Director who, amongst others, provides additional support to the Chairman in the delivery of the Company's objectives. Our Chief Executive Officer leads our business and oversees daily operations and is ably assisted by the Executive Team that focuses on the development and implementation of strategy, financial and operational performance, risk management, commercial developments, succession planning, sustainability and organisational development. Below the Executive Team is a Senior Leadership Team and functional experts who each provide support, guidance and diligence in the Company's business dealings and oversee day to day operational, commercial and functional activities.

For more information on the composition, roles and responsibilities of the Board and division of responsibilities between the Chair/CEO, as well as to access the links referred to above, please refer to our website ([corporate.smithsnews.co.uk/corporate-governance](https://www.smithsnews.co.uk/corporate-governance)) or, if you are reading this electronically, please click on the relevant links.

Roles and responsibilities

The Board

Remuneration Committee

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

See [pages 84 to 105](#)

Audit Committee

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

See [pages 72 to 79](#)

Nomination Committee

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

See [pages 80 to 83](#)

Disclosure Committee

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

Approvals Committee

- responsible for approving delegated Board matters

Board of Directors – changes announced in FY2021

Following an announcement on 5 May 2021 that our Chief Financial Officer, Tony Grace, had confirmed his intention to retire from his executive role on 31 December 2021, the Company announced on 14 August 2021 that Paul Baker would be appointed Chief Financial Officer and a director of the Board, effective from his starting date with the Company on 3 October 2021. Tony is expected to continue as a director of the Company until 30 November 2021 in order to support the Board through an appropriate handover period and the finalisation of the FY2021 audited results.

Board of Directors

The Board has a deep well of experience and expertise

**David Blackwood**

Chairman

Year of appointment: 2020

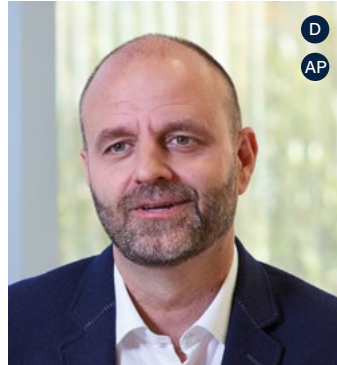
Skills and experience

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 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 and Scapa Group plc until April 2021, where, in respect of both, he served as chair of the audit committee, as Senior Independent Director and on 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), Audit Committee Chair and Senior Independent Director

**Jonathan Bunting**

Chief Executive Officer

Year of appointment: 2010

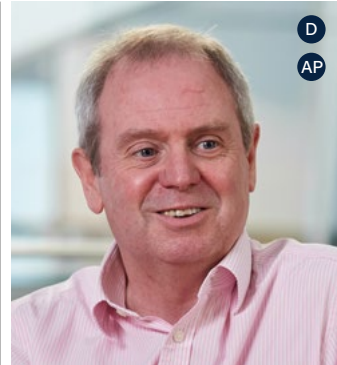
Skills and experience

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

**Tony Grace**

Chief Financial Officer

Year of appointment: 2018

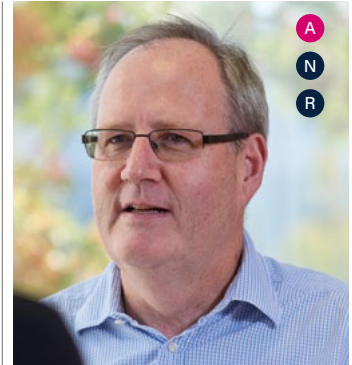
Skills and experience

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

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

Other current appointments

- None

**Mark Whiting**

Senior independent non-executive director

Year of appointment: 2017

Skills and experience

Mark has gained extensive finance and operational experience at a senior level within a number of diverse 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.

Other current appointments

- Board of Trustees of the European Association of Cardio-Thoracic Surgery (EACTS), Honorary Treasurer on the EACTS Council
- Chairman and non-executive director of Xpediator PLCⁱ

ⁱ Permission was granted to Mr Whiting by the Chairman after due consideration on 6 August 2021, it having been determined that the new role is not expected to compromise Mr Whiting's time commitment to the Company.



Denise Collis

Independent non-executive director

Year of appointment: 2015

Skills and experience

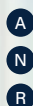
Denise holds a wealth of business experience with a particular focus on people and talent management, development, retention and reward. She therefore has the relevant knowledge and experience required to lead the Remuneration Committee, a position she has also held with SThree PLC (since September 2016)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

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

Other current appointments

- SThree PLC, senior independent non-executive director and chair of remuneration committee
- British Heart Foundation, chair of remuneration committee and member of nomination committee and Advisory Council
- EMIS Group PLC, independent non-executive director and chair of Remuneration Committeeⁱⁱ

ⁱⁱ Permission was granted to Ms Collis by the Chairman after due consideration on 15 September 2021, it having been determined that the new role is not expected to compromise Ms Collis' time commitment to the Company.



Michael Holt

Independent non-executive director

Year of appointment: 2018

Skills and experience

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

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

Other current appointments

- Tuffnells Parcels Express Limited, Executive Chairman

Stuart Marriner

Company Secretary & General Counsel

Year of appointment: 2018

Skills and experience

Stuart joined the business in October 2008 and is responsible for business, legal and regulatory support. Prior to joining the Company, he 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 & General Counsel on 1 September 2011 and continues to lead the legal and company secretariat teams.

Paul Baker

Chief Financial Officer

Year of appointment: 2021

Skills and experience

Paul is a highly experienced senior executive, with extensive and relevant financial and business transformation experience, most recently as Integration Director at CompassGroup 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

Committee Key

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

Chair

Member

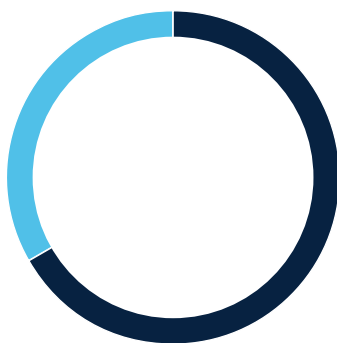
Corporate Governance

Our enhanced governance supports clear leadership and drives progress

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

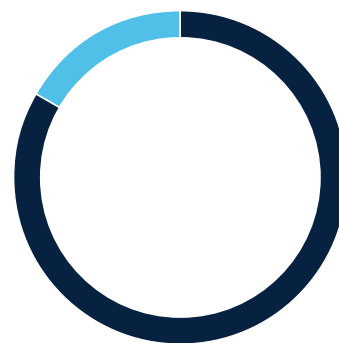
	Scheduled Board meetings	Audit	Nominations	Remuneration
Number of meetings	12	4	2	6
David Blackwood	12		2	6
Denise Collis	12	4	2	6
Michael Holt	12	4	2	6
Mark Whiting	12	4	2	6
Jonathan Bunting	12			
Tony Grace	12			

Balance of Board



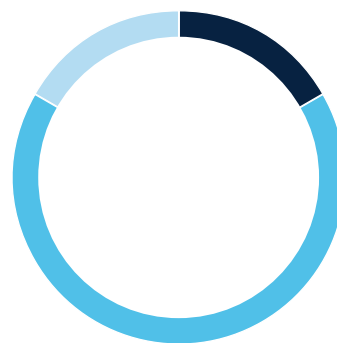
● Independent
● Non-independent

Members by gender



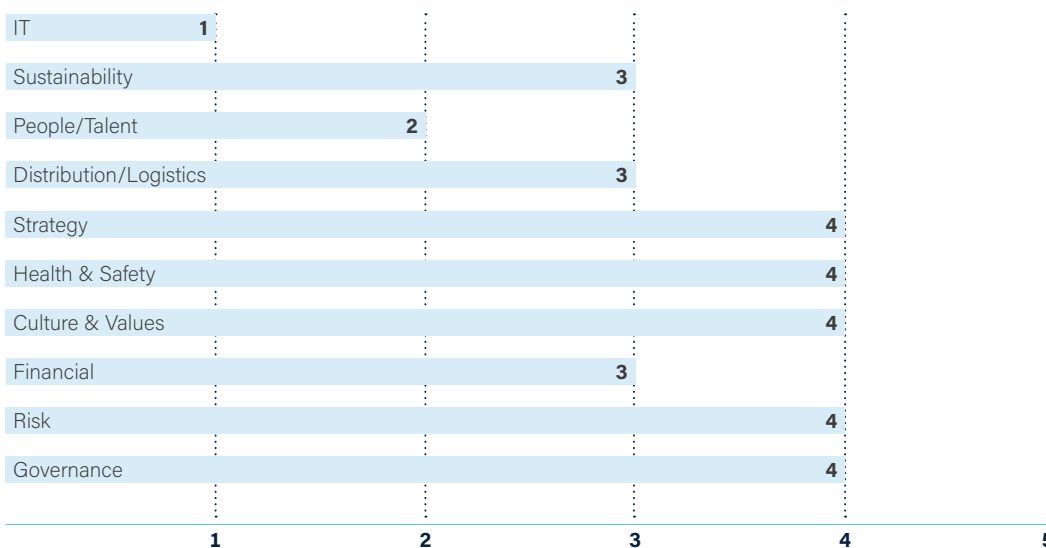
● Male
● Female

Tenure



● 0-2 Years
● 3-5 Years
● 6+ Years

Key skills & expertise



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 107.

The Board follows a three year externally facilitated evaluation cycle, with the external evaluation being undertaken every third year. The last externally facilitated Board evaluation process was undertaken in FY2019. Following the appointment of the Chairman in May 2020, and in accordance with best practice, an internal review was conducted in FY2020 led by the Company Secretary, with specific attention paid to shortcomings and recommendations which came out of the 2019 process, including in relation to strategy development, promotion of company values and competencies, and the reliance on, and greater utilisation of, non-executive directors' experiences and market expertise, all of which have been addressed during FY2021.

In keeping with the three year cycle, FY2021 again followed an internal review process, noting that while the Code required that the Board undertake a "formal and rigorous annual evaluation of its own performance and that of its committees and individual directors," there was no set format for any such evaluation process. Against this backdrop, the Board focused on a limited number of key areas which had been identified within the context of some of the action items identified from previous evaluation processes, changes

within the business as a result of challenges experienced arising from the ongoing COVID-19 pandemic and trends which were developing within the governance space more generally, such as sustainability and diversity. As part of this process, each Board member was invited to reflect on these key areas and shared their insights and opinions, with the Board noting key takeaways (see the summary below). In conclusion, the Board noted that it continues to operate effectively and in accordance with good corporate governance principles. Separately, the performance of the Chairman was undertaken informally by the directors under the guidance of the Senior Independent Director.

Key takeaways included acknowledgment that the Board should look to:

- provide impetus to, and enhance engagement with, the role and workings of the Company's National Colleague Engagement Forum which, this year, had been severely impacted by a number of factors, including social distancing restrictions and a reduction in its size and frequency of meetings as a consequence of both the pandemic and the sale of Tuffnells in 2020. The forum is currently in the process of being re-invigorated as pandemic restrictions ease and restructuring of colleague representation in order to ensure broader coverage of voice across the business;
- encourage greater engagement between management and the appointed external advisor to the Remuneration Committee;
- enhance the balance of remuneration considerations between the Company's business interests and performance, culture and values and the overwhelming shareholder experience in the year, which is expected to be further developed in FY2022 as part of a new remuneration policy and stakeholder engagement ahead of our AGM in 2023;
- drive the diversity agenda with renewed focus on fostering an environment where minority groups can progress and flourish as further reported in the Nominations Committee report on pages 80 to 83; and



- continue to champion the Company's Sustainability programme across the business.

Following this review, the Board has 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 ongoing administration and processes. One such change includes the introduction of a sustainability report (containing progress against key deliverables identified for 2022) as part of the CEO's monthly management report as well as the inclusion of a more detailed sustainability strategy review as a quarterly Board agenda item.

The Board has an agreed director appointment and induction programme which includes a comprehensive and up to date Directors' Toolkit, which is supplemented with one-to-one meetings and on-site visits to the Company's locations, as appropriate. 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, while seeking to promote and uphold our policies including that on diversity and inclusion across multiple criteria. Please see the Nominations Committee report on pages 80 to 83.

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 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 2021 included an update on the progress of the UK Government's review and consultation in relation to the UK audit market and proposed reforms of the Financial Reporting Council (FRC) – the Company confirms that it actively contributed to the proposals from the Secretary of State for Business, Energy & Industrial Strategy as part of the UK Government's Consultation on its proposals regarding 'Restoring trust in audit and corporate governance'. We await the outcome of that consultation programme and its impact on the business.







The Group Company Secretary & 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.

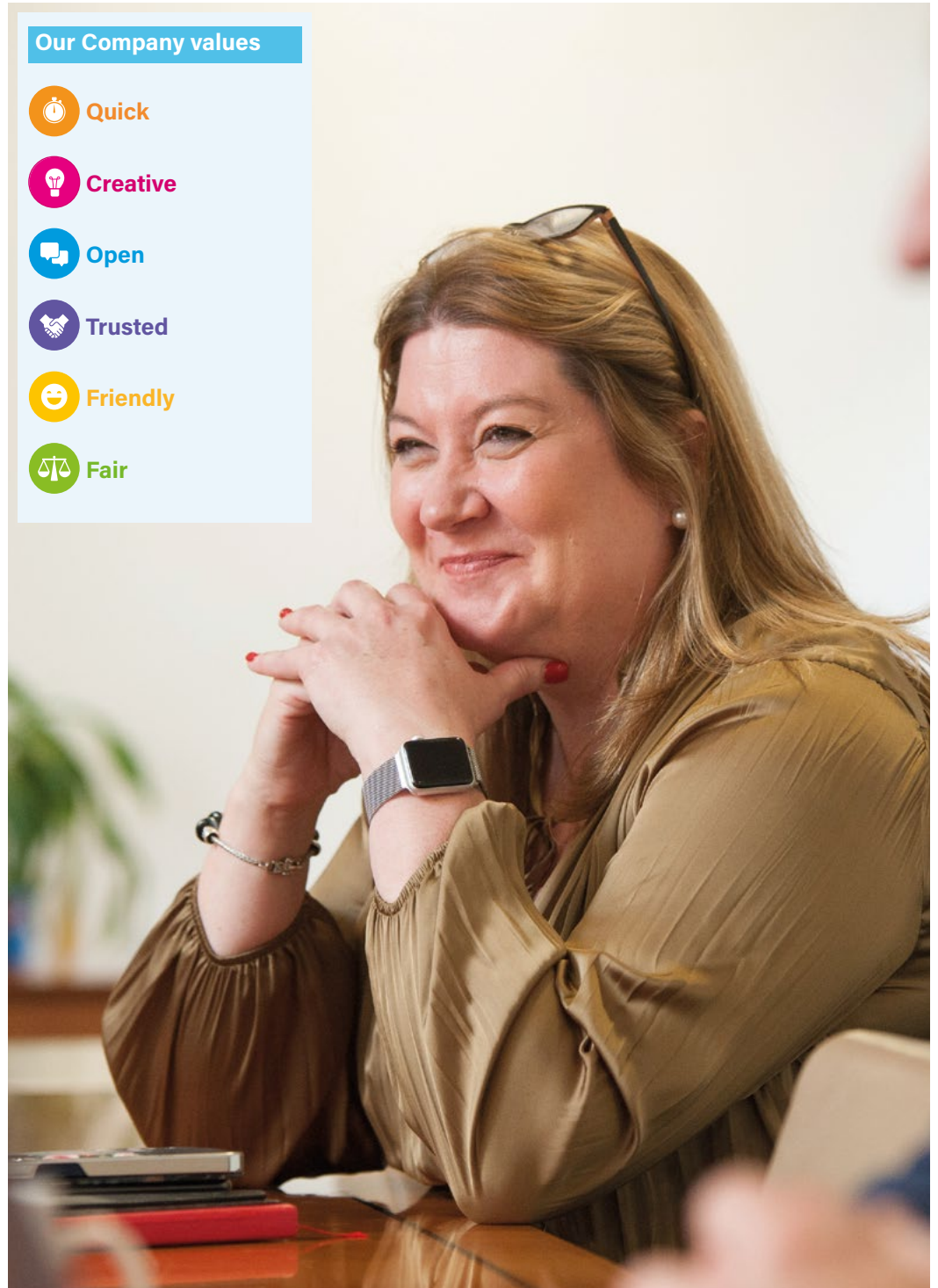
Corporate Governance continued

Culture and values

The Board supports and promotes our culture and values, which are integral to our decision making (see the Stakeholder Engagement table on pages 62 to 63). This is evident in the way that we interact with one another. The Board is responsible for instilling throughout the Company our values based culture that has regard for the views of shareholders as well as our wider stakeholders. The Board seeks to understand what is important to our stakeholders to ensure that decisions taken are both balanced and based on actual, rather than perceived, views and priorities. The Board undertakes its business and stakeholder engagements through both physical attendance and the receipt of reports and discussions throughout the year to gain a more informed and better understanding of the extent to which our values are truly embedded within the business as well as to determine the effectiveness of our policies and procedures, to gain a perspective of colleague issues and concerns, to assess the outcomes of proactive and remedial activities as well as to gain insight into the priorities of stakeholders in general. These engagements and outcomes are detailed in the Stakeholder Engagement table on pages 10 to 11. Our values and culture are supported by a number of policies and procedures as well as by our Code of Conduct, Anti-Bribery, Conflicts of Interest and Whistleblowing policies, amongst others. Compulsory training modules are required to be completed by certain colleagues including, but not limited to, anti-bribery and corruption (including money laundering) prevention, competition policy and data protection. These modules are provided through our external learning and development partner and are accredited by the CPD Certification Service, which is an independent accreditation service compatible with global CPD principles.

Our Company values

-  **Quick**
-  **Creative**
-  **Open**
-  **Trusted**
-  **Friendly**
-  **Fair**



Whistleblowing	Reports received in FY2021	Reports investigated in FY2021	Outstanding investigations
The workforce is able to raise matters of concern in confidence and these are independently investigated and followed up. The Audit Committee receives regular reports in this regard and the Chairperson will raise any concerns at the Board	10	10	0

Board activities in FY2021	Supporting our values	Addressing principal risks
Governance		
<ul style="list-style-type: none"> undertook internal Board, Committee and director evaluations reviewed directors' conflicts of interest reviewed terms of reference of Board Committees, reserved and delegated matters reviewed various policies, including the prevention of modern slavery, anti-bribery & fraud and the Company's Competition Policy manual approved the Annual Report and Accounts received reports from the Company's advisors, including its brokers monitored engagement with stakeholders, including responses to our 2021 AGM and voting outcome received and reviewed whistleblowing reports and activities 		<ul style="list-style-type: none"> Macro-economic
Finance		
<ul style="list-style-type: none"> approved our tax strategy approved and monitored budgets and business plans considered declaration of an interim dividend considered and approved our trading statements, half year and full year reports reviewed financing structures and refinancing arrangements oversaw financial performance, legal and regulatory matters 		<ul style="list-style-type: none"> Macro-economic
Business review, performance and strategy		
<ul style="list-style-type: none"> approved and monitored progress against management's key business imperatives considered and approved our capital allocation strategy considered and approved our sustainability strategy and implementation oversaw the ongoing challenges presented by the COVID-19 pandemic reviewed performance and reward reviewed business continuity plans approved a new and efficient trading proposition with our key retailers and publisher clients (EPOS based returns solution) 		<ul style="list-style-type: none"> Macro-economic Talent Acquisition & Retention Legal & Regulatory Compliance
Audit, internal controls and risk		
<ul style="list-style-type: none"> 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 & Safety strategy and activity through monthly Board reports monitored cyber security & data protection undertook a review of the Internal Audit function responded to the FRC's Corporate Reporting Review team in relation to its review of our FY2020 Annual Report and financial statements reviewed and responded to the BEIS consultation on 'Restoring trust in audit and corporate governance' approved going concern statement and assessment of viability, valuation of investments and principal and emerging risks received and considered recommendation for the appointment of external auditors and fees 		<ul style="list-style-type: none"> Macro-economic IT Infrastructure & Cyber Security Legal & Regulatory Compliance
People		
<ul style="list-style-type: none"> received regular updates from the Remuneration Committee on remuneration and performance considered and approved various employee share awards (SAYE, LTIP and deferred bonus) received pension fund updates reviewed employee satisfaction survey results reviewed contractor model and the impact of legislative changes on IR35 status supported diversity and inclusion (introduced as standing Board agenda item) received reports on engagements with workforce monitored ongoing impact of the COVID-19 pandemic on our colleagues recruited a new Chief Financial Officer to replace our retiring CFO 		<ul style="list-style-type: none"> Talent Acquisition & Retention IT Infrastructure & Cyber Security Legal & Regulatory Compliance

Corporate Governance continued

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

In the course of its activities, the Board is always mindful of how effectively the directors work together and of the functioning of the Board in general in promoting the long term sustainable success of the Company and generating value for shareholders, together with contributing to wider society.

The Board remains mindful of the responsibilities it has to all its stakeholders and, to this end, remains committed to both the intent and spirit of s172 of the Companies Act 2006. In considering the issues and factors identified as significant, the Board has determined that those relating to strategy, transformation, restructuring, M&A activities or capital allocation require consideration. However, it also reviews other issues which may be considered priorities by key stakeholder groups, and will include these in its deliberations and decision making processes and seeks to consider all positions, whilst balancing competing interests in a fair and transparent manner in the best interests of the Company as a whole. The Board understands that such conflicts may exist between the long term and short term good of the Company, between shareholders and colleagues or even between groups of shareholders with different agendas.

The Board uses a number of ways to determine relevant issues including the receipt of reports, expert opinion and extensive stakeholder engagement. The Board continues to keep the various engagement mechanisms under review to ensure they remain relevant and deliver the desired outcomes. A summary of the main engagements which the Board has undertaken in the year to ensure it understands the issues, as well as the outcomes and impact on the decisions, is set out in the table to the right.

Why is it important to stakeholders?	They are important because they impact our key strategic decisions and long term success	
Shareholders and Funders (including Lenders)		
<ul style="list-style-type: none"> Financial stability and investment returns Long term sustainability Corporate responsibility TSR 	<ul style="list-style-type: none"> Stakeholder confidence Ongoing investment and financial stability Reputation Share price growth 	
Suppliers & Customers (Key Publishers)		
<ul style="list-style-type: none"> On time, efficient distribution On time payment Corporate responsibility and ethical trading 	<ul style="list-style-type: none"> SLA and industry compliance Mitigation of financial penalties or redress Reputation Long term security of revenue 	
Colleagues		
<ul style="list-style-type: none"> Job security Job satisfaction Remuneration and benefits Consultative and transparent engagement and processes Safe and healthy environment Sustainability 	<ul style="list-style-type: none"> Staff satisfaction Productivity Ability to attract, motivate and retain staff Compliance 	
Community		
<ul style="list-style-type: none"> Social responsibility Community health and wellbeing 	<ul style="list-style-type: none"> 'Licence to operate' Reputation Community support Regulatory compliance 	
Environment		
<ul style="list-style-type: none"> Environmental sustainability Social responsibility 	<ul style="list-style-type: none"> Long term sustainability Reputation Community support Regulatory compliance 	

2021 main engagements	Impact on our decision making
<ul style="list-style-type: none"> Annual Report Shareholder engagement on 2021 AGM resolutions Periodic RNS announcements and published trading statements One-on-one engagement with major shareholders Lender engagement on, and following, the refinancing of the Company in November 2020 Formal presentations to institutional shareholders, analysts, lenders and current and prospective retail shareholders 	<ul style="list-style-type: none"> 2021 AGM voting patterns resulted in a consideration of the different shareholder positions following one-to-one engagements with key shareholders and a decision not to recommend the secondary resolution for the disapplication of pre-emption rights on a cash issue of shares associated with either an acquisition or a specified capital raising of up to 10% of issued share capital (which did not carry in 2021) Successful refinancing of the business and its optionality Capital Management and Dividend Strategy published in May 2021
<ul style="list-style-type: none"> Participation in industry body trade associations and forums Adoption of relevant voluntary codes Continued adherence to Press Distribution Charter Adoption of automated service failure payment scheme Conclusion of new long term contracts with key publishers Retailer complaints process Service level / timely performance review meetings 	<ul style="list-style-type: none"> Development and roll out of a new industry solution agreed in collaboration with retailers and publishers, to enhance category efficiency in-store through EPOS-based returns trading: as a consequence it greatly simplifies and reduces in-store activity related to the sale and return of unsold copies of magazines Conclusion of long term contracts with key publishers, providing business security and enabling medium term business and financial planning Close liaison and cooperation to ensure continuation of supplies throughout the COVID-19 pandemic and periods of local and national lockdown, including adjustment to arrival times and new safety procedures
<ul style="list-style-type: none"> Engagement forums: <ul style="list-style-type: none"> National Colleague Engagement Forum attended by a designated non-executive director Management led specialist Colleague Consultation Forums to provide a platform for formal consultation 'Town Hall' meetings hosted by the Executive Team (virtual launch in 2021) including recordings to ensure that all colleagues can access them regardless of shift pattern Relaunch of monthly newsletters ('Our News') in physical and electronic format 'What Matters' employee survey outcomes reviewed by the Board to determine action plans, priorities and impact on decision making Policy and Compliance steering committee – consultation on key policies or regulatory matters affecting colleagues 	<ul style="list-style-type: none"> Defibrillators installed in all our depots Outsourced functions, 'Extra Mile' colleague recognition awards and the deployment of a supplier procurement platform influenced by engagement processes Focus on education and awareness through an agreed D&I calendar of events supported by our 'EveryoneIn' programme of activities to enable our colleagues and depots to arrange different ways of recognising / celebrating and educating on diversity and inclusivity subjects such as National Inclusion Week, Black History Month, Pride, Ramadan etc. Initiated the process of asking colleagues to update their employee record profiles with personal and sensitive data within our HR platform to facilitate diversity reporting and informed activities in the future Establishment of colleague hardship funds in the UK and offshore, available to colleagues who have suffered economic or financial hardship brought on by the onset of the COVID-19 pandemic either within the UK or at our outsourced support centre in India The sustainability questionnaire to all colleagues was used to inform our Sustainability strategy and key focus areas/metrics for FY2022 and beyond
<ul style="list-style-type: none"> 'Pass It On' registered as stand-alone charity and campaign successes, arising from distribution of clothing, bedding and sustenance support to the homeless Individual/team support in partnership with external charities to support causes such as industry charity NewstrAid, through workplace flexibility, publicity and where possible financial support 	<ul style="list-style-type: none"> Widespread involvement in community charity initiatives including Pass It On (a campaign promoted by the Company to help support homeless and vulnerable persons in the UK)
<ul style="list-style-type: none"> Sustainability questionnaire to all colleagues to develop strategy to support long term sustainability of the Company Considered stakeholders and conflicting positions when determining sustainability objectives Environmental impact assessments Company car policy consultations 	<ul style="list-style-type: none"> Sustainability strategy developed with SMART objectives and measurable KPIs Environmental impact improvements through depot consolidation, smart metering to monitor gas and electricity consumption and conversion to LED lighting Waste reduction, management and recycling of product and packaging, with zero company generated waste to landfill Company car policy – electric/hybrid car payments

Corporate Governance continued

Compliance with the UK Corporate Governance Code

This section of the Annual Report, together with the Audit Committee report on pages 72 to 79, the Nominations Committee report on pages 80 to 83 and the Directors' Remuneration report on pages 84 to 106, 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 28 August 2021, it has complied with the principles and provisions of the Code.

The following table is a demonstration of our compliance with the Code during FY2021, which includes cross-references to other parts of the Annual Report (where relevant) to assist readers with reviewing our compliance during the year.

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

Compliance with Principle / Provision disclosure

1. Board Leadership and Company Purpose

A. Board Leadership

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

B. Company Purpose

The Company's purpose and strategy is set out in detail within the Strategic Report and follows a strategic and business planning session held by the Board in June 2021. 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 Sustainability report on pages 30 to 39.

C. Objectives and Controls

The Company's objectives and KPIs are set out within the Strategic Report. The Board receives regular updates across a broad range of internal KPIs and performance metrics. The Company has a clear framework in place to continuously identify and review the risks to the business, as explained further within our principal risks report on pages 46 to 47. We have an extensive control framework, which includes a system of internal control, including risk management and a process for reviewing its effectiveness. We have revisited the internal control framework within the context of a changing risk environment as a result of the unique challenges presented by the COVID-19 pandemic. A detailed report on the control framework is set out in the Audit Committee report on pages 72 to 79.

D. Engagement

An overview of how the Company engages with its stakeholders is set out within the Sustainability report and in this report, which sets out our stakeholder engagement in detail.

The Board as a whole is kept fully informed of the views and concerns of our largest shareholders. The Chief Executive Officer and Chief Financial Officer update the Board at each Board meeting and following meetings with our largest shareholders, whilst independent feedback from shareholders is provided to the Board by the Company's advisors and brokers.

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. The presentations are available to view on the Company's website. In order to reach out to our increasing retail investor base, we have commenced presenting on retail investor platforms and invite shareholders to participate in Q&A sessions with the CEO and CFO. Similarly, the dissemination of such information is also shared with colleagues through, inter alia, 'Town Hall' meetings hosted by the Executive Team and via a cascade of 'key messages' as part of the Company's employee engagement forums, which facilitate the views of colleagues and can be reported to the Board.

In addition, during the year as part of our investor relations activity, meetings were held, within the limitations of COVID-19 restrictions, with our largest institutional shareholders and financial analysts to discuss business performance and strategy. Institutional shareholders also met or engaged with the Chairman, Senior Independent Director and Company Secretary to discuss matters of governance, strategy and process.

Once again, in light of Government COVID-19 restrictions in place at the time, the 2021 Annual General Meeting was held with limited physical participation. Shareholders joined by way of a listen-only conference call facility. The meeting was compliant with the Company's Articles of Association which did not require amendment. The meeting was also supported by a written Q&A facility, made available to shareholders via the Company's website.

Further, in light of the significant number of dissenting votes registered at the 2021 Annual General Meeting in respect of the Remuneration report, the right to allot shares and the failure to carry the further/second disapplication of pre-emption rights resolution in connection with an acquisition or specified capital investment, the Board has sought to engage with the largest shareholders who had registered dissenting votes in order to better understand these shareholders' views in relation to these resolutions and what impact any feedback may have on future decisions to be taken by the Board and/or actions or resolutions to be proposed. The outcome of these engagements can be found on the Company's website and further details are set out at section 4 below.

Finally, other key stakeholders' interests have been represented and consulted through ad hoc presentations made by the Chief Executive Officer and Chief Financial Officer to the Company's lenders and with the workforce – see section 5 below for further details.

Compliance with Principle / Provision disclosure

1. Board Leadership and Company Purpose cont.

E. Workforce

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

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

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 1 to 49.

2. Cultural Alignment

The promotion of our Values and our diversity and inclusion initiative called 'EveryoneIn' has continued through the year. This programme continues to be guided by a regular forum of colleagues from across the business with the express purpose of helping to create a more inclusive culture, welcoming diversity and allowing all colleagues to 'be themselves' at work. Initiatives to date include support for the national Mental Health and Carers weeks, as well as high profile upskilling sessions for managers on the benefits of inclusion and diversity and our support of Pride. The effectiveness of our Diversity and Inclusion agenda will be measured in the new financial year with the launch of a specific Inclusion survey, the results of which will be utilised to design, agree and implement more targeted actions.

We continue to focus on how our communications are received and accessed by colleagues with the use of videos in addition to written content, recognising that videos are more easily shared and understood by colleagues who do not have English as a first language. Given the ongoing COVID-19 restrictions we have launched a number of engagements through online real time facilities which have been well received by colleagues. These take place on at least a quarterly basis and allow two-way interaction with all colleagues, alongside a recording of these events to facilitate engagement with colleagues who have been unable to attend the live event. We continue to regularly monitor the ongoing implementation and effectiveness of our stated Culture and Values, including through our 'What Matters' employee surveys. This year we have seen increased engagement with more than 20,000 narrative comments and statements noted by our colleagues, as well as a positive move in the overall engagement score from 6 to 7 (out of 10) and a higher participation in the survey than we have ever seen before. The Board plays an active role in reviewing these results and determining the appropriate action plans and priorities. Furthermore, the survey results also help to inform future decision making – further details of which are set out in our Sustainability report on pages 32 to 39.

