

**This announcement contains inside information**

**Smiths News PLC**  
(Smiths News or the Company)

Unaudited Interim Financial Results for the 26 weeks ended 27 February 2021 and retirement of Chief Financial Officer

**Resilient performance giving confidence to future restoration of dividend**

Smiths News has returned a resilient performance despite challenges in the wider economy and against a comparative period that pre-dated the COVID-19 pandemic. Our plans to deliver value by focusing on core operations and strengthening the Company's financial base are firmly on track. Subject to current performance being maintained, the Board expects to reintroduce the payment of a dividend later in H2 FY2021.

| <b>Continuing Adjusted results <sup>(1)</sup></b>           | <b>26 weeks to<br/>27 Feb 2021</b> | <b>26 weeks to<br/>29 Feb 2020<sup>(6)</sup></b> | <b>Change</b> |
|---|------------------------------------|--|---------------|
| Revenue   | £551.6m                            | £623.1m  | -11.5%        |
| Adjusted EBITDA (ex IFRS16) <sup>(3)</sup>                  | £20.5m                             | £21.7m   | -5.5%         |
| Adjusted Operating profit                                   | £18.9m                             | £19.9m   | -5.0%         |
| Adjusted Profit before tax                                  | £14.4m                             | £16.3m   | -11.7%        |
| Adjusted Basic earnings per share                           | 4.6p                               | 5.4p   | -14.8%        |
| <b>Statutory continuing results</b>                         |                                    |  |               |
| Revenue   | £551.6m                            | £623.1m  | -11.5%        |
| Operating profit  | £18.8m                             | £10.3m   | 82.5%         |
| Profit before tax   | £16.0m                             | £6.7m  | 138.8%        |
| Basic earnings per share                                    | 5.3p                               | 1.8p   | 194.4%        |
| Interim dividend per share                                  | Nil p                              | Nil p  | -             |
| Free cash flow <sup>(2)</sup>                               | £4.6m                              | £5.0m  | -8.0%         |
| Bank net debt <sup>(4)</sup>                                | £70.0m                             | £68.5m   | 2.2%          |
| Net debt (including IFRS16 lease transition) <sup>(4)</sup> | £101.3m                            | £146.2m  | -30.7%        |

**Headlines**

- Overall performance in H1 2021 was in line with the Board's expectations, with good progress on strategic priorities.
- Adjusted EBITDA of £20.5m (H1 2020: £21.7m) is a resilient performance despite the challenging environment.
- The core newspaper and magazine wholesale business delivered EBITDA ahead of last year.

- Newspaper and magazine sales were impacted by COVID-19 but more stable in the period compared to H2 2020, with significantly fewer retail closures in the subsequent lockdowns.
- Savings from operations and central overheads fully offsetting the margin impact of reduced core wholesale revenues.
- Statutory profit before tax of £16.0m, was £9.3m favourable on the prior year period which had included impairments.
- Successful refinancing in November 2020 and targeted reduction of net debt to 1 X EBITDA on track by end of FY2023.
- Tony Grace (Chief Financial Officer) has confirmed his intention to retire on 31 December 2021—a process to appoint his successor is underway.

## Outlook

Trading for the year to date is in line with the Board's expectations and on track to meet the market's expectations for the full year. Subject to current performance being maintained, the Board expects to reintroduce the payment of dividends later in H2 FY2021.

## Jonathan Bunting, Chief Executive Officer, commented:

'In what have been challenging circumstances we have made good progress with our plans to focus operations and deliver improved value for stakeholders. Despite the further lockdowns we have secured material efficiencies that will bring continuing benefits as restrictions are eased. We are therefore confident in the ongoing performance of the business and of returning to the payment of a dividend later in the financial year.'

## Enquiries:

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A recording of the presentation for analysts will be made available on the Company's website from 11.00am on 5 May 2021 – see the Investor Relations section at [www.corporate.smithsnews.co.uk/investors](http://www.corporate.smithsnews.co.uk/investors).

## Notes

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

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

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

Continuing Adjusted profit before tax (PBT) - is defined as Continuing Adjusted operating profit less finance costs attributable to Continuing Adjusted operating profit and before Adjusted items.

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

Adjusted items; are items of income or expense that are considered significant, in nature or value, and are excluded in arriving at Adjusted profit measures. The purpose is considered to enhance the users understanding of the Company's performance as it aids the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures. The specific items vary between financial years, and may include certain disposal related costs, legal provisions, amortisation of intangibles, integration costs, business restructuring costs and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in Note 4 of the financial statements to provide further understanding of the financial performance of the Company. A reconciliation of Adjusted profit to statutory profit is presented on the income statement.

- (2) Free cash flow - is defined as cash flow excluding the following: payment of the dividend, the impact of acquisitions and disposals, the repayment of bank loans, EBT share purchases and cash flows relating to pension deficit repair.
- (3) Adjusted EBITDA (ex IFRS16) - is calculated as Adjusted operating profit before depreciation and amortisation, excluding the impact of IFRS16 changes to leases. In line with loan agreements Adjusted Bank EBITDA used for covenant calculations is calculated as Adjusted operating profit before depreciation, amortisation, Adjusted items and share based payments charge but after adjusting for the last 12 months of profits/(losses) for any acquisitions or disposals made in the year.
- (4) Bank net debt - is calculated as loans, borrowings, overdrafts, obligations under finance leases (excluding the adoption of IFRS16 lease accounting standards) less cash and cash equivalents, as bank covenants are tested under frozen GAAP. Net debt (including IFRS16 lease transition) is calculated as loans, borrowings, overdrafts, obligations under leases less cash and cash equivalents.
- (5) H1 2021 - refers to the 26 weeks ended 27 February 2021 and FY2021 refers to the 52 week period ended 28 August 2021. H1 2020 refers to the 26 week period ended 29 February 2020 and FY 2020 refers to the 52 week period ended 29 August 2020.
- (6) The Interim Results have been prepared and presented on a continuing operations basis after adjusting for the discontinued operations of the Tuffnells business.

## About Smiths News PLC

Smiths News PLC and its core business, Smiths News, is the UK's largest newspaper and magazine wholesaler, with an approximate 55 per cent. market share. It distributes newspapers and magazines on behalf of the major national and regional publishers, delivering to approximately 24,000 customers across England and Wales on a daily basis. The speed of turnaround and the density of Smiths News' coverage is critical to one of the world's fastest physical supply chains.

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

### Notes to Editors

This document 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, 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. 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. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Smiths News PLC. For more detailed information, please see the Interim Financial Results for the half-year ended 27 February 2021 and the Report and Accounts for the year ended 29 August 2020 which can be found on the Investor Relations section of the Smiths News PLC website – [www.corporate.smithsnews.co.uk/investors](http://www.corporate.smithsnews.co.uk/investors). However, the contents of Smiths News PLC's website are not incorporated into and do not form part of this document.

## **OPERATING REVIEW**

### **Overview**

Overall performance was in line with the Board's expectations for the period and is on track to meet full year market expectations.

Adjusted EBITDA of £20.5m was down 5.5% (H1 2020: £21.7m) from revenues of £551.6m that were down 11.5% (H1 2020: £623.1m), confirming the continuing resilience of our business model given that prior year comparators are from an entirely pre-COVID-19 period.

Sales trends of newspapers and magazines have recovered and stabilised from the sharp declines experienced in H2 2020, with significantly fewer retail outlets having closed in the subsequent lockdowns. Nonetheless, the pandemic has continued to impact sales and profitability, requiring decisive action to control costs while maintaining essential service to the communities we serve.

Our plans to deliver greater value through more focused operations are on track. Central and operational plans have delivered overall savings marginally ahead of schedule, helping to mitigate the ongoing impact of the pandemic in the period.

The key financial metrics of Adjusted EBITDA, cash and capex are in line with expectations. Net debt remains well within the covenants of our new banking facilities and the first term loan amortisation payment of £7.5m was completed in April 2021. We remain on track to reduce bank net debt to 1 x EBITDA by the end of FY2023

Subject to current performance being maintained, the Board expects to reintroduce the payment of dividends later in H2 FY2021.

### **Operational priorities**

At our preliminary results in November 2020 the Company set out three operational priorities for this financial year: proactively managing through the pandemic; securing efficiencies sufficient to offset the decline in core sales; and progressing the next generation of operational efficiencies.