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

We undertake workforce planning; performance, talent and succession initiatives; and learning and development programmes with goal setting remaining a strong driver for the business, measuring what we are expected to deliver as a team and how well colleagues understand how the work they carry out supports the goal of their team. Our approach to workforce remuneration is set out in more detail within our Directors' Remuneration report on pages 84 to 106.

Finally, we continue to mitigate the consequences of the COVID-19 pandemic with both new and ongoing workforce initiatives, including the continued support of our colleague hardship fund established in 2020 as well as the establishment, in 2021, of a second fund (in India) to support the gravity of the pandemic afflicting colleagues of our outsourced services partner. These funds are made available to colleagues who have suffered economic or financial hardship brought on by the onset of the COVID-19 pandemic. We have separately also introduced a COVID-19 technology scheme, enabling colleagues to apply for free or reduced-price laptops and PCs with a view to supporting our colleagues who, as parents, may have encountered home schooling challenges caused again by the COVID-19 pandemic.

3. Shareholder Engagement

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

During the year, the Chairman, Senior Independent Director and Company Secretary have engaged with some of our largest shareholders to discuss matters of governance, strategy and process, including in relation to a number of dissenting votes which had been registered at the 2021 Annual General Meeting and to discuss our revised Capital Allocation Strategy (and dividend policy).

As outlined above, the Board receives regular investor relations reports and to support this further we have appointed new external investor relations experts with enhanced systems to enable us to access up-to-date statistics and dashboard reports.

Corporate Governance continued

Compliance with Principle / Provision disclosure

1. Board Leadership and Company Purpose cont.

4. Votes Against Proposed Resolutions

The Board acknowledges the significant number of dissenting votes which had been registered against each of resolution 2 (to approve the Directors' Remuneration report for FY2020), resolution 12 (to approve the directors' general authority to allot shares) and the failure to pass resolution 14 (to approve the proposed disapplication of pre-emption rights on a cash issue of shares associated with either an acquisition or a specified capital raising of up to 10% of issued share capital) at the Company's 2021 Annual General Meeting (AGM) held on 27 January 2021, in each case primarily as a result of the votes cast by two of the Company's largest shareholders.

The Board welcomes the opportunity for further engagement that it has had with these shareholders following the significant number of dissenting votes registered and acknowledges their reasoning behind their voting policy, noting as follows:

- resolution 2 (to approve the Directors' Remuneration report for FY2020) in light of both (i) the adoption (and increased weighting) of relative TSR as a performance metric in the Company's LTIP scheme design and (ii) one shareholder's redline stance against executive bonuses being paid in circumstances where government support had also been received in the year from COVID-19 initiatives (including CJRS); and
- resolution 12 (to approve the directors' general authority to allot shares) and resolution 14 (to approve the proposed disapplication of pre-emption rights on a cash issue of shares associated with either an acquisition or a specified capital raising of up to 10% of issued share capital) in light of concerns in each case regarding possible shareholding dilution in the event of future share issuances.

In particular, the Board acknowledges that, whilst resolution 14 adhered to the provisions of the Pre-emption Group's Statement of Principles for the disapplication of pre-emption rights and reflected UK listed company market practice, the 2021 AGM was the second year in which resolution 14 had failed to carry and therefore, despite positive and candid engagement with the two largest shareholders, the position of these shareholders appears unwavering.

The Board confirms that when it originally announced the AGM's voting results, it had explained at that time what actions it intended to take to consult with shareholders in order to better understand the reasons behind the voting result and their voting policy. Subsequently, a six-monthly interim statement has been published on the Company's website during July 2021 providing an update on the output of such engagement and the actions taken by the Company. The outcome of this engagement has since been further considered by the Board and taking into account all factors, the Board is, at the current time, minded at the 2022 AGM not to propose the second/further pre-emption resolution (to approve the proposed disapplication of pre-emption rights on a cash issue of shares associated with either an acquisition or a specified capital raising of up to 10% of issued share capital). Furthermore, in respect of our engagement on resolution 2, the Board has determined that it still favours a higher weighting to the TSR metric (therefore retaining 70% weighting for the FY2022-2024 LTIP award) on the basis of previous feedback received by the Committee from a number of our largest shareholders at the time of our last policy vote, the clear alignment of the TSR metric to shareholder value and the overall shareholder experience for the award period.

The Board is nevertheless committed to continuing to engage with shareholders and intends to review this matter periodically. It also remains committed to continuing an open and transparent dialogue with all shareholders and intends to take any further input received into consideration in its future deliberations, specifically in the formulation of future shareholder resolutions.

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 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.

The employee engagement mechanisms that the Board uses to better understand the views of the workforce, as one of the stakeholders, include:

- the Company's local and regional employee engagement forums which typically take place on a monthly or quarterly basis respectively;
- a designated non-executive director (Michael Holt) who informally updates the Board following attendance at the National Colleague Engagement Forum which gives the Board direct access to the important views and voice of our frontline and corporate centre colleagues. Key issues discussed in the year included the successful introduction of defibrillators at all sites, the continuing impact and mitigating actions arising from the COVID-19 pandemic, and a summary presentation delivered by our Remuneration Committee Chair encompassing director and wider workforce pay and reward matters (including an update on the 'fair pay' agenda);
- the continued support of specialist Colleague Consultation Forums, representing a standing team of 12 colleagues from across the business and trained by ACAS, to provide a platform for formal consultation in discussions around significant business change or material changes proposed in relation to employee benefits etc. Key areas of consultation in the year included the significant restructuring exercise that the business has undertaken following the sale of Tuffnells and in support of the regulatory and governance policy refresh work that has been ongoing throughout the year;
- quarterly virtual 'Town Hall' meetings hosted by the Executive Team, with a target audience of 'all colleagues'; and
- newsworthy items and updates on the Company-wide intranet 'The Angle' and/or published in the Company's recently refreshed bi-monthly newsletters ('Our News') available to all colleagues, either as paper copies or digitally.

Where COVID-19 restrictions permitted, the Executive Team have also endeavoured to visit all of the Company's sites between them, in order to meet colleagues (particularly on the nightshifts where most of our activity is undertaken).

An overview of how the Company engages with all stakeholders is also set out within our Sustainability 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.

Compliance with Principle / Provision disclosure

1. Board Leadership and Company Purpose cont.

6. Whistleblowing

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

7. Conflict of Interests

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. For details of current situational conflicts notified by the directors please see the Other Statutory Disclosures on pages 107 to 111.

8. Unresolved Concerns

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

2. Division of Responsibilities

F. Chairman

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

G. Division of Responsibilities

A statement of how the Board operates, including an overview of the types of decisions reserved for the Board and those delegated to management, is set out in this Corporate Governance statement and 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; this is achieved by way of an annual agenda planner which is reviewed and updated at each Board meeting. In preparation for meetings, supporting papers are circulated in a timely manner, with a sufficient level of detail and supplementary information for the Board to take decisions. The Board receives regular updates on matters such as strategy; financial, operational and management reporting; Health & Safety; investor relations; IT security; and corporate governance, in addition to ad hoc matters for consideration such as material transactions or strategic items.

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

9. Independence of Chairman

David Blackwood was independent on appointment in May 2020.

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

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

10. Independence of Non-Executive Directors

During FY2021 all non-executive directors were, and continue to be, independent.

11. Board Independence

During FY2021, all three of the non-executive directors (excluding the Chairman) were considered to be independent and, therefore, at least half of the Board were independent non-executive directors.

12. Senior Independent Director

Mark Whiting became Senior Independent Director on 23 January 2018.

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

Corporate Governance continued

Compliance with Principle / Provision disclosure

2. Division of Responsibilities cont.

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 two meetings during the year with the non-executive directors, without the executives being present.

14. Role and 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 12 scheduled meetings during the year as set out in the directors' attendance table of this report on page 58.

15. External Commitments

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

16. Company Secretary

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

3. Composition, Succession and Evaluation

J. Board Appointments

A description of the work of the Nominations Committee is set out in the Nominations Committee report on pages 80 to 83. The Committee receives an annual update on succession planning for the Board and senior management.

In May 2021, Tony Grace (Chief Financial Officer) indicated his desire to step down from the Board and to retire by the end of the 2021 calendar year. Having considered the merits and opportunities of internal candidates as part of succession planning, the Board concluded that an external search process would be undertaken, further details of which are set out in the Nominations Committee report. Russell Reynolds Associates was engaged to assist in the search process. Russell Reynolds Associates has no connection with the Company or the directors and selection decisions were based on merit and recruitment activities were fair and non-discriminatory.

K. Board Membership

A description of the work of the Nominations Committee is set out in the Nominations Committee report on pages 80 to 83.

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 EquityCommunications in FY2019, this year an internal evaluation of the Board and its Committees was facilitated by the Company Secretary. The Board was of the view that an internal evaluation would best be conducted by way of a structured round table discussion which focused on a limited number of topics which had been pre-prepared and based on areas of improvement from previous evaluations, complemented by topical issues of both a specific and general nature. Accordingly, the Board received a short questionnaire from the Company Secretary detailing key points for consideration and comment, to prompt reflection and debate. Following a detailed Board discussion, the learnings and areas of constructive feedback identified by the evaluation process primarily related to: seeking to provide impetus to, and enhance engagement with, the role and workings of the Company's National Colleague Engagement Forum; encouraging greater engagement between management and the appointed external advisor to the Remuneration Committee; enhancing the balance of remuneration considerations between the Company's business interests and performance, culture and values and the overwhelming shareholder experience in the year; driving the diversity agenda with renewed focus on fostering an environment where minority groups can progress and flourish; and continuing to champion the Company's sustainability programme across the business. Following this review, the Board has 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 processes including the introduction of a sustainability report as part of the CEO's monthly management report and the inclusion of a more detailed sustainability strategy review as a quarterly Board agenda item. Further, 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 also led by the Senior Independent Director, in which the performance of the Chairman was discussed.

Compliance with Principle / Provision disclosure

3. Composition, Succession and Evaluation cont.

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 80 to 83.

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 (with the exception of Tony Grace, who has indicated his intention to step down from the Board and retire at the end of the 2021 calendar year) are accordingly proposed for re-election with full details of the reasons set out in the Notice of Annual General Meeting.

19. Chair Tenure

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

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

20. Recruitment Agencies

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

21. Board Evaluation

A performance review of the Board, its Committees, the Chair and individual directors is carried out annually and an externally facilitated evaluation is carried out every three years. As set out in Section L above, this year an internal evaluation has been undertaken, having last conducted an externally facilitated evaluation in FY2019.

22. Board Evaluation Actions

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

23. Work of Nominations Committee

A description of the work of the Nominations Committee is set out in the Nominations Committee report on pages 80 to 83.

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 40.

O. Risk and Internal Control

The Board confirms that there is a process for identifying, evaluating and managing the risks we face and there is a robust assessment of emerging and principal risks. A description of the work of the Audit Committee is set out in the Audit Committee report on pages 72 to 79.

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.

Corporate Governance continued

Compliance with Principle / Provision disclosure

4. Audit, Risk and Internal Control cont.

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.

26. Work of Audit Committee

A description of the work of the Audit Committee is set out in the Audit Committee report.

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.

28. Principal and Emerging Risks

The principal risks assessment is set out on pages 46 to 47. 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 pages 72 to 79.

29. Effectiveness of Risk Management of 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 46.

30. Going Concern Assessment

The Going Concern Statement is included within the Financial Review on pages 40 to 45.

31. Viability Assessment

The Viability Statement is included within the Financial Review on pages 40 to 45.

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 interest. No director is involved in deciding their own remuneration outcome. This is set out further in the Directors' Remuneration report on pages 84 to 106.

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 pages 84 to 106.

32. Independence

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

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

33. Terms of Reference

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

The terms of reference for the Remuneration Committee are available from the Company's website. A description of the role and responsibility of the Remuneration Committee is set out in the Directors' Remuneration report on pages 84 to 106.

Compliance with Principle / Provision disclosure

5. Remuneration cont.

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 pages 84 to 106.

35. Consultants

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

36. Policies

The Remuneration Policy approved by shareholders at the 2020 AGM focuses on the alignment of shareholder and management interests and includes a 200% of salary shareholding requirement for all executive directors (no time period currently being set for executive directors to achieve this level of shareholding).

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

Separately, a two year post-cessation of employment shareholding requirement (excluding self-purchased shares) has also been introduced for executive directors.

The Remuneration Policy and the implementation thereof are set out further in the Directors' Remuneration report on pages 84 to 106.

37. Recovery and Withholding

The Remuneration Policy (set out further in the Directors' Remuneration report), which was approved by shareholders at the 2020 AGM, 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 have been amended to explicitly make this clear. They have also been further amended to include best practice malus/clawback provisions.

38. Pensions

Only base pay is pensionable.

The Company's pension contribution for the Chief Executive Officer is 5% of salary, which is the rate applying to the majority of the workforce.

Furthermore, while the pension contribution for the retiring Chief Financial Officer is at 15% of base salary (frozen at his FY2020 salary) the Remuneration Committee has determined that contributions for new appointments (including Paul Baker, our new Chief Financial Officer) will be in line with the majority of the workforce at the time of appointment.

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 when determining the Remuneration Policy in FY2019, as well as in the implementation thereof and are set out further in the Directors' Remuneration report on pages 84 to 106.

41. Description of the Work

A description of the work of the Remuneration Committee is set out in the Directors' Remuneration report on pages 84 to 106.

The Remuneration Policy approved by shareholders at the 2020 AGM was supported by a more explicit explanation of the application of the new Remuneration Policy and principles (see the Directors' Remuneration report).

Approval

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

David Blackwood
Chairman

3 November 2021

Audit Committee Report

A wide perspective with detailed and regular review



Membership & Composition

- Mark Whiteling (Chairman of Audit Committee & Senior Independent Director)
- Denise Collis (independent non-executive director)
- Michael Holt (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 four times during the year and all Committee members attended each of the meetings. At the invitation of the Committee, the Company Chairman and certain executive directors attended the meetings from time to time.

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

I am pleased to present this year's report on the activities of the Audit Committee, which has, once again, been central to the Company's governance framework, specifically in relation to oversight of internal controls, risk management and financial reporting.

Despite the ongoing challenges presented by the COVID-19 pandemic, the Company has continued to maintain an effective control environment and has adapted to these challenges as well as the rapidly evolving risk profile of the business following the sale in 2020 of the Tuffnells business and the regulatory landscape in which we operate.

I am particularly pleased that we have continued to modify and adjust business continuity planning processes and initiatives to help mitigate the consequences of COVID-19 to our business, including maintaining vigilance and operational measures to protect the health, safety and wellbeing of our customers and colleagues and to ensure a strong focus on financial control and working capital management and discipline. Our robust systems and controls have enabled us to continue to deliver operational excellence and maintain compliance within our risk appetite.

In line with our statement in the 2020 report and following the sale of Tuffnells in May 2020, we undertook a review of our Internal Audit model and structure and have concluded that a move away from an outsourced model to an in-house dedicated team would best meet the needs of the Company and provide a robust operational, commercial and financial control and governance framework. As a result, in the second half of the year we started to transition away from our previous outsourced model and have since made a number of internal appointments to resource our Internal Audit function accordingly. We are confident that we are well resourced to facilitate a more targeted and business focused approach to the evaluation and effectiveness of risk management, control and governance processes across our business and welcome our new colleagues in this area.

We have continued to focus on Health & Safety, with the wellbeing of our colleagues and customers an ongoing priority, and I am delighted to report that of the 11 sites submitted for ROSPA H&S awards this year, nine have achieved a Gold Award and two a Silver Award.

Both the interim review and period-end audit progressed well this year and we remain satisfied with the manner, robustness and transparency of BDO's audit processes.

Following the FRC's Audit Quality Review into our FY2019 audit by BDO as referred to in last year's Annual Report, the Committee has considered the findings of such review with our auditors and has agreed an action list of those issues which were addressed in 2020 and which are to be carried forward as best practice guidance in the scope of subsequent audits. Separately, we have also responded in the year to a small number of requests for further information from the FRC's Corporate Reporting Review team in relation to a review of our FY2020 Annual Report and financial statements. Likewise, the output of this review (which principally relates to the Company's investment held in its subsidiaries and supply chain financing) has been taken forward in this year's Annual Report and Group Financial Statements. In addition, the Committee has also taken the opportunity to respond, on the Company's behalf, to the UK Government's invitation to comment on proposals regarding its review of the audit market known as 'Restoring trust in audit and corporate governance'. We keenly await the outcome of that consultative process.

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

Further information on the Committee can be found here, as well as in the Corporate Governance report on pages 52 to 71.

Mark Whiteling
Chairman

3 November 2021

Membership

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

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

Corporate governance

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

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

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

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

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

Evaluation of the Committee

During the year, an internal evaluation of the effectiveness of the Committee was conducted. Further details can be found in the Corporate Governance report on pages 52 to 71.

How the Committee operates

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

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 the Annual Report and the Group Financial Statements and advising the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance and prospects, together with its business model and strategy;
- reviewing and recommending the adoption of the going concern basis of accounting in preparing the financial statements of the Company and assessing its prospects and viability;
- reviewing the regulatory compliance framework and the systems and controls for the prevention of fraud and corruption, tax evasion, modern slavery and bribery;
- ensuring the Company maintains suitable arrangements for colleagues, customers, contractors and other external parties to raise matters of concern in confidence (whistleblowing);
- considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditor and the approval of their remuneration and terms of engagement;
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process;
- reviewing and approving the policy on the engagement of the external auditor to supply non-audit services; and
- reporting to the Board on how it has discharged its responsibilities.

For more details please see Audit Committee (or a hard copy can be requested from the Company Secretary on request).

Audit Committee Report continued

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

Risk management and internal control framework

While the Board retains ultimate responsibility for risk management, the Committee is responsible for reviewing the robustness and effectiveness of the Company's risk management and internal control systems. The Internal Audit function is a key element of supporting the Committee to discharge this duty and following a review of its effectiveness and the internal control framework (see the Internal Audit section below), we have transitioned to a new in-house model of resourcing.

In line with usual procedures, a refresh of the Company's principal and emerging risks was carried out at the half and full year, taking into account the continuing environment of considerable change and transformation within both the country and our business, the increasing relevance of climate-related risks and, more recently, the impact (both in relation to inflationary pressures and service performance) of the well-publicised sector challenges in relation to driver recruitment and warehouse resourcing.

The review was conducted through discussion with a cross section of the executive and senior management teams and the non-executive directors, who were each asked to consider the key risks (in place and emerging) and challenges to the business (by reference to the existing principal risks); the current management activities and controls that help address these risks; and future actions that may be taken to further mitigate the risks (where appropriate). Formal risk management activities continue to improve and there is a general alignment around the nature of risks, the risk ownership, the direction of travel and any risk mitigating actions.

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

- a review of both the risk profile, our collective appetite to risk and the internal control framework, reviewing the processes for identifying, evaluating and managing the principal business risks (together with the emerging risks) that we face, including those that would threaten the Company's business model, future performance, solvency or liquidity;
- the consideration of updates from the business covering current and anticipated risks, together with corresponding mitigating actions. These included such issues such as remote working patterns and recruitment pressures within the sub-contracted delivery driver market and associated pressures from increased demand in the industry;
- a review of operational controls, processes and systems associated with the increased risk profile of remote working and continued social distancing as a result of the COVID-19 pandemic, together with robust BCP planning and resources in light of the temporary reduced service experienced in the year within our offshore shared service centre in India due to more stringent COVID-19 lockdown restrictions introduced locally;
- the consideration of updates on the potential impact at the start of the financial period of a possible 'no deal' Brexit outcome arising at the end of the 12 month transition period to 31 December 2020 set by the UK Government and the EU, a risk that remained alive to both the country and our business up to the announcement of a historic deal being struck on Christmas Eve 2020 on the UK's future trading and security relationship with the EU, a week before the end of the transition period;
- a review of the Company's new banking facilities signed in November 2020 and the impact this had on the Company's going concern and viability assessments;
- in response to increased remote working and other socio-economic factors, monitoring of the potential technology risk exposures faced by the Company during the pandemic and beyond; and
- a review of the mitigations and controls in place to protect the business and the continued oversight of the effectiveness of our cyber-risk management plans.

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

We believe that we have been able to respond quickly and efficiently to the ever-evolving risk environment that we regularly face head on and have deployed effective risk management processes across the Company. Accordingly, the Board is satisfied that it has carried out a robust assessment of the principal and emerging risks that we face 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 1 to 49.

IT systems and cyber security

During the year, we have enhanced our Information Technology systems and controls, including the appointment of a new and experienced IT Director. In the field of information technology and security, the Company undertakes a regular security assurance programme, testing controls, identifying weaknesses and prioritising remediation activities where necessary. This includes periodic best practice specialist security testing by a leading third party provider and regular system scanning to identify security weaknesses. Issues are assessed for risk and are comprehensively managed as part of the Company's risk management programme. The Audit Committee is presented with a detailed Information Security Report every six months by the IT Director and Head of Information Security, which includes recommendations for further reinforcements, and a roadmap for further risk reduction. As a demonstration of our commitment to tackling cyber security we are currently pursuing Cyber Essentials Plus accreditation from the National Cyber Security Centre (NCSC).

Whistleblowing, bribery and fraud

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

During the year, the Committee received quarterly reports on incidences of whistleblowing, suspected fraud, data breaches, bribery or other malpractices reported across the business. No such instances were considered to be of significance and the Committee continues to welcome the increased fraud risk management framework reintroduced and re-invigorated in FY2019 to aid and improve the identification of, and mitigating actions to prevent and report, incidences of fraud.

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 our stated intention in 2020 to review the suitability and appropriateness of the external provider of internal audit services, the Committee reviewed the Internal Audit function in January 2021. The focus of this review was to determine the best model to ensure that the Internal Audit function best meets the needs of the business, at the same time as ensuring that the business has the necessary skills, resources and experience to serve the interests of the Company in delivering an Internal Audit function which remains at the heart of the risk management framework and ongoing control environment. The outcome of this process was a decision to change the structure away from the outsourced model we had in place during the

year, to an internal one with effect from the start of FY2022. This decision was made in response to the conclusion that we would achieve better value and control with the adoption of an internal model, which was more suited to our current business structure and strategy. Consequently, in the second half of the year we started the move to transition away from the outsourced model and have since made a number of internal appointments to lead our Internal Audit function. We are confident we are now fully resourced to be able to evaluate and improve the effectiveness of risk management, control and governance processes across 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.

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 year.

What the Committee did

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 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 put to the Board
- Approved the Group's viability and going concern statements
- Reviewed the outcome of, and response to, the FRC's audit quality review into the audit of our FY2019 Annual Report and Accounts
- Considered our responses to a small number of requests for further information from the FRC's Corporate Reporting Review team in relation to the FY2020 Annual Report and financial statements
- Reviewed the strategy for capital and liquidity management

External audit review

- Reviewed the external auditor's report on the Company's full year and half year financial statements
- Reviewed the external auditor's assessment of its objectivity and independence, including a review of 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

Audit Committee Report continued

What the Committee did

Risk management & controls

- Conducted an annual assessment of risk and internal control, including a robust assessment of principal and emerging risks
- Received information security and Data Protection reports
- Received information on climate-related risks
- Received whistleblowing reports
- Reviewed findings and recommendations from Internal Audit reports
- Received an update on the impact of COVID-19 on internal controls
- Received an update on the potential impact of a possible 'no deal' Brexit outcome at the end of the one year transition period set by the UK Government and the EU on 31 December 2020
- Received risk and internal control reports
- Reviewed and approved the Internal Audit plan

Other/ad hoc

- Reviewed the Internal Audit model and structure
- Reviewed various legal reports and compliance and risk updates
- Received updates on tax and insurance
- Reviewed policies – treasury, anti-bribery, non-audit work, recruitment of external auditors, parent company guarantees etc.
- Conducted an annual review of the Committee's terms of reference, evaluation and review of its composition
- Private meetings between the non-executive directors, Head of Internal Audit and external auditor
- Approved a response to the UK Government's proposals regarding its review of the audit market, known as 'Restoring trust in audit and corporate governance'

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 28 August 2021 and the half year to 27 February 2021 to ensure that, in each case, they included the necessary information to provide shareholders with a fair and balanced assessment of the Company's position, performance and prospects, as well as the Company's business model and strategy. This review included but was not limited to:

- a paper prepared by the Chief Financial Officer outlining the work undertaken by executive management and the key estimates and judgements made in preparing the financial statements;
 - a review by senior management of the Annual Report to ensure that the information presented was accurate and that the narrative was consistent with the fact pattern; and
 - monthly Board meetings where the management accounts and KPIs were reviewed to ensure that the financial, operational and commercial performance was appropriately assessed, reported and understood.
- The views of the external auditor on this matter were also considered by the Committee. Having completed its assessment, the Committee reported to the Board that it was able to make the corresponding confirmation that this Annual Report is fair, balanced and understandable.

Significant financial statement reporting issues

The significant issues and key judgements considered by the Committee in relation to the FY2021 Group Financial Statements are set out below. In light of these significant issues and key judgements included below, the Committee has considered whether each of these areas is a key judgement or estimate and, therefore, whether it should be disclosed within Note 1(e) to the Group Financial Statements. It was concluded that the matters included within Note 1(e) reflect the key judgements and estimations.

Significant issues and key judgements

Area	Matter considered	Outcome
Going concern and viability	<p>The Committee reviewed and challenged executive management's assessment of forecast cash flows including sensitivity to trading and expenditure plans, including a reverse stress test and reasonable worst case downside scenario which included a significant increase of costs associated with current labour shortages over the period of assessment.</p> <p>The Committee also considered the Company's debt financing facilities and future funding plans.</p>	<p>The Committee concluded that the assumptions used in both these assessments and the period of assessment were appropriate.</p> <p>The Committee has also reviewed the Group's reverse stress tests and 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 include the current trading performance of the business compared with the base case, the extent of revenue and EBITDA decline that could impact the viability of the Company, and current expectations as to the severity of any inflationary impacts on cash flows.</p> <p>The Committee noted the current level of 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 financial statements continues to be appropriate and, therefore, recommended the approval of the viability statement.</p> <p>This disclosure is set out in Note 1 to the Group Financial Statements on pages 114 to 177.</p>
Carrying value of investments held by Smiths News plc in its subsidiaries	<p>The Committee considered the carrying value of the investments held by the Company following the impact of the COVID-19 pandemic, growing inflationary pressures and the impact of the expected corporation tax rate increase (which will rise from 19% to 25% on 1 April 2023).</p>	<p>The Committee received detailed reports from executive management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (e.g. discount rate and terminal growth rate) and the key drivers for cash flow forecasts. After careful deliberation and challenge to management, the Committee was satisfied that these assumptions remained appropriate.</p> <p>In its deliberations, the Committee further acknowledged the sensitivity analysis used by management in its review of impairments, including consideration of the specific sensitivity disclosures in the relevant notes, and agreed with management's conclusion that the carrying value of investments held by the Company in its subsidiaries should be impaired by £3.0m. In September 2021, the UK Government announced an additional tax that will be effective from April 2022 to fund social care in England and help the NHS recover after the pandemic. If that additional tax was known at the balance sheet date, the impact on the future cash flows would have resulted in an additional impairment loss of £2.7m.</p>

Audit Committee Report continued

Significant issues and key judgements

Area	Matter considered	Outcome
Adjusted items	The Committee considered the appropriateness of the measure of Adjusted profits, quality of earnings, and the classification and transparency of items separately disclosed as such.	The Committee was satisfied that the presentation of Adjusted profits 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.
Retirement benefit obligation	The Committee considered the IFRIC 14 restriction of the surplus remained appropriate at the balance sheet date. The Committee reviewed the accounting treatment of the buy-out and winding up of the news section of the WH Smith Pension Trust scheme in the year.	The Committee satisfied itself that the assumptions used were reasonable and the restriction of the IFRIC 14 surplus was appropriate. The Committee was satisfied with the treatment of the 'buy-out' and winding up of the scheme. The Committee agreed with management's conclusion that as at the balance sheet date, the Company did not have an unconditional right to the £14.8m pre-tax pension surplus and as such should not recognise the asset.
Revenue recognition	The Committee reviewed the recognition of revenue across the business and reviewed the judgements taken determining whether the Company was the principal or agent in its sale of newspapers and magazines based on indicators of control. The Committee considered the nature of the revenue, high volume and low value transactions, and the complexities of the IT systems in light of the risk over accuracy and existence of revenue.	The Committee satisfied itself that the Company had appropriately recognised revenues in accordance with its contractual obligations during the year, paying attention to period end cut-off and the level of expected customer returns. The Committee also satisfied itself that the Company was indeed classified as the 'principal' in its sale of newspapers and magazines based on the fact pattern. The Committee was satisfied over the robustness of the IT systems and that sufficient controls exist to support accurate revenue recognition.
Tuffnells deferred consideration	The Committee reviewed the fair value treatment for the deferred consideration which may be received by the Company as part of the terms of sale in May 2020.	The Committee was satisfied with the fair value of the deferred consideration.
Property provision	The Committee reviewed the property provisions as at period end and the appropriateness of the additions, utilisation and releases made in the year.	The Committee agreed that the property provision held was appropriately recognised and measured and that releases were consistent with the manner in which the original provisions had been made.
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.

Adoption of new accounting standards

Last year we reported on the Company's adoption of IFRS 16 'Leases' and its material impact on the value of lease liabilities and right of use assets in the Group Financial Statements. This year, there have been no such significant changes in accounting standards which are expected to materially impact the Company but we, nevertheless, remain alert to any such changes and regularly receive updates on upcoming changes from both the external auditor and management. In this light, we have welcomed the opportunity to participate in the consultation on the Government's proposals regarding 'Restoring trust in audit and corporate governance' and, as a Committee, we have concluded that further reflection should ideally be made by the Government on certain aspects of these proposals in order to ensure that they remain workable and drive the expected behaviours and outcomes in relation to audit quality, competition and user confidence in financial statements. We expect our response will be made publicly available on the Government's website at www.gov.uk/government/publications/restoring-trust-in-audit-and-corporate-governance.

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 48. The Committee noted that the Company had £112.5m of available facilities at the end of the reporting period (of which £72.5m was drawn at the end of the reporting period) and, therefore, achieved 1.2x leverage covenant of Bank Net Debt to adjusted EBITDA.

With current facilities in place until 6 November 2023, this gives the Company a strong platform to continue for the foreseeable future and is in line with the Board's stated aim of achieving 1x Bank Net Debt to adjusted EBITDA by the end of FY2023. 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 22 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 2024. The viability statement on page 48 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 and this year's audit is the third year in which Sophia Michael has been engaged as audit partner.

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), last year we reviewed the new ethical standard and amended our non-audit services policy accordingly. 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 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 new standards.

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

Assessment of the effectiveness of the external auditor

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

Accordingly, after finalisation of the FY2020 audit, the Committee evaluated the performance of BDO in the audit and concluded that the external audit process in FY2020 had been effective.

Approval

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

Mark Whiteling Chairman

3 November 2021

Nomination Committee Report

Focusing on people to enhance performance and potential



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)

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

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

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 the year and to highlight the key activities undertaken by the Committee during FY2021.

The Committee has met twice during the year with the issue of succession and talent management high on our agenda, specifically around the identification and recruitment of our new Chief Financial Officer, Paul Baker, following the announcement of Tony Grace's intention to retire by 31 December 2021 and to step down from the Board on 30 November 2021. As part of planning for Tony Grace's intended retirement, we undertook a comprehensive search process which included reviewing the key attributes, skills, knowledge, experience and diversity required for the role, prior to the Committee ultimately recommending Paul Baker be appointed as Chief Financial Officer. For further details of the search process and the Committee's considerations here, please see the CFO appointment section below.

Elsewhere, we focused on meeting our core responsibilities and, where appropriate, we worked closely with the other Committees as well as the Board to ensure that we delivered these key activities for the year, including in particular a review of our colleague engagement score arising from our 'What Matters' survey, details of which are also set out below.

Separately, the Board acknowledges the importance of a diverse and inclusive workforce, endorsing a refreshed D&I policy for all colleagues and, for the first time, introducing a specific D&I policy for the Board. As part of our discussions in this area, I would therefore like to take the opportunity to provide reassurance of the Board's renewed approach and commitment to drive the diversity agenda during FY2022, both at Board and senior management level but also more widely across our organisation. As a business, we share the importance of acknowledging and promoting diversity. Whilst we have made progress in the year with regard

to our diversity and inclusion programme (such as encouraging colleagues to update their employee profiles with personal and sensitive data to enable more informed activities and reporting in the future, together with promoting key inclusivity events) there is still more that we can do and, as part of this, during 2022 we intend to run an Inclusion survey to help us to identify areas of best practice or where more activity could be targeted to support the creation of a truly inclusive environment, with targeted activity expected to follow the results of this survey.

As part of our core responsibilities, we have also continued with ongoing oversight of our colleague engagement processes, the further refinement and embedding of our culture and values and the further consideration of our talent programme across the business. In collaboration with the other Committees of the Board, we have reviewed the contractor model including the impact of legislative changes in IR35 status and future supply chain demand for delivery service contractors across our business.

Further information on the Committee can be found here, as well as in the Corporate Governance report on pages 52 to 71.

David Blackwood
Chairman

3 November 2021

Recruitment and succession planning

During the year the Committee has focused on talent management and succession planning, taking into account the nature of the business and the need for a pipeline of new talent following the loss of some high performing individuals as a result of the sale of Tuffnells in 2020 and the challenges to recruitment presented by both Brexit and COVID-19. Latterly, this focus has extended to the well-publicised sector challenges in relation to driver recruitment and its consequential impact on our subcontracted delivery service partner engagement and warehouse resourcing, which is an ongoing industry challenge. In these respects, the Committee has welcomed management's continuing endeavours to refresh its recruitment and engagement processes at particular hotspots within the business and, separately, for continuing to progress its talent programme through distance learning modules notwithstanding the restrictions arising from the COVID-19 pandemic in the year. In particular, a cohort of 17 colleagues successfully completed our Talent Academy programme remotely in 2021, the purpose of which is to equip our colleagues with the appropriate skills, experience, knowledge and approach to leading at Smiths News and to ensure they are each ready to step-up within the organisation.

The Committee has noted that the attraction and retention of the right people in the right positions is a function of not only reward but also career progression and development, as well as advancing an attractive and sustainable corporate culture. Work has continued on talent mapping against the Company's values, as well as against key priorities for talent development, with the focus on succession of key roles and the development of a diverse pipeline.

Chief Financial Officer appointment

The process for the identification and appointment of new directors is formal, rigorous and transparent:

Following Tony Grace's expression of his intention to retire by the end of the calendar year (2021) a selection process was commenced in late-spring 2021, developing and agreeing a detailed role specification and (following a short tender process) appointing Russell Reynolds Associates to assist with the search to identify possible suitable candidates. The job specification and role requirements summary was approved by the Committee, with the Committee favouring a candidate with a strong commercial background but one who could work collaboratively and collegially across functions. The Committee considered the benefits of diversity, including but not limited to gender and ethnicity, and concluded that the requisite skills, knowledge, attributes, experience and diversity necessary to meet the demands

Roles & Responsibilities

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

Key Actions from FY2021

- | October 2020 | April 2021 | July 2021 |
|---|--|---|
| <ul style="list-style-type: none"> Reviewed composition of Board and Committees Reviewed talent programme Revisited diversity approach | <ul style="list-style-type: none"> Reviewed succession planning and processes | <ul style="list-style-type: none"> Approved the appointment of Paul Baker as CFO |
- Employee engagement was addressed at Board level and was thus not a specific Committee agenda item.

Diversity in Leadership Roles

	Female representation		
	2021	2020	2019
Board	17%	14%	14%
Executive Team	22%	22%	14%

Board appointments and succession planning

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

Executive search consultant is appointed

Following a review of the required skills, knowledge, experience and diversity, detailed job specifications are prepared

Comprehensive profiles are prepared and considered, references checked and candidates are shortlisted

Initial and second interviews are held with each member of the Board

Following recommendation by the Committee, the Board appoints the new director

Immediately following appointment the relevant announcements are made to the market

Nomination Committee Report continued

of the position, and the Company as a whole, would be taken into consideration. Of the relatively small candidate pool identified as part of this process, just 22% of the candidates identified during the first round search process were from diverse backgrounds, with one such candidate being taken forward to the second stage shortlisting (out of seven individuals). These seven candidates were each interviewed by the Chairman and Chief Executive Officer, with skills, knowledge and attributes being identified as primary areas of differentiation and prioritisation. As part of the subsequent process to shortlist these seven individuals to three, the Committee acknowledged the importance of cultural alignment and experience and all three shortlisted candidates were appropriately and diligently referenced prior to being presented to the Board for interview. Finally, the Company announced on 14 August 2021 that Paul Baker would be appointed Chief Financial Officer and a director of the Board, effective from his starting date with the Company on 4 October 2021. Please see page 57 of the Corporate Governance report for details of his experience, expertise and credentials for this role.

The Committee can confirm that Russell Reynolds has no other connection with the Company or the directors, that all selection decisions were based on merit and that all recruitment activities were fair and non-discriminatory.

What Matters and colleague engagement

This year, together with the Board, we have reviewed our annual 'What Matters' survey of colleague engagement. This year's survey was conducted in November 2020, with 92% of colleagues choosing to participate (up from 85% in the previous year). Overall, our engagement net promoter score improved from 6 to 7 (measured on a scale of 1 to 10), a significant and especially pleasing increase in challenging circumstances this year. A key action from the survey was the desire of colleagues to improve the communication of goal setting, ensuring that individuals and teams understand what they are expected to deliver and how the work that they

perform for the business supports our goals in the workplace. We continue to track activity in light of this feedback and are pleased with the improvements made to goal setting and performance reviews by each of our functional teams and depots. In FY2022, we plan to move to more regular pulse surveys by way of our broader 'What Matters' colleague engagement survey as we believe more continual monitoring will drive enhanced engagement and more positive opportunities for informed activity tracking and action planning.

Separately, as a result of the COVID-19 pandemic, and the need for some of our colleagues to work from home or for colleagues to follow strict social distancing rules, our mechanisms in place to promote direct colleague engagement and awareness outside of the 'What Matters' survey have been somewhat curtailed in the year and have had to move online. In response, we have relaunched the colleague newsletter 'Our News' in physical and electronic format, alongside the launch of all-colleague virtual Town Hall meetings. These moves have ensured we share news regularly and consistently and provide all colleagues with the opportunity to ask questions of the Executive Team in a live forum. These events have been held quarterly and are recorded to ensure that all colleagues can access them regardless of shift patterns. Despite the COVID-19 limitations, the Committee, Board and management have still continued to listen and strive to better understand and promote workplace engagement with our colleagues. Separately, in light of the COVID-19 restrictions and changes in colleague numbers following the sale of Tuffnells in May 2020, we see this as an opportunity to revisit the role and workings of the Company's National Colleague Engagement Forum with a view to provide impetus to, and enhance engagement with our colleagues from across all parts of the business. The National Colleague Engagement Forum will still meet quarterly and be attended by Michael Holt, designated non-executive director, who will provide regular updates and report to the Board and Committees on key areas of discussion and action points.

Further information on the work of our colleague forums can be found in the Sustainability report on pages 30 to 39.

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

- the installation of AED defibrillators in all of our depots following a request during a colleague engagement meeting;
- colleague recognition rewards extended to our outsourced functions and elsewhere migrated to a digital platform in order to promote ease and efficiency of recognising 'extra mile' behaviour;
- implementation of cultural change programmes such as providing support for the national Mental Health and Carers weeks, our 'EveryoneIn' programme, upskilling learning and development sessions for our managers on the benefits of inclusion and diversity and in respect of our support for Pride;
- initiated the process of asking colleagues to update their employee record profiles with personal and sensitive data within our HR platform to facilitate diversity reporting and informed activities in the future;
- establishment of colleague hardship funds in the UK and offshore, available to colleagues who have suffered economic or financial hardship brought on by the onset of the COVID-19 pandemic either within the UK or at our outsourced support centre in India;
- questionnaire to colleagues with results informing our Sustainability strategy and key focus areas/metrics for FY2022 and beyond.

In addition, the Chair of the Remuneration Committee has engaged, and remains committed to promoting broader engagement with our workforce, outlining our Company-wide remuneration policy and pay and reward matters. A key priority over the next year will be to develop a set of 'Fair Pay Principles' for the Company to establish a framework against which we can monitor our progress.

COVID-19 considerations

While we hope that the end of the COVID-19 restrictions is in sight, FY2021 has still seen an impact on our colleagues and business as a result of the pandemic. During the year, we have collectively continued to implement workforce initiatives to mitigate the consequences of this on the business and our colleagues, including measures to protect the health, safety and wellbeing of our customers and colleagues, as well as the continued support of our colleague hardship fund established in 2020 and the establishment, in 2021, of a second fund (in India) to support the gravity of the pandemic afflicting colleagues of our outsourced services partner. These funds are made available to colleagues who have suffered economic or financial hardship brought on by the onset of the COVID-19 pandemic. We have separately also introduced a COVID-19 technology scheme, enabling colleagues to apply for free or reduced-priced laptops and PCs with a view to supporting our colleagues who, as parents, may have encountered home schooling challenges caused again by the COVID-19 pandemic.

Culture and values



The Committee supports and promotes our values and corporate culture and monitors how well we live our values by:

- considering the opinion of our customers through selected one-to-one engagements to determine the level of trust they have in the service we provide to them and how friendly and helpful we are;
- reviewing the perception of colleagues, through our 'What Matters' employee surveys, regarding the levels of engagement, fairness and openness in the Company's dealings with them;
- monitoring by way of operational reports and performance against agreed KPIs how we act with speed and creativity;

- determining, through selected shareholder engagements, whether we are trusted and fair in our dealings with shareholders and in the manner in which we promote the delivery of value for our shareholders.

We have launched an e-learning module for all colleagues in order to promote and encourage a better understanding of the Company's culture, our working environment and the relationship between the Company and colleagues as a result. This module explores the different kinds of company culture and considers how the workplace environment can play a pivotal role in the success of the Company. It also details how best to create, develop and transform company culture to suit the changing needs of the business.

Further information on our values can be found in the People report on pages 22 to 27.

Diversity and inclusion

The Board has published diversity policies applicable to both itself and the wider workforce. In setting these policies, the Board recognises the benefits of diversity and the inclusion of people drawn from a number of different influences, including age, gender, race, disability and religious beliefs, amongst others. We also believe that diversity of skillsets, capabilities, backgrounds and experience contribute to an effective and resilient business. To this end, we remain committed to a comprehensive diversity and inclusion strategy which supports a high performing and inclusive culture which attracts and retains both customers and talent to the organisation.

The diversity policy for colleagues was refreshed in December 2020. The policy and overview was communicated to all colleagues. This was supplemented by a request for colleagues to update their own personal information as part of a data capture exercise to better enable us to report on diversity across our business. The objectives of the policy include a commitment to promoting and encouraging all aspects of diversity and supporting an inclusive working environment, together with adopting a zero tolerance approach

towards discrimination. Separate to this policy, new diversity and inclusion targets have recently been set, with the aim being to achieve a 30% increase in the number of colleagues from minority groups recruited into leadership positions over the next five years.

Separately, through our data gathering exercise, it is apparent that diversity decreases with seniority in our organisation, which is why we believe that it is important that the target is specific to this group rather than the whole organisation.

We are also targeting a Diversity & Inclusion survey to all colleagues in FY2022 in order to enable us to baseline our Inclusion data. As such, we have set an inclusion target which aims to maintain an inclusion score within the upper quartile. We are committed to continuing to measure inclusion to ensure that, as we increase our diversity, we maintain an environment where all colleagues have a sense of belonging. We recognise that our diversity goals will not be achieved or maintained without a strong inclusive culture. As such we have additional metrics sitting below these targets to ensure that we monitor aspects such as candidate shortlists, development activities within the Company and retention of our minority group colleagues.

Further, during the year we have also introduced a separate Diversity & Inclusion policy for the Board. This policy sets out our aim to improve ethnic diversity at Board level, with a target of having at least one person from a minority group on the Board by December 2026, to maintain at least one female director on the Board and to target a further female appointment at Board level by December 2026.

These policies are together supported by our diversity and inclusion initiative called 'EveryoneIn!', a programme which encompasses a number of national initiatives and which seeks to address the feedback from our 'What Matters' survey. We have made the following progress in this area during the year:

- focus on education and awareness through an agreed calendar of D&I events, where we have supported colleagues at our

depots in arranging different ways of recognising/celebrating and educating with respect to a range of D&I subjects such as National Inclusion Week, Black History Month, Pride, Ramadan etc;

- brought in an external speaker as part of our Leadership Development programme. This speaker provided a two hour development session for our senior leadership team on Inclusive Leadership, Moving from Unconscious Bias to Conscious Inclusion. The session provided practical guidance to our senior managers in how to tackle specific subjects as well as challenging their own mind sets and was very positively received;
- initiated the process of asking colleagues to update their profiles with personal and sensitive data within our HR platform to enable reporting in the future. Historically we have not held or asked for data around ethnicity, sexual orientation, religion and disability. To date, we have had around a 50% response rate and very much intend to continue to progress this in FY2022;
- ran an engagement survey in November 2020, where the overall engagement score increased to a score of 7.0 out of 10 from 6.2 the previous year. The survey included questions targeted around Diversity & Inclusion and, as a result, some sites have since chosen to undertake further action planning activities related to this;
- choosing a partner with whom to conduct a specialist engagement survey in FY2022 in order to help us to identify areas of best practice or where more activity could be targeted in order to ensure that all colleagues are able to 'bring their whole selves to work' and that the environment that we are providing is truly inclusive.

The Board has considered the issue of diversity during its internal self-assessment and has agreed to drive the diversity agenda with renewed focus on fostering an environment where minority groups can progress and flourish. Whilst acknowledging that this is an evolving subject where more could always be done (in 2022 we intend

to update our diversity and inclusion policies with specific and targeted activities and objectives for both the Board and senior management level and also more widely across the business), the Board generally considers itself diverse in terms of the background, skills and experience that each director brings to the Board and remains committed to targeting (where possible and subject to the skills, experience and attributes desirable for each role) the recruitment of female Board members through executive search partners who are signed up to the Voluntary Code of Conduct on gender diversity, developed in response to the Davies Report. We encourage our recruitment partners to present more balanced candidate recommendations with at least one credible and qualified female candidate provided within the shortlist for the recruitment processes.

The Committee is also mindful of the recommendations of the Parker Review and the Hampton-Alexander Review, when considering potential candidates and acknowledges that by broadening the potential skills base through enhancing the diversity of our business, we will improve the quality of our future decision-making. The Committee also agrees that improving the overall diversity, including gender balance, in leadership roles is good for Company performance, productivity and, ultimately, shareholder value.

Further information on gender diversity, including the proportion of women in senior management (being for these purposes, the Executive Team and their direct reports as promulgated by the Hampton-Alexander Review) and within the organisation overall, is contained in the People report on page 27.

Approval

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

David Blackwood
Chairman

3 November 2021

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 Whiting (Senior Independent Director)
- Michael Holt (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 six times during the year (and passed one written resolution) and all Committee members attended each of the meetings. At the invitation of the Committee, certain executive directors attended the meetings from time to time.

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.

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report for the 52-week period ended 28 August 2021.

Backdrop to the operation of the policy in FY2021, AGM vote and change of Chief Financial Officer

In a year in which the COVID-19 pandemic has continued to impact the lives of many of us, I am heartened by the tenacity and tireless work of our colleagues who have navigated these challenges and delivered a vital service to communities across the UK. Due in large part to their collective endeavours, our financial performance and strategic progress has been strong, with trading ahead of market expectations and the successful delivery of strategic goals that the business set itself a year ago.

Last year, I reported on how the business, first and foremost, supported colleagues and customers through the initial impact of the COVID-19 pandemic. I am delighted that this year we have been able to continue the vital support provided by our colleague hardship fund (established in 2020) in addition to the operational workforce initiatives we previously introduced. Further, we established a second fund to respond to the grave impact of the pandemic on the colleagues of our outsourced services partner in India. We have separately also introduced a COVID-19 technology scheme, enabling colleagues to apply for free or reduced-priced laptops and PCs with a view to supporting those with parenting responsibilities who may have encountered home schooling challenges. I would also highlight that this year we have not received any COVID-19 related Government support (such as the receipt of any payment relating to the furloughing of colleagues).

For the first time the Committee has considered and debated the overall fairness of the Company's various policies and procedures around remuneration through a dedicated 'Fair Pay' Remuneration Committee meeting. More details are provided later in this letter.

At the 2021 AGM, the Directors' Remuneration report received a 70.3% vote in favour. Whilst this significantly exceeded the 50.1% level required to successfully pass the resolution, we were disappointed that two of our largest shareholders opted to vote against supporting the report, one on the basis of the bonus payment for FY2020 (the rationale for which was explained in detail in last year's report) and the other due to the adoption, and increased weighting, of our Total Shareholder Return (TSR) measure used for the FY2021-2023 LTIP award. We have since engaged with these shareholders to understand their concerns more fully and would like to express our appreciation for the positive and candid levels of engagement we have received in response. As a Committee, we are committed to continuing an open and transparent dialogue and will always look to take into account the input received, recognising that on some occasions shareholders will hold divergent views. Looking forward, the Committee has fully debated the financial metrics and weightings to be used for the FY2022-2024 LTIP award. Taking the views of our largest shareholders at the last policy vote into consideration, the Committee has determined that it still favours a higher weighting to the TSR metric (therefore retaining 70% weighting for the FY2022-2024 LTIP award) given the clear alignment of the TSR metric to shareholder value and the overall shareholder experience for the award period.

On 5 May 2021 we announced the retirement of our Chief Financial Officer Tony Grace, who will be stepping down from the Board on 30 November 2021 but remaining an employee until 31 December 2021, providing handover support to his successor throughout this period and supporting the Board through the finalisation of the FY2021 audited results. Tony will receive no further remuneration or contractual payments after his retirement date and will be eligible for an annual bonus for FY2022 on a pro rata basis, in line with our policy. Full details of Tony's leaving arrangements are covered later in this report.

With Tony's imminent retirement, we are delighted that Paul Baker joined the business as Chief Financial Officer on 4 October 2021. Paul's base salary is £305,000 and his pension allowance is 5% of salary, in line with the rate applying to the majority of the workforce (resulting in a combined salary plus pension allowance that is lower than his predecessor). Other elements of his package are in line with our policy.

Performance in FY2021 – incentive payments and our continuing response to the COVID-19 pandemic

The FY2021 bonus opportunity was based on 60% Adjusted EBITDA (pre-IFRS 16), the key measure of profitability against which business performance was assessed over the year in line with our internal financial reporting, and 40% on personal objectives. 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 highlighted last year, the move from a 30% to a 40% weighting on the personal measures for FY2021 was introduced on a one-off basis to provide a sharper focus on the operational KPIs which were considered to be vital to preserve profitability, maintain strong cash flows and lay the platform for future growth. For FY2022, the mix between financial and personal measures will revert to 70:30.

I have already noted our strong financial performance in the year and the successful delivery of the strategic goals that the business set itself a year ago, all achieved at the same time as we managed our way through the disruption to the trading environment and our daily lives caused by the extended COVID-19 pandemic. A full service was maintained, without compromise to restructuring and efficiency targets, which have been exceeded. One-off sales and cost opportunities have further boosted profit performance, helping to offset growing inflationary pressures in the final quarter. Meanwhile, our close attention to capital management has strengthened the balance sheet. Progress in the year has also been enhanced by performance against the personal objectives, which have been largely delivered.

Roles & Responsibilities

- Determine the framework for the remuneration of the executive directors, the Chairman, the Company Secretary and the Executive Team
- Review the employee benefits structure across the business
- Determine annual bonus and share incentive plan awards and relevant vesting levels, including application of clawback and malus provisions
- Approve and monitor the shareholding guidelines policy for executive directors and the Executive Team
- Determine the policy for pension arrangements for the Executive Team
- Oversee contractual terms on termination and exit payments
- Ensure that remuneration-focused engagement with the workforce takes place
- Ensure that all provisions regarding disclosure of remuneration arrangements are met and produce a remuneration report to shareholders
- Setting terms of reference for the remuneration consultant.

For more details please see Remuneration Committee.

Directors' Remuneration Report continued

With financial performance of £42.6m Adjusted EBITDA (pre-IFRS 16) for FY2021 exceeding the market's expectations during the year, the FY2021 bonus EBITDA measure was achieved at between the target and maximum level, resulting in pay out at 48.2% of the 60% bonus opportunity (i.e. 80.3% of the financial metric). The Committee has also carefully considered 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. For Jonathan Bunting, the personal objectives focused on service innovation and operational performance, operational efficiency, development of an ESG strategy and maintenance of the business's market leading H&S score. For Tony Grace, they focused on the successful conclusion of the refinancing of the Company's banking facilities, progress on the second phase transition of finance services to our shared service centre in India, establishment of a new capital allocation and dividend strategy and progress on the defined benefit pension buy-out and wind up of the scheme, including the return of any cash surplus held by the scheme to the Company. As noted elsewhere in this report, performance against these non-financial KPIs has been strong and this has resulted in a pay out of 34% out of the 40% bonus opportunity (i.e. 85% of the personal element) for both Jonathan Bunting and Tony Grace.

Overall, as a result of the financial performance and their respective personal performances, both Jonathan Bunting's and Tony Grace's annual bonus pay out is 82.2% of salary. In determining this outcome, the Committee also reviewed the application of the FY2021 bonus scheme across all scheme participants through the 'fairness lens' to ensure that there has not been an unmerited bias of higher bonus outcomes (and payments) with seniority. Overall, the Committee is satisfied that the bonus payments to the executive directors are appropriate, representing a strong link between reward and performance and shareholder alignment, as well as being consistent with the treatment of bonus payments for colleagues. On this basis the Committee determined that there was no need to use discretion to adjust the outcome derived from the annual bonus performance conditions.

Turning to the FY2019-2021 LTIP awards, these were made subject to Adjusted basic EPS and aggregate free cash flow performance measures, weighted equally and measured over the three year period ending 28 August 2021. EPS (pre-IFRS 16) of 10.9p exceeded the threshold of 9.8p, representing growth of 17% over the three year period from when the award was made at the end of the 2018 financial year (EPS: 9.3p), and reflecting the strong focus on the long term financial performance and recovery of the business. Aggregate cash flow performance over the three year performance period failed to achieve the set targets primarily in light of the cash flow performance of the Tuffnells business (which was sold in May 2020), resulting in a total LTIP pay out of 0%. In the year, the Committee separately reviewed the profit and cash flow performance of the Tuffnells business and determined that it should continue to be included within the performance measures (reducing the outcome under both).

Overall, the Committee remains comfortable that the pay out level of the FY2019-2021 LTIP is appropriate in light of the overall performance and shareholder experience over the three year performance period and that no discretion has been necessary to adjust the outcome.

Awards granted during the year for the FY2021-2023 LTIP have been based on performance over the three years to FY2023, with targets comprised of cumulative free cash flow (30%) and relative Total Shareholder Return vs the FTSE Small Cap (70%). Whilst we acknowledge the views of one of our largest shareholders, noted earlier, regarding the adoption, and weighting, of the relative Total Shareholder Return performance measure, we remain comfortable that the adoption and weighted focus on TSR for the award was appropriate in order to provide a stronger direct incentive to increase the share price.

Operation of the Remuneration Policy in FY2022

The base salary for the Chief Executive Officer was increased by 2% to £468,180 with effect from 1 September 2021. There was no change to the salary of Tony Grace, the outgoing Chief Financial Officer, given his imminent retirement.

We have reviewed the fee rates of the Company Chairman and, separately, the Board (minus the non-executive directors) has also reviewed the fee levels for the non-executive directors, which were last increased in 2015. Having recognised the valuable contribution made by our experienced non-executive directors and the significant increase in workload since 2015, the Board has determined that the base fees for each non-executive director should increase from £40,000 per annum to £47,500 with effect from 1 September 2021.

The additional fees paid to non-executive directors for chairing the Board's committees (£10,000), for the role of Senior Independent Director (£5,000) and for the role of chairing the National Colleague Engagement Forum (£5,000) remain unchanged. The fee rate for the Company Chairman was reviewed by the Committee, but recognising his more recent appointment, it was agreed that this should remain at £140,000 per annum.

The Company's pension contributions for each of the Chief Executive Officer and Chief Financial Officer now both stand at 5% of salary, which is the rate applying to the majority of the workforce.

The annual bonus opportunity will remain at 100% of salary but, as noted above, the mix between financial and personal measures will revert to 70:30 from the previous weighting of 60:40.

The LTIP grant level for the FY2022-2024 award will be 100% of base salary. As noted above, a relative TSR measure will apply to 70% of the award and a free cash flow metric will also be retained for the remaining 30%, with an adjustment to the free cash flow metric from a cumulative target over the three year performance period (adopted in previous years) to one that is assessed only in the final year (i.e. FY2024). Further details on the performance measures and target ranges can be found on page 105.

Broader employee remuneration considerations and employee engagement

For the first time a dedicated 'Fair Pay' Committee meeting was held, looking at the operation of pay policies at each organisational level and taking into account the views of colleagues shared with the Committee from engagement on remuneration-related matters with the workforce over the past year. The following key points were noted by the Committee:

- the significant levels of support provided to colleagues throughout the COVID-19 pandemic (such as the maintenance of full salary levels for those employees furloughed, the establishment of the hardship funds in both the United Kingdom and India and free/reduced cost access to technology to support the significant period of home schooling);
- consideration of the pay ratios between employees and the CEO, noting that, in the case of the CEO, there was no LTIP payment in the year under discussion (FY2020), which would otherwise have increased the ratio;
- examining the financial and commercial impact for adopting, as a minimum pay rate, the real Living Wage (as promulgated by The Living Wage Foundation) for all employees (rather than the UK's National Living Wage);
- considering the financial viability of rewarding all colleagues who are not in receipt of an annual bonus with a discretionary payment to acknowledge their tireless work undertaken in challenging conditions presented by the ongoing COVID-19 pandemic; and
- the overall level of all colleague benefits, including pension contribution allowances.

Following the 'Fair Pay' Committee meeting, further analysis and scenario planning has been undertaken to understand the cost impact of moving to the real Living Wage. As a consequence, and in conjunction with new pressures on colleague attraction and retention in light of the well-publicised driver and warehouse labour shortages within the United Kingdom, our largest site (Hemel Hempstead) will be moving colleagues to a base hourly rate significantly above the real Living Wage from November 2021. The Hemel population represents 12% of our total workforce. Further scenario testing and consideration on extending application of the real Living Wage will continue during FY2022.

Separately, for the second year in a row we will be rewarding all colleagues who are not in receipt of an annual bonus with a discretionary payment to acknowledge their ongoing commitment during the challenging circumstances again presented by the pandemic. Finally, as part of the Committee's fair pay agenda review into colleague benefits (and in response to the pandemic), a new healthcare cash plan has been introduced during FY2021 for all colleagues and their dependent children, funded by the Company. This benefit enables colleagues to claim cash back for routine health costs incurred as part of day to day living, such as prescription charges, eye tests and dental charges.

As in previous years, I remain committed to engaging with our employees around remuneration and ensuring that their views are shared with the Committee. A programme of meetings is currently being developed, commencing shortly with a meeting with colleagues at our largest site (Hemel Hempstead). During these meetings I will be outlining our Company-wide remuneration policy and director and wider workforce pay and reward matters, sharing our aspirations around equitable reward, and discussing the increasing use of ESG measures in goal setting, ethnic pay gaps, and shareholder expectations.

A key priority over the next year will be to develop a set of 'Fair Pay Principles' for the Company to establish a framework against which we can monitor our progress.

Concluding remarks

In what has been a strong year of financial and strategic performance for the business, the Committee has remained mindful at all times 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 this year, unlike last year, we have not needed to use discretion in relation to incentive plan payments. As ever, I welcome any feedback on our Remuneration Policy and its application.

Denise Collis
Remuneration Committee Chair

3 November 2021

Directors' Remuneration Report continued

Directors' Remuneration Policy
At-a-glance summary

A summary of the policy and its application for FY2022 is shown below with the full policy set out on pages 88 to 104.

Policy element	Jonathan Bunting Chief Executive Officer	Paul Baker Chief Financial Officer
Annualised base salary from 1 September 2021	£468,180	£305,000
% increase from prior year	2%	N/A
Pension for FY2022	5% of salary, aligned to the workforce rate	
Annual bonus (ABP)	100% of base salary	
Annual bonus metrics	Adjusted EBITDA (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 (70%) Free Cash flow in final year (30%)	
LTIP payment for threshold performance	20% of award	
LTIP post-vesting holding period	2 years	
Malus and clawback	Applies to awards made under the ABP, DBP and LTIP	
Shareholding guidelines requirement	200% of base salary	
Post-cessation of employment shareholding requirement	Lower of 200% of base salary or shareholding on departure for 2 years post-cessation, excluding self-purchased shares	

Introduction

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

Directors' Remuneration Policy

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

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

Executive directors

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

Element	Purpose	Operation	Maximum	Performance conditions
Base salary	Provide fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.	Salaries are set by the Committee taking into account: the skills and experience of the individual; the size and scope of the role; market data for similar roles in comparable companies; and performance of the individual and the business. Typically, salaries are reviewed annually, with any changes effective from 1 September each year.	There is no prescribed maximum salary. Salary increases will normally be in line with salary increases generally for employees. Larger increases may be awarded where the Committee considers it appropriate to reflect, for example: significant changes in the size and/or complexity of the Company and/or of the role; or individuals being moved to market positioning over time.	None.
Benefits	Ensure that benefits are sufficient to recruit and retain individuals of the necessary calibre and provide business continuity.	Executive directors are eligible to receive benefits which may include a company car (or cash equivalent), private medical insurance and permanent health insurance. Where relevant, other benefits to reflect specific individual circumstances, such as housing, relocation, travel or expatriate allowances may also be provided. Executive directors are also provided with insured Death in Service benefits.	There is no prescribed maximum monetary value of benefits. Benefit provision is set at a level which the Committee considers to be appropriate for the nature and location of the role.	None.
Pension	Contribute towards funding later life cost of living.	Executive directors may participate in the Company's defined contribution pension plan, receive a salary supplement or a combination of the two. Under the terms of the defined contribution pension schemes, executive directors may also receive death in service benefit.	The maximum employer contribution or salary supplement for the executive directors is currently 5% of salary. For any new executive directors and any existing executive director who has a permanent internal change of role, the maximum employer contribution/salary supplement will be in line with the contribution available to the majority workforce at the time.	None.