Overall progress on these priorities is good, with an understandable focus on managing through the pandemic in a way that maintains service while pressing ahead with improvements in operational and central costs. As lockdown restrictions ease, we plan to embed the efficiencies we have secured to date and, thereafter, to make further progress on wider network opportunities.

### **Core wholesale operations**

The core wholesale business delivered strong profit and cash generation, with cost efficiencies fully offsetting the decline in margin from sales despite the additional impact of COVID-19. Cost control measures implemented in the first lockdown of 2020 have been maintained and further savings were made in central costs following the disposal of Tuffnells in May 2020. Demonstrating the resilience of its business model, the profitability of the Smiths News core wholesale business is ahead of the prior year.

Sales of newspapers and magazines continued to be challenged in the period but have recovered and stabilised from the sharp declines and fluctuations seen in the early months of the pandemic in 2020. Core sales (excluding DMD) are down by 9.5% in the period with newspapers performing better than magazines, especially in the first quarter. This compares to a decline of 16.9% in H2 2020 and a three-year average decline of circa 3-5% prior to the pandemic. Excluding the impact from travel and commuting retailers (which remain severely impacted by the COVID-19 restrictions) we estimate overall sales in other retailers to be down by circa 8%.

Operational efficiencies have been helped by action taken earlier in the pandemic and we anticipate many of the routing and trunking consolidations will remain until such time as increased volumes justify further costs. Longer term efficiency opportunities will be reviewed once the operational impact of the easing of lockdown restrictions becomes clearer.

Looking ahead, the long-term impact of the pandemic remains unclear, but we are optimistic of prospects for the second half of the year with potential sales increases from the return of sporting events and a gradual return to higher levels of travel and commuting. Our plans for further operating efficiencies are ongoing and we have clear roadmap to secure the necessary savings while maintaining the service excellence that underpins our business model.

As previously reported, following the completion of the long term agreement with Associated Newspapers in October 2020, Smiths News has now secured its contracts with all the major publishers until at least 2024. These contracts encompass 95% of current revenues, with the remainder operating on rolling agreements.

### **Ancillary businesses**

DMD and Instore continue to be more severely impacted by the COVID-19 restrictions. The decisive action we have taken means both businesses are operating on a break-even basis. Nonetheless, the impact on profitability in the period is a year-on-year decline of £1.4m. We are cautiously optimistic of improvement over time, however, our overall plans and expectations are not dependent on any recovery.

### **COVID-19 — impact, response and recovery**

Restrictions on social movement and retailing have continued throughout the period, moving from a regionally tiered approach in the autumn of 2020 to a comprehensive lockdown in the early months of 2021.

Service to customers and communities has been fully maintained throughout, requiring adjustments to working procedures and additional costs arising from the continued deployment of necessary safety measures. The Company ended the use of the UK Government's furlough support (CJRS) in FY2020 and has not taken any other financial assistance in this financial year.

The impact on overall sales in the period is estimated to be in the region of 7.5%, calculated as the difference between historic trends and the period's year-on-year performance. The long-term impact on sales cannot yet be quantified, however, our plans are not dependent on a return to former volumes.

Profitability impact has been mitigated by a combination of operating efficiencies and the swift removal of central costs following the sale of Tuffnells.

Sales to retailers serving travel, commuting and business customers remain especially challenged, and more broadly we continue to see weaker sales of products such as one-shot magazines and sticker collections. The return of major sporting events and the gradual increase in travel and commuting is likely to have a positive impact, but it is too early to quantify or plan with any certainty. We are, however, confident that any additional costs from a return to more normal sales patterns can be managed in line with the benefit of any increased volume.

It is too early to quantify the impact of the UK's roadmap to removing COVID-19 restrictions, however, the trajectory is likely to be positive for our customers and publisher partners. We are therefore cautiously optimistic that sales in the second half will maintain their current stability as we press ahead with plans for further efficiency improvements.

### **Cash Flow and Bank Net Debt**

Continuing free cash flow of £4.6m (H1 2020: £5.0m) and bank net debt of £70.0m (H1 2020: £68.5m) reflect management's focus on liquidity through the uncertain period of the COVID-19 restrictions. The first amortisation of the term loan, amounting to a repayment of £7.5m, was completed 30 April 2021.

### **Capital Management**

The underlying financial position of the Company continues to strengthen, and all lending covenant ratios remain comfortably within the requirements of the new banking facilities, announced in November 2020. Our ongoing approach to capital management is consistent with the conditions of our current banking facilities.

We remain on track to reduce bank net debt to 1x EBITDA by the end of FY2023 and it is the Board's intention to maintain leverage at around that level over the long term. Capital expenditure for maintenance requirements will continue to be closely controlled at a level approximately equal to depreciation of circa £4m per annum. Any incremental capital expenditure for growth would be required to achieve an appropriate risk adjusted return on our cost of capital.

Looking ahead the Company expects to reinstate the payment of regular dividends with a dividend cover of 2.0 times. In the near term total dividend payments will be constrained by the dividend caps included within the current bank facilities of £4m in FY2021 and £6m in each of FY2022 and FY2023.

Having applied the Company's policy in respect of achieving: bank net debt to 1x EBITDA, meeting maintenance and growth capital expenditure requirements, and paying dividends at 2 times cover, then in the event of there being further excess cash, the Company will consider the payment of special dividends.

### **Dividend**

Subject to maintaining performance in line with current expectations, the Board is expecting to return to the payment of dividends later in this financial year.

### **Retirement of Chief Financial Officer**

Tony Grace, (Chief Financial Officer), has confirmed his intention to retire from his executive role on 31 December 2021. As a result, he will also step down from the Board in due course. A process to recruit his successor has commenced, with a view to ensuring a timely and seamless handover of responsibilities, and the Company will make a further announcement when appropriate.

### **Outlook**

While the outlook for the wider economy remains uncertain, we are confident of our ability to deliver improved value for shareholders through a combination of a stronger balance sheet and a capital allocation strategy which provides an attractive yield.

Trading for the year to date is in line with the Board's expectations and on track to meet the market's expectations for the full year. Subject to current performance being maintained, the Board expects to reintroduce the payment of dividends later in H2 FY2021.

## FINANCIAL REVIEW

### COMPANY INCOME STATEMENT EXTRACTS – CONTINUING

| £m                                | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | Change          |
|-----------------------------------|----------------------------|----------------------------|-----------------|
| <b>Revenue</b>                    | <b>551.6</b>               | <b>623.1</b>               | <b>(11.5%)</b>  |
| <b>Adjusted operating profit</b>  | <b>18.9</b>                | <b>19.9</b>                | <b>(5.0%)</b>   |
| <i>Operating margin</i>           | 3.4%                       | 3.2%                       | 20bps           |
| Net finance costs                 | (4.5)                      | (3.6)                      | 25.0%           |
| <b>Adjusted profit before tax</b> | <b>14.4</b>                | <b>16.3</b>                | <b>(11.7%)</b>  |
| Taxation                          | (3.0)                      | (3.1)                      | (3.2%)          |
| <i>Tax rate</i>                   | 20.8%                      | 19.0%                      | 180bps          |
| <b>Adjusted profit after tax</b>  | <b>11.4</b>                | <b>13.2</b>                | <b>(13.6%)</b>  |
| <b>Adjusting items after tax</b>  | <b>1.6</b>                 | <b>(8.8)</b>               | <b>(118.2%)</b> |
| <b>Profit after tax</b>           | <b>13.0</b>                | <b>4.4</b>                 | <b>195.5%</b>   |

#### Revenue

Trading in the period was impacted by the COVID-19 pandemic. The reduction in revenue of £71.5m (-11.5%) is in excess of the long term trend (c.-4%) and reflects the impact of regional restrictions, the subsequent UK wide lockdowns announced in November 2020 and January 2021 and the impact of the COVID crisis on the wider economy. Period on period comparisons do not therefore reflect like for like trading conditions, nor are they necessarily representative of current trends as market conditions continue to improve in response to easing of Government restrictions.