Directors' Remuneration Report continued

Element	Purpose	Operation	Maximum	Performance conditions
Annual bonus	To incentivise the delivery of the annual plan.	<p>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 Company, the overall shareholder experience or employee reward outcome.</p> <p>Half of the bonus is deferred into shares for two years, which vest subject to continued employment under the terms of the DBP.</p> <p>Clawback and dividend equivalent provisions apply (see notes below).</p>	<p>The maximum bonus opportunity in respect of a financial year is 125% of salary. The Company's largest shareholders would be consulted beforehand if the bonus opportunity increases above 100% of salary (the currently applied maximum level).</p> <p>The threshold payment level for the financial performance condition is 0% and up to 50% of the maximum may be payable for target performance.</p>	<p>Annual measures and targets will be set by the Committee at the start of the financial year.</p> <p>The majority of the bonus will be based on financial performance, with the remaining performance condition attributable to personal and/or team objectives, as well as any behavioural aspects that require improvement or development, such as leadership effectiveness.</p>
LTIP	To incentivise the delivery of long-term shareholder value.	<p>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).</p> <p>Vested awards must be held for a further two year period before sale of the shares (other than to pay tax).</p> <p>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 Company, the overall shareholder experience or employee reward outcome.</p> <p>Clawback and dividend equivalent provisions apply (see notes below).</p>	<p>The maximum award in respect of a financial year is 150% of salary. The Company's largest shareholders would be consulted beforehand if the grant level increases above 100% of salary (the currently applied grant level).</p>	<p>Vesting is based on the achievement of challenging financial or Total Shareholder Return (TSR) performance targets measured over a period of at least three years.</p> <p>For the achievement of threshold performance target, a maximum of 20% of the award will vest.</p>

Element	Purpose	Operation	Maximum	Performance conditions
Shareholding guidelines	To provide alignment of interest between executive directors and shareholders.	<p>The shareholding guideline for executive directors is 200% of salary. Until this level is reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, executives will be required to retain 75% of the shares vesting under share incentive arrangements (excluding the application of the Sharesave Scheme). In exceptional circumstances, executive directors may seek permission from the Remuneration Committee to temporarily go below their target holding.</p> <p>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.</p>		

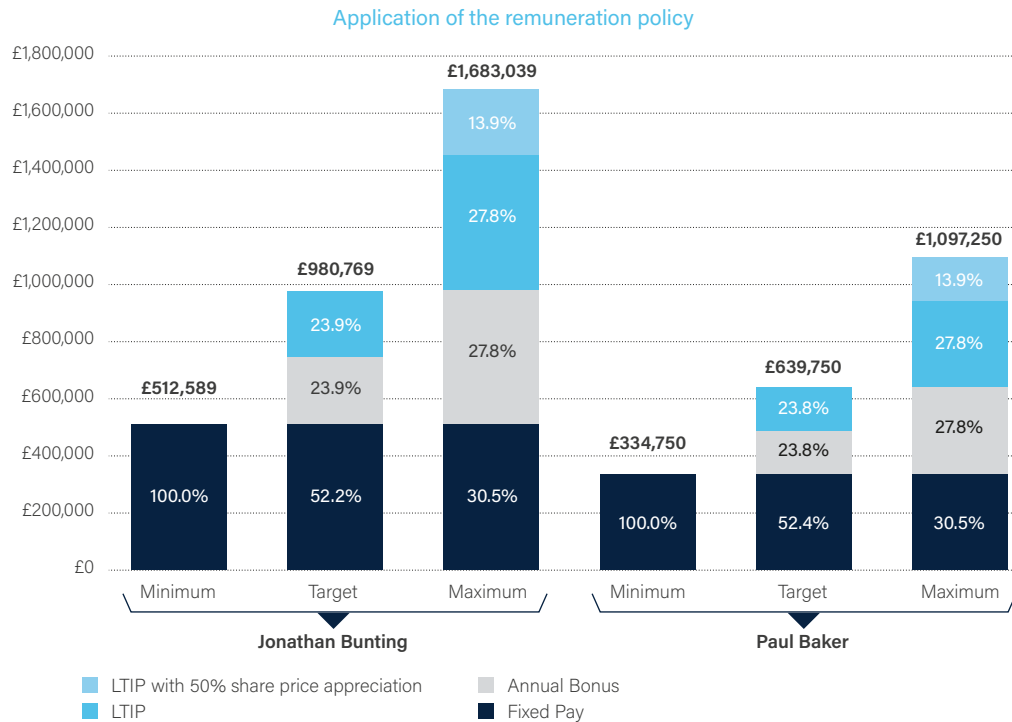
Notes to the policy table:

- a) Participation in incentive schemes is at the discretion of the Committee.
- b) 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.
- c) Clawback – the Company operates clawback and malus provisions for the annual bonus, DBP and LTIP. The Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in the same overall financial position as they would have been had certain circumstances (described below) not occurred. This includes a reduction or cancellation of vested or unvested share awards and/or a reimbursement to the Company of part or all of any cash or share payments within two years of payment. Such circumstances include, but are not limited to: (i) discovery of a material misstatement of the Company's audited results on the basis of which the payment was or would be determined; or (ii) serious reputational damage of the Company or any ancillary 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 or any ancillary business.
- d) Details of directors' service contracts are set out on page 93.

Directors' Remuneration Report continued

Application of the Remuneration Policy

The charts below illustrate the application of the proposed policy for FY2022. 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 FY2021 (albeit in the case of the scenario for Paul Baker, these have been assessed as the values received by Tony Grace).
 (c) The on-target level of annual bonus and LTIP is 50% of the maximum opportunity.
 (d) The maximum value also shows the impact of an increase in share price of 50% on the value of the LTIP award.
 (e) The value of dividend equivalents on LTIP vested awards are excluded.

Approach to recruitment remuneration

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

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

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

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	<p>Unless the Committee determines otherwise, executives will not be eligible for a bonus if they are under notice.</p> <p>If the Committee determines that the executive is a 'good leaver'¹ they may still receive a bonus, reduced to reflect the portion of the year they were in active employment.</p> <p>Any payment would remain subject to performance and would be paid following the normal year-end assessment process.</p>
DBP (deferred annual bonus)	<p>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.</p>
LTIP	<p>If the Committee determines that an executive is a good leaver, LTIP awards may vest subject to performance and would normally be scaled back to reflect the portion of the performance period that has elapsed on the date that employment ceases. The awards will vest on the normal vesting date (other than in exceptional circumstances such as death in service when the award may accelerate). The post-vesting holding period will continue to apply for the full two year period.</p> <p>If an executive leaves the Company for any other reason, outstanding awards would lapse.</p>

1. Good leaver reasons include death, injury, disability, redundancy, retirement by agreement with the Company, the employing entity no longer being part of the Company, 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

The Committee considers the general basic salary increase for colleagues throughout the Company when determining the annual salary increases for executive directors. In addition, the 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.

The Committee also intends to regularly consider the overall fairness of the Company's various policies and procedures around remuneration through dedicated 'Fair Pay' Committee meetings, the first of which took place in FY2021. Further, as part of the Board's commitment to broader stakeholder engagement the Committee Chair also seeks to meet with colleagues, including our National Colleague Engagement Forum, to explain the Company-wide remuneration policy and to outline how executive remuneration operates. The discussions here generally seek to explore the pay structures at different organisation levels, in particular focusing on the checks and balances in place to ensure that pay for performance is appropriate over both short and longer term timeframes.

Consideration of shareholder views

The views of shareholders are very important to the Committee and feedback received from shareholders following publication of the Annual Report and at the AGM is welcomed. It is the Committee's policy to consult with its largest shareholders and investor representative bodies before proposing any material changes to the Remuneration Policy. In line with our policy, the Committee undertook a thorough consultation with our largest shareholders ahead of the binding shareholder vote on this policy at the Annual General Meeting on 31 January 2020 and the Committee remains committed to undertaking thorough consultation with our largest shareholders in order to inform any proposed practical adjustments or policy review.

Directors' Remuneration Report continued

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

Prior to this year's review (see page 105), base fees and Committee fees for non-executive directors were last increased in 2015.

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

Recruitment policy

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

Letters of appointment

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

Annual report on remuneration

Total remuneration payable in respect of FY2021 (audited)

The total remuneration for each director is set out below. Total pay in FY2021 comprised base salary, annual bonus, LTIP, benefits and pension.

	Jonathan Bunting		Tony Grace	
	FY2021 '000	FY2020 '000	FY2021 '000	FY2020 '000
Fixed Pay				
Salary ^(a)	459	£410	301	£243
Benefits ^(b)	13	£21	13	£15
Pension benefits	23	£56	44	£36
Total Fixed Pay	495	£487	358	£294
Performance Related Pay				
Annual bonus payments	377	£84	247	£59
LTIP award vesting ^(c)	43	£0	87	£0
Dividend equivalent payments ^(d)	1.7	£9	3.4	£0
Total Variable Pay	421.7	£93	337.4	£0
Total single figure	916.7	£580	695.4	£294

Notes

- (a) Each of Jonathan Bunting and Tony Grace took a 24% base salary reduction in the months of June and July 2020, in each case with the express recommendation to direct these savings into the colleague hardship fund.
- (b) Benefits include the taxable value of a company car or car cash allowance, private medical insurance and the intrinsic value of Sharesave options granted during the year, as applicable to each director.
- (c) The FY2019-2021 LTIP awards were granted on 13 December 2018. As a result of an assessment against the two performance conditions, 27.6% of the awards vested on 3 November 2021 (based on performance to 28 August 2021) resulting in Jonathan Bunting's vested award being in respect of 111,592 shares and Tony Grace's vested award being in respect of 226,009 shares. The vested award has been valued at 38.50p per share, being the opening market price of the Company's shares on the date of vesting (3 November 2021). Further details on these awards and vesting can be found on page 98.
- (d) Dividend payments equivalent to the aggregate of all dividends paid during the vesting period applicable to the LTIP, paid in shares.
- (e) Each of the executive directors served throughout the year.

Remuneration and link to performance during the year (audited)

Annual bonus

In FY2021, each executive director had a maximum opportunity under the annual bonus of 100% of salary, split 60% financial performance and 40% personal objectives.

Performance measures and actual performance were as follows:

Measure	Weighting	Targets			Actual result (£m)	Bonus achievement (% of maximum)
		Threshold	Target	Max		
Group adj. EBITDA (excluding IFRS 16)	60%	£38.2m	£40.2m	£44.2m	£42.6m	80.3%
Personal objectives	40%		See detail below		See detail below	85.0%

Directors' Remuneration Report continued

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					
Sustainability	37.5%	To complete the business re-financing and finalise all outstanding publisher contracts	Worked in collaboration with the CFO to secure an acceptable three year refinancing agreement Finalised long term contracts with all major publishers, which are now secured until at least summer 2024	85	32
Lean	25%	To make £5m of operational cost savings during FY2021	Cost savings of £6.0m, ahead of the £5.0m budget	85	21
Service	25%	To deliver all contractual KPIs and create a step change in customer experience by the introduction of an innovative EPOS Based Returns solution for no less than four scale retailers, and to create an enhanced version of our online customer app to further drive customer traffic from call centre resources to digital app technologies	All contractual KPIs delivered across all 37 locations. Ranked no.1 by both publishers and retail customers for the 13th year running EPOS Based Returns solution introduced to four major retailers App development not undertaken after review of resource priorities and instead replaced with an alternative 'Newspack' project (delivering operational efficiency and optimised tracking service performance) as a direct requirement of our largest customers	90	23
People	6.25%	Develop and lead the ESG sustainability strategy. Execute year 1 of the revised People Strategy and deliver an improved colleague engagement score from 60% to 63%	New sustainability strategy developed Year 1 of revised People Strategy implemented with significant improvements, including 15% reduction in systems costs and roll out of Talent Academy programme, resulting in promotions for 1/3rd of delegates Colleague engagement score of 70% exceeding target and reflecting positive feedback on leadership actions	90	6

Personal objective	Weighting of objective	Target	Achievement	Outcome (%)	Bonus paid (%)
Safety first	6.25%	Maintain industry leading health and safety performance – targeting 0.25% per 100,000 hours worked. To include a newspaper distribution centre being presented for RoSPA award	Score of 0.37% achieved – remaining below the industry average of 1%. 11 locations entered for RoSPA awards, with all locations achieving the award	50	3
Total (out of a maximum 40% bonus opportunity)	100%				85%
Tony Grace					
Refinancing	33%	To complete the refinancing of the Company's banking facility	Three year refinancing agreement secured on acceptable terms	90	30
Shared service centre	33%	To Progress Phase 2 of the Finance team's transition to Swindon/Noida and to develop a comprehensive suite of operational KPIs for Finance	Two high performing teams established, despite material COVID-19 restrictions on both the UK market and, in respect of the shared service centre, colleagues in India KPIs established with the highlights being low level of debt across all ledgers and strong cash management, resulting in lower debt levels at period end	80	26
Capital allocation	22%	To create a Capital Allocation strategy, and a plan that is approved by the Board	Capital Allocation policy developed and implemented. Both strategy and policy have been well received by all stakeholders	75	17
Pension fund	12%	To negotiate the return of a material cash sum to the Company following the wind up of the defined benefit pension scheme	Following completion of the 'Buy Out' and winding up stages, the conclusion of the complex negotiation process has resulted in a planned material cash surplus sum due to be returned to the Company in November 2021	100	12
Total (out of a maximum 40% bonus opportunity)	100%				85%

Directors' Remuneration Report continued

Further detail on our key strategic objectives and performance against those objectives is provided in the Strategic Report set out on pages 1 to 49.

Overall, as a result of the financial performance and their respective personal performances, both Jonathan Bunting's and Tony Grace's annual bonus pay out is 82.2% of salary, which results in payments of £377,298 to Jonathan Bunting and £247,340 to Tony Grace (with 50% deferred into shares). 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. As noted previously, Government support in relation to the COVID-19 pandemic has not been taken in FY2021.

Long-term incentive plan

LTIP awards were granted to the executive directors on 13 December 2018 and were subject to performance over a three year performance period FY2019-2021. The awards were subject to equally weighted performance conditions based on adjusted basic EPS achieved in FY2021 and 50% on aggregate operating cash flow across the three year performance period. The targets set and the level of vesting for each element are set out in the table below:

FY2019-2021 award	Threshold (20% vesting)	Maximum (100% vesting)	Actual performance	Vesting
FY2021 Adjusted basic EPS (a)	9.8p	12.3p	10.9p	55.2% (of 50%)
Aggregate Operating cash flow	£125m	£150m	£106.0m	0% (of 50%)
Total vesting (% of max)				27.6%

(a) The FY2019-2021 award was set on an IAS 17 basis which gives an Adjusted basic EPS result of 10.9p. Please note that the Group Financial Statements to this Annual Report are, however, made under IFRS 16.

Accordingly, the table below shows the number of shares vesting and the value of these shares on vesting:

	Number of shares at grant	Value at grant (36.025p)	Vesting outcome	Number of shares vested	Value on vesting^(a)	Value attributable to share price growth on vested awards
Jonathan Bunting	404,319	£145,656	27.6%	111,592	£42,963	£2,762
Tony Grace	818,875	£295,000	27.6%	226,009	£87,013	£5,594

(a) The FY2019-2021 LTIP awards have been valued at 38.50p per share, being the opening market price of the shares on the date of vesting (3 November 2021).

In addition, dividend payments equivalent to the aggregate of all dividends paid by the Company during the performance period apply to the LTIP awards that have vested and are to be paid in shares at the time of their exercise. In the case of Jonathan Bunting, the dividend equivalent payment will be £1,674 and, in the case of Tony Grace, the dividend equivalent payment will be £3,390.

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 last two 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.



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Chief Executive Officer total remuneration (£'000)	1,079	1,311	970	1,095	882	794	539	537	596	916.7
Annual bonus payment (% of maximum)	83.1%	67.1%	12.5%	71.3%	38.9%	15.0%	0.0%	0.0%	20.0%	82.2%
EPP ¹ pay-out (% of maximum)	89.4%	86.8%	55.1%	61.5%	72.0%	72.0%	0.0%	N/A	N/A	N/A
LTIP vesting (% of maximum)	100.0%	100.0%	100.0%	63.5%	0.0%	0.0%	0.0%	0.0%	0.0%	27.6%

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

Directors' Remuneration Report continued

Percentage change in directors' remuneration

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

	% Change FY2021			% Change FY2020		
	Base salary/fees	Benefits	Annual bonus	Base salary/fees	Benefits	Annual bonus
Chairman ¹	0.0	0.0	–	0.0	0.0	–
Chief Executive Officer ²	2.0	(38.1)	346.7	0.0	(30.8)	100.0
Chief Financial Officer – T Grace	2.0	(13.3)	319.2	0.0	0.0	100.0
Non-executive directors						
D Collis	0.0	–	–	0.0	0.0	–
M Whiting	0.0	–	–	0.0	0.0	–
M Holt ³	0.0	–	–	0.0	0.0	–
UK employees	(9.1)	0.0	243.4	5.6	(1.0)	20.6

1. The Chairman's fee has not increased. The values in FY2020 represent the combined remuneration for Gary Kennedy (to 13 May 2020) and David Blackwood (from 13 May 2020) and in FY2021 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 FY2021 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
FY2021	Option B	Employee total salary	£17,540	£22,346	£22,695
		Employee total remuneration	£17,740	£22,445	£23,806
		CEO to employee pay ratio	51.6:1	40.8:1	38.5:1
FY2020	Option B	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 were 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 2021 and has been calculated at a full-time equivalent level to allow for direct comparison.

The composition of colleague population in each of the reporting years FY2018-FY2021 includes over 50% of colleagues in operational roles within the warehouse and field operations. These roles typically attract pay levels at or just above the National Living Wage. The large proportion of these operational roles explains both the salaries that sit at the 25th percentile and median and also the proximity of salaries between those two points. The second largest population consists of operational administrative support, 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.

Therefore, due to the Company's organisational shape and diverse range of roles within the business, the significant weight of warehouse and field operation roles sitting at the 25th percentile and median and our performance related initiatives and entitlement across colleagues, pay practice does vary at each reported percentile but we believe that the data and ratios are a true reflection of pay within the Company. Accordingly, recognising the pay out for the performance related initiatives in FY2021 (both the payment of an annual bonus and the FY2019-2021 LTIP award vesting as reported in the total single figure table), the pay ratios in FY2021 have risen sharply as a direct result of the higher CEO pay than in recent years, which has disproportionately increased the ratio for FY2021 (noting that for each of FY2020, FY2019 and FY2018, it does not include any LTIP payments and for FY2018 and FY2019 it also does not include any annual bonus payments).

Relative importance of spend on pay

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

	FY2021 £m	FY2020 £m	% change
Total employees' pay	44.8	49.3	(9.1)
Adjusted EBITDA (pre-IFRS 16)	42.6	39.1	9.0
Corporation tax paid	6.3	2.2	186.4
Dividends paid	1.2	2.4	(50.0)

The figures above are principally set out in the income statements and Notes on page 142, 172, 145 and 146 in the Group Financial Statements. Total employee pay is the total pay for all colleagues across the Company. Adjusted EBITDA 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.

Share plans - awards made during the year

LTIP awards granted in FY2021 (audited)

On 27 November 2020, executive directors were granted the following FY2021-2023 LTIP awards:

Executive	Share price at date of grant ¹	Number of nil-cost options subject to maximum award	Face value of award	Percentage of awards released for achieving threshold targets ¹	Performance period
Jonathan Bunting	30.00p	1,530,000	£459,000	20%	FY2021-2023
Tony Grace ²		1,003,000	£300,900		

Notes

- 100% for achieving maximum targets.
- As a result of retirement being a 'good leaver' provision within the LTIP scheme rules, Tony Grace will retain his FY2021-2023 LTIP award upon his retirement on 31 December 2021, subject to the achievement of performance and scaled back pro rata for the shorter period of service.

Awards are subject to (i) cumulative 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 (for 70% of the award).

The performance conditions applied to the awards were as follows:

Performance period	Cumulative 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 2 September 2023	Below £98.0m	Below Median rank	Zero
	98.0m	Median	20%
	Between £98.0m and £120.0m	Between Median and Upper Quartile	20%-100%
	£120.0m or more	Upper Quartile or higher	100%

Deferred Bonus Plan awards granted in FY2021 (audited)

On 20 November 2020 the following awards were granted to executive directors under the DBP, equating to 50% of their respective FY2020 bonus payment, as follows:

Executive	Share price at date of grant	Number of nil cost options subject to award	Face value of award (£)
Jonathan Bunting	27.77p	152,081	42,233
Tony Grace		106,229	29,500

Awards are immediately exercisable subject to the shares being held (after payment of taxes) for a period of two years from the date of grant, in line with the Company's shareholding guidelines policy and subject to clawback within this period. As part of this deferral period, appropriate and relevant trading restrictions have been imposed with the Company's share registrars in order to enforce the two year deferral period and the associated share certificate retained by the Company.

Sharesave Scheme awards granted in FY2021 (audited)

No awards were granted to executive directors under the Sharesave Scheme in FY2021.

Directors' Remuneration Report continued

Payments to former directors

On 5 May 2021, the retirement of Tony Grace (Chief Financial Officer) was announced. He will be stepping down from the Board on 30 November 2021 but will remain an employee until 31 December 2021, providing ongoing handover support to the finance function throughout this period and supporting the Board through the finalisation of the FY2021 audited results. Tony will receive no further remuneration or contractual payments after his retirement date.

Tony will be eligible to participate in the annual bonus plan for FY2022 on a pro rata basis for the portion of the year worked (i.e. 3 of the 12 months in FY2022) and his bonus will be determined based on the same financial performance targets that have been set for the CEO and against personal objectives set specifically for the time that Tony remains in employment until 31 December 2021. Any bonus would continue to be paid 50% in shares in line with the policy, to be 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.

Outstanding LTIP awards granted on 13 December 2019 (in respect of the FY2020-2022 scheme) and on 27 November 2020 (in respect of the FY2021-2023 scheme) may vest at the normal time subject to the achievement of the respective performance conditions and will be scaled back pro rata for the proportion of the performance period that has elapsed on cessation of employment. Any vested LTIP award must continue to be held for a further two years.

He will not receive an LTIP award in FY2022 in respect of the FY2022-2024 scheme.

Post-employment shareholding requirements will apply, in line with the policy.

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

Employee Benefit Trust

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

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

The number of shares held in the Employee Benefit Trust at 28 August 2021 was 8,121,362 ordinary shares.

The Board has resolved that all employee share scheme exercises in FY2021 and, until otherwise agreed, all future employee share scheme exercises in FY2022 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 28 August 2021 had issued 3,513,505 new shares within the past ten-year period, representing 1.42% of the issued share capital. This is well within our dilution limit of 10% in any rolling ten-year period in the Sharesave Scheme rules and in line with the guidelines set by the Investment Association.

Executive directors' incentive plan share interests (audited)

The table below sets out details of outstanding share awards held by executive directors as at 28 August 2021 under the LTIP and DBP (covering deferred annual bonus awards) together with exercises made during the year under both the LTIP and DBP (covering deferred annual bonus awards). Awards under these schemes are structured as nil cost options. In addition, the table sets out awards held by executive directors pursuant to the Sharesave Scheme.

	Share awards			
	With performance measures	Without performance measures	Vested but unexercised	Vesting during the year
Jonathan Bunting	3,346,159	42,857	0	152,081 ¹
Tony Grace	2,805,208	42,857	0	106,229 ²

1. These awards relate to the immediately vesting annual bonus deferred shares which were granted to executive directors under the DBP on 20 November 2021, equating to 50% of their respective FY2020 bonus. These awards must 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 in the ordinary shares of the Company, together with the level held against the shareholding guidelines.

Name	Salary	Holding on 29 August 2020	Holding on 28 August 2021	Valuation of current holding ¹	% of salary held compared to 200% of salary target shareholding
Jonathan Bunting	£459,000	511,657	592,115	£238,622	51.99
Tony Grace	£300,900	201,676	257,876	£103,924	34.54

1. Using the closing share price of 40.30p as of 28 August 2021.

Between 29 August 2021 and 3 November 2021 (the publication date of this report), there has been no other change in the executive directors' shareholdings shown above.

Contracts of employment

Details of the contracts of employment for the executive directors are as follows:

Executive	Date of contract	Notice period by Company	Notice period by director
Jonathan Bunting	1 March 2018 as supplemented by a letter of variation dated 15 June 2020	12 months	9 months
Tony Grace	5 November 2018	12 months	9 months
Paul Baker	10 August 2021	12 months	9 months

Non-executive directors

Letters of appointment

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

Non-executive	Date of appointment	Notice period
David Blackwood	13 May 2020	3 months
Denise Collis	1 December 2015	3 months
Michael Holt	1 October 2018	3 months
Mark Whiting	1 September 2017	3 months

Directors' Remuneration Report continued

Non-executive directors' fees

In recognition of the valuable contribution made by the non-executive directors and the significant increase in workload since 2015, the fees paid to non-executive directors (excluding the Chairman) were reviewed by the Board (minus the non-executive directors) in September 2021. Accordingly, the Board has determined that the base fees for each non-executive director should increase from £40,000 per annum to £47,500. The additional fees paid to non-executive directors for chairing the Board's committees (£10,000), for the role of senior independent director (£5,000) and for the role of chairing the National Colleague Engagement Forum (£5,000) remain unchanged. The fee rate for the Company Chairman was reviewed by the Committee but recognising his more recent appointment and his market positioning, it was agreed that this should remain at £140,000 per annum.

As noted in last year's report, the annual fee for Michael Holt increased temporarily in FY2020 by £205,000 per annum for the temporary duration of his tenure as Executive Chairman of Tuffnells until its sale on 2 May 2020.

The following fees were paid to non-executive directors for FY2021 and FY2020 (audited):

	Year	Base fee £000 ⁵	Additional fees £000	Benefits ¹ £000	Total fees £000
David Blackwood ²	FY2021	140	-	0.4	140.4
	FY2020	42	-	-	42
Denise Collis	FY2021	40	10	0.8	50.8
	FY2020	38.5	10	0.5	49
Mark Whiting ³	FY2021	40	15	0.6	55.6
	FY2020	38.5	15	1	54.5
Michael Holt ⁴	FY2021	40	5	0	45
	FY2020	38.5	106	4.5	149

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. David Blackwood was appointed to the Board on 13 May 2020.

3. Mark Whiting is Senior Independent Director and receives a sum of £5,000 per year for this role in addition to a sum of £10,000 per year he receives as chair of the Audit Committee.

4. Michael Holt is responsible for Board colleague engagement and is chair of the National Colleague Engagement Forum. He receives an additional £5,000 per year for this additional role. Further, during FY2020 the annual fee for Michael Holt increased temporarily by £205,000 per annum for the temporary duration of his tenure as Executive Chairman of Tuffnells until its sale on 2 May 2020.

5. Each of Denise Collis, Mark Whiting and Michael Holt took an approximate one third fees reduction in June 2020, in each case with the express recommendation to direct these savings into the Colleague Hardship Fund.

Non-executive directors' shareholdings (audited)

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

	28 August 2021	29 August 2020
David Blackwood	240,000	80,000
Denise Collis	48,846	48,846
Mark Whiting	80,000	80,000
Michael Holt	0	0

There has been no change in the non-executive directors' shareholdings shown above between 29 August 2021 and 3 November 2021 (the publication date of this report).

Implementation of the Remuneration Policy in FY2022

Executive directors

Salaries

The base salary for the Chief Executive Officer increased by 2% to £468,180 with effect from 1 September 2021. The base salary for the Chief Financial Officer is £305,000.

The next salary review will be on 1 September 2022.

Pension

The Company's pension contribution for executive directors is 5% of salary, which is aligned to the rate applying to the majority of the workforce.

Bonus

The annual bonus opportunity will remain at 100% of salary but, as noted earlier, the mix between financial and personal measures will revert to 70:30. The financial performance measure will remain Adjusted EBITDA (pre-IFRS 16) 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 EBITDA 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 FY2022 profit performance. The personal measures 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 FY2021 covering the performance period FY2022-2024. The LTIP grant level for the FY2022-2024 award will be 100% of base salary.

The performance measures will consist of a relative Total Shareholder Return measure (70% weighting) and free cash flow in the final year of the three-year performance period (30% weighting).

TSR will remain a significant element of the LTIP grant for the FY2022-2024 award and will therefore continue to provide a strong and direct incentive to continue to focus on share price growth and shareholder value. In addition, the Committee has decided to adjust the current free cash flow metric from being one measured on a cumulative basis over the three year performance period to one assessed only at the end of the three year performance period (i.e. FY2024). The Committee believes that this approach will provide a longer term perspective necessary to deliver improvement in profitability and cash flow by the end of the performance period.

The performance targets are set out below:

Measure	Weighting	Threshold (20% vests)	Maximum (100% vests)
Adjusted free cash flow in the final year (FY2024) of the three year performance period	30%	£36.4m	£40.4m
Relative TSR versus the companies comprising the FTSE Small Cap index as at the date of grant	70%	Median	Upper quartile

Free cash flow includes agreed adjustments from EBITDA (excluding IFRS 16), such as the purchase of fixed assets and the cash impact of adjusted items, and so provides a sharper focus on strong cash generation, return on investment and dividend cover, in line with the Company's capital allocation strategy. The free cash flow range is a significant step above the target plan for the performance period and takes into account current business outlook, strategy and the determination for business growth. The Committee will ensure that the single year measurement of free cash flow is robustly assessed.

Non-executive directors

Non-executive directors' fees in FY2022

There will be no change to the standard fee rate of the Company Chairman in FY2022.

With effect from 1 September 2021 the base fee for each non-executive director will increase from £40,000 per annum to £47,500 (last increased in 2015). The additional fees paid to non-executive directors for chairing the Board's Committees (£10,000), for the role of Senior Independent Director (£5,000) and for the role of chairing the National Colleague Engagement Forum (£5,000) remain unchanged.

Directors' Remuneration Report continued

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	6	6
David Blackwood	6	6
Mark Whiting	6	6
Michael Holt	6	6

The Committee's terms of reference, which are available on the Company's website www.corporate@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 advisors, Korn Ferry, who were paid fees of £44,681 (plus VAT). Korn Ferry has no connection with the Company or the directors. Based on its experience of working with the advisors the Committee is satisfied that the advice received from Korn Ferry has been, and continues to be, objective and independent. Korn Ferry provides no other services to the Company that could potentially lead to a conflict of interest with the independent advice to the Committee.

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

The Chief Executive Officer, the Chief Financial Officer, the Company Secretary & General Counsel, the People Director and the Head of Reward also attended Committee meetings in the year but were not present when their own performance or remuneration was discussed.

Shareholder vote

At the 2021 Annual General Meeting, shareholders were asked to approve the Remuneration Policy and Directors' Remuneration report. The votes received were:

Resolution	Votes for	Percentage of votes cast in favour	Votes against	Percentage of votes cast against	Total votes cast	Votes withheld
To approve the Remuneration Policy (2020 AGM)	131,630,015	83.08%	26,813,938	16.92%	158,443,953	468,570
To approve the Directors' Remuneration report for the year ended 29 August 2020/2021 AGM	117,194,782	70.30%	49,503,413	29.70%	166,698,195	356,408

As shown above, at the 2021 AGM the Directors' Remuneration report received a 70.3% vote in favour. Whilst this significantly exceeded the 50.1% level required to pass the resolution, we were disappointed that two of our largest shareholders voted against the resolution, one on the basis of the bonus payment for FY2020 (which was explained in detail in last year's report) and the other on the basis of the adoption, and increased weighting, of a Total Shareholder Return (TSR) measure used for the FY2021-2023 LTIP award. We have since engaged with these shareholders to understand their concerns more fully and would like to express our appreciation for the positive and candid levels of engagement we have received from these shareholders.

In relation to the payment of the FY2020 bonus, the Committee still considers that this was appropriate for the reasons set out in last year's report. Further, the Committee notes that the shareholder's objection for payment of the FY2020 bonus is not expected to carry over to the FY2021 bonus (given the Company has not received any Government support payment in relation to the COVID-19 pandemic in FY2021), and the Committee remains entirely satisfied that the pay out of the FY2021 annual bonus referred to in this report represents a strong link between reward, performance and shareholder alignment and is consistent with the bonus payments for employees generally.

In relation to the proportion of TSR in the LTIP, having reflected on the feedback received, the Committee still favours a higher weighting to the relative TSR metric (therefore retaining 70% weighting for the FY2022-2024 LTIP award) on the basis of both previous feedback received by the Committee from a number of our largest shareholders at the time of our last policy vote and the clear alignment of the TSR metric to shareholder value and the overall shareholder experience for the award period.

Approval

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

Denise Collis

Remuneration Committee Chair

3 November 2021

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 28 August 2021. 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 1 to 49;
- Corporate Governance report on pages 52 to 71;
- Audit Committee report on pages 72 to 79;
- Nominations Committee report on pages 80 to 83;
- Directors' Remuneration report on pages 84 to 106;
- this section, Other statutory disclosures;
- Directors' Responsibilities statement on page 112; 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 39;
- principal and emerging risks identified in relation to non-financial matters, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed, on pages 46 to 47;
- 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 pages 114 to 177;
- 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 66; and
- future developments in the business on page 15.

Subsidiaries and branches

The Company's operating subsidiaries, branches and associated undertakings are listed in Note 33 to the Group Financial Statements.

Change of Company name

In November 2020, the name of the Company was formally changed at Companies House to Smiths News plc after nearly seven years as Connect Group PLC. In last year's Annual Report we explained that the change of name to Smiths News plc both draws a line under what had been a challenging period under the Connect Group brand and better represents the business, its operations and strategy going forward. There was no action required from shareholders.

Post balance sheet events

Letters of credit

The Group has approved letters of credit to insurers of the Group for motor insurance and employer liability insurance policies. The letters of credit cover the employer deductible element of the insurance policy for insurance claims. After the balance sheet date, the Group was notified that the letters of credit reduced from £4.9m to £2.4m.

Discontinued operations - Tuffnells

The Group disposed of Tuffnells on 2 May 2020. One of the key terms of the share purchase agreement was the unsecured consideration payable by Tuffnells Holdings Limited (formerly Palm Bidco Limited) to the Group of £15.0m in cash, payable in three tranches as follows:

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

Post balance sheet, on 2 November 2021 Tuffnells Holdings Limited paid the first tranche of deferred consideration (£6.5m).

Directors' Report – Other Statutory Disclosures continued

Pension

The Company operates a defined benefit scheme, known as the Smiths News section of the WH Smiths Pension Trust which, as at 28 August 2021, had an IAS 19 pre-tax surplus of £14.8m (FY2020: £15.2m). At the balance sheet date, the Company did not recognise the £14.8m pre-tax surplus as an asset, as it did not have an unconditional right to the asset.

Subsequent to the balance sheet date, the Trustee confirmed its intention to return the surplus to the Company, net of additional professional fees and tax charged at a rate of 35%. The surplus of c.£8m is expected to be paid to the Company in November 2021. The surplus sums to be received by the Company will be used to repay existing debt.

Financing agreement

In September 2021, a revised financing agreement was signed that applies to the Company's banking syndicate arrangement replacing the agreement signed in November 2020. The key changes include the move from LIBOR (London Interbank Offered Rate) to SONIA (Sterling Overnight Index Average) pricing. The margins remain unchanged.

Profit attributable to shareholders and dividends

The statutory profit for the financial year, after taxation, from the Continuing Operations was £26.3m (FY2020: £12.0m) and from the Discontinued Operations was a loss of £0.1m (FY2020: loss of £18.7m). In aggregate, the statutory profit for the financial year, after taxation, from both the Continuing Operations and Discontinued Operations was £26.2m (FY2020: £6.7m).

In light of the Company's performance, the Board has decided to recommend a final dividend of 1.0p which is expected to be paid on 10 February 2022 to all shareholders who are on the register of members at close of business on 14 January 2022. Accordingly, the total dividend for the 52 week period ended 28 August 2021 is 1.5p per ordinary share (FY2020: 0.0p).

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 27 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.corporate.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 102.

Purchase of own shares

At the Annual General Meeting held on 27 January 2021, 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 FY2020. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2022 to renew the authority for a further year.

Issue of new ordinary shares

The Board has resolved that all employee share scheme exercises during FY2021 and, unless otherwise agreed, all future employee share scheme exercises in FY2022 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 102). Accordingly, during the 52 week period ended 28 August 2021, no ordinary shares in the Company were issued.

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

Interests in voting rights

As at 28 August 2021, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following notifiable interests in its issued share capital:

Holder	% of voting rights
Aberforth Partners LLP	14.04
Fidelity International Limited	9.91
Silchester International Investors LLP	9.90
FORUM Family Office Value Fund	9.72
Wellcome Trust	5.15
Ameriprise Financial, Inc.	4.80
FORUM Smallcap Fund	4.09
Hargreave Hale Limited	3.80
Smiths News Employee Benefit Trust	3.16
Barclays Bank PLC	3.06

In the period 29 August 2021 to 3 November 2021, no further notifications have been received by the Company.

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

Change of control

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

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

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

Directors' Report – Other Statutory Disclosures continued

Directors

All directors who served during the year are set out on pages 56 to 57.

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

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

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Directors' Remuneration report on pages 101, 103 and 104.

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 save that the Board acknowledges for completeness that Michael Holt (a non-executive director of the Company) also served as Executive Chairman of Tuffnells during FY2021 and continues to play an active role in the supervision and management of Tuffnells following its sale on 2 May 2020. As disclosed in the circular to shareholders published on 15 April 2020, as part of the sale of Tuffnells it was agreed as follows:

- the Company agreed to procure that certain transitional services that were being provided under the Company's ownership by the Company to Tuffnells would continue for no more than 12 months following completion, pursuant to the terms of the transitional services agreement. The transitional services agreement was considered to be material to the interests of Tuffnells and, pursuant to its terms, certain transitional services were provided to Tuffnells until 30 April 2021, when all services ceased; and
- the Company agreed to deferred consideration of £15,000,000 in cash, payable by the purchaser to the Company in three tranches as follows:
 - £6,500,000 on the date 18 months following completion (November 2021);
 - £4,250,000 on or prior to the date 27 months following completion (August 2022); and
 - £4,250,000 on or prior to the date 36 months following completion (May 2023).

Further, in addition to a service agreement with Tuffnells, the Company is aware that Mr Holt has received an entitlement of up to 15% in the equity of the purchaser. Mr Holt declared this personal interest in the purchaser and the transaction to the Board in line with his statutory duties under the Companies Act 2006 and his obligations under the Company's Articles.

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 22 to 27 and in the Corporate Governance report on pages 52 to 71.

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 pages 52 to 71.

Greenhouse gas emissions

Details of the Company's greenhouse gas emissions and SECR disclosures are set out in the Sustainability report on pages 30 to 39.

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 (FY2020: £nil).

Bribery Act 2010

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

Health & safety

We are committed to providing a safe place for our colleagues to work and for visitors and contractors to our sites. Policies applicable to the safety and well being of our colleagues are reviewed on an ongoing basis to ensure that the approach to training, risk assessments, safe systems of working and accident management are appropriate. An ongoing audit programme assesses health and safety risks on a regular basis and ensures that robust control measures are in place to limit these risks. Further details are set out in the Sustainability report on pages 30 to 39.

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 20 to the Group Financial Statements.

Disclosure of information to auditor

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

Auditor

Resolutions to re-appoint BDO LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2022 Annual General Meeting.

Annual General Meeting

The 2022 Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Thursday 20 January 2022 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.

* Please note that in light of the impact of the COVID-19 pandemic, in the event that our Annual General Meeting arrangements necessarily change, the Company will issue a further communication via a regulatory news service. As such, we strongly recommend shareholders monitor such communications, which can also be found on our website at: www.corporate.smithsnews.co.uk/investors/regulatory-news.

Approved by the Board and signed on its behalf by:

Stuart Marriner

Company Secretary & General Counsel

3 November 2021

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 Reduced Disclosure Framework). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for the Group and the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the Company Financial Statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business;
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

Website publication

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

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board on 3 November 2021 and signed on its behalf by:

Jonathan Bunting
Chief Executive Officer

3 November 2021

Anthony Grace
Executive Director

3 November 2021

Financial Statements

Since the realignment of our business and the emergence from the pandemic we have seen a strengthening of our financial performance.

**Strong
financial
performance
year on year.**

Financial Statements

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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 28 August 2021 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- 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; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Smiths News plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 week period ended 28 August 2021 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, notes to the accounts, including a summary of significant accounting policies, Company Balance Sheet, Company Statement of Changes in Equity and notes to the Company Balance Sheet.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional Report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of directors on 15 March 2019 to audit the financial statements for the year ending 31 August 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is three years, covering the periods ending 31 August 2019 to 28 August 2021. 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:

- Considering whether the period used by the directors to assess going concern which was based on cash flow forecasts to 31 August 2023 was sufficient;
- Assessing assumptions within the cash flow forecasts: we challenged the assumptions used in the forecasts, in particular the rate of sales volume decline, publisher price increases, recovery of sales to pre-COVID-19 trends, the ability to achieve operational cost saving plans, the potential impact of further cost increases owing to the current macro-economic environment and inflationary pressures as well as gross margins – in challenging management we held meetings with both the finance and operational teams;
- Checking that the health and social care levy of 1.25% had been correctly reflected in the forecasts;
- Testing the numerical accuracy of the model used to prepare the forecasts;
- Agreeing a sample of the Group cash balances from the forecasts to post year end bank statements and comparing the Group cash balance to the forecasted amount to identify any potential liquidity issues;
- Reviewing the covenants within the financing facilities to ensure there was sufficient headroom and that these facilities remain available during the going concern period;
- Completing sensitivity analysis with an evaluation of sensitivities over the Group's cash flows to changes in the significant inputs and assumptions used. The analysis considered reasonably possible adverse effects that could arise as a result of an increase in inflationary costs, slower than predicted recovery from COVID-19 and a more accelerated decline in revenues;
- Scrutinising the reverse stress test which demonstrated the reduction in EBITDA required without mitigation for a liquidity event or covenant breach to occur and challenging the directors' assessment that it was remote for such a reduction to occur;
- Comparing the post year end trading results to the forecasts to evaluate the accuracy and achievability of the forecasts prepared;
- Evaluating the accuracy of management's historical forecasting (in the context of the forecasting challenges of COVID-19 in the prior year); and
- Evaluating the completeness and accuracy of the disclosures (Note 1) in relation to the conclusion reached by the directors in their going concern assessment.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage¹	<p>99% (2020: 99%) of Group profit before tax</p> <p>99% (2020: 99%) of Group revenue</p> <p>98% (2020: 98%) of Group total assets</p>		
Key audit matters		2021	2020
	Financing and going concern		✓
	Disposal of Tuffnells		✓
	Presentation of Adjusting Items as a non-GAAP measure on the face of the income statement		✓
	Carrying value of the investments in Smiths News plc (Parent Company)	✓	
	Revenue recognition	✓	
	<p>We no longer consider Financing and going concern, Disposal of Tuffnells and Presentation of Adjusting Items to be key audit matters for the following reasons:</p> <ul style="list-style-type: none"> Financing and going concern – in the prior year, the risk and audit effort was heightened due to the Group refinancing in November 2020 and also the uncertainty in the forecasts pertaining to COVID-19. The Group financing was finalised in the period and we no longer considered this to be a key audit matter. Disposal of Tuffnells – this was a transaction specific to FY2020, which does not present itself as a risk or key area of focus for FY2021. Presentation of Adjusting Items – due to the significant adjusting items in the prior year linked to the rationalisation of the Group and operational changes there was considerable judgement required in assessing the appropriate classification of these items. These conditions are no longer present in the current year therefore we do not consider this to be a key audit matter. 		
Materiality	<p>Group financial statements as a whole</p> <p>£1.5m (2020: £1.2m) based on 5% (2020: 5%) of adjusted profit before tax</p>		

¹ These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The Group operates through a number of legal entities, which form reporting components; the reporting components are consistent with the segmental analysis 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 specific audit procedures where necessary. All audits and desktop review procedures were completed by the group engagement team.

Independent Auditor's Report to the Members of Smiths News plc continued

Key audit matters

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

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Carrying value of investments in Smiths News plc (Parent Company)</p> <p>Refer to the Accounting policies (page 175); and Note 3 of the Parent Company financial statements (page 176).</p> <p><i>During the reporting period impairment indicators were identified, predominantly in respect of the increase in the corporate tax rate and increasing uncertainty on inflationary costs, therefore a full impairment assessment was performed on the Company's investment carrying value.</i></p> <p><i>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'.</i></p> <p><i>Value in use has been calculated using cash flows reflecting management's best estimate of the long term impact of COVID-19 and other economic factors including changes in consumer behaviour on the future trading performance of the Group.</i></p> <p><i>Management's impairment review is sensitive to changes in the key assumptions, including discount rates set out in Note 3 of the Parent Company financial statements.</i></p>	<p>We have assessed the methodology applied by management in performing the impairment test and compared it to the requirements of IAS 36 'Impairment of assets'.</p> <p>With the support of our valuation specialists we challenged the cash flow estimates and assumptions used in the impairment assessment by:</p> <ul style="list-style-type: none"> • agreeing them to supporting information where available, including long-term volume declines, contracts in place and the ability of the Group to mitigate volume declines with operational savings; • searching for corroborative or contrary evidence to assess the reasonableness of such assumptions including the use of third-party research reports; and • holding discussions with operational team members who were separate to the finance team by assessing against market benchmarks and historical trends. <p>In conjunction with our valuation specialists, we challenged and assessed the discount rate used by reviewing the methodology used to calculate the 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.</p> <p>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 impairment charge, 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.</p> <p>Furthermore, the audit team evaluated the accuracy of management's historical forecasting (in the context of the forecasting challenges of COVID-19 in the prior year), challenged the revenue, costs and other cash flow assumptions based on our knowledge of the business, contractual revenue streams and the economic outlook.</p> <p>We tested the arithmetic accuracy of the impairment model.</p> <p>Finally, we assessed the adequacy of the financial statement disclosures in respect of the Parent Company financial statements relating to this Key Audit Matter with an emphasis on checking sensitivities disclosed are complete and accurate.</p> <p>Key observations:</p> <p>Based on procedures performed, we consider the key assumptions and estimates used to calculate the carrying value of the investments are appropriate.</p>

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Revenue recognition</p> <p><i>The Group's revenue streams and the related accounting policies applied during the period are detailed in Note 1 to the financial statements.</i></p> <p><i>Sales of newspapers and magazines are recognised when the products are delivered to the retailer and there is no unfulfilled obligation that could affect the retailer's acceptance of the products, the risks of obsolescence and loss have been transferred to the retailer.</i></p> <p><i>Revenue for the Group is derived from high volume and low value transactions.</i></p> <p><i>Due to the nature of revenue and the complexity of the IT systems, there is a risk over the accuracy and existence of revenue which requires a significant proportion of the audit team's time and effort.</i></p> <p><i>In addition, there is risk that revenue may not be recognised in line with the requirements of IFRS 15, specifically in respect of determination of the Group acting as principal as opposed to agent.</i></p>	<p>We utilised our own IT specialists to test the operational effectiveness of the key revenue controls from inception to recognition of revenue.</p> <p>We agreed a sample of revenue and rebates to underlying contracts, underlying customer data and payments received from the customers.</p> <p>We analysed a sample of journal postings to revenue and the sales ledgers to check these were in line with our understanding of revenue transactions and to check there were no unusual or unexpected manual entries that were outside of our expectations.</p> <p>In addition to testing a sample of invoices recorded in revenue in the year to cash receipt we agreed a sample of trade receivables to cash received after the period-end to test the existence and accuracy of revenue.</p> <p>Credit notes in year and post year end were tested on a sample basis to confirm they were appropriately raised. We also scrutinised the complaints process and outcomes relating to deliveries/returns processing to ensure there were no other matters which may indicate that revenue may be materially misstated.</p> <p>We assessed whether the revenue recognition policies adopted by the Group comply with relevant accounting standards to ensure it was appropriate to recognise revenue as principal.</p> <p>Key observations:</p> <p>Based on procedures performed, we consider that revenue has been recognised appropriately and in accordance with accounting standards.</p>

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.

Independent Auditor's Report to the Members of Smiths News plc continued

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Materiality	1.5	1.2	0.9	0.7
Basis for determining materiality	5% of profit before adjusting items and tax	5% of profit before adjusting items and tax	60% of Group materiality	60% of Group materiality
Rationale for the benchmark applied	We consider this to be the most appropriate performance measure as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders.	We consider this to be the most appropriate performance measure as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.
Performance materiality	1.1	0.8	0.6	0.5
Basis for determining performance materiality	70% of materiality based on our experience and knowledge of the Group, the Group structure, planned testing approach, and history of errors.	70% of materiality based on our knowledge of the Group, the Group structure, planned testing approach, and history of errors.	70% of materiality based on our experience and knowledge of the Parent Company, planned testing approach, and history of errors.	70% of materiality based on our knowledge of the Parent Company, planned testing approach, and history of errors.

Component materiality

We set materiality for each component of the Group based on a percentage of between 60% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £0.9m to £1.4m. In the audit of each component, we further applied performance materiality levels 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 £60k (2020: £52k). 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	<ul style="list-style-type: none"> 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 49; 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 48.
Other Code provisions	<ul style="list-style-type: none"> directors' statement on fair, balanced and understandable set out on page 70; Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 46; The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 74; and The section describing the work of the Audit Committee set out on pages 75 to 76.

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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
Directors' remuneration	<p>In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> 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' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report to the Members of Smiths News plc continued

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Parent and Group through our knowledge of the business and the industry in which it operates. The most significant of these were considered to be the applicable financial reporting frameworks (IFRSs pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union in respect of the Group and UK GAAP in respect of the Parent Company) and relevant tax compliance regulations.
- We also focused on the provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context include the UK Companies Act, Listing Rules, employment law, health and safety and pensions legislation.
- We considered the nature of the industry, control environment and business performance, including design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how and where fraud might occur. The areas considered to be most susceptible to fraud being management override of controls and revenue recognition.
- We obtained an understanding of the procedures and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on the understanding obtained we designed audit procedures to identify non-compliance with the laws and regulations, as noted above. This included enquiries of in-house legal counsel, management, the Audit Committee, in-house Internal Audit and review of Board minutes.
- We tested a sample of manual journal entries and also automated entries, focusing on journal entries containing characteristics of audit interest, year-end consolidation journals, journals processed by users with privileged IT systems access rights and those relating to revenue, cash and trade receivables.
- We also communicated potential fraud risks to the Group and component engagement team members as part of the engagement team discussion. The engagement partner concluded that collectively the engagement team had sufficient competence and capabilities to identify or recognise non-compliance with laws and regulations.
- We tested and challenged the key estimates and judgements made by management in preparing the financial statements for indications of bias or management override when presenting the results and financial position of the Group. In particular those relating to the Parent Company impairment review (Key Audit Matter).

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, UK

3 November 2021

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 28 August 2021

£m	Note	2021			2020		
		Adjusted*	Adjusted items	Total	Adjusted*	Adjusted items	Total
Revenue	2	1,109.6	-	1,109.6	1,164.5	-	1,164.5
Cost of sales	3	(1,036.2)	-	(1,036.2)	(1,091.4)	(0.2)	(1,091.6)
Gross profit	3	73.4	-	73.4	73.1	(0.2)	72.9
Administrative expenses	3	(33.9)	(1.9)	(35.8)	(38.1)	(13.8)	(51.9)
Income from joint ventures		0.1	(0.3)	(0.2)	0.1	-	0.1
Impairment of joint venture investment	15	-	(1.6)	(1.6)	-	-	-
Operating profit	2,3	39.6	(3.8)	35.8	35.1	(14.0)	21.1
Finance costs	7	(8.8)	-	(8.8)	(7.4)	-	(7.4)
Finance income	7	0.1	3.5	3.6	0.2	0.9	1.1
Profit/(loss) before tax		30.9	(0.3)	30.6	27.9	(13.1)	14.8
Income tax credit/(expense)	8	(4.6)	0.3	(4.3)	(4.2)	1.4	(2.8)
Profit/(loss) for the year from continuing operations		26.3	-	26.3	23.7	(11.7)	12.0
Discontinued operations							
Loss for the year from discontinued operations	11	-	(0.1)	(0.1)	(13.1)	(5.6)	(18.7)
Profit/(loss) attributable to equity shareholders continuing and discontinued operations		26.3	(0.1)	26.2	10.6	(17.3)	(6.7)
Earnings/(loss) per share from continuing operations							
Basic	10	10.8		10.8	9.7		4.9
Diluted	10	10.3		10.3	9.6		4.9
Earnings per share total							
Basic	10	10.8		10.8	4.3		(2.7)
Diluted	10	10.3		10.3	4.3		(2.7)
Equity dividends per share (paid and proposed)	9	1.5		1.5			nil

* This measure is described in Note 1(4) of the accounting policies and the Glossary to the Accounts on pages 170 to 172. Adjusted items are set out in Note 4 to the Group Financial Statements.

Group Statement of Comprehensive Income

For the 52 week period ended 28 August 2021

£m	Note	2021	2020
Continuing			
Items that will not be reclassified to the Group Income Statement			
Actuarial loss on defined benefit pension scheme	6	(0.4)	(0.7)
Impact of IFRIC 14 on defined benefit pension scheme	6	0.8	0.9
Tax relating to components of other comprehensive income that will not be reclassified	8	0.2	-
		0.6	0.2
Items that may be subsequently reclassified to the Group Income Statement			
Currency translation differences		-	0.1
		0.6	0.3
Other comprehensive result for the year - continuing		0.6	0.3
Profit for the year - continuing		26.3	12.0
Total comprehensive income for the year - continuing		26.9	12.3
Other comprehensive income for the period - discontinued		-	0.3
(Loss) for the year - discontinued		(0.1)	(18.7)
Total comprehensive (expense) for the year - discontinued		(0.1)	(18.4)
Total comprehensive income/(expense) for the year		26.8	(6.1)

Group Balance Sheet

At 28 August 2021

£m	Note	2021	2020
Non-current assets			
Intangible assets	13	2.3	4.0
Property, plant and equipment	14	9.4	9.4
Right of use assets	21	28.4	32.8
Interest in joint ventures	15	2.9	4.9
Other receivables	17	2.3	14.6
Deferred tax assets	22	1.8	0.8
		47.1	66.5
Current assets			
Inventories	16	13.2	14.1
Trade and other receivables	17	106.6	101.2
Cash and bank deposits	19	19.3	50.6
Corporation tax receivable		-	-
		139.1	165.9
Total assets		186.2	232.4
Current liabilities			
Trade and other payables	18	(136.5)	(139.5)
Current tax liabilities		(0.3)	(1.7)
Bank loans and other borrowings	19	(21.2)	(130.1)
Lease liabilities	21	(5.9)	(5.8)
Provisions	23	(3.6)	(6.8)
		(167.5)	(283.9)
Non-current liabilities			
Bank loans and other borrowings	19	(50.1)	-
Lease liabilities	21	(23.3)	(27.6)
Non-current provisions	23	(3.0)	(2.5)
		(76.4)	(30.1)
Total liabilities		(243.9)	(314.0)
Total net liabilities		(57.7)	(81.6)
Equity			
Called up share capital	27(a)	12.4	12.4
Share premium account	27(c)	60.5	60.5
Demerger reserve	28(a)	(280.1)	(280.1)
Own shares reserve	28(b)	(3.9)	(1.8)
Translation reserve	28(c)	0.4	0.4
Retained earnings	29	153.0	127.0
Total shareholders' deficit		(57.7)	(81.6)

The accounts were approved by the Board of Directors and authorised for issue on 3 November 2021 and were signed on its behalf by:

Jonathan Bunting
Chief Executive Officer

Anthony Liam Grace
Executive Director

Registered number – 05195191

Group Statement of Changes in Equity

For the 52 week period ended 28 August 2021

£m	Note	Share capital	Share premium account	Demerger reserve	Own shares reserve	Hedging and translation reserve	Retained earnings*	Total*
Balance at 31 August 2019		12.4	60.5	(280.1)	(1.7)	0.3	135.7	(72.9)
Loss for the year		-	-	-	-	-	(6.7)	(6.7)
Actuarial gain on defined benefit pension scheme	6	-	-	-	-	-	0.1	0.1
Impact of IFRIC 14 on defined benefit pension scheme	6	-	-	-	-	-	0.9	0.9
Currency translation differences		-	-	-	-	0.1	0.1	0.2
Tax relating to components of other comprehensive income		-	-	-	-	-	(0.5)	(0.5)
Total comprehensive expense for the year		-	-	-	-	0.1	(6.1)	(6.0)
Dividends paid	9	-	-	-	-	-	(2.4)	(2.4)
Employee share scheme purchases		-	-	-	(0.7)	-	-	(0.7)
Employee share scheme awards		-	-	-	0.6	-	(0.6)	-
Recognition of share based payments net of tax		-	-	-	-	-	0.4	0.4
Balance at 29 August 2020		12.4	60.5	(280.1)	(1.8)	0.4	127.0	(81.6)
Profit for the year		-	-	-	-	-	26.2	26.2
Actuarial gain on defined benefit pension scheme	6	-	-	-	-	-	(0.4)	(0.4)
Impact of IFRIC 14 on defined benefit pension scheme	6	-	-	-	-	-	0.8	0.8
Tax relating to components of other comprehensive income		-	-	-	-	-	0.2	0.2
Total comprehensive expense/income for the year		-	-	-	-	-	26.8	26.8
Dividends paid	9	-	-	-	-	-	(1.2)	(1.2)
Employee share scheme purchases		-	-	-	(2.7)	-	-	(2.7)
Employee share scheme awards		-	-	-	0.6	-	(0.6)	-
Recognition of share based payments net of tax		-	-	-	-	-	1.0	1.0
Balance at 28 August 2021		12.4	60.5	(280.1)	(3.9)	0.4	153.0	(57.7)

* 2020 Retained earnings has been restated to include £0.1m currency translation difference.

Group Cash Flow Statement

For the 52 week period ended 28 August 2021

£m	Note	2021	2020
Net cash inflow from operating activities	26	41.4	23.4
Investing activities			
Dividends received from joint ventures		0.2	0.2
Purchase of property, plant and equipment		(2.4)	(6.9)
Purchase of intangible assets		-	(2.4)
Net proceeds on sale of property, plant and equipment		-	14.6
Loan advances	11	-	(6.5)
Net cost of disposal of subsidiary	12	-	(3.7)
Interest received		0.1	-
Loan repayment received		6.5	-
Net cash (used in) investing activities		4.4	(4.7)
Financing activities			
Interest paid		(9.5)	(8.0)
Dividend paid	9	(1.2)	(2.4)
Repayments of lease principal		(5.9)	(15.6)
Repayment of term loan		(57.5)	-
New loans issued		80.0	-
Net (decrease)/increase in revolving credit facility and overdrafts		(80.2)	50.8
Purchase of shares for Employee Benefit Trust		(2.6)	(0.7)
Net cash (used in)/generated financing activities		(76.9)	24.1
Net (decrease)/increase in cash and cash equivalents		(31.1)	42.8
Effect of foreign exchange rate changes		(0.2)	(0.1)
		(31.3)	42.7
Opening net cash and cash equivalents		50.6	7.9
Closing net cash and cash equivalents	19	19.3	50.6

During the year, cash inflow from investing activities attributed to discontinued operations amounted to £nil (2020: £nil inflow). Cash outflow from operating activities during the year attributed to discontinued operations amounted to £nil (2020: £10.3m outflow) and paid £nil outflow (2020: £9.1m inflow) in respect of investing activities. There were £nil (2020: £7.3m outflow) cash outflows associated with financing activities attributable to discontinued operations.

Notes to the Accounts

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 28 August 2021 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 28 August 2021 and are included in the Group accounts.

Unless otherwise noted, references to 2020 and 2021 relate to a 52 week period ended 29 August 2020 and 28 August 2021 as opposed to calendar year.

The accounts were authorised for issue by the directors on 3 November 2021.

(2) Accounting basis of preparation

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

The Group accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

(3) Going concern

The Company has a net liability position of £57.7m as at 28 August 2021. All bank covenant tests were met at the period end with the key bank net debt: EBITDA (ex IFRS 16) ratio of 1.2x, which is below the current facility agreement covenant test threshold of 3.0x. The threshold reduces by 0.25x biannually to 2.25x at 27 May 2023.

The intra-month working capital cash flow cycle at Smiths News generates a routine and predictable cash swing of up to £40m; where necessary the Company utilises the revolving credit facility (RCF) to manage this. At the period end, £35.1m of the RCF remains available as £4.9m of the £40m is allocated against letters of credit. Post period end, the letters of credit were reduced to £2.4m. Our average Bank Net Debt during 2021 was £82.6m (2020: £98.8m).

3i) Bank facility

The Company has a facility of £112.5 million at the balance sheet date, comprising a £37.5 million amortising term loan (Facility A), a £35.0m million bullet repayment term loan (Facility B) and a £40 million revolving credit facility (RCF). The term loan (facility B) is repayable from any proceeds received from the deferred consideration as part of the sale of Tuffnells and receipt of any pension surplus. The agreement is with a syndicate of banks comprising lenders HSBC, Barclays, Santander, Clydesdale and Shawbrook Bank.

The facility's current margin is 4.25% per annum (5.5% on initial inception) over LIBOR (in respect of Facility A and the RCF) and 4.75% per annum (6.0% on initial inception) over LIBOR (in respect of Facility B). Post period end a revised senior finance agreement was signed moving the pricing from LIBOR to SONIA.

Consistent with the Company's stated strategic priorities to reduce net debt, the terms of the facility agreement include: an amortisation schedule of £15m per annum for the repayment of Facility A; agreed repayments against Facility B arising from funds received in relation to both deferred consideration received following the sale of Tuffnells and any cash surplus arising from the buy-out of the Company's defined benefit pension scheme; and capped dividend payments for FY2021 (up to £4m) and FY2022 onwards (up to £6m per year). The scheduled payment of £7.5m was made in April 2021 reducing the initial £120m facility to £112.5m at the balance sheet date. A further payment of £7.5m was made in October 2021, post the balance sheet date, reducing the facility further to its current £105m.

As part of the terms of the refinancing, the Company and its principal trading subsidiaries have also agreed to provide security over their assets to the lenders.

The final maturity date of the facility is 6 November 2023.

3ii) COVID-19 impact

The Company continued to generate cash and trade in line with expectations through 2021 despite the second national lockdown in November 2020 and third national lockdown in January 2021. Since the half year, trading has continued to improve gradually as the overall economy has started to recover. Revenue decline in FY2021 has overall returned to within the historical trend of -3% to -5% annual revenue decline. The going concern assessment assumes revenue decline will continue to be in line with historic trends going forwards.

3iii) Reverse stress testing

The directors have prepared their base case forecast which represents their best estimate of cash flows over the going concern period and in accordance with FRC guidance and 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 August 2022 if EBITDA (ex IFRS 16) was 49% below expectations. The directors consider the likelihood of this level of downturn and non-receipt to be remote based on:

- current trading which is in line with expectations;
- year-on-year declines in revenues would have to be significantly greater than historical trends;
- the contracts are secured with publishers until at least 2024; and
- the Company continues to trade with adequate profit to service its debt covenants.

1. Accounting policies continued

(3) Going concern continued

3iv) Mitigating actions

In the event the break environment scenario moved from being remote to possible then management would seek to take mitigating actions to maintain liquidity and compliance with the bank facility covenants. The options within the control of management would be to:

- Optimise liquidity by working capital management of the peak-to-trough intra-month movement of up to £40m. Utilising existing vendor management finance arrangements* with retailers and optimising contractual payment cycles to suppliers which would improve liquidity headroom
- Not pay planned dividends
- Delay non-essential capex projects
- Cancel discretionary annual bonus payments
- 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 FY2021.

3v) 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 22 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 pages 170 to 171), are not considered to be a substitute for, or superior to, IFRS measures but provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Team.