Newspaper sales were down £35.1m a 9% decline (H1 2020 -2%), magazine sales declined by £26.3m a 14% decline (H1 2020 -8%). DMD's revenue of £1.8m was down by £7.5m (81%) on the prior year period due to the impact of COVID-19 on business and leisure air travel and exacerbated by UK COVID-19 travel restrictions within the UK from the start of calendar year 2021 and other sales declined by £2.6m a 6% decline (FY 2020 -8%). All categories were impacted in H1 2021 by the COVID-19 pandemic and restrictions on social movement, retail closures and suppressed economic activity.

#### Adjusted operating profit

Adjusted operating margin increased to 3.4% by incremental cost savings offsetting the lower revenues. The benefit of actions to control costs will flow through into H2 2021 underpinning the flexibility in our business model and our ability to manage through continued uncertainty.

Adjusted operating profit for the Company was £18.9m, a decline of £1.0m (5%) on the prior period which comprises a reduction of £0.5m (2.6%) for Smiths News (H1 2020: £19.3m) and £0.5m reduction for DMD (H1 2020: £0.6m). Smiths News' Adjusted operating profit of £18.8m was £0.5m adverse to H1 2020 driven by the following factors:

- Reduction in net income (£7.5m) being total revenue less the wholesale cost of newspaper and magazine purchases as a result of the £64.0m decline in revenue,
- Offset by reductions in volume driven depot and delivery costs (£4.0m); and
- Overhead savings (£3.0m) a result of the restructuring implemented at the end of FY20 and transfer of activities to the Shared Service Centre in India.

#### Net finance costs

Net finance costs of £4.5m show an increase of £0.9m (25.0%) on the prior period. The increase is due to the unwind of higher arrangement fees and higher interest rates from the Company's refinancing in November 2020. Amortisation of arrangement fees increased by £0.6m to £0.9m (H1 2020: £0.3m) and interest costs on borrowings incurred increased by £0.3m to £2.7m (H1 2020: £2.4m).

## COMPANY INCOME STATEMENT EXTRACTS – CONTINUING (continued)

### Other

Adjusted profit before tax of £14.4m was down by £1.9m (11.7%).

The tax charge for the period of £3.0m was £0.1m down on the prior year period, reflecting an effective tax rate of 20.8% (H1 2020: 19.0%).

Consequently, adjusted profit after tax of £11.4m was down £1.8m (13.6%) on the prior period.

### Adjusting items after tax

| £m  | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
|---|----------------------------|----------------------------|
| Network and re-organisation costs                 | 0.1                        | (2.3)                      |
| Asset impairments                                 | -                          | (6.9)                      |
| Pension   | (0.2)                      | (0.4)                      |
| <b>Total before tax and interest</b>              | <b>(0.1)</b>               | <b>(9.6)</b>               |
| Finance income – unwind of deferred consideration | 1.7                        | -                          |
| <b>Total before tax</b>                           | <b>1.6</b>                 | <b>(9.6)</b>               |
| Taxation  | -                          | 0.8                        |
| <b>Total after taxation</b>                       | <b>1.6</b>                 | <b>(8.8)</b>               |

In the Directors' opinion, Adjusted items impact the true underlying performance of the Company and can differ significantly between years. The following has occurred in the period:

- Restructuring provision releases of £0.1m credit (H1 2020 £2.3m charge) incurred from restructuring costs in the prior period,
- Impairments of £nil as there were no impairments in the period (H1 2020 £6.9m),
- Pension related professional fees of £0.2m (H1 2020 £0.4m), in relation to the continuing process to 'buy-out' the Smiths News section of the WH Smith Pension Trust (the Company's defined benefit pension scheme - see note 5 for details); and
- Finance income on deferred consideration of £1.7m (H1 2020 £nil) has been recognised in relation to the unwind of discount on deferred consideration from disposal of Tuffnells.

Adjusting items are defined in the accounting policies in the glossary and further detail is included in Note 4.

### Profit after tax

Profit after tax has increased by £8.6m (195.5%) to £13.0m as a result of the movements in adjusted profit after tax of £1.8m and adjusting items after tax £10.4m.

## EPS AND DIVIDEND

|  | Continuing Adjusted        |                            | Continuing Statutory       |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
| Profit after tax (£m)                                | 11.4                       | 13.2                       | 13.0                       | 4.4                        |
| Basic weighted average number of shares (millions)   | 245.2                      | 245.9                      | 245.2                      | 245.9                      |
| Basic EPS (p)  | 4.6                        | 5.4                        | 5.3                        | 1.8                        |
| Diluted weighted average number of shares (millions) | 256.1                      | 247.1                      | 256.1                      | 247.1                      |
| Diluted EPS (p)                                      | 4.5                        | 5.3                        | 5.1                        | 1.8                        |
| Dividend per share                                   | Nil p                      | Nil p                      | Nil p                      | Nil p                      |

### EPS (continuing)

On a continuing adjusted basis, profit after tax of £11.4m resulted in a basic EPS of 4.6p, a decrease of 13.4% on the prior year period. Including Adjusted items, a statutory continuing profit after tax of £13.0m was



attributable to equity shareholders. This resulted in a basic continuing statutory EPS of 5.3p, an increase of 3.5p on the prior year period.

The weighted average number of shares decreased by 0.7m to 245.2m.

Dilutive shares increased the basic number of shares at 28 February 2021 by 10.9m to 256.1m. This resulted in a diluted adjusted EPS of 4.5p, a decrease of 15.1% on the prior year period.

The calculation of diluted EPS includes the potential dilutive effect of employee incentive schemes of 10.9m shares (H1 2020: 1.2m).

Statutory continuing EPS was 5.3p (H1 2020: 1.8p), up 194.4%.

## FREE CASH FLOW

| £m                                     | Restated                   |                            |
|--|----------------------------|----------------------------|
|  | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
| Adjusted operating profit – continuing | 18.9                       | 19.9                       |
| Depreciation & amortisation            | 5.5                        | 5.0                        |
| <b>Adjusted EBITDA - continuing</b>    | <b>24.4</b>                | <b>24.9</b>                |
| Adjusting items cashflow               | (2.6)                      | (4.2)                      |
| Working capital movement               | (4.8)                      | (3.3)                      |
| Capital expenditure                    | (0.6)                      | (3.8)                      |
| Lease payments                         | (2.9)                      | (3.9)                      |
| Net interest paid                      | (3.5)                      | (3.3)                      |
| Arrangement fees                       | (2.8)                      | -                          |
| Taxation                               | (2.8)                      | (1.7)                      |
| Other movements                        | 0.2                        | 0.3                        |
| <b>Free cash flow – continuing</b>     | <b>4.6</b>                 | <b>5.0</b>                 |
| Free cash flow - discontinued          | (1.3)                      | 4.1                        |
| <b>Free cash flow</b>                  | <b>3.3</b>                 | <b>9.1</b>                 |

The continuing Company generated free cash flow of £4.6m in the period, a decrease of £0.4m (8.0%) on the prior year.

Adjusted EBITDA of £24.4m was £0.5m lower than the prior year period, as a result of the reduction in adjusted operating profit as described above which included £0.5m of additional depreciation as a result of short term leases being extended which are now depreciated as right of use assets.

Adjusting items cashflow has reduced by £1.6m as a result of lower restructuring costs incurred at the end of the previous financial period.

The working capital movement in the period was a £4.8m outflow the result of seasonal variations in activity and the timing of month end payments.

Capital expenditure of £0.6m is £3.2m lower than H1 2020, as the Company withheld investment in short term as contingency against impact of COVID-19 in H1 21 the Company incurred operational maintenance capital expenditure only.

Lease payments reduced from £3.9m in FY20 to £2.9m as the Company purchased IT equipment that had come to the end of lease in H2 FY20.

Net interest paid has increased by £0.2m to £3.5m as a result of higher interest rates under the new debt facility. Average borrowings of £89.5m in the first half of the year were 3.7% lower than the equivalent period in the prior year. Arrangement fees of £2.8m paid in the current year relate to the debt refinancing completed in November 2020.

Tax paid of £2.8m is £0.9m higher than the prior year period due to an additional quarterly payment in February 2021 as a result of higher taxable profits and the Company breaching the threshold for quarterly payments on account.

The total cash impact of adjusted items for the period was £2.6m compared to the prior year period figure of £4.2m. The cash payments in the current period relate to redundancy costs (£2.0m) under the network and re-organisation programme, pension advisory fees and costs associated with the DMD lease assignment.