The APMs do not have standardised meaning prescribed by IFRS and therefore may not be directly comparable to similar measures presented by other companies.

(5) Estimates and judgements

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

Key accounting judgements

The significant judgements made in the accounts are:

Revenue recognition

The Group recognises the wholesale sales price for its sales of newspapers and magazines. The Group is considered to be the principal based on the following indicators of control over its inventory: discretion to establish prices; it holds some of the risk of obsolescence once in control of the inventory; and has the responsibility of fulfilling the performance obligation on delivery of inventory to its customers. If the Group were considered to be the agent, revenue and cost of sales would reduce by £945.2m (2020: £995.5m).

Tuffnells deferred consideration

The Tuffnells business unit was disposed on 2 May 2020; the Group is due £15.0m as deferred consideration payable over three years. There is a balance of £11.5m included within other receivables (£2.3m non-current and £9.2m current) in respect of the deferred consideration. The Group has calculated the fair value of the deferred consideration on disposal at £7.1m and has subsequently recognised the receivable at amortised cost. The fair value was calculated by discounting the deferred consideration at 30% which is considered the key judgement. A +/-5% change in the discount rate would have resulted in a decrease/increase of the fair value of the deferred consideration by +/-£1.0m which would change the profit and loss on disposal. For more information see Note 11. Recoverability of the Tuffnells deferred consideration is a key estimate. Management have assessed its recoverability and have concluded that no impairment is necessary. This was assessed using a number of scenarios such as delays in payments and non-recovery of the balance; changes in these assumptions may lead to an impairment of the balance.

Notes to the Accounts continued**1. Accounting policies continued****(5) Estimates and judgements continued****Key accounting judgements continued***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.

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 is considered to be unrelated to the Group's ordinary activities or is 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 170.

Based on the nature of the transactions, Adjusting items after tax totalled £0.1m (2020: £17.3m) and a breakdown is included within Note 4.

Retirement benefits

In line with the accounting policy the 'buy-in' annuity purchased on 17 February 2021 (Note 5) is recognised as a plan asset consistent with previous transactions. The difference in value between the value of the insurance asset received of £5.4m at the date of the transaction and the asset transferred in exchange for the policy £6.2m was considered an actuarial remeasurement as the obligation to settle the scheme liabilities continues to sit with the pension scheme. The £0.8m impact is recognised within other comprehensive income and is offset by the release of the IFRIC 14 liability.

If this was instead considered to form part of the settlement costs of the subsequent pension 'buy-out' the £0.8m income statement would be accounted for as a charge to the income statement. The offsetting £0.8m, being the release of the restriction, would continue to be included within other comprehensive income.

The Company committed itself to wind-up the pension scheme on 2 March 2021 which was the date the Company and the Trustees of the pension scheme committed to remove the Company's liability to the pension scheme; the 'buy-out' removing the obligations took place on 31 March 2021.

At the balance sheet date, the Company does not recognise the £14.8m pre-tax surplus as an asset, as it does not yet have an unconditional right to the asset. The right of return is dependent on the Trustee reaching a position where it is advised that it can legally distribute the surplus to the employer and completion of activities to trace former members of the Trust impacted by the GMP ruling. Subsequent to the balance sheet date the Trustee confirmed its intention to return the surplus to the Company. The surplus, net of additional professional fees and tax charged at a rate of 35%, is expected to be paid to the Company in FY2022. The surplus received by the Company will be used to repay existing debt.

Key sources of estimation uncertainty

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

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

1. Accounting policies continued

(5) Estimates and judgements continued

Key sources of estimation uncertainty continued

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.

The Company has since reviewed the business plan for the Rascal Solutions Limited joint venture, taking into account the challenges arising from increasing market competition. As a result, an impairment review has been performed. A value in use of £2.9m has been calculated based on future cash flows of the business and have been discounted at a rate of 15.4% and a terminal growth rate applied of 0%. The result is an impairment loss of £1.6m. Refer to Note 15 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 onerous leases on non-trading properties and for potential dilapidation costs across the Group. These provisions have been discounted to present value and this discount will be unwound over the life of the leases.

A change in any of these assumptions could materially impact the provision balance. Refer to Note 23 for further details on the sensitivity of the assumptions used to calculate the property provision. The property provision's carrying value at the period end is £3.8m (FY2020: £3.9m).

Recoverability of Tuffnells deferred consideration

The recoverability of the Tuffnells deferred consideration is a key estimate. Management have assessed its recoverability and have concluded no impairment is necessary. This was assessed using a number of scenarios such as delays in payments and non-recovery of the balance; changes in these assumptions may lead to an impairment of the balance.

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

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

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

(7) Discontinued operations

In accordance with IFRS 5 'Non-current assets held for sale and Discontinued operations', the net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated) and the assets and liabilities of operations are presented separately in the Group balance sheet if they meet the held for sale criteria at the balance sheet date or were disposed of during the year.

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

(8) Revenue

Smiths News – sales of newspapers and magazines

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

Return reserve

Newspapers and magazines sales are made on a sale or return basis, therefore the Group is required to estimate a value relating to expected returns from retailers. Likewise, as the publishers are required to provide the Group with credit for any purchase returns, so a purchase returns reserve is also required. The key estimates used in calculating the period end reserve are rates of returns (based on historical trends), average shelf life of the product types and average price of each product type. These estimates are similarly applied to calculate the credit for purchase returns.

Revenue for goods supplied with a right of return is stated net of the value of any returns. Newspapers and magazines are often sold with retrospective volume discounts based on aggregate sales. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discount and returns using the expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A returns reserve accrual and discount accrual (included in trade and other payables) is recognised for expected volume discounts and refunds payable to customers in relation to sales made until the end of the reporting period. A right to the returned goods (included in other debtors) 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.

Notes to the Accounts continued**1. Accounting policies continued****(9) Cost of sales and gross profit**

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

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

(10) Taxation

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

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

(11) Dividends

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

(12) Capitalisation of internally generated development costs

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

(13) Joint ventures

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

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

(14) Business combinations goodwill and intangibles

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

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

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

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

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

Assets held under 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.

1. Accounting policies continued

(15) Property, plant and equipment

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

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

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

(16) Leasing

Leases are 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.

Notes to the Accounts continued**1. Accounting policies continued****(16) Leasing continued****Modifications**

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

(17) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Inventories are valued using a weighted average cost method. 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.

(18) Financial instruments

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

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

(19) 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 17.

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.

1. Accounting policies continued

(20) Trade and other payables

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

(21) Treasury

Cash and bank deposits

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. BACS and next day payments are recognised at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and bank overdrafts which form part of the Group's cash management.

Financial liabilities and equity

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

Bank borrowings

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

Modification/derecognition of financial liabilities

Financial liabilities are derecognised only when there is extinguishment of the original financial liability and recognition of a new financial liability. Equally, modification of the terms of existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability takes place.

Foreign currencies

Financial statements of foreign operations

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

Foreign currency transactions

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

(22) Provisions

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

(23) Retirement benefit costs

The Group operates a number of defined contribution schemes for the benefit of its employees. Payments to the Group's schemes are recognised as an expense in the income statement as incurred. Following the disposal of Tuffnells, the Group operates one defined benefit pension scheme, the news section of the WH Smith Pension Trust which is closed to new entrants and to further accrual. The Trust formally entered into a buy-out transaction on 31 March 2021, removing all material liabilities from the Trust. Actuarial calculations are carried out as at 31 March 2021, the final date at which the Trust liabilities are to be valued. Actuarial gains and losses are recognised in full in the period in which they occur in the Group statement of comprehensive income. As at 28 August 2021, there were a small proportion of liabilities within the Trust relating to amounts owed to former members of the Trust as a result of the latest Lloyds ruling in November 2020. As these liabilities are not long term in nature, actuarial assumptions at 28 August 2021 are not required. The Group does not recognise any surplus unless there is an unconditional right to do so.

(24) Employee Benefit Trust

Smiths News Employee Benefit Trust

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

Notes to the Accounts continued**1. Accounting policies continued****(25) Share schemes****Share based payments**

The Group operates several share based payment schemes, being the Sharesave Scheme, the Executive Share Option Scheme, the LTIP and the Deferred Bonus Plan. Details of these are provided in the Directors' Remuneration report and in Note 30.

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

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

(26) Changes in accounting policies

The Group's accounting policy has been changed to recognise BACS and next day payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions. The comparative amounts have not been restated as the prior period is unaffected by this change in accounting policy.

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 30 August 2020:

- Amendments to references to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 Business Combinations;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform;
- Amendments to IFRS 4: Extension of the Temporary Exemption from Applying IFRS 9; and
- Amendment to IFRS 16: COVID-19-Related Rent Concessions.

None of the other amendments listed above had any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet applied.

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2;
- Amendment to IFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021;
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract;
- Annual Improvements to IFRS Standards 2018-2020;
- Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use; and
- Amendments to IAS 1: Classification of liabilities as current or non-current.

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. The performance of these operating segments is reviewed, on a monthly basis, by the Board. The Board primarily uses a measure of Adjusted operating profit before tax to assess the performance of the operating segments. However, the Board also receives information about the segments' revenue.

The continuing operating segments are:

Smiths News

The Smiths News segment consists of the following:

Smiths News Core

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

Dawson Media Direct (DMD)

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

Instore

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

Other businesses

A number of ancillary businesses which are adjacent to Smiths News.

Smiths News Core is considered the only reportable segment of the above given the size of the others and they are consolidated into one reportable segment based on size.

2. Segmental analysis continued

Tuffnells

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

Tuffnells was disposed of in the prior year and therefore any residual costs are considered to be a discontinued operation in the current financial year. The division is presented as a discontinued operation and is included below, where necessary, for the purpose of reconciliation.

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

£m	Revenue	
	2021	2020
Smiths News	1,109.6	1,164.5
Continuing operations	1,109.6	1,164.5
Discontinued operations	-	98.2
Total continuing and discontinued operations	1,109.6	1,262.7

The Company's revenue by geographical location is UK 99.9% (2020: 99.5%) and Rest of World 0.1% (2020: 0.5%).

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

£m	2021			2020		
	Adjusted operating profit/(loss)	Adjusted items	Statutory operating profit/(loss)	Adjusted operating profit/(loss)	Adjusted items	Statutory operating profit/(loss)
Smiths News	39.6	(3.8)	35.8	35.1	(14.0)	21.1
Continuing operations	39.6	(3.8)	35.8	35.1	(14.0)	21.1
Net finance expense	(8.7)	3.5	(5.2)	(7.2)	0.9	(6.3)
Continuing profit before tax	30.9	(0.3)	30.6	27.9	(13.1)	14.8
Discontinued operations profit before tax*	-	(0.2)	(0.2)	(13.3)	(2.0)	(15.3)
Total continuing and discontinued operations Profit before taxation	30.9	(0.5)	30.4	14.6	(15.1)	(0.5)

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

Information about major customers

Included in revenues arising from Smiths News are revenues of approximately £121.9m (2020: £125.2m) which arose from sales to the Group's largest customer. Three other customers contributed 6.0% or more of the Group's revenue in 2021 (2020: 6%).

Segment depreciation, amortisation and non-current asset additions

£m	Depreciation		Amortisation		Impairment		Additions to non-current assets	
	2021	2020*	2021	2020	2021	2020	2021	2020*
Smiths News	8.8	13.6	1.9	2.0	1.6	6.0	6.0	15.8
Continuing operations	8.8	13.6	1.9	2.0	1.6	6.0	6.0	15.8
Discontinued operations	-	0.4	-	-	-	2.5	-	2.4
Consolidated total	8.8	14.0	1.9	2.0	1.6	8.5	6.0	18.2

* 2020 depreciation has been restated to include depreciation of right of use assets.

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

Notes to the Accounts continued

3. Operating profit/(loss)

The Group's results are analysed as follows:

£m	Note	2021			2020		
		Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Continuing operations							
Revenue		1,109.6	-	1,109.6	1,164.5	-	1,164.5
Cost of inventories recognised as an expense		(945.2)	-	(945.2)	(995.5)	-	(995.5)
Net impairment losses on financial assets		-	-	-	(0.3)	(0.2)	(0.5)
Distribution costs		(91.0)	-	(91.0)	(95.6)	-	(95.6)
Cost of sales		(1,036.2)	-	(1,036.2)	(1,091.4)	(0.2)	(1,091.6)
Gross profit		73.4	-	73.4	73.1	(0.2)	72.9
Other administrative expenses		(30.9)	(1.9)	(32.8)	(35.8)	(7.8)	(43.6)
Share based payment expense	30	(1.0)	-	(1.0)	(0.3)	-	(0.3)
Amortisation of intangibles	13	(1.9)	-	(1.9)	(2.0)	-	(2.0)
Impairment		(0.1)	-	(0.1)	-	(6.0)	(6.0)
Administrative expenses		(33.9)	(1.9)	(35.8)	(38.1)	(13.8)	(51.9)
Share of profits from joint ventures	15	0.1	(0.3)	(0.2)	0.1	-	0.1
Impairment of joint venture investment		-	(1.6)	(1.6)	-	-	-
Operating profit		39.6	(3.8)	35.8	35.1	(14.0)	21.1

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

£m	Note	2021			2020		
		Continuing	Discontinued	Total	Continuing	Discontinued	Total
Depreciation on property, plant & equipment	14	2.4	-	2.4	2.6	0.4	3.0
Amortisation of intangible assets	13	1.9	-	1.9	2.0	-	2.0
Depreciation on right of use assets	21	6.4	-	6.4	6.0	5.0	11.0
Short term and low value lease charges							
occupied land and buildings		0.1	-	0.1	0.9	0.4	1.3
equipment and vehicles		0.4	-	0.4	0.3	1.8	2.1
Lease rental income – land and buildings		0.2	-	0.2	0.2	-	0.2
(Loss)/gain on disposal of non-current assets		0.2	-	0.2	-	1.7	1.7
Staff costs (excluding share based payments)	5	43.8	-	43.8	49.0	44.7	93.7

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	2021	2020
Fees payable to the Company's auditor for the audit of the Company's annual accounts – BDO LLP	0.2	0.3
Fees payable to the Company's auditor for the audit of the Company's subsidiaries – BDO LLP	0.2	0.2
Total non-audit fees	0.1	0.2
Total fees	0.5	0.7

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

4. Adjusted items

£m		2021			2020		
		Continuing	Discontinued	Total	Continuing	Discontinued	Total
Transformation programme planning costs	(a)	(1.1)	-	(1.1)	-	-	-
Pension	(b)	(1.0)	-	(1.0)	(0.9)	-	(0.9)
Share of profits from joint ventures	(c)	(0.3)	-	(0.3)	-	-	-
Asset impairments	(d)	(1.6)	-	(1.6)	(6.4)	(0.6)	(7.0)
Other		0.1	-	0.1	0.1	-	0.1
Network and re-organisation costs	(e)	0.1	-	0.1	(6.8)	(1.0)	(7.8)
VAT refund	(f)	-	0.4	0.4	-	-	-
Review and sale of Tuffnells	(g)	-	(0.6)	(0.6)	-	0.6	0.6
Sale and leaseback	(h)	-	-	-	-	(1.0)	(1.0)
Total before tax and interest		(3.8)	(0.2)	(4.0)	(14.0)	(2.0)	(16.0)
Finance income – unwind of deferred consideration	(i)	3.5	-	3.5	0.9	-	0.9
Total before tax		(0.3)	(0.2)	(0.5)	(13.1)	(2.0)	(15.1)
Taxation		0.3	0.1	0.4	1.4	(3.6)	(2.2)
Total after taxation		-	(0.1)	(0.1)	(11.7)	(5.6)	(17.3)

The Group incurred Adjusting items of £0.5m (2020: £15.1m) before tax and £0.1m (2020: £17.3m) after tax.

Adjusted items are defined in the accounting policies in Note 1 and in the glossary on page 170. 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:

Continuing operations

(a) Transformation programme planning costs: £1.1m (2020: £nil)

During the financial period, the Company incurred professional fees in relation to transformation programme planning. This included professional fees related to the rationalisation of DMD's corporate structure (£0.4m) to minimise the cost base of this business.

These costs are reported as adjusting items on the basis that they are significant in nature and quantum and are non-recurring in nature.

(b) Pensions: £1.0m (2020: £0.9m)

The Company incurred £1.0m (2020: £0.9m) in pension administrative expenses and other professional fees as a result of the continuing process to wind up the news section of the WH Smith Pension Trust (the Company's defined benefit pension scheme); see Note 6 for details. In the prior financial period, this included £0.9m in rationalising the Company's pension portfolio which was triggered by the buy-in of an insurance backed annuity relating to the news section of the WH Smith Pension Trust.

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.

(c) Share of profits from joint ventures: £0.3m (2020: £nil)

Rascal Solutions Limited, one of the Group's joint ventures, has written off an intangible asset in full in its annual accounts to 31 August 2021 because it is considered to no longer have future economic value. The net book value of this asset was £0.6m of which 50% (£0.3m) of the write off is attributed to the Company.

These costs are reported as adjusting items on the basis that they are significant to the investment in Rascal, are non-recurring in nature and aid comparability from one period to the next regarding the performance of the joint venture.

(d) Asset impairments: £1.6m (2020: £6.4m)

As a result of competitive pressures in the market, the Company reviewed the business plan for its Rascal joint venture and an impairment review has been performed. The Company has assessed the investment in the joint venture to be impaired by £1.6m.

In the prior financial period, the impacts of the lockdowns associated with the COVID-19 pandemic triggered impairment reviews of a number of the Group's assets:

A prior financial period charge of £5.7m was incurred against DMD goodwill to fully impair its balance because of the trading impact of the COVID-19 travel restrictions.

The pandemic also increased risk of recovery of DMD's receivables and as a result the Company recognised £0.2m increased expected credit loss provision against customers impacted by the COVID-19 pandemic.

Notes to the Accounts continued

4. Adjusted items continued**Continuing operations continued****(d) Asset impairments: £1.6m (2020: £6.4m) continued**

A further £0.2m charge was incurred as a result of the write down of a balance with one of the Company's joint ventures.

The impact of the COVID-19 pandemic also triggered a review of the viability of Bluebox Systems Group Limited (Bluebox), a joint venture of the Company. As a result the outlook of Bluebox remains uncertain and the investment was written off completely, incurring a £0.3m impairment charge.

The Group considers the impact of the above to be adjusting given the impairment charges are significant in both quantum and nature to the results of the Group.

(e) Network and reorganisation: £0.1m credit (2020: £6.8m)

These are analysed as follows:

£m	2021	2020
Executive team redundancies	-	1.2
Outsourcing of central functions	-	1.0
Business restructuring	(0.1)	2.7
Network reorganisation	-	1.9
Total	(0.1)	6.8

Executive Team redundancies

In the prior year, costs of £0.5m have been incurred as a result of the departure of the CEO in November 2019 (payment in lieu of notice having been made in 12 monthly instalments to November 2020). Separately, following the disposal of Tuffnells in 2020, the Group incurred £0.7m streamlining the Group's Executive Team.

These costs were considered to be adjusting given their quantum and to enable comparability between periods with equivalent costs of the Executive Team.

Outsourcing central functions

In the prior year £1.0m of costs related to the offshoring of selected technology, customer services and finance functions. This comprised a provision of £0.5m related to redundancy costs as part of this transition and £1.4m related to set up costs which included the cost of parallel running the shared service centre whilst transitioning. The costs were offset by a £0.9m release of the previous year redundancy provision.

These costs are considered adjusting as the impact of the transition to an offshored central function is considered non-recurring and significant both in nature and quantum. The running costs of the parts of the centre which are fully operational were treated as non-adjusting.

Business restructuring

The disposal of the Tuffnells business and lockdowns associated with the COVID-19 pandemic led to the Company restructuring its support functions and a reorganisation provision was put in place. The Company has released £0.1m of this provision in the current period and the release is reported as an adjusting item consistent with the prior period treatment.

In the prior year, the disposal of the Tuffnells business and lockdowns associated with the COVID-19 pandemic led to the Group also restructuring its support functions and two of its business units (DMD and Instore) and incurring incremental costs. In total these costs were £2.7m.

These costs were considered to be adjusting given they are significant in nature and quantum and they enable comparability between periods with equivalent costs of the day to day operations of the business. Ongoing incremental costs incurred as a result of COVID-19 have been recognised with non-adjusted amounts.

Network reorganisation

In the prior period, £1.9m of costs relating to the restructuring of the Smiths News network were incurred. The costs incurred primarily related to redundancies as a result of the decision to further consolidate its magazine hubs.

Costs associated with the reorganisation programmes were considered Adjusting items given they are significant in nature and quantum. The costs were related to a strategic programme to drive future cost savings and treating these costs as adjusting aids comparability from one period to the next.

(i) Finance income – deferred consideration £3.5m credit (2020: £0.9m credit)

During the year, £3.5m has been recognised as unwind of discount on deferred consideration (2020: £0.9m). The deferred consideration relates to the disposal of Tuffnells and for that reason has been classified as adjusting because it does not relate to the Group's ordinary activities. The deferred consideration is expected to fully unwind by May 2023.

4. Adjusted items continued

Discontinued operations

(d) Impairment of Tuffnells assets: £nil (2020: £0.6m)

Impairments of Tuffnells assets of £0.6m were recognised by the Group in the prior financial period against property, plant and equipment. The bids received for Tuffnells indicated that the net book value of Tuffnells was above its fair value less costs to sell, indicating an impairment was required. Accordingly, impairments totalling £0.6m were recognised to reflect the updated value of the business.

The impairment was considered adjusting because it does not relate to the Group's ordinary activities.

(e) Network and reorganisation costs: £nil (2020: £1.0m)

There are £nil costs incurred on Network and reorganisation in 2021. 2020 costs are analysed as follows:

- Executive Team redundancies of £0.4m
- Network reorganisation costs of £0.6m

Executive Team redundancies £nil (2020: £0.4m)

These costs had been incurred as a result of the restructure of the Tuffnells executive team as part of the strategic review in 2020.

Network reorganisation £nil (2020: £0.6m)

These costs had been incurred as a result of depot closures. The depot closures were identified as a cost saving measure from the strategic review; the depot closure enabled greater flexibility with minimal impacts on the businesses.

These costs were considered to be adjusting given significance in nature and quantum and to aid comparability between periods.

(f) VAT refund: £0.4m credit (2020: £nil)

During the period the Company put forward a claim to HMRC of £0.8m in relation to the reclamation of VAT previously treated as non-recoverable on prior disposals of businesses previously owned by the Group. The claim was successful and the amount has been paid in full. A credit of £0.4m has been recognised in the period. As this income relates to costs which would have been classed as discontinued, the same treatment has been applied. This income is considered to be adjusting given its quantum and is unrelated to the Group's ordinary activities.

(g) Review and sale of Tuffnells: £0.6m (2020: £0.6m credit)

As part of the sale of Tuffnells the Company assumed liability to settle certain pre-disposal insurance and legal claims related to: employer's liability, public liability, motor accident claims and legal claims. In the current financial period £0.6m of costs were recognised.

In the prior financial period the Tuffnells business was reviewed; the review involved evaluating a number of options in order to maximise value for shareholders, including:

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

Costs incurred as a result of this review were £0.3m.

The Board subsequently concluded that a sale to a third party would generate the most value for shareholders. Following the strategic review, Tuffnells was sold on 2 May 2020 and a profit of £1.8m generated.

As part of the disposal agreement with Tuffnells, Tuffnells was provided with services under a transitional service agreement. Tuffnells notified the Group that it intended to terminate a number of services early within the transitional service agreement, some of which were provided by third party suppliers. Where the Company was unable to co-terminate these contracts with its suppliers, it considered these onerous contracts and an onerous contract provision of £0.9m was recognised.

These costs are considered adjusting due to their significance in nature and quantum, to aid comparability between periods and because they are unrelated to the Group's ordinary activities.

(h) Sale and leaseback: £nil (2020: £1.0m)

Tuffnells, a discontinued division of the Company, disposed of eight properties in the prior period and as a result the following were incurred:

£m		2021	2020
Sale & leaseback			
Profit on disposal of Tuffnells properties	(i)	-	1.5
Rectification costs	(ii)	-	(0.6)
Impairment	(iii)	-	(1.9)
Total		-	(1.0)

Notes to the Accounts continued

4. Adjusted items continued**Discontinued operations continued****(h) Sale and leaseback: £nil (2020: £1.0m) continued****(i) Profit on loss on disposal of Tuffnells properties £nil (2020: £1.5m)**

In line with IFRS 16, a profit of £nil (2020 £1.5m) has been recognised.

(ii) Rectification costs £nil (2020: £0.6m)

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

(iii) Impairment £nil (2020: £1.9m)

After the sale of the properties noted above, a number of properties remained unsold as the bids received were below historic cost. An impairment charge of £1.9m was recognised when the assets were reclassified from held for sale back into property, plant and equipment.

These costs are considered to be adjusting given the significance in nature and quantum and do 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	2021	2020
Continuing			
Wages and salaries		39.2	44.9
Furlough		-	(0.9)
Net wages and salaries		39.2	44.0
Social security		3.4	3.7
Pension costs	6	1.2	1.3
Continuing operations total		43.8	49.0
Discontinued operations			
Wages and salaries		-	41.4
Furlough		-	(0.5)
Wages and salaries		-	40.9
Social security		-	3.5
Pension costs	6	-	0.3
Discontinued operations total			44.7
Total		43.8	93.7

Pension costs shown above exclude charges and credits for pension scheme financing and actuarial gains and losses arising on the pension schemes. Wages and salaries shown above exclude amounts related to share based payment charges. On a continuing basis there was a charge of £1.0m in 2021 (2020: £0.3m) relating to share based payments (refer to Note 3).

(b) Employee numbers

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

Number	2021	2020
Continuing operations		
Operations	1,536	1,787
Support functions	154	268
Continuing operations total	1,690	2,055
Discontinued operations		
Operations	-	2,380
Support functions	-	74
Discontinued operations total	-	2,454
Total	-	4,509

6. Retirement benefit obligation

Defined benefit pension schemes

In the period the Group operated one defined benefit scheme, the news section of the WH Smith Pension Trust (the 'Pension Trust'). In the prior financial period the Group also operated the Tuffnells Parcels Express Pension Scheme, which is now outside the Group following the disposal of Tuffnells in May 2020.

The amounts recognised in the balance sheet are as follows:

£m	2021	2020
Present value of defined benefit obligation	(0.1)	(481.2)
Fair value of assets	14.9	496.4
Net surplus	14.8	15.2
Amounts not recognised due to asset limit	(14.8)	(15.2)
Pension liability	-	-

The valuations of the defined benefit scheme for the IAS 19 (revised) disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the scheme, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

The WH Smith Pension Trust purchased an insurance backed annuity 'buy-in' in October 2018 to cover the liabilities of the news section of the scheme. In FY2020, it was considered that equalisation happened at a later date than previously assumed, as a result further 'equalisation liabilities' were recognised as a prior year adjustment made to 1 September 2018 in the FY2020 Annual Report and financial statements (see Note 1c).

In December 2020 an exercise was completed to calculate the equalisation liability for the purposes of purchasing an insurance policy. The completion of this exercise reduced the liabilities from £8.2m to £5.4m, the £2.8m movement is considered an actuarial remeasurement recognised within other comprehensive income and is offset by the release of the IFRIC 14 liability.

On 17 February 2021 the WH Smith Pension Trust purchased an additional insurance backed annuity 'buy-in' to cover the additional equalisation liabilities not covered by the original 'buy-in' in October 2018 at a cost of £6.2m. The 'buy-in' annuity is recognised as a plan asset and the difference in value between the value of the insurance asset received of £5.4m and the asset transferred in exchange for the policy of £6.2m is considered an actuarial remeasurement recognised within other comprehensive income and is offset by the release of the IFRIC 14 liability.

On 26 February 2021 the Company gave notice to terminate its liability to the pension scheme with effect from 2 March 2021. This was accepted by the Trustees and the wind-up of the pension commenced. On 31 March 2021 the pension liabilities covered by the buy-in insurance transferred over to L&G, the new pension provider, and 'buy-out' concluded, removing the Company's obligation to the members.

The High Court handed down its judgment in the latest instalment of the Lloyds cases in November 2020, this time in relation to equalising past transfers for inequalities in Guaranteed Minimum Pension (GMP), creating an additional liability of £0.4m which is not covered by 'buy-in' insurance. At the balance sheet date, £0.3m of the amounts owed have been paid and a further £0.1m of liability is still to be traced.

The Company does not recognise the £14.8m pre-tax surplus, noted in the table above, as an asset, as it does not yet have an unconditional right to the asset. The right of return is dependent on the Trustee reaching a position where it is advised that it can legally distribute the surplus to the employer and completion of activities to trace former members of the Trust impacted by the GMP ruling. Subsequent to the balance sheet date the Trustee confirmed its intention to return the surplus to the Company net of additional professional fees and tax charged at a rate of 35%. The surplus of circa £8m is expected to be paid to the Company in November 2021. The surplus received by the Company will be used to repay existing debt.

The principal long term assumptions used to calculate scheme liabilities on all Group schemes up to the disposal date are:

% p.a.	2021	2020
Discount rate	1.95	1.5
Inflation assumptions – CPI	2.8	2.1
Inflation assumptions – RPI	3.4	3.1

Demographic assumptions for WH Smith Pension Trust:

Life expectancy at age 65	2021		2020	
	Male	Female	Male	Female
Member currently aged 65	21.7	23.7	21.7	23.6
Member currently aged 45	22.8	24.9	22.7	24.8

Inflation assumptions

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

A summary of the movements in the net balance sheet asset/(liability) and amounts recognised in the Group income statement and other comprehensive income are as follows:

Notes to the Accounts continued

6. Retirement benefit obligation continued

Inflation assumptions continued

£m	Fair value of scheme assets	Defined benefit obligation	Impact of IFRIC 14 on defined benefit pension schemes	Total
At 31 August 2019	504.7	(491.8)	(15.8)	(2.9)
Net interest cost	8.5	(8.2)	(0.3)	-
Administration expenses	(0.3)	-	-	(0.3)
Total amount recognised in income statement	8.2	(8.2)	(0.3)	(0.3)
Actual return on scheme assets (excluding amounts included in net interest expense)	14.8	-	-	14.8
Actuarial gains arising from changes in financial assumptions	-	(12.6)	-	(12.6)
Actuarial gains arising from changes in demographic assumptions	-	(2.1)	-	(2.1)
Change in surplus not recognised	-	-	0.9	0.9
Amount recognised in other comprehensive income	14.8	(14.7)	0.9	1.0
Employer contributions	0.8	-	-	0.8
Employee contributions	-	-	-	-
Benefit payments	(21.8)	21.8	-	-
Amounts included in cash flow statement	(21.0)	21.8	-	0.8
Disposal of business	(10.3)	11.7	-	1.4
At 29 August 2020	496.4	(481.2)	(15.2)	-
Net interest cost	4.4	(4.2)	(0.2)	-
Administration expenses	(0.4)	-	-	(0.4)
Total amount recognised in income statement	4.0	(4.2)	(0.2)	(0.4)
Actual return on scheme assets (excluding amounts included in net interest expense)	(8.7)	-	-	(8.7)
Actuarial gains arising from experience	-	2.4	-	2.4
Actuarial gains arising from changes in financial assumptions	-	6.1	-	6.1
Change in surplus not recognised	-	-	0.6	0.6
Amount recognised in other comprehensive income	(8.7)	8.5	0.6	0.4
Benefit payments	(14.5)	14.5	-	-
Amounts included in cash flow statement				
Settlement	(462.3)	462.3		
At 28 August 2021	14.9	(0.1)	14.8	-
Included within current liabilities				-
Included within non-current liabilities				-

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

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

£m		2021	2020
Gilts and swaps portfolio	Quoted and Unquoted	11.4	10.9
Corporate bonds	Quoted and Unquoted	-	-
Equity funds	Unquoted	-	-
Insurance policy	Unquoted	-	473.0
Cash and other	Unquoted	3.5	12.5
		14.9	496.4

6. Retirement benefit obligation continued

Inflation assumptions continued

The return on scheme assets during 2021 was a loss of £8.7m (2020: £14.8m gain).