In the prior period, the cash outflow also included redundancy costs and pension advisory fees as well as sale and leaseback transaction fees and transition costs from shared service implementation.

Discontinued cash outflow in the period (£1.3m) relates to settlement of incidental costs relating to the disposal of Tuffnells and insurance settlements for certain incidents which had occurring during the Company's ownership of Tuffnells.

In the prior period, the cash inflow resulted from the sale of Tuffnells properties (£15.2m) and a cash tax receipt of £2m, offset by £11m of operating cash outflow and £1.4m of adjusting items outflow.

## NET BORROWINGS

| £m   | As at<br>27 Feb 2021 | As at<br>29 Feb 2020 | As at<br>29 Aug 2020 |
|--|----------------------|----------------------|----------------------|
| <b>Opening net borrowings</b>                            | <b>(79.7)</b>        | <b>(72.1)</b>        | <b>(72.1)</b>        |
| Free cash flow – continuing                              | 4.6                  | 5.0                  | 10.9                 |
| Other  | 0.1                  | (0.3)                | 0.5                  |
| Pension deficit recovery (discontinued)                  | -                    | (0.7)                | (0.8)                |
| Dividend paid  | -                    | (2.4)                | (2.4)                |
| Disposal costs   | -                    | -                    | (3.7)                |
| Working capital loan repaid/(borrowed) from/to Tuffnells | 6.7                  | -                    | (6.5)                |
| Purchase of own shares for employee share schemes        | (0.4)                | (0.7)                | (0.7)                |
| Free cash flow – discontinued                            | (1.3)                | 4.1                  | (4.9)                |
| <b>Net borrowings</b>                                    | <b>(70.0)</b>        | <b>(67.1)</b>        | <b>(79.7)</b>        |

Net borrowings at the end of the period was £70.0m compared to £67.1m at February 2020. Debt at the end of the half year was lower than the year end position driven primarily by free cash flow generation at Smiths News and the receipt of the working capital loan and interest made to Tuffnells in May 2020 of £6.7m.

The Pension deficit recovery payment of £nil (H1 2020: £0.7m) was in respect of Tuffnells. Pension deficit repair payments are considered as a non-free cash flow item.

## NET DEBT

| £m  | As at<br>27 Feb 2021 | As at<br>29 Feb 2020 | As at<br>29 Aug 2020 |
|---|----------------------|----------------------|----------------------|
| <b>Net borrowings</b>                               | <b>(70.0)</b>        | <b>(67.1)</b>        | <b>(79.7)</b>        |
| <b>Finance lease liabilities (IAS 17)</b>           | <b>-</b>             | <b>(1.4)</b>         | <b>-</b>             |
| <b>Bank net debt</b>                                | <b>(70.0)</b>        | <b>(68.5)</b>        | <b>(79.7)</b>        |
| <b>Other Lease liabilities (IFRS 16)</b>            | <b>(31.3)</b>        | <b>(77.7)</b>        | <b>(33.4)</b>        |
| <b>Net Debt (including IFRS16 lease transition)</b> | <b>(101.3)</b>       | <b>(146.2)</b>       | <b>(113.1)</b>       |

Net borrowings includes finance lease liabilities as defined by IAS 17 as the Company's covenants are on a Frozen GAAP basis and excludes unamortised arrangement fees of £2.1m (H1 2020 £0.6m)

Bank net debt: EBITDA at the end of February 2021 was 1.83x versus 2.0x at August 2020 and 1.95x at February 2020. This remains within our main leverage covenant ratio of 3.5x (covenant testing is based on frozen GAAP in the bank facility agreement).

Net debt reduced by £44.9m to £101.3m apart from the above the primary reason for the reduction in Net Debt is the disposal of Tuffnells lease liabilities of £45.1m.

## **PENSION SCHEMES**

The Company operates a defined benefit scheme, The Smiths News defined benefit pension scheme (known as the Smiths News section of the WH Smith Pension Trust) which, as at 27 February 2021 had an IAS 19 pre-tax surplus of £16.0m. The Smiths News section of the WH Smith Pension Trust is both closed to new entrants and closed to future accrual.

During the period there was a reduction in equalisation liabilities by £2.8m to £5.4m. On 17 February 2021 the 'buy in' insurance was extended at a cost to the pension scheme of £6.2m to cover these liabilities. The net impact of the items discussed and other movements in the period has resulted in the increase of the pre-tax surplus by £0.8m to £16.0m.

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 Trustees and the wind-up of the pension commenced and on 31 March 2021 the pension liabilities covered by the buy-in insurance which had been undertaken in October 2018 transferred over to L&G the new pension provider and "buy-out" concluded, removing the Company's obligation to the members.

At the balance sheet date, the Company does not recognise the £16.0m 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 conclusion of; a member consultation, pension regulator approval, settlement of other liabilities which are outside the scope of the buy-out and final acceptance from the Trustees. If any surplus is returned to the Company it will be net of additional professional fees and tax which will be charged at a rate significantly higher than the Company's effective tax rate and will materially reduce the surplus balance available to the Company. For more information see note 5.

## **GOING CONCERN**

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

The Company has a net liability position of £69.0m as at 27 February 2021 (29 February 2020 £85.8m) and continues to be profitable and cash generative. All bank covenant tests were met at the period end and the Company's base forecast anticipates they will continue to be met during the life of the facility agreement which ends in November 2023.

Having considered a number of scenarios including detailed stress tests and the funding requirements of the Company, the Directors are confident that headroom under the bank facility remains adequate and future covenant tests can be met and there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements and a full assessment is included in Note 1.

## **DISCONTINUED OPERATIONS**

On 2 May 2020, the Company completed the sale of the Tuffnells business for £15.0m of cash, which is deferred and payable over three years from date of disposal. The Company made a secured working capital loan available to the new owners of £10.5m, £6.5m was drawn at the year end. On 1 October 2020 the full loan was repaid and the security released.

In H2 2020 the disposal of Tuffnells resulted in a profit on disposal of £1.8m and disposal costs of £3.7m were incurred. Further details of the strategic review and impact of the sale of Tuffnells are provided in Note 9 of the financial statements.

## STATUTORY CONTINUING & DISCONTINUED RESULTS

| £m   | 26 weeks to<br>27 Feb 2021 | 6 months to<br>29 Feb 2020 | Change         |
|--|----------------------------|----------------------------|----------------|
| <b>Continuing</b>                                  |                            |                            |                |
| <b>Revenue</b>                                     | <b>551.6</b>               | <b>623.1</b>               | <b>(11.5%)</b> |
| <b>Operating profit</b>                            | <b>18.8</b>                | <b>10.3</b>                | 82.5%          |
| Net finance costs                                  | (2.8)                      | (3.6)                      | (22.2%)        |
| <b>Profit before tax</b>                           | <b>16.0</b>                | <b>6.7</b>                 | <b>138.8%</b>  |
| Taxation   | <b>(3.0)</b>               | (2.3)                      | 30.4%          |
| <i>Tax rate</i>                                    | <i>18.7%</i>               | <i>34.3%</i>               |                |
| <b>Profit after tax</b>                            | <b>13.0</b>                | <b>4.4</b>                 | <b>195.5%</b>  |
| <b>Discontinued operations – loss</b>              | <b>(0.4)</b>               | <b>(14.5)</b>              | <b>(97.2%)</b> |
| <b>Profit/ (loss) attributable to shareholders</b> | <b>12.6</b>                | <b>(10.1)</b>              | <b>224.8%</b>  |

Discontinued Adjusted operating loss for the period to 27 February 2021 of £nil (H1 2020: £9.2m loss) and adjusted loss before tax of £nil (H1 2020: £8.4m loss).

Discontinued statutory loss after tax was £0.4m (H1 2020: £14.5m).

Statutory continuing profit before tax of £16.0m to prior year period by £9.3m (H1 2020: £6.7m), primarily driven by lower adjusting items (£9.6m) as described above.

The effective statutory income tax rate for continuing operations was (18.7%) (H1 2020: 34.3%).

Statutory continuing & discontinued profit after tax of £12.6m is up by £22.7m (H1 2020: £10.1m loss). Statutory continuing & discontinued profit per share of 5.2p is up 9.3p (H1 2020: 4.1p loss).