The value of the assets held by the Trust in Smiths News Plc (formerly Connect Group PLC) issued financial instruments is £nil (2020: £nil).

The pension scheme has been insured in full, but there are some liabilities (£0.1m) remaining in respect of former members. The £0.1m of liabilities is not long term in nature. Therefore, there are no actuarial assumptions required as at 28 August 2021 to value these liabilities and by extension no sensitivities to assumptions.

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the 52 weeks ended 28 August 2021, contributions from the respective employing company for continuing operations totalled £1.1m (2020: £1.6m) which is included in the income statement.

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

7. Finance costs

£m	Note	2021	2020
Continuing operations			
Interest on bank overdrafts and loans		(5.0)	(4.7)
Amortisation of loan arrangement fees		(2.0)	(0.5)
Interest payable on leases		(1.6)	(1.7)
Total interest cost on financial liabilities at amortised cost		(8.6)	(6.9)
Unwinding of discount on provisions – trading	23	(0.2)	(0.5)
Finance costs – continuing operations		(8.8)	(7.4)
Interest income on loans and deferred consideration		3.6	1.1
Net finance costs – continuing operations		(5.2)	(6.3)
Interest payable on leases		-	(1.5)
Unwinding of discount on provisions – trading	23	-	(0.1)
Net finance costs – discontinued operations		-	(1.6)
Net finance costs – continuing and discontinued operations		(5.2)	(7.9)

8. Income tax expense

£m	2021			2020		
	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Continuing operations						
Current tax	6.3	(0.3)	6.0	3.4	(1.4)	2.0
Adjustment in respect of prior year	(0.9)	-	(0.9)	0.4	-	0.4
Total current tax charge/(credit)	5.4	(0.3)	5.1	3.8	(1.4)	2.4
Deferred tax – current year	(0.4)	-	(0.4)	0.1	-	0.1
Deferred tax – prior year	(0.1)	-	(0.1)	0.4	-	0.4
Deferred tax – impact of rate change	(0.3)	-	(0.3)	(0.1)	-	(0.1)
Total tax charge/(credit) – continuing operations	4.6	(0.3)	4.3	4.2	(1.4)	2.8
<i>Effective tax rate</i>	14.9%		14.1%	15.1%		18.9%
Tax (credit)/charge – discontinued operations	-	(0.1)	(0.1)	(0.2)	3.6	3.4
Tax charge/(credit) – continuing and discontinued operations	4.6	(0.4)	4.2	4.0	2.2	6.2

The effective adjusted income tax rate for continuing operations in the year was 14.9% (2020: 15.1%). After the impact of Adjusted items of (£0.3m) (2020: £13.1m), the effective statutory income tax rate for continuing operations was 14.1% (2020: 18.9%).

Notes to the Accounts continued

8. Income tax expense continued

Corporation tax is calculated at the main rate of UK corporation tax, being 19.0% (2020: 19.0%). An increase in the tax rate to 25% from 1 April 2023 was substantively enacted at the balance sheet date. 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	2021	Restated* 2020
Continuing profit before tax	30.6	14.8
Tax on profit at the standard rate of UK corporation tax 19.0% (2020: 19.0%)	5.9	2.8
Income not subject to tax	(0.7)	(0.2)
Expenses not deductible for tax purposes	0.4	1.3
Group relief (discontinued operations)	-	(1.8)
Adjustment in respect of prior years	(1.0)	0.8
Impact of change in UK tax rate	(0.3)	(0.1)
Tax charge	4.3	2.8

* The previous year tax reconciliation has been restated for an amendment to the debit/credit presentation of expenses not deductible for tax purposes and to separate income not subject to tax from expenses not deductible for tax purposes.

Income not subject to tax comprised mainly the tax effect of the Tuffnells discount unwind.

Tax charges to other comprehensive income and directly in equity

£m	2021	2020
Continuing operations		
Tax charge to other comprehensive income and directly in equity - discontinued operations	-	0.5
Tax charge to other comprehensive income and directly in equity - continuing and discontinued operations	-	0.5

9. Dividends

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

	2021 Per share	2020 Per share	2021 £m	2020 £m
Paid & proposed dividends for the year				
Interim dividend – paid	0.5p	-	1.2	-
Final dividend – proposed	1.0p	-	2.4	-
	1.5p	-	3.6	-
Recognised dividends for the year				
Final dividend – prior year	-	1.0p	-	2.4
Interim dividend – current year	0.5p	-	1.2	-
	0.5p	1.0p	1.2	2.4

A final 1.0p dividend per share is proposed for the 52 weeks ended 28 August 2021 (2020: Nil), which is expected to be paid on 10 February 2022 to all shareholders who are on the register of members at close of business on 14 January 2022. The ex-dividend date will be 13 January 2022.

10. Earnings per share

	2021			2020		
	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			246.7	
Shares held by the ESOP (weighted)		(4.2)			(2.2)	
Basic earnings per share (EPS)						
Continuing operations						
Adjusted earnings attributable to ordinary shareholders	26.3	243.5	10.8	23.7	244.5	9.7
Adjusted items	-			(11.7)		
Earnings attributable to ordinary shareholders	26.3	243.5	10.8	12.0	244.5	4.9
Discontinued operations						
Adjusted profit/(loss) attributable to ordinary shareholders	-	243.5	-	(13.1)	244.5	(5.3)
Adjusted items	(0.1)			(5.6)		
Loss/(profit) attributable to ordinary shareholders	(0.1)	243.5	-	(18.7)	244.5	(7.7)
Total - Continuing and discontinued operations						
Adjusted earnings attributable to ordinary shareholders	26.3	243.5	10.8	10.6	244.5	4.3
Adjusted items	(0.1)			(17.3)		
Earnings attributable to ordinary shareholders	26.2	243.5	10.8	(6.7)	244.5	(2.7)
Diluted earnings per share (EPS)						
Effect of dilutive share options – continuing operations		11.3			2.6	
Effect of dilutive share options – adjusting continuing		11.3			2.6	
Effect of dilutive share options – discontinued operations		-			-	
Effect of dilutive share options – total		-			-	
Continuing operations						
Diluted adjusted EPS	26.3	254.8	10.3	23.7	247.2	9.6
Diluted EPS	26.3	254.8	10.3	12.0	247.2	4.9
Discontinued operations - Diluted EPS						
Diluted adjusted EPS	-	254.8	-	(13.1)	244.5	(5.3)
Diluted EPS	(0.1)	254.8	-	(18.7)	244.5	(7.7)
Total - Continuing and discontinued operations						
Diluted adjusted EPS	26.3	254.8	10.3	10.6	247.2	4.3
Diluted EPS	26.2	254.8	10.3	(6.7)	244.5	(2.7)

Dilutive shares increase the basic number of shares at 28 August 2021 by 11.3m to 254.8m (29 August 2020: 244.5m).

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 11.3m dilutive shares (29 August 2020: 2.6m).

Notes to the Accounts continued**11. Discontinued operations (prior period)****Discontinued operations – Tuffnells**

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

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

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

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

The Company has discounted the consideration at 30% and recognised £7.1m on Completion. The first tranche of the unsecured consideration (£6.5m) was paid on 2 November 2021 (18 months following Completion) by Tuffnells Holdings Limited. See Note 17 for further details.

Tuffnells was sold cash free debt free on Completion which resulted in the Group repaying the Tuffnells overdraft and writing off the intercompany loan at Completion.

The Company separately agreed to make available a loan facility secured against selected properties. The total facility available was £10.5m and included a 10% coupon. The facility drawn on Completion was £6.5m; a further £1.0m a month was available to be drawn from 1 September 2020 up to the limit of £10.5m. After Completion no further funds were drawn from the facility. On 1 October 2020, the full balance of the loan was repaid, including accrued interest. On the same day, the facility was cancelled and security the Group held over Tuffnells properties released.

The Company repaid £1.0m of lease creditors prior to Completion. Tuffnells were covered under a Company insurance policy and as part of the disposal the decision was made that the Company would pay for any pre-existing motor and employment liability claims that Tuffnells incurred prior to disposal. These claims will be settled as they arise; on Completion the total liability was estimated at £1.8m. A balance of £1.0m remains at 28 August 2021 (2020: £1.6m).

The Company has recognised costs of disposal as incurred; the total costs of disposal were £nil (2020: £3.6m).

Accounting impact

The deferred consideration of Tuffnells at period end was £11.5m (2020: £8.1m). The accounting standards require the Company to assess the balance for an expected credit loss. Given Tuffnells recent trading performance, it is considered that there has been no significant increase in the credit risk and management believe no credit loss is required.

Discontinued operation outlook

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

£m	2021			2020		
	Adjusted	Adjusted items	Total	Adjusted	Adjusted items	Total
Revenue	-	-	-	98.2	-	98.2
Cost of sales	-	-	-	(102.5)	-	(102.5)
Gross (loss)	-	-	-	(4.3)	-	(4.3)
Administrative expenses	-	(0.2)	(0.2)	(7.4)	(2.0)	(9.4)
Operating loss	-	-	-	(11.7)	(2.0)	(13.7)
Finance costs	-	-	-	(1.6)	-	(1.6)
Loss before tax	-	(0.2)	(0.2)	(13.3)	(2.0)	(15.3)
Income tax credit/(expense)	-	0.1	0.1	0.2	(3.6)	(3.4)
Loss from discontinued operations	-	(0.1)	(0.1)	(13.1)	(5.6)	(18.7)

During the year, cash outflow from operating activities attributed to discontinued operations amounted to £0.4m (2020: £10.3m) and a £nil inflow (2020: £9.1m) in respect of investing activities. There were £nil (2020: £7.3m) cash outflows associated with financing activities attributable to discontinued operations.

12 Disposal of subsidiaries

The Group disposed of the Tuffnells business on 2 May 2020.

The net assets of the business at the date of disposal were:

	2020 £m
Intangible assets	0.2
Property, plant and equipment	12.0
Right of use assets	36.5
Inventories	0.6
Trade and other receivables	15.2
Cash and bank balances	–
Trade and other payables	(17.3)
Lease creditor	(41.6)
Retirement benefit creditor	(1.4)
Provisions	(2.6)
Net assets disposed	1.6
Deferred consideration	7.1
Net cash outflow arising from disposal of Tuffnells business	(3.7)
Net assets disposed	(1.6)
Profit on disposal	1.8
Net cash outflow arising on disposal	
Cash disposal costs	(3.7)
Net cash outflow arising from disposal of Tuffnells business	(3.7)

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

Notes to the Accounts continued

13. Intangible assets

£m	Acquired intangibles				Internally generated development costs	Computer software costs	Total
	Goodwill	Customer relationships	Trade name	Software			
Cost:							
At 30 August 2020	5.7	2.4	0.2	-	2.9	7.5	18.7
Additions	-	-	-	-	0.4	-	0.4
Disposals	-	-	-	-	(0.6)	(0.3)	(0.9)
At 28 August 2021	5.7	2.4	0.2	-	2.7	7.2	18.2
Accumulated amortisation:							
At 30 August 2020	(5.7)	(2.4)	(0.2)	-	(1.9)	(4.5)	(14.7)
Amortisation charge	-	-	-	-	(0.4)	(1.5)	(1.9)
Disposals	-	-	-	-	0.5	0.2	0.7
At 28 August 2021	(5.7)	(2.4)	(0.2)	-	(1.8)	(5.8)	(15.9)
Net book value at 28 August 2021	-	-	-	-	0.9	1.4	2.3
Cost:							
At 1 September 2019	57.8	29.3	30.7	0.8	7.4	11.4	137.4
Additions	-	-	-	-	0.3	1.9	2.2
Disposals	-	-	-	-	(4.4)	(4.6)	(9.0)
Disposal of business	(52.1)	(26.9)	(30.5)	(0.8)	(0.4)	(1.2)	(111.9)
At 29 August 2020	5.7	2.4	0.2	-	2.9	7.5	18.7
Accumulated amortisation:							
At 1 September 2019	(52.1)	(29.3)	(30.7)	(0.8)	(6.0)	(8.4)	(127.3)
Amortisation charge	-	-	-	-	(0.4)	(1.6)	(2.0)
Disposals	-	-	-	-	4.2	4.6	8.8
Disposal of business	52.1	26.9	30.5	0.8	0.3	0.9	111.5
Impairment	(5.7)	-	-	-	-	-	(5.7)
At 29 August 2020	(5.7)	(2.4)	(0.2)	-	(1.9)	(4.5)	(14.7)
Net book value at 29 August 2020	-	-	-	-	1.0	3.0	4.0

The historic cost of the Group's goodwill and acquired intangibles split by CGU is included in the table below.

£m	Goodwill	Intangibles	Total
DMD	5.7	2.6	8.3
Smiths News	-	0.3	0.3
	5.7	2.9	8.6

Impairment tests goodwill

Goodwill is not amortised, but has been tested annually for impairment. As a result of these reviews goodwill is fully impaired at the end of FY2020 and FY2021.

13. Intangible assets continued

DMD (prior period)

The impact of the COVID-19 pandemic on the airline industry started to be seen in February 2020 and was therefore considered an impairment indicator. A full impairment review was performed in February 2020 on the goodwill and other assets relating to this business unit.

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

	2020
Average plan revenue growth	2.0%*
Post tax discount rate	20.0%
Pre-tax discount rate	37.8%
Long term growth rate	0.0%

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

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

- No significant impact on trading as a result of the EU exit or other political change.
- Continued decline in sales of printed media during the assessment period offset by overhead efficiencies in the assessment period.
- Return of the airline industry within 14 months of March 2020 (the start of the lockdown in the UK) and a return of contracts to 80% of the industry's activity.

Sensitivity to changes in key assumptions

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

Notes to the Accounts continued

14. Property, plant and equipment

£m	Land & buildings			Fixtures and fittings	Equipment and vehicles	Total
	Freehold properties	Long term leasehold improvements	Short term leasehold improvements			
Cost:						
At 30 August 2020	–	0.2	10.1	2.7	22.4	35.4
Additions	–	–	0.6	0.4	1.8	2.8
Disposals	–	–	(0.5)	(0.2)	(2.1)	(2.8)
At 28 August 2021	–	0.2	10.2	2.9	22.1	35.4
Accumulated depreciation:						
At 30 August 2020	–	(0.2)	(8.2)	(1.7)	(15.9)	(26.0)
Depreciation charge	–	–	(0.5)	(0.2)	(1.7)	(2.4)
Transferred from held for sale	–	–	–	–	–	–
Disposals	–	–	0.5	0.3	1.6	2.4
At 28 August 2021	–	(0.2)	(8.2)	(1.6)	(16.0)	(26.0)
Net book value at 28 August 2021	–	–	2.0	1.3	6.1	9.4
Cost:						
At 1 September 2019	0.2	0.3	13.4	4.5	35.7	54.1
Additions	0.4	–	0.2	0.9	3.3	4.8
Disposals	–	–	(0.4)	(0.4)	(2.1)	(2.9)
Transferred from held for sale	13.0	–	0.2	1.1	–	14.3
Disposal of business	(13.6)	(0.1)	(3.3)	(3.4)	(14.5)	(34.9)
At 29 August 2020	–	0.2	10.1	2.7	22.4	35.4
Accumulated depreciation:						
At 1 September 2019	–	(0.3)	(11.1)	(4.1)	(27.7)	(43.2)
Depreciation charge	–	–	(0.5)	(0.2)	(2.3)	(3.0)
Transferred from held for sale	(1.7)	–	(0.1)	(0.8)	(0.9)	(3.5)
Disposals	0.3	–	0.3	0.4	2.3	3.3
Impairments	(2.5)	–	–	–	–	(2.5)
Disposal of business	3.9	0.1	3.2	3.0	12.7	22.9
At 29 August 2020	–	(0.2)	(8.2)	(1.7)	(15.9)	(26.0)
Net book value at 29 August 2020	–	–	1.9	1.0	6.5	9.4

15. Interests in joint ventures

£m	2021	2020
At 30 August/1 September	4.9	5.3
Share of profit	(0.2)	0.1
Impairments	(1.6)	(0.3)
Dividends received	(0.2)	(0.2)
At 28/29 August	2.9	4.9

The joint ventures listed below have share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investments in joint ventures

Company name/(number)	Share class	Group %	Company name/ (number)	Share class	Group %
Fresh On The Go Limited 08775703	Ordinary Shares	30%			
27 Kings Road, Berkhamsted, Hertfordshire, HP4 3BH					
Bluebox Aviation Systems Ltd SC267388	Ordinary Shares	36.1%	Bluebox Systems Group Limited SC544863	Ordinary A Shares	36.1%
Estantia House, Pitreavie Drive, Pitreavie Business Park, Dunfermline, Fife KY11 8US					
Bluebox Avionics Limited 05684001	Ordinary Shares	36.1%			
Inflight House, Hurricane Way, Langley, SL3 8AG					
Open-Projects Limited 02422753	Ordinary Shares	50%	Rascal Solutions Limited 05191277	Ordinary A Shares	50%
Silbury Court, 420 Silbury Boulevard, Milton Keynes MK9 2AF					

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 2021. 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 inflight entertainment systems. This business is a strategic partnership with DMD which also provides inflight media to the aviation industry.

Fresh On The Go Limited provides retail outlets with coffee vending and other related products.

All joint ventures are private companies and there is no quoted market price available for their shares.

The Group has no commitments relating to its joint ventures.

Notes to the Accounts continued

15. Interests in joint ventures continued

The results, assets and liabilities of joint ventures are as follows:

£m	2021			2020		
	Rascal Solutions Limited	Other	Total	Rascal Solutions Limited	Other	Total
Revenue	5.7	1.3	7.0	6.9	4.3	11.2
Depreciation	1.6	0.1	1.7	1.4	0.1	1.5
Tax	0.1	-	0.1	0.1	-	0.1
(Loss)/profit after tax	(0.1)	(0.6)	(0.7)	0.2	0.1	0.3
Non-current assets	2.3	0.6	2.9	3.1	-	3.1
Current assets	1.7	1.5	3.2	1.6	1.5	3.1
Cash	1.0	0.3	1.3	1.3	1.1	2.4
Total assets	5.0	2.4	7.4	6.0	2.6	8.6
Current liabilities	(1.6)	(0.9)	(2.5)	(2.2)	(0.9)	(3.1)
Non-current liabilities	-	(1.3)	(1.3)	-	(0.8)	(0.8)
Total liabilities	(1.6)	(2.2)	(3.8)	(2.2)	(1.7)	(3.9)
Net assets	3.4	0.2	3.6	3.8	0.9	4.7
Share of net assets	1.7	-	1.7	1.9	-	1.9
Goodwill	1.2	-	1.2	3.0	-	3.0
Share of net assets and goodwill	2.9	-	2.9	4.9	-	4.9

Dividends of £0.2m (2020: £0.2m) were received in the 52 weeks to 28 August 2021 from joint ventures.

Bluebox Systems Group Limited

An impairment of £0.3m was charged against the value of the investment of Bluebox Aviation Limited in the prior period. There was no impairment charge in the current period. See Note 4 for further details.

Rascal Solutions Limited investment

During the period Rascal Solutions Limited recorded a loss of £0.1m (FY2020: profit of £0.2m). The result includes the full impairment (£0.6m) of a software development intangible fixed asset which was found to no longer be of economic value to Rascal. The Company's share of this impairment is 50% (£0.3m) and has been reported as an adjusting item in income from joint ventures.

The Company has since reviewed the business plan for the Rascal joint venture, taking into account the challenges arising from increasing market competition. As a result, an impairment review has been performed. A value in use of £2.9m has been calculated based on future cash flows of the business and discounted at a post-tax discount rate of 15.4% (pre-tax discount rate of 18.5%) and a terminal growth rate applied of 0%. The result is an impairment loss of £1.6m.

Sensitivities to assumptions

If the post-tax discount rate was increased by 1.0%, the impairment loss would increase by £0.2m and if the post-tax discount rate was reduced by 1.0%, the impairment loss would reduce by £0.1m.

16. Inventories

£m	2021	2020
Goods held for resale	13.1	13.9
Raw materials and consumables	0.1	0.2
Inventories	13.2	14.1

17. Trade and other receivables

£m	2021	2020
Trade receivables	65.8	65.1
Provision for expected credit losses	(0.1)	(0.4)
	65.7	64.7
Other debtors	29.1	30.9
Deferred consideration	9.2	-
Prepayments	1.2	4.1
Accrued income	1.4	1.5
Trade and other receivables	106.6	101.2

Trade receivables

The average credit period taken on sale is 22 days (2020: 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 28 August 2021 under IFRS 9:

£m	2021			2020		
	Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Current (not overdue)	63.9	(0.1)	63.8	64.3	(0.1)	64.2
30-60 days overdue	1.9	-	1.9	0.4	-	0.4
61-90 days overdue	-	-	-	0.1	-	0.1
91-120 days overdue	-	-	-	-	-	-
Over 120 days overdue	-	-	-	0.3	(0.3)	-
	65.8	(0.1)	65.7	65.1	(0.4)	64.7

The following table provides information about the Group's loss rates applied against customer balances as at 28 August 2021 under IFRS 9:

%	2021	2020
Current (not overdue)	0.1	0.1
30-60 days overdue	-	0.1
61-90 days overdue	0.9	4.0
91-120 days overdue	11.4	16.8
Over 120 days overdue	15.5	55.6

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

- One customer (2020: one) had an individual balance that represented more than 10% of the total trade receivables balance. The total of this was £9.7m (2020: £11.7m); and
- A further five customers (2020: five) had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £24.2m (2020: £22.7m).

Notes to the Accounts continued

17. Trade and other receivables continued**Trade receivables** continued

Movement in the allowance for doubtful debts:

£m	2021	2020
At 30 August/1 September	0.4	0.3
Impairment losses recognised	(0.2)	0.4
Amounts written off as uncollectible	0.1	(0.1)
Amounts recovered during the year	(0.2)	-
Disposal of business	-	(0.2)
At 28/29 August	0.1	0.4

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.

Despite the low expected credit loss, the Group performed sensitivity analysis should the default rate change from expected.

- An increase in default rate by 2% would increase the expected credit loss by £1.2m
- A decrease in default rate by 2% would result in no credit losses
- An increase in default rate by 5% would increase the expected credit loss by £3.1m
- A decrease in default rate by 5% would result in no credit losses

Other debtors and prepayments

The largest items included within this balance are returns reserve asset of £18.5m (2020: £18.5m) (refer to Note 1 Accounting Policies, section 8) and £6.5m (2020: £10.7m) of publisher debtors.

Non-current - other receivables

£m	2021	2020
Deferred consideration	2.3	8.1
Loans receivable	-	6.5
	2.3	14.6

The Tuffnells business unit was disposed on 2 May 2020; the Group is due £15.0m as deferred consideration payable over three years. There is a balance of £11.5m included within other receivables (£9.2m non-current and £2.3m current) in respect of the deferred consideration. The Group has calculated the fair value of the deferred consideration on disposal at £7.1m and has subsequently recognised the receivable at amortised cost. The fair value was calculated by discounting the deferred consideration at 30% which is considered the key judgement. A +/-5% change in the discount rate would have resulted in a decrease/increase of the fair value of the deferred consideration by +/-£1.0m which would change the profit and loss on disposal. For more information see Note 11. Recoverability of the Tuffnells deferred consideration is a key estimate. Management have assessed its recoverability and have concluded that no impairment is necessary. This was assessed using a number of scenarios such as delays in payments and non-recovery of the balance; changes in these assumptions may lead to an impairment of the balance.

Post balance sheet, Tuffnells Holdings Limited (formerly Palm Bidco Limited) paid the first tranche of deferred consideration (£6.5m) on 2 November 2021 (18 months following Completion).

The loan receivable was given as part of the terms to sell Tuffnells (see Note 11 for further information), and was secured and repaid in full in September 2020.

18. Trade and other payables

£m	2021	2020
Trade payables	(94.9)	(97.3)
Other creditors	(33.8)	(34.1)
Accruals	(7.4)	(8.0)
Deferred income	(0.4)	(0.1)
	(136.5)	(139.5)

Included within other creditors is a balance of £21.7m (2020: £21.4m) relating to the returns reserve accrual. (Refer to Note 1 Accounting Policies, section 8.)

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 27 days (2020: 26 days). No interest is charged on trade payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value using a level 2 valuation.

19. Cash and borrowings

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

£m	Sterling	Euro	US Dollar	Other	Total 2021	Total 2020
Cash and bank deposits	18.5	0.6	0.3	0.3	19.7	50.6
Overdrafts – included in cash and cash equivalents	(0.4)	–	–	–	(0.4)	–
Net cash and cash equivalents	18.1	0.6	0.3	0.3	19.3	50.6
Overdrafts – included in borrowings	–	–	–	–	–	(41.3)
Revolving credit facility – disclosed within current liabilities	–	–	–	–	–	(39.0)
Term loan – disclosed within current liabilities	(21.2)	–	–	–	(21.2)	(49.8)
Term loan – disclosed within non-current liabilities	(50.1)	–	–	–	(50.1)	–
Total borrowings	(71.3)	–	–	–	(71.3)	(130.1)
Net borrowings	(53.2)	0.6	0.3	0.3	(52.0)	(79.5)
Total borrowings						
Amount due for settlement within 12 months	(21.2)	–	–	–	(21.2)	(130.1)
Amount due for settlement after 12 months	(50.1)	–	–	–	(50.1)	–
	(71.3)	–	–	–	(71.3)	(130.1)

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.

A new three year £120 million facility was agreed in November 2020, comprising a £45m amortising term loan (Facility A), a £35m bullet repayment term loan (Facility B) and a £40 million multicurrency revolving credit facility (RCF). The agreement is with a syndicate of banks comprising existing lenders HSBC, Barclays, Santander and Clydesdale and one new lender, Shawbrook Bank.

The facility was made available at an initial margin of 5.5% per annum over LIBOR (in respect of Facility A and the RCF) and 6% per annum over LIBOR (in respect of Facility B). The margin is subject to reduction as the Company reduces its net leverage. The weighted average interest rate for the year was 9.6% (2020: 5.8%). The increase is largely due to higher arrangement fees and a higher interest rate on the new senior finance agreement. In September 2021 (post the balance sheet date), the Company concluded an amended and restated facility agreement, migrating base interest margins from LIBOR to SONIA with effect from 24 September 2021.

Consistent with the Company's stated strategic priorities to reduce net debt, the terms of the new facility agreement include: an amortisation schedule of £15m per annum for the repayment of Facility A; agreed repayments against Facility B arising from funds received in relation to both deferred consideration received following the sale of Tuffnells and any cash surplus arising from the winding up of the Company's defined benefit pension scheme; and capped dividend payments for FY2021 (up to £4m) and FY2022 onwards (up to £6m per year).

The scheduled payment of £7.5m was made in April 2021 reducing the initial £120m facility to £112.5m at the balance sheet date. A further payment of £7.5m was made in October 2021, post the balance sheet date, reducing the facility further to its current £105m.

As part of the terms of the refinancing, the Company and its principal trading subsidiaries have agreed to provide security over their assets to the lenders.

Reconciliation of liabilities arising from financing activities

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

£m	Note	29 August 2020	Financing cash flows	New leases	Disposals	Other changes	28 August 2021
Term loan	19	49.8	22.7	–	–	–	72.5
Revolving credit facility	19	39.0	(39.0)	–	–	–	–
Overdrafts	19	41.3	(40.9)	–	–	–	0.4
Leases		33.4	(5.9)	–	–	1.7	29.2
Total		163.5	(63.1)	–	–	1.7	102.1

Notes to the Accounts continued

19. Cash and borrowings continued

Reconciliation of liabilities arising from financing activities continued

£m	Note	1 September 2019	Financing cash flows	New leases	Disposals	Other changes	29 August 2020
Term loan	19	49.3	-	-	-	0.5	49.8
Revolving credit facility	19	30.0	9.0	-	-	-	39.0
Overdrafts	19	-	41.3	-	-	-	41.3
Leases		2.5	(15.6)	82.6	(41.6)	5.5	33.4
Total		81.8	34.7	82.6	(41.6)	6.0	163.5

Other changes include interest accruals and payments.

Analysis of net debt

£m	Note	2021	2020
Cash and cash equivalents	19	19.3	50.6
Current borrowings	19	(21.2)	(130.1)
Non-current borrowings	19	(50.1)	-
Net borrowings*		(52.0)	(79.5)
Lease liabilities	21	(29.2)	(33.4)
Net debt		(81.2)	(112.9)

* Net borrowings includes unamortised loan fees of £1.2m (FY2020: £0.2m)

20. Financial instruments

Treasury policy

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

Capital risk management

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

The only externally imposed capital requirements for the Group are debt to EBITDA, fixed charge cover and interest cover under the terms of the bank facilities. The Group has fully complied during both the current year and the prior year. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders and/or issue new shares. There is a future cap on dividends of £6.0m in 2022 under the new banking facility, this is also subject to all the covenants.

The Board regularly reviews the capital structure. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. We expect free cash from operations to be sufficient to reduce net debt while also maintaining an attractive total shareholder return. The Group is targeting a reduced net debt/EBITDA 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 the 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 reduce liquidity risk are described below.

As at 28 August 2021, the Group had £112.5m committed bank facilities in place (2020: £175.0m). Bank facilities comprised:

- £37.5 million amortising term loan (Facility A); and
- £35 million bullet repayment term loan (Facility B); and
- £40 million revolving credit facility (RCF)

which together expire in November 2023.

20. Financial instruments continued

Liquidity risk continued

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

- Leverage cover – the net debt: adjusted EBITDA ratio which must remain below 2.75x. At 28 August 2021 the ratio was 1.2x (2020: 2.0x);
- Interest cover – the consolidated net interest: adjusted EBITDA ratio which must remain above 4.0x. As at 28 August 2021 the ratio was 8.5x (2020: 10.1x);
- Fixed charge cover – the ratio of adjusted EBITDA to consolidated fixed charges is not less than 1.75x to 1. As at 28 August 2021 the ratio was 4.0x (2020: 4.0x); and
- Guarantor cover – the annual turnover, gross assets and pre-tax profits of the guarantors contribute at any time 80% or more of the annual consolidated turnover, gross assets and pre-tax profits of the Group for each of its financial years. The guarantors, which are all 100% owned or wholly owned subsidiaries of the Smiths News plc (formerly Connect Group PLC), are each of Smiths News plc, Smiths News Holdings Limited, and Smiths News Trading Limited.

At 28 August 2021, the Group had available £35.1m (2020: £86.0m) of undrawn committed borrowing facilities. There were no breaches of loan agreements during either the current or prior years.

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

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle at Smiths News that results in significant predictable swings within each month of around £40.0m; the Group's average gross borrowing for the past year was £94.5m (2020: £105.4m). The Group has utilised the revolving credit facility of £40.0m for this.

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

£m	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 28 August 2021				
Non derivative financial liabilities				
Bank and other borrowings	(21.3)	(23.5)	(27.8)	-
Trade and other payables	(136.5)	-	-	-
Leases	(5.9)	(5.7)	(4.4)	(13.1)
Total	(163.7)	(29.2)	(32.2)	(13.1)
At 29 August 2020				
Non derivative financial liabilities				
Bank and other borrowings	(130.8)	-	-	-
Trade and other payables	(109.5)	-	-	-
Leases	(7.3)	(7.1)	(6.5)	(18.3)
Total	(247.6)	(7.1)	(6.5)	(18.3)

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 £0.7m (2020: £0.7m) of net assets held in overseas currencies. Translation exposure arises on the re-translation of overseas subsidiaries' profits and net assets into Sterling for financial reporting purposes and is not seen as significant.
- Note 19 denotes borrowings by currency.
- There are no material currency exposures to disclose.