## 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 the 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.

Risks are still subject to ongoing monitoring and appropriate mitigation.

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

|    | Principal risks   | Change during the period | Potential impact  | Mitigating actions and assurance  |
|----|---|--------------------------|---|---|
| 1. | <p><b>Deterioration of the macro economic environment</b> – The UK appears to be exiting Covid-19 associated restrictions, through which the Company continues to trade through robustly. While the outlook for the UK is more positive, economic volatility and/or prolonged economic downturn associated with the COVID-19 pandemic could cause a decline in demand for our services.</p> <p>This impacts current and/or projected business performance, cash liquidity and bank facility headroom above that included in the business planning and review process.</p> | Reducing                 | <p>Reductions in discretionary spending may impact sales of newspapers or magazines, that could not be offset with cost reductions. This could impact future capital investment strategies.</p> <p>Cash liquidity and available headroom within the new bank facility could diminish in the event of a protracted deterioration of the macro economic environment or a sharp deterioration in sales or working capital.</p> | <ul style="list-style-type: none"> <li>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.</li> <li>The Company continues to embed business scenario plans for the changes to social movement restrictions to address the business risks posed by the COVID-19 pandemic.</li> <li>The Company forecasts cash flows weekly and continually monitors treasury liquidity and headroom within the bank facility.</li> <li>The Company continues to be significantly cash generative which supports opportunities for refinancing and investment.</li> <li>The UK vaccination program reduces the risk of further COVID -19 restrictions on the UK.</li> </ul> |

|           |  |                          |  |  |
|-----------|--|--------------------------|--|--|
| <p>2.</p> | <p><b>Failing to attract, engage and retain talent within a high performance and values-based culture</b><br/> – The risk that we do not attract or retain the people and the skills we need to execute the Company strategy and that employees are not motivated towards, or are disengaged from, the task in hand.</p> <p>Risk that the level of change affects staff and retention levels.</p> <p>The longer term impacts of Brexit create skills gaps or labour shortages.</p>   | <p><b>No change</b></p>  | <p>Impact on the ability to address the strategic priorities and to deliver the forecast performance for the Company.</p>  | <ul style="list-style-type: none"> <li>• We seek to offer market competitive terms to ensure talent remains engaged.</li> <li>• We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Company's culture and core values.</li> <li>• Retention plans are being reviewed to address key risk areas, and attrition across each business is regularly monitored.</li> <li>• Regular surveys are undertaken to monitor the engagement of employees.</li> <li>• The restructure enacted at the end of FY 2020 enables the Company to provide opportunities to its remaining employees.</li> </ul>          |
| <p>3.</p> | <p><b>Failing to meet high health &amp; safety standards</b> – The risk of an inadequate health &amp; safety framework and insufficiently enforcing a health &amp; safety culture results in serious injury to employees and/or the public, and/or a breach of relevant health &amp; safety legislation.</p> <p>The risk of failing to adhere to external laws and regulations by employees, including the risk of failing to maintain COVID-19 protocols within depots and the resultant risk of a COVID-19 outbreak on service delivery and KPI performance.</p> | <p><b>Reducing</b></p>   | <p>In addition to the danger to staff or the public, the impact of a health and safety failure negatively impacts operations, profitability and/or corporate reputation, together with the risk of possible enforcement action.</p> <p>The risk of transport compliance failures may impact consistent service standards and/or the ability to deliver the forecast performance for the Company.</p> | <ul style="list-style-type: none"> <li>• Safety is a key priority of the Company. Health and Safety performance is reviewed by the Board, Audit Committee and Executive Team.</li> <li>• A dedicated Health &amp; Safety team executes improvement programmes, undertakes audits and promotes a safety culture.</li> <li>• The Company continues to invest in H&amp;S improvements, including the role of H&amp;S Director and better management reporting.</li> <li>• The Company continues to promote consistency in safety standards and culture.</li> <li>• COVID-19 protocols are well established and business continuity plans in place for significant outbreaks.</li> </ul> |
| <p>4.</p> | <p><b>Cyber security</b> - The Company is aware of the increasing prevalence of cyber security attacks targeted at business, resulting in the prolonged loss of availability of critical</p>   | <p><b>Increasing</b></p> | <p>Unavailability of critical systems or data over a prolonged period could impact the Company's operational performance to meet its day to day service requirements</p>   | <ul style="list-style-type: none"> <li>• The Company assesses the cyber risk on a day to day basis, using proactive and reactive information security controls to mitigate common threats.</li> <li>• Controls include: 24/7 protective monitoring,</li> </ul>   |

|  |   |  |  |   |
|--|---|--|--|---|
|  | <p>systems and data, and theft or loss of data.</p> |  | <p>The theft or loss of data could lead to penalties, significant fines and/or regulatory action.</p> <p>Cost of recovery from an attack may be significant.</p> | <p>anti-malware, information and process assurance, regular vulnerability scans, patch and vulnerability management, penetration testing, IT Health Checks, regular audits, routine access reviews, regular backups, user training and risk management.</p> |
|--|---|--|--|---|

## Responsibility Statement

We confirm that to the best of our knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the interim management report includes a true and fair review of the information required by DTR 4.2.7R, being an indication of important events during the first 26 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year; and
- the interim management report includes a true and fair review of the information required by DTR 4.2.8R, being disclosure of related parties' transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Jonathan Bunting  
Chief Executive Officer  
04 May 2021

Tony Grace  
Chief Financial Officer  
04 May 2021



# Smiths News PLC

## Condensed Consolidated Income Statement (Unaudited)

For the 26 weeks to 27 February 2021

| £m   | Note | 26 weeks to 27 Feb 2021 |                            |             | 26 weeks to 29 Feb 2020 |                            |               | Audited<br>52 weeks to 29 Aug 2020 |                            |              |
|--|------|-------------------------|----------------------------|-------------|-------------------------|----------------------------|---------------|------------------------------------|----------------------------|--------------|
|  |      | Adjusted                | Adjusted items<br>(note 4) | Total       | Adjusted                | Adjusted items<br>(note 4) | Total         | Adjusted                           | Adjusted items<br>(note 4) | Total        |
| <b>Continuing operations</b>   |      |                         |                            |             |                         |                            |               |                                    |                            |              |
| Revenue  | 3    | 551.6                   | -                          | 551.6       | 623.1                   | -                          | 623.1         | 1,164.5                            | -                          | 1,164.5      |
| Cost of Sales  |      | (515.9)                 | -                          | (515.9)     | (581.7)                 | -                          | (581.7)       | (1,091.4)                          | (0.2)                      | (1,091.6)    |
| <b>Gross profit/(loss)</b>   |      | <b>35.7</b>             | <b>-</b>                   | <b>35.7</b> | <b>41.4</b>             | <b>-</b>                   | <b>41.4</b>   | <b>73.1</b>                        | <b>(0.2)</b>               | <b>72.9</b>  |
| Administrative expenses  |      | (16.9)                  | (0.1)                      | (17.0)      | (21.7)                  | (9.6)                      | (31.3)        | (38.1)                             | (13.8)                     | (51.9)       |
| Income from joint ventures   |      | 0.1                     | -                          | 0.1         | 0.2                     | -                          | 0.2           | 0.1                                | -                          | 0.1          |
| <b>Operating profit</b>  | 3    | <b>18.9</b>             | <b>(0.1)</b>               | <b>18.8</b> | <b>19.9</b>             | <b>(9.6)</b>               | <b>10.3</b>   | <b>35.1</b>                        | <b>(14.0)</b>              | <b>21.1</b>  |
| Finance costs  |      | (4.5)                   | -                          | (4.5)       | (3.6)                   | -                          | (3.6)         | (7.4)                              | -                          | (7.4)        |
| Finance Income   |      | -                       | 1.7                        | 1.7         |                         |                            |               | 0.2                                | 0.9                        | 1.1          |
| <b>Profit before tax</b>   | 3    | <b>14.4</b>             | <b>1.6</b>                 | <b>16.0</b> | <b>16.3</b>             | <b>(9.6)</b>               | <b>6.7</b>    | <b>27.9</b>                        | <b>(13.1)</b>              | <b>14.8</b>  |
| Income tax (expense)/credit  | 6    | (3.0)                   | -                          | (3.0)       | (3.1)                   | 0.8                        | (2.3)         | (4.2)                              | 1.4                        | (2.8)        |
| <b>Profit/(loss) for the period from continuing operations</b>                                   |      | <b>11.4</b>             | <b>1.6</b>                 | <b>13.0</b> | <b>13.2</b>             | <b>(8.8)</b>               | <b>4.4</b>    | <b>23.7</b>                        | <b>(11.7)</b>              | <b>12.0</b>  |
| <b>Discontinued operations</b>   |      |                         |                            |             |                         |                            |               |                                    |                            |              |
| Loss for the period from discontinued operations   | 9    | -                       | (0.4)                      | (0.4)       | (8.4)                   | (6.1)                      | (14.5)        | (13.1)                             | (5.6)                      | (18.7)       |
| <b>Profit/ (loss) attributable to equity shareholders continuing and discontinued operations</b> |      | <b>11.4</b>             | <b>1.2</b>                 | <b>12.6</b> | <b>4.8</b>              | <b>(14.9)</b>              | <b>(10.1)</b> | <b>10.6</b>                        | <b>(17.3)</b>              | <b>(6.7)</b> |

### Earnings per share from continuing operations

|         |   |     |     |     |     |     |     |
|---------|---|-----|-----|-----|-----|-----|-----|
| Basic   | 8 | 4.6 | 5.3 | 5.4 | 1.8 | 9.7 | 4.9 |
| Diluted | 8 | 4.5 | 5.1 | 5.3 | 1.8 | 9.6 | 4.9 |

### Earnings per share total

|         |   |     |     |     |       |     |       |
|---------|---|-----|-----|-----|-------|-----|-------|
| Basic   | 8 | 4.6 | 5.1 | 2.0 | (4.1) | 4.3 | (2.7) |
| Diluted | 8 | 4.5 | 4.9 | 1.9 | (4.1) | 4.3 | (2.7) |

|                            |   |  |     |  |     |  |     |
|----------------------------|---|--|-----|--|-----|--|-----|
| Equity dividends per share | 7 |  | nil |  | nil |  | nil |
|----------------------------|---|--|-----|--|-----|--|-----|

## Smiths News PLC

### Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 26 weeks to 27 February 2021

| £m   | Note | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | Audited<br>52 weeks to<br>29 Aug 2020 |
|--|------|----------------------------|----------------------------|---------------------------------------|
| Continuing   |      |                            |                            |                                       |
| <b>Items that will not be reclassified to the Income Statement:</b>                    |      |                            |                            |                                       |
| Remeasurements of retirement benefit schemes   | 5    | 0.1                        | 0.2                        | 0.2                                   |
| Tax relating to components of other comprehensive income that will not be reclassified |      | -                          | (0.1)                      | -                                     |
|  |      | 0.1                        | 0.1                        | 0.2                                   |
| <b>Items that may be reclassified to the Income Statement:</b>                         |      |                            |                            |                                       |
| Currency translation differences   |      | -                          | 0.1                        | 0.1                                   |
| Tax relating to components of other comprehensive income                               |      | -                          | -                          | -                                     |
|  |      | -                          | 0.1                        | 0.1                                   |
| <b>Other comprehensive income for the period - continuing</b>                          |      | <b>0.1</b>                 | <b>0.2</b>                 | <b>0.3</b>                            |
| Profit for the period – continuing   |      | 13.0                       | 4.4                        | 12.0                                  |
| <b>Total comprehensive income for the period - continuing</b>                          |      | <b>13.1</b>                | <b>4.6</b>                 | <b>12.3</b>                           |
| Other comprehensive income for the period discontinued                                 |      | -                          | -                          | 0.3                                   |
| Loss for the year – discontinued   |      | (0.4)                      | (14.5)                     | (18.7)                                |
| <b>Total comprehensive Loss for the period - discontinued</b>                          |      | <b>(0.4)</b>               | <b>(14.5)</b>              | <b>(18.4)</b>                         |
| <b>Total comprehensive income/(loss) for the period attributable to shareholders:</b>  |      | <b>12.7</b>                | <b>(9.9)</b>               | <b>(6.1)</b>                          |

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

# Smiths News PLC

## Consolidated Balance Sheet (Unaudited)

As at 27 February 2021

| £m                                      | Note | As at<br>27 Feb 2021 | As at<br>29 Feb 2020 | Audited<br>As at<br>29 Aug 2020 |
|---|------|----------------------|----------------------|---------------------------------|
| <b>Non-current assets</b>               |      |                      |                      |                                 |
| Intangible assets                       | 11   | 3.0                  | 5.2                  | 4.0                             |
| Property, plant and equipment           |      | 8.1                  | 8.6                  | 9.4                             |
| Right of use assets                     |      | 30.7                 | 33.4                 | 32.8                            |
| Interest in joint venture               |      | 4.8                  | 5.1                  | 4.9                             |
| Other receivables                       |      | 3.2                  | -                    | 14.6                            |
| Deferred tax assets                     |      | 0.8                  | 1.0                  | 0.8                             |
|   |      | <b>50.6</b>          | <b>53.3</b>          | <b>66.5</b>                     |
| <b>Current assets</b>                   |      |                      |                      |                                 |
| Inventories                             |      | 15.2                 | 16.9                 | 14.1                            |
| Trade and other receivables             |      | 98.4                 | 119.4                | 101.2                           |
| Cash and bank deposits                  | 12   | 10.0                 | 37.1                 | 50.6                            |
| Assets classified as held for sale      | 9    | -                    | 69.7                 | -                               |
|   |      | <b>123.6</b>         | <b>243.1</b>         | <b>165.9</b>                    |
| <b>Total assets</b>                     |      | <b>174.2</b>         | <b>296.4</b>         | <b>232.4</b>                    |
| <b>Current liabilities</b>              |      |                      |                      |                                 |
| Trade and other payables                |      | (125.4)              | (164.7)              | (139.5)                         |
| Current tax liabilities                 |      | (1.9)                | (0.1)                | (1.7)                           |
| Lease Liabilities                       |      | (5.9)                | (5.6)                | (5.8)                           |
| Bank overdrafts and other borrowings    | 12   | (21.3)               | (93.5)               | (130.1)                         |
| Provisions                              | 13   | (4.1)                | (3.5)                | (6.8)                           |
| Liabilities classified as held for sale |      | -                    | (83.8)               | -                               |
|   |      | <b>(158.6)</b>       | <b>(351.2)</b>       | <b>(283.9)</b>                  |
| <b>Non-current liabilities</b>          |      |                      |                      |                                 |
| Bank loans and other borrowings         | 12   | (56.7)               | -                    | -                               |
| Non-current provisions                  | 13   | (2.5)                | (2.6)                | (2.5)                           |
| Lease Liabilities                       |      | (25.4)               | (28.4)               | (27.6)                          |
|   |      | <b>(84.6)</b>        | <b>(31.0)</b>        | <b>(30.1)</b>                   |
| <b>Total liabilities</b>                |      | <b>(243.2)</b>       | <b>(382.2)</b>       | <b>(314.0)</b>                  |
| <b>Total net liabilities</b>            |      | <b>(69.0)</b>        | <b>(85.8)</b>        | <b>(81.6)</b>                   |
| <b>Equity</b>                           |      |                      |                      |                                 |
| Called up share capital                 | 15   | 12.4                 | 12.4                 | 12.4                            |
| Share premium account                   | 15   | 60.5                 | 60.5                 | 60.5                            |
| Other reserves                          |      | (281.5)              | (282.4)              | (281.5)                         |
| Retained earnings                       |      | 139.6                | 123.7                | 127.0                           |
| <b>Total shareholders' equity</b>       |      | <b>(69.0)</b>        | <b>(85.8)</b>        | <b>(81.6)</b>                   |