Interest rate risk

The Group monitors its exposure to interest rate in light of the Group's debt exposure, consideration of the macro-economic 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 28 August 2021 would decrease/increase by £0.4m (2020: £0.5m).

Notes to the Accounts continued**20. Financial instruments continued****Credit risk**

The Group considers its exposure to credit risk at 28 August 2021 to be as follows:

£m	2021	2020
Bank deposits	19.3	50.6
Deferred consideration	11.5	8.1
Loans receivable	-	6.5
Trade and other receivables	94.8	100.7
	125.6	165.9

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

21. Leases**Amounts recognised in the right of use assets**

The balance sheet shows the following amounts relating to leases:

£m	Equipment and vehicles	Land and buildings	Total
Cost:			
At 29 August 2020	1.8	36.9	38.7
Additions	-	2.8	2.8
Disposals	(0.2)	(1.1)	(1.3)
At 28 August 2021	1.6	38.6	40.2
Accumulated depreciation:			
At 29 August 2020	(0.4)	(5.5)	(5.9)
Depreciation charge	(0.4)	(6.0)	(6.4)
Disposals	0.2	0.3	0.5
At 28 August 2021	(0.6)	(11.2)	(11.8)
Net book value at 28 August 2021	1.0	27.4	28.4
Cost:			
At 31 August 2019	-	-	-
Transition adjustment	21.9	51.9	73.8
Additions	0.6	8.2	8.8
Disposals	-	(2.5)	(2.5)
Disposal of business	(20.7)	(20.7)	(41.4)
At 29 August 2020	1.8	36.9	38.7
Accumulated depreciation:			
At 31 August 2019	-	-	-
Depreciation charge	(4.1)	(6.9)	(11.0)
Disposals	-	0.1	0.1
Disposal of business	3.7	1.3	5.0
At 29 August 2020	(0.4)	(5.5)	(5.9)
Net book value at 29 August 2020	1.4	31.4	32.8

Lease commitments

The Company has the following lease commitments:

	2021	2020
Due within 1 year	5.9	5.8
Due in more than 1 year, but no more than 5 years	16.6	18.6
Due in more than 5 years	6.7	9.0
Total operating lease commitments	29.2	33.4

21. Leases continued

Amounts recognised in the income statement

£m	2021	2020
Continuing operations		
Interest expense (included in finance cost)	1.6	1.7
Expense relating to low value leases (included in cost of sales and administrative expenses)	(0.1)	1.2
Property rental income	0.3	0.2
Total cash outflow from leases	6.2	9.7
Discontinued operations		
Interest expense (included in finance cost)	-	1.5
Expense relating to short term and low value leases (included in cost of sales and administrative expenses)	-	2.3
Total cash outflow from leases	-	12.6
Gain on sale and leaseback	-	1.5
£m	2021	2020
Lease liabilities		
Current	(5.9)	(5.8)
Non-current	(23.3)	(27.6)
Total	(29.2)	(33.4)

22. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

£m	Fixed assets	Share based payments	Retirement benefits	Total
At 30 August 2020	0.7	0.1	-	0.8
Credit to income	0.7	0.1	-	0.8
Credit to other comprehensive income	-	0.2	-	0.2
At 28 August 2021	1.4	0.4	-	1.8
Deferred tax assets	1.4	0.4	-	1.8
Deferred tax liabilities	-	-	-	-
At 1 September 2019	4.6	0.1	0.5	5.2
Charge to income	(3.9)	-	-	(3.9)
Charge to other comprehensive income and directly in equity	-	-	(0.5)	(0.5)
At 29 August 2020	0.7	0.1	-	0.8
Deferred tax assets	0.7	0.1	-	0.8
Deferred tax liabilities	-	-	-	-

The deferred tax assets have been deemed recoverable as the Group forecasts that it will continue to make profits against which the assets can be utilised for tax purposes.

The Group has capital losses carried forward of £20.2m (2020: £23.9m). Deferred tax assets of £3.8m (2020: £4.5m) have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation.

An increase in the corporation tax rate to 25% from 1 April 2023 was substantively enacted at the balance sheet date.

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.

Notes to the Accounts continued

23. Provisions

£m	Provision				Total
	for onerous contracts and other provisions	Re-organisation provisions	Insurance and legal provisions	Property provisions	
At 29 August 2020	(0.9)	(2.7)	(1.8)	(3.9)	(9.3)
Charged to income statement	-	(0.5)	(0.6)	(0.2)	(1.3)
Credited to income statement	-	0.3	-	-	0.3
Utilised in period	0.2	2.1	1.1	0.5	3.9
Unwinding of discount utilisation	-	-	-	(0.2)	(0.2)
At 28 August 2021	(0.7)	(0.8)	(1.3)	(3.8)	(6.6)

£m	2021	2020
Included within current liabilities	(3.6)	(6.8)
Included within non-current liabilities	(3.0)	(2.5)
Total	(6.6)	(9.3)

Included within non-current liabilities is £3.0m (2020: £2.5m) relating to real estate property provisions.

Reorganisation provisions of £0.8m (2020: £2.5m) relates to the restructure of the DMD business, the Smiths News network and the Group's support functions; this was all announced in the prior year.

Insurance 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 £1.0m (2020: £1.6m) relating to claims from the Tuffnells business prior to disposal.

The property provision represents the estimated future cost of the Group's onerous leases on non-trading properties and potential dilapidation costs across the Group. These provisions have been discounted to present value and this discount will be unwound over the life of the leases. The provisions cover the period to 2036, however, a significant portion of the liability falls within ten years.

The Group has performed sensitivity analysis on the property provision using the possible scenarios below:

If the discount rate changes by +/- 0.5%, the property provision would change by +/-£0.1m.

If the repair cost per square foot changes by +/- £1.00p, the property provision would change by +/- £0.9m.

24. Contingent liabilities and capital commitments

£m	2021	2020
Bank and other guarantees	4.9	7.1

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC, any such contingent liability in respect of assignment prior to demerger, which becomes an actual liability, will be apportioned between Smiths News plc and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Smiths News plc in any 12 month period does not exceed £5m). The Company's share of these leases has an estimated future cumulative gross rental commitment at 28 August 2021 of £0.5m (2020: £0.6m).

Contracts placed for future capital expenditure approved by the directors but not provided for amount to £0.2m (2020: £nil).

As at 28 August 2021, the Group had approved letters of credit of £4.9m (2020: £7.1m) 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. In September 2021, the Company was notified that the letters of credit had reduced by £2.5m to £2.4m.

25. 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	2021	2020
Within one year	0.2	0.2
In the second to fifth years inclusive	0.5	0.4
More than five years	-	0.1
	0.7	0.7

26. Net cash inflow from operating activities

£m	Note	2021	2020
Operating profit – continuing	3	35.8	21.1
Operating profit/(loss) – discontinued	3	(0.2)	(13.7)
Operating profit – total		35.6	7.4
Profit on disposal of assets		(0.2)	(1.4)
Impairment of goodwill	4	-	5.7
Impairment of investments		-	0.3
Share of profits of joint ventures	15	1.8	0.1
Profit on disposal of subsidiary	12	-	(1.8)
Adjustment for pension funding	6	-	(0.8)
Depreciation of property, plant and equipment	14	2.4	3.0
Depreciation of right of use assets	21	6.4	11.0
Amortisation of intangible assets	4	1.9	2.0
Impairment of assets	4	0.1	2.5
Share based payments		1.0	0.4
Decrease in inventories		0.7	2.2
Decrease in receivables		5.4	23.0
Decrease in payables		(5.1)	(31.3)
(Decrease)/increase in provisions		(2.8)	0.8
Non cash pension costs		0.5	0.3
Income tax paid		(6.3)	-
Net cash inflow from operating activities		41.4	23.4
Net cash flow from operating activities is stated after the following adjusted items:			
Continuing operations			
Reorganisation & restructuring costs		(2.2)	(6.4)
Pension		(0.6)	(0.9)
Other		(1.2)	-
		(4.0)	(7.3)
Discontinued operations			
Reorganisation & restructuring costs		(0.1)	(1.3)
Strategic review		-	(0.5)
Sale and leaseback		-	14.3
Insurance cost		(1.1)	-
VAT refund		0.8	-
		(0.4)	12.5
Total adjusting items cash flow		(4.4)	5.2

Notes to the Accounts continued

27. Share capital**(a) Share capital**

£m	2021	2020
Issued, authorised and fully paid:		
At 30 August/1 September	12.4	12.4
Shares issued during the year	-	-
247.7m ordinary shares of 5p each (2020: 247.7m)	12.4	12.4

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
30 August 2020	247.7
Shares issued during the year	-
At 28 August 2021	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 28 August 2021 or the period to 29 August 2020.

(c) Share premium

£m	2021	2020
Balance at 30 August/1 September	60.5	60.5
Balance at 28/29 August	60.5	60.5

28. Reserves**(a) Demerger reserve**

£m	2021	2020
At 30 August/1 September	(280.1)	(280.1)
At 28/29 August	(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	2021	2020
Balance at 30 August/1 September	(1.8)	(1.7)
Acquired in the period	(2.7)	(0.7)
Disposed of on exercise of options	0.6	0.6
Balance at 28/29 August	(3.9)	(1.8)

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 30). The number of ordinary shares held by the Trust as at 28 August 2021 was 8,121,362 (2020: 2,630,591). 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	2021	2020
Balance at 30 August/1 September	0.4	0.3
Exchange differences on translating net assets of foreign operations	-	0.1
Balance at 28/29 August	0.4	0.4

29. Retained earnings

	£m
Balance at 31 August 2019	135.7
Amounts recognised in total comprehensive expense	(6.1)
Dividends paid	(2.4)
Disposed of on exercise of options	(0.6)
Equity-settled share based payments, net of tax	0.4
Balance at 29 August 2020	127.0
Amounts recognised in total comprehensive expense	26.8
Dividends paid	(1.2)
Disposed of on exercise of options	(0.6)
Equity-settled share based payments, net of tax	1.0
Balance at 28 August 2021	153.0

30. Share based payments

In 2021, the Group recognised a total charge of £1.0m related to equity-settled share based payment transactions. In 2020 there was a total charge of £0.4m. The average share price throughout the year was 33.2p (2020: 26.2p).

The Group operates the following share incentive schemes:

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

Notes to the Accounts continued

30. Share based payments continued

Details of the options/awards are as follows:

Number of options/awards	Sharesave		ESOS		LTIP		DBP	
	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)	No of shares	Weighted average exercise price (p)
At 31 Aug 2019	5,118,165	45.42	4,338,942	126.7	9,880,351	-	645,150	-
Granted	6,108,793	30.4	-	-	4,970,279	-	1,716,731	-
Exercised	-	-	-	-	-	-	(480,892)	-
Expired /Forfeited	(2,974,071)	45.8	(2,553,109)	126.7	(3,883,596)	-	(416,378)	-
At 29 Aug 2020	8,252,887	34.2	1,785,833	126.7	10,967,034	-	1,464,611	-
Granted	2,122,030	43.64	-	-	4,350,408	-	1,211,591	-
Exercised	59,495	-	-	-	-	-	949,734	-
Expired /Forfeited	(173,932)	23.12	(62,621)	108.7	(308,116)	-	-	-
At 28 Aug 2021	10,260,480	28.92	1,723,212	126.7	15,009,326	-	3,625,936	-
Exercisable at 28 Aug 2021	-	-	1,723,212	113.8	-	-	-	-
Exercisable at 29 Aug 2020	642,804	36.11	1,785,833	126.7	-	-	-	-

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

	Sharesave	ESOS	LTIP	DBP
Outstanding at 28 August 2021	1.9	6.2	1.2	1.3
Outstanding at 29 August 2020	2.5	5.8	1.9	2.0

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

	Sharesave	ESOS	LTIP	DBP
During 2021:				
Effective date of grant or commencement date	Jun 2020	-	Dec 2020	Dec 2020
Average fair value at date of grant or scheme commencement – pence	20	-	25.0	35.0
During 2020:				
Effective date of grant or commencement date	Jun 2019	-	Dec 2019	Dec 2019
Average fair value at date of grant or scheme commencement – pence	5.5	-	24.0	24.0

The options outstanding at 28 August 2021 had exercise prices ranging from nil to 167.8p (2020: nil to 189.5p).

The weighted average share price on the date of exercise was 39p (2020: 37p).

30. Share based payments continued

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, 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
2021 options/awards:			
Share price at grant date – pence	44.0	30	30
TSR adjustment – pence	–	(6.0)	–
Exercise price – pence	35.0	–	–
Expected volatility – per cent	97.0	–	–
Expected life – years	3	–	–
Risk free rate – per cent	(0.1)	–	–
Expected dividend yield – per cent	–	–	–
Weighted average fair value – pence	19.7	24.0	–
2020 options/awards:			
	Jun 20	Dec 20	Dec 20
Share price at grant date – pence	18.0	30.0	30.0
TSR adjustment – pence	–	(6.0)	–
Exercise price – pence	14.0	–	–
Expected volatility – per cent	97.0	–	–
Expected life – years	3.0	–	–
Risk free rate – per cent	(0.1)	–	–
Expected dividend yield – per cent	10.0	–	–
Weighted average fair value – pence	5.5	24.0	–

31. Post balance sheet events

Letters of credit

The Group has approved letters of credit to insurers of the Group for motor insurance and employer liability insurance policies. The letters of credit cover the employer deductible element of the insurance policy for insurance claims. After the balance sheet date, the Group was notified that the letters of credit reduced from £4.9m to £2.4m.

Discontinued operations – Tuffnells

The Group disposed of Tuffnells on 2 May 2020. One of the key terms of the share purchase agreement was the unsecured consideration payable by Tuffnells Holdings Limited (formerly Palm Bidco Limited) to the Group of £15.0m in cash, payable in three tranches as follows:

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

The first tranche of the unsecured consideration (£6.5m) was paid on 2 November 2021 (18 months following Completion) by Tuffnells Holdings Limited.

Pension

The Company operates a defined benefit scheme, known as the Smiths News section of the WH Smiths Pension Trust, which as at 28 August 2021 had an IAS 19 pre-tax surplus of £14.8m (FY2020: £15.2m). At the balance sheet date, the Company did not recognise the £14.8m pre-tax surplus as an asset, as it did not have an unconditional right to the asset.

Subsequent to the balance sheet date, the Trustee confirmed its intention to return the surplus to the Company net of additional professional fees and tax charged at a rate of 35%. The surplus of circa £8m is expected to be paid to the Company in November 2021. The surplus sums to be received by the Company will be used to repay existing debt.

Financing agreement

In September 2021, a revised financing agreement was signed that applies to the Company's banking syndicate arrangement replacing the agreement signed in November 2020. The key changes include the move from LIBOR (London Interbank Offered Rate) to SONIA (Sterling Overnight Index Average) pricing. The margins remain unchanged.

Notes to the Accounts continued**32. 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

£m	Sales to related parties		Amounts owed by related parties	
	2021	2020	2021	2020
Joint ventures	0.4	0.4	0.1	0.2

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

Non-trading transactions

£m	Loans to related parties	
	2021	2020
Joint ventures	0.2	0.4

The balance above is secured against the assets of Fresh On The Go Limited.

Directors' remuneration

£m	2021	2020
Salaries	0.9	0.9
Bonus	0.6	0.1
Non-executive director fees	0.3	0.5
Post-employment benefits	-	-
Termination benefits	0.1	0.4
	1.9	1.9

Information concerning directors' remuneration, interest in shares and share options is included in the Directors' Remuneration report.

There are two (2020: 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 (2020: £0.1m).

Key management personnel (including directors)

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

£m	2021	2020
Short term employee benefits	2.8	2.5
Termination benefits	-	0.6
Share based payments	0.6	0.2
	3.4	3.3

33. Subsidiary and associated undertakings

Company name/(number)	Share class	Group %	Company name/(number)	Share class	Group %
United Kingdom					
Rowan House, Cherry Orchard North, Kembrey Park, Swindon SN2 8UH					
Connect Limited 02008952	Ordinary Shares	100%	Martin-Lavell Limited 02654521 (*)	Ordinary Shares	100%
Connect Logistics Limited 09172965	Ordinary Shares	100%	Pass My Parcel Limited 09172022	Ordinary Shares	100%
Connect News & Media Limited 08572634	Ordinary Shares	100%	Phantom Media Limited 03805661 (*)	Ordinary Shares	100%
Connect Parcel Freight Limited 09295023	Ordinary Shares	100%	Smiths News Holdings Limited 04236079	Ordinary Shares	100%
Connect Parcels Limited 09172850	Ordinary Shares	100%	Smiths News Instore Limited 03364589	Ordinary Shares	100%
Connect Services Limited 08522170	Ordinary Shares	100%	Smiths News Investments Limited(*) 06831284	Ordinary Shares	100%
Connect Specialist Distribution Group Limited 08458801	Ordinary Shares	100%	Smiths News Distribution Limited 08506961	Ordinary Shares	100%
Connect2U Limited 03920619	Ordinary Shares	100%	Smiths News Trading Limited 00237811	Ordinary Shares	100%
Dawson Media Services Limited 06882722	Ordinary Shares	100%	Dawson Limited 03433262	Ordinary Shares	100%
Dawson Guarantee Company Limited 06882393	Ordinary Shares	100%	Dawson Media Direct Limited (*) 06882366	Ordinary Shares	100%
Dawson Holdings Ltd (*) 00034273	Ordinary Shares	100%			
France					
Dawson Media Direct SAS 450 101 340 RCS Bobigny	Ordinary Shares	100%	11 rue Léopold Bellan, 75000 Paris, France		
Spain					
Dawson Media Direct Iberica SL CIF-B84692904	Ordinary Shares	100%	Avendida de la Industria 38, Nave C-17, 28223 Coslada, Spain		
Germany					
Dawson Media Direct GmbH HRB 99445	Ordinary Shares	100%	Auf der Roos 6-12, 65795 Hattersheim am Main, Germany		
Belgium					
Dawson Media Direct NV 474.114323	Ordinary Shares	99%	Brixtonlaan 1E, 1930 Nossengem, Belgium		
Turkey					
Dawson Media Direct Anonim Sirketi 14449-5	Ordinary Shares	100%	Parima Plaza Maltepe Mahallesi Eski Cırpıcı Yolu Sok No:8 K:14-176 Merter-Zeytinburnu, Istanbul, Turkey		
Australia					
Dawson Media Direct Australia Pty Limited 615545545	Ordinary Shares	100%	C/O Grant Thornton Australia Level 17, 383 Kent Street, Sydney NSW 2000, Australia		
Hong Kong					
Dawson Media Direct China Limited 1167911	Ordinary Shares	100%	Flat/Rm 5008 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong		
Thailand					
Dawson Media Direct Co. Ltd 105558138385	Ordinary Shares	48.9%	87 M Thai Tower, All Seasons Place, 23rd Floor, Wittayu Road, Lumpini Sub-District, Pathumwan District, Bangkok, Thailand		

* Audit exemption statement

For the 52 weeks ended 28 August 2021, 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 28 August 2021. The members of these companies have not required them to obtain an audit of their financial statements for the 52 weeks ended 28 August 2021.

Glossary

Glossary – Alternative performance measures

Introduction

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

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

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

Purpose

The directors believe that these APMs assist in providing additional useful measures of the Group's performance. They provide readers with additional information on the performance of the business across periods which is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.

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

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income statement				
Adjusted items	No direct equivalent	N/A	Note 4	Adjusting items of income or expenses are excluded in arriving at Adjusted operating profit to present a further measure of the Group's performance. Each of these items is considered to be significant in nature and/or quantum, non-recurring in nature and /or are considered to be unrelated to the Group's ordinary activities or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.
Adjusted operating profit	Operating profit*	Adjusted items	Income statement/ Note 4	Adjusted operating profit is defined as operating profit from continuing operations, excluding the impact of adjusting items (defined above). This is the headline measure of the Group's performance and is a key management incentive metric.
Adjusted profit before tax	Profit before tax (PBT)	Adjusted items	Income statement/ Note 4	Adjusted profit before tax is defined as profit before tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted profit after tax	Profit after tax (PAT)	Adjusted items	Income statement/ Note 4	Adjusted profit after tax is defined as profit after tax from continuing operations, excluding the impact of adjusting items (defined above).
Adjusted EBITDA	Operating profit*	Depreciation and amortisation Adjusted items	Page 172	This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and adjusting items. This is the headline measure of the Group's performance and is a key management incentive metric.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Adjusted earnings per share	Earnings per share	Adjusted items	Note 10	Adjusted earnings per share is defined as continuing adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.
Cash flow statement				
Free cash flow	Net movement in cash and cash equivalents	Dividends, acquisitions and disposals Repayment of bank loans EBT share purchases Pension deficit repair payments	Note 26	Free cash flow is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchases and cash flows relating to pension deficit repair. This measure reflects the cash available to shareholders.
Free cash flow (excluding adjusting items)	Net movement in cash and cash equivalents	Dividends, acquisitions and disposals Repayment of bank loans EBT share purchases Pension deficit repair payments Adjusted items	Note 26	Free cash flow (excluding Adjusted items) is free cash flow adding back Adjusted cash costs.
Balance sheet				
Bank Net Debt	Borrowings less cash		Cash flow statement	Bank Net Debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases as defined by IAS 17.
Net debt	Borrowings less cash		Cash flow statement	Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under leases.

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

Glossary continued**Reconciliation of free cash flow to net movement in cash and cash equivalents**

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

£m	2021	2020
Net (decrease)/increase in cash & cash equivalents	(31.3)	42.7
Increase in borrowings and overdrafts	57.8	(50.8)
Movement in borrowings and cash	26.5	(8.1)
Dividend paid	1.2	2.4
Tuffnells disposal costs	-	3.7
Adjustment for pension funding	-	0.8
Working capital loan to Tuffnells	(6.7)	6.5
Outflow for EBT shares	2.6	0.7
Dividends received	-	-
Total free cash flow	23.6	6.0
Discontinued free cash outflow	(0.4)	(4.9)
Continuing free cash flow	24.0	10.9

Continuing Adjusted EBITDA reconciliation

£m	2021	2020
Operating profit	35.8	21.1
Adjusting items	3.8	14.0
Adjusted operating profit	39.6	35.1
Depreciation	2.4	2.6
Amortisation	1.9	2.0
Right of use asset depreciation	6.4	6.0
IFRS 16 adjusted EBITDA	50.3	45.7
Operating lease charges	(7.7)	(6.6)
Adjusted EBITDA (excluding IFRS 16)	42.6	39.1

Company Balance Sheet

At 28 August 2021

£m	Note	2021	2020
Fixed assets			
Investments in subsidiary undertakings	3	370.2	373.2
Current assets			
Cash and bank deposits		0.1	2.2
		0.1	2.2
Creditors: amounts falling due within one year	4	(172.5)	(173.4)
Net assets		197.8	202.0
Capital and reserves			
Called up share capital	5(a)	12.4	12.4
Share premium account	5(c)	60.5	60.5
Retained earnings	6	124.9	129.1
Total shareholders' funds		197.8	202.0

The result for the year was a loss of £3.0m (2020: £nil).

These accounts were approved by the directors on 3 November 2021.

Signed on behalf of the Board of Directors

Jonathan Bunting
Chief Executive Officer

Anthony Liam Grace
Executive Director

Registered number – 05195191

Company Statement of Changes in Equity

For the 52 weeks ended 28 August 2021

£m	Note	Share capital	Share premium	Retained earnings	Total
Balance at 31 August 2019		12.4	60.5	131.5	204.4
Dividend paid		-	-	(2.4)	(2.4)
Balance at 29 August 2020		12.4	60.5	129.1	202.0
Loss for the year and total comprehensive income		-	-	(3.0)	(3.0)
Dividend paid		-	-	(1.2)	(1.2)
Balance at 28 August 2021		12.4	60.5	124.9	197.8

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

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

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

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

Critical accounting estimates and judgements

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

Estimated impairment of investments

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined using value in use calculations. The value in use method requires the Company to determine appropriate assumptions in relation to the cash flow projections over the three year plan period (which is a key source of estimation uncertainty), the terminal growth rate to be applied beyond this three year period and the risk-adjusted post-tax discount rate used to discount the assumed cash flows to present value. The assumption that cash flows continue into perpetuity is a source of significant estimation uncertainty.

An impairment loss of £3.0m (2020: £nil) has been recognised on the investment in Smiths News Holdings Limited; the assumptions made are included in Note 3.

(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.

Notes to the Company Balance Sheet continued

2. Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The result for the year attributable to shareholders, which is stated on an historical cost basis, was a loss of £3.0m (2020: £nil). There were no other recognised gains or losses. The dividend paid in the year is £1.2m (2020: £2.4m) (refer to Note 9 of the Group financial statements).

3. Investments in subsidiary undertakings

£m	2021	2020
Net book value:		
At 30 August/1 September	373.2	373.2
Impairment	(3.0)	-
At 28/29 August	370.2	373.2

The carrying amount of the investment has been reduced to its recoverable amount through recognition of impairment losses in prior years. An impairment loss of £3.0m (2020: £nil) has been recognised in the current period against the carrying value of investments held by Smiths News plc in its subsidiaries.

The Company indirectly owns three cash generating units (CGUs): Smiths News Trading Limited (Smiths News), Dawson Media Direct Group (DMD) and its joint venture investment in Rascal Solutions Limited. Each cash generating unit was independently valued using value in use calculations; the Company prepares cash flow forecasts derived from the most recent budgets and three year plans. Cash flows beyond this three year period are extrapolated using a terminal growth rate based on management's future expectations.

The future cash flows applied in the calculation reflect the Group's current plan for Smiths News and its ancillary businesses. These plans reflect the updated trading position of the businesses post COVID-19, emerging inflationary cost pressures and the change in corporation tax rate from 19% to 25% effective from 1 April 2023.

The key assumptions in the value in use calculations are the rates of revenue decline, level of cost mitigation to maintain margins, terminal growth rates and the risk-adjusted post-tax discount rate. The post-tax discount rates are derived from a risk adjusted weighted cost of capital using an average market participant capital structure, the inputs of which include a UK risk free rate, risk premium, small company risk premium and a risk adjustment (beta). The post-tax discount rate used is 9.4% (FY2020: 8.1%) for the primary Smiths News CGU. The pre tax discount rate used for the Smiths News CGU is 12.7% (FY2020: 9.9%).

The core newspaper and magazine market (and associated revenues) are in long term structural decline and it is assumed that revenue is expected to fall each year over the longer term. Any such decline in revenue is considered to be consistently within a historically tight range, allowing management to plan appropriate cost savings measures each year to mitigate the impact of any fall in revenue such that profitability and cash flows are maintained or impacted to a lesser extent by such declining revenues. As such a terminal growth rate of 0% (FY2020: 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 %	Post-tax discount rate %	Value in use £'m	Headroom/ (impairment) £'m
Expected case	0%	9.4%	197.7	(3.0)
+1% Discount rate	0%	10.4%	171.9	(28.8)
-1% Discount rate	0%	8.4%	229.6	28.9
+1% TGR	1%	9.4%	220.9	20.2
-1% TGR	(1%)	9.4%	178.9	(21.8)
Scenario 1	0%	9.4%	176.9	(23.8)
Scenario 2	0%	9.4%	169.4	(31.3)
Scenario 3	0%	9.4%	161.1	(39.6)

Scenario 1 – Assumes one third of cost reductions to mitigate revenue decline are not achieved

Scenario 2 – Assumes additional inflation of 5% impacting subcontracted driver and warehouse operative costs

Scenario 3 – Assumes failure of a publisher or customer (3% additional reduction in margin and delivery service charge)

In September 2021, the government announced an additional tax that will be effective from April 2022 to fund social care in England and help the NHS recover after the pandemic. If that additional tax was known at the balance sheet date, the impact on the future cash flows would have resulted in an additional impairment loss of £2.7m.

4. Creditors: amounts falling due within one year

£m	2021	2020
Amounts owed to Group companies	(172.5)	(173.4)

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

5. Share capital

(a) Share capital

£m	2021	2020
Issued and fully paid ordinary shares of 5p each		
At 30 August/1 September	12.4	12.4
Shares issued in the year	-	-
At 28/29 August	12.4	12.4

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

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 30 August	247.7
Issued in the year	-
At 28 August	247.7

(c) Share premium

£m	2021	2020
Balance at 30 August/1 September	60.5	60.5
Shares issued in the year	-	-
At 28/29 August	60.5	60.5

6. Reserves

£m	2021 Retained earnings
Balance at 30 August	129.1
Loss for the year	(3.0)
Dividend paid	(1.2)
At 28 August	124.9

7. Directors' emoluments and employees

The Company employed three (2020: three) non-executive directors. Smiths News Trading Limited, an indirect subsidiary, pays all remuneration without recharge for all directors and the amounts are disclosed within the Directors' Remuneration report in the Group's Annual Report.

Shareholder Information

Company Secretary and registered office

Stuart Marriner, Smiths News plc, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH.

Telephone 0845 128 8888.

Smiths News plc (formerly Connect Group PLC) is registered in England and Wales (company number 05195191).

Shareholder enquiries may be submitted to cosec@smithsnews.co.uk

General Shareholder Enquiries – Registrar

Enquiries relating to shareholders, such as the transfer of shares, change of name or address, lost share certificates or dividend cheques, should be referred to the Company's Registrar Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0371 384 2771¹ or from outside the UK +44 (0) 121 415 7565). A textphone facility for shareholders with hearing difficulties is available by telephoning 0371 384 2255¹.

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.corporate.smithsnews.co.uk. The investor section of our website provides a wide range of information about the Company including Annual Reports, regulatory news releases, share price data, financial calendar and a Shareholder Centre containing Annual General Meeting information and other useful shareholder information.

Annual Report and Financial Statements

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

Annual General Meeting

The 2022 Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Thursday 20 January 2022 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 2022 Annual General Meeting will be accessible at www.corporate.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.

* Please note that in light of the continuing impact of the COVID-19 pandemic, in the event that our Annual General Meeting arrangements necessarily change, the Company will issue a further communication via a regulatory news service. As such, we strongly recommend shareholders monitor such communications, which can also be found on our website at: www.corporate.smithsnews.co.uk/investors/regulatory-news.

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 Registrar, Equiniti, by not later than 11.30am on Tuesday 18 January 2022.

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 Registrar, Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on Tuesday 18 January 2022.

Financial calendar

Financial year end	28 August 2021
Results announced	4 November 2021
Annual Report published	16 December 2021
FY2021 Final Dividend Record Date	14 January 2022
Annual General Meeting	20 January 2022
FY2021 Final Dividend Payment Date	10 February 2022
Half-year end	26 February 2022
Interim results announced	4 May 2022
Financial year end	27 August 2022
Results announced	9 November 2022

For the dates of events in the second half of the financial calendar, please check the Smiths News plc website at www.corporate.smithsnews.co.uk nearer the relevant time for further details, and to ensure that no changes have been made.

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 (www.fca.org.uk/consumers/scams) for more detailed information about this or similar activity.

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

UK Capital Gains Tax (CGT)

Rights Issue 17 December 2014

Shareholders who acquired shares

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

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

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

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

Demerger 31 August 2006

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

Capital reorganisation 27 September 2004

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

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

Shareholder Information continued**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 ⁵/₉p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55 ⁵/₉p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

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

	Arising from an original shareholding of old WH Smith PLC	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of 22 ⁸ / 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 advisor.

Cautionary statement

This Annual Report contains certain forward-looking statements with respect to Smiths News plc's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates,' 'expects,' 'intends,' 'plans,' 'believes,' 'seeks,' 'estimates,' 'targets,' 'may,' 'will,' 'continue,' 'project' and similar expressions, as well as statements in the future tense and statements other than statements of historical fact, identify forward-looking statements. These forward-looking statements are not guarantees of Smiths News plc's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. These forward-looking statements speak only as at the date of this document and are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Unless otherwise required by applicable law, regulation or accounting standard, Smiths News plc undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise.

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



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