## Smiths News PLC

### Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 26 weeks to 27 February 2021

| £m   | Note | Share Capital | Share Premium Account | Other Reserves | Retained Earnings | Total equity  |
|--|------|---------------|-----------------------|----------------|-------------------|---------------|
| <b>Balance at 31 August 2019</b>                         |      | 12.4          | 60.5                  | (281.5)        | 134.3             | (74.3)        |
| IFRS 16 transition adjustment <sup>1</sup>               |      | -             | -                     | -              | 1.4               | 1.4           |
| <b>Restated Balance at 31 August 2019</b>                |      | <b>12.4</b>   | <b>60.5</b>           | <b>(281.5)</b> | <b>135.7</b>      | <b>(72.9)</b> |
| Loss for the period                                      |      | -             | -                     | -              | (10.1)            | (10.1)        |
| Currency translation differences                         |      | -             | -                     | -              | -                 | -             |
| Actuarial gain on defined benefit pension scheme         |      | -             | -                     | -              | 0.5               | 0.5           |
| Tax relating to components of other comprehensive income |      | -             | -                     | -              | (0.4)             | (0.4)         |
| Total comprehensive income for the period                |      | -             | -                     | -              | <b>(10.0)</b>     | <b>(10.0)</b> |
| Dividends paid   |      | -             | -                     | -              | (2.4)             | (2.4)         |
| Employee share schemes                                   |      | -             | -                     | (0.9)          | -                 | (0.9)         |
| Recognition of share based payments                      |      | -             | -                     | -              | 0.4               | 0.4           |
| <b>Balance at 29 February 2020</b>                       |      | <b>12.4</b>   | <b>60.5</b>           | <b>(282.4)</b> | <b>123.7</b>      | <b>(85.8)</b> |
| Profit for the period                                    |      | -             | -                     | -              | 3.4               | 3.4           |
| Currency translation differences                         |      | -             | -                     | 0.1            | -                 | 0.1           |
| Actuarial gain on defined benefit pension scheme         |      | -             | -                     | -              | 0.5               | 0.5           |
| Tax relating to components of other comprehensive income |      | -             | -                     | -              | (0.1)             | (0.1)         |
| Total comprehensive loss for the period                  |      | -             | -                     | 0.1            | <b>3.8</b>        | <b>3.9</b>    |
| Employee share scheme awards                             |      | -             | -                     | 0.8            | <b>(0.5)</b>      | <b>0.3</b>    |
| <b>Balance at 29 August 2020</b>                         |      | <b>12.4</b>   | <b>60.5</b>           | <b>(281.5)</b> | <b>127.0</b>      | <b>(81.6)</b> |
| Profit for the period                                    |      | -             | -                     | -              | 12.6              | 12.6          |
| Remeasurements of retirement benefit schemes             |      | -             | -                     | -              | 0.1               | 0.1           |
| Total comprehensive income for the period                |      | -             | -                     | -              | <b>12.7</b>       | <b>12.7</b>   |
| Employee share schemes purchases                         |      | -             | -                     | (0.5)          | -                 | (0.5)         |
| Employee share schemes awards                            |      | -             | -                     | 0.5            | (0.5)             | -             |
| Recognition of share based payments                      |      | -             | -                     | -              | 0.4               | 0.4           |
| <b>Balance at 27 February 2021</b>                       |      | <b>12.4</b>   | <b>60.5</b>           | <b>(281.5)</b> | <b>139.6</b>      | <b>(69.0)</b> |

1. The Company applied IFRS 16 using the cumulative catch up approach as a result the Obligation under finance leases has been replaced with Lease liabilities which is wider in scope the impact was included in the prior year statements.

## Smiths News PLC

### Condensed Consolidated Cash Flow Statement (Unaudited)

For the 26 weeks to 27 February 2021

| £m  | Note | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 52 weeks to<br>29 Aug 2020 |
|---|------|----------------------------|----------------------------|----------------------------|
| <b>Net cash from operating activities</b>                   | 10   | <b>13.1</b>                | <b>13.2</b>                | 23.4                       |
| <b>Investing activities</b>                                 |      |                            |                            |                            |
| Dividends from joint ventures                               |      | 0.1                        | 0.1                        | 0.2                        |
| Purchase of property, plant and equipment                   |      | (0.4)                      | (3.4)                      | (6.9)                      |
| Purchase of intangible assets                               |      | (0.2)                      | (2.5)                      | (2.4)                      |
| Loan receipts   |      | 6.5                        | -                          | -                          |
| Interest receivable   |      | 0.2                        | -                          | -                          |
| Loan issued   |      | -                          | -                          | (6.5)                      |
| Net proceeds on sale of property, plant and equipment       |      | -                          | 14.6                       | 14.6                       |
| Net cost of disposal from subsidiary                        |      | -                          | -                          | (3.7)                      |
| <b>Net cash received/(used) in investing activities</b>     |      | <b>6.2</b>                 | <b>8.8</b>                 | (4.7)                      |
| <b>Financing activities</b>                                 |      |                            |                            |                            |
| Interest paid   |      | (3.5)                      | (4.4)                      | (8.0)                      |
| Arrangement fees paid                                       |      | (2.8)                      | -                          | -                          |
| Dividends paid  |      | -                          | (2.4)                      | (2.4)                      |
| Repayments of leases  |      | (2.9)                      | (9.3)                      | (15.6)                     |
| Purchase of share for employee benefit trust                |      | (0.4)                      | (0.7)                      | (0.7)                      |
| Repayment of term loan and revolving credit facility        |      | (80.0)                     | -                          | -                          |
| New loans issued  |      | 80.0                       | -                          | -                          |
| Net (decrease)/ increase in borrowings                      |      | (50.3)                     | 8.0                        | 50.8                       |
| <b>Net cash (used)/received in financing activities</b>     |      | <b>(59.9)</b>              | <b>(8.8)</b>               | 24.1                       |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(40.6)</b>              | <b>13.2</b>                | 42.8                       |
| Effect of foreign exchange rate changes                     |      | -                          | -                          | (0.1)                      |
|   |      | <b>(40.6)</b>              | <b>13.2</b>                | 42.7                       |
| Opening net cash and cash equivalents                       |      | 50.6                       | 7.9                        | 7.9                        |
| <b>Closing net cash and cash equivalents</b>                |      | <b>10.0</b>                | <b>21.1</b>                | 50.6                       |

Closing net cash and cash equivalents includes £10.0m (H1 2020: £37.1m) of cash offset by £nil (H1 2020: £16.0m) of overdraft - see note 12 for further information.

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.3m (H1 2020: £1.1m outflow) and £nil was received in respect of investing activities (H1 2020: £12.5m received). There were £nil (H1 2020: £11.4m) cash outflows associated with financing activities attributable to Discontinued Operations.

# Smiths News PLC

## Notes to the Condensed Unaudited Interim Financial Statements

For the 26 weeks to 27 February 2021

### 1 Basis of Preparation

Smiths News PLC is comprised of the Company and its subsidiaries (together referred to as the 'Company').

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those described in the Annual Report and Accounts 2020. The financial period represents the 26 weeks ended 27 February 2021 (prior financial period 26 weeks to 29 February 2020, prior financial period 52 weeks ended 29 August 2020).

These condensed consolidated interim financial statements for the current period and prior financial periods do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the prior financial year has been filed with the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006 issued by BDO LLP. The auditors review opinion on the twenty six weeks period ended 27 February 2021 is on page 49.

#### A) Discontinued operations

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

## Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

### 1 Basis of Preparation (continued)

#### B) Going Concern

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

The Company currently has a net liability position of £69.0m as at 27 February 2021. All bank covenant tests were met at the period end with the key bank net debt: EBITDA (ex IFRS16) ratio of 1.8x, below the facility agreement covenant test threshold of 3.5x reducing 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, the Company utilises the Revolving Credit Facility (RCF) to manage this, £35m of the RCF remains available at the period end. This results in a predictable fluctuation of bank net debt during the course of the month compared to the closing net debt position. Our average net borrowings during H1 2021 was £89.5m (H1 2020: £92.9m).

#### Bank facility

The Company has a facility of £120 million facility, comprising a £45 million amortising term loan (Facility A), a £35m million bullet repayment term loan (Facility B) and a £40 million revolving credit facility (RCF). Term Loan (facility B) is also 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 existing lenders HSBC, Barclays, Santander, AIB and Clydesdale and one new lender, Shawbrook Bank.

The facility's current margin is 4.5% per annum (5.5% on initial inception) over LIBOR (in respect of Facility A and the RCF) and 5.0% per annum (6.0% on initial inception) over LIBOR (in respect of Facility B).

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 proposed move to buy-out of the Company's defined benefit pension scheme; and an absolute preclusion of payments of dividends in respect of FY 2020 and capped dividend payments thereafter for FY 2021 (up to £4m) and FY 2022 onwards (up to £6m per year). 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 new facility is 6 November 2023.

#### COVID-19 impact

The Company continued to generate cash and trade in line with expectations through H1 2021 with the second national lockdown in November and third national lockdown announced in January 2021.

#### 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 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 March 2022 if EBITDA (ex IFRS 16) was 50% below expectations and not receive deferred consideration from the sale of Tuffnells. The directors consider the likelihood of this level of downturn to be remote based on:

- Current trading which is in line with expectations,
- Year-on-year declines in revenues would have to be significantly greater than historical trends,
- The contracts are secured with publishers until 2024; and
- The company continues to trade with adequate profit to service its debt covenants with COVID-19 related restrictions in place.

# Smiths News PLC

## Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

### 1 Basis of Preparation (continued)

#### B) Going Concern (continued)

##### Mitigating actions

In the event the break environment scenario went from being remote to possible then management would seek to take mitigating actions to maintain liquidity and compliance with the bank facility covenants. The options within the control of management would be to:

- Optimise liquidity by working capital management of the peak-to-trough intra-month movement of c. £40m. Utilising existing vendor management finance arrangements with retailers and optimising contractual payment cycles to suppliers which would improve liquidity headroom,
- Not pay planned dividend,
- Delay non-essential capex projects,
- Cancel discretionary annual bonus payments; and
- Identify other overhead and depot savings.

More extreme mitigating actions would also be available if the scenario arose.

##### Assessment

Having considered the above and the funding requirements of the 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 Company has adequate resources to continue in operational existence for the next 12 months. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

#### C) Restatement of Pension liability

As a result of the buy-in of the W.H.Smith Pension Trust in October 2018, a thorough review of the effectiveness of the steps taken to equalise the retirement age of pensioners was undertaken in the previous financial year. Previously equalisation of retirement age was considered to have been effective from 1 April 1992 when communicated to employees. However, the Trust Deed approving this equalisation was not signed until 29 July 1993, this is now considered the equalisation date.

The information reviewed which caused this change was available in past periods from July 1993 and given the same information was available; it was considered a similar review would have led to the same conclusion in earlier periods. It was considered a prior year adjustment made to 1 September 2018 in the FY 2020 annual report and financial statements, the impact on these accounts has been to restate the 29 February 2020 Note 5 Retirement benefit obligation and IFRIC 14 restriction only. There was no material effect on the income statement, earning per share, statement of other comprehensive income or the balance sheet. There is no overall impact on net assets and the income statement in any period presented from reflecting this prior year adjustment.

The increased liability is offset by a decrease in the restriction of the surplus which now stands at £16.0m (Feb 2020 restated: £15.5m). The pension scheme surplus is not recognised as there is not an unconditional right for the Company to receive the surplus.

### 2 Accounting Policies

#### Adoption of new IFRSs

There has been no significant impacts from the adoption of new accounting standards in the current period.



## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 2 Accounting Policies (continued)

The changes in key accounting judgements and estimates in the period are laid out below.

##### Key accounting judgements

##### Alternative Performance Measures

The Company uses a number of Alternative Performance Measures (APMs) in addition to those reported in accordance with IFRS. The Directors believe that the APMs, listed in the glossary on page 46, are important when assessing the underlying financial and operating performance of the Company and its segments. The APMs do not have standardised meaning prescribed by IFRS and therefore may not be directly comparable to similar measures presented by other companies.

##### 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 date that the Company committed itself to wind-up the pension scheme was 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 happened on 31 March 2021.

##### Key accounting estimates

##### Tuffnells Deferred consideration

The Tuffnells business unit was disposed on 2 May 2020; the Company is due £15.0m as deferred consideration payable over 3 years. There is a balance of £9.7m including within other receivables (£3.2m non-current, £6.5m current), recoverability of the Tuffnells deferred consideration is a key estimate. Management have assessed its recoverability and have concluded no impairment is necessary based on:

- The working capital loan provided on disposal was repaid early proving the new management's ability to refinance; and
- Management do not believe there has been a significant increase in the risk of recoverability of the deferred consideration since inception.

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 to the balance.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued) For the 26 weeks to 27 February 2021

#### 3 Segmental Analysis of Results

In accordance with IFRS 8 'Operating Segments', management has identified its operating segments. The performance of these operating segments is reviewed, on a monthly basis, by the Board. The Board primarily uses a measure of adjusted operating profit before tax to assess the performance of the operating segments. However, the Board also receives information about the segments' revenue.

These operating segments are:

##### **Smiths News**

Smiths News segment consists of the following:

##### Smiths News Core

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

##### Other businesses

A number of ancillary businesses which are adjacent to Smiths News including:

##### 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.

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

##### **Tuffnells**

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

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

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 3 Segmental Analysis of Results (continued)

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

| £m   | Revenue                    |                               |                            | Operating profit           |                            |                               |
|--|----------------------------|-------------------------------|----------------------------|----------------------------|----------------------------|-------------------------------|
|  | 26 weeks to<br>27 Feb 2021 | 26 weeks to 29<br>29 Feb 2020 | 52 weeks to 29<br>Aug 2020 | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 52 weeks<br>to 29 Aug<br>2020 |
| <b>Continuing operations -<br/>adjusted</b>  | <b>551.6</b>               | <b>623.1</b>                  | <b>1,164.5</b>             | <b>18.9</b>                | <b>19.9</b>                | 35.1                          |
| Revenue Discontinued<br>operations – adjusted  | -                          | 73.7                          | 98.2                       |                            |                            |                               |
| <b>Revenue - Continuing and<br/>discontinued operations -<br/>adjusted</b>                           | <b>551.6</b>               | <b>696.8</b>                  | <b>1,262.7</b>             |                            |                            |                               |
| Continuing operations –Total<br>Adjusted items   |                            |                               |                            | (0.1)                      | (9.6)                      | (14.0)                        |
| <b>Total Continuing operations<br/>after Adjusted items</b>  |                            |                               |                            | <b>18.8</b>                | <b>10.3</b>                | <b>21.1</b>                   |
| Adjusted finance expense   |                            |                               |                            | (4.5)                      | (3.6)                      | (7.2)                         |
| Finance income adjusting<br>items  |                            |                               |                            | 1.7                        | -                          | 0.9                           |
| <b>Profit before taxation –<br/>Continuing operations</b>  |                            |                               |                            | <b>16.0</b>                | <b>6.7</b>                 | <b>14.8</b>                   |
| <b>Loss before taxation –<br/>Discontinued operations</b>  |                            |                               |                            | <b>(0.4)</b>               | <b>(12.9)</b>              | <b>(15.3)</b>                 |
| <b>(Loss)/profit before taxation<br/>– Continuing operations<br/>and Discontinued<br/>operations</b> |                            |                               |                            | <b>15.6</b>                | <b>(6.2)</b>               | <b>(0.5)</b>                  |

#### Geographical analysis

| £m  | Revenue by destination     |                            |                            | Non-current assets by<br>location of operation |                            |                            |
|---|----------------------------|----------------------------|----------------------------|--|----------------------------|----------------------------|
|   | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 52 weeks to<br>29 Aug 2020 | 26 weeks to<br>27 Feb 2021                     | 26 weeks to<br>29 Feb 2020 | 52 weeks to<br>29 Aug 2020 |
| United Kingdom  | 551.0                      | 617.3                      | 1,158.3                    | <b>50.6</b>                                    | <b>53.3</b>                | 66.5                       |
| Spain   | -                          | 0.2                        | 0.2                        | -  | -                          | -                          |
| France  | -                          | 0.9                        | 0.4                        | -  | -                          | -                          |
| Germany   | 0.2                        | 1.2                        | 1.4                        | -  | -                          | -                          |
| Netherlands   | 0.3                        | 1.7                        | 2.1                        | -  | -                          | -                          |
| Rest of World   | 0.1                        | 1.8                        | 2.1                        | -  | -                          | -                          |
| <b>Continuing operations</b>                            | <b>551.6</b>               | <b>623.1</b>               | <b>1,164.5</b>             | <b>50.6</b>                                    | <b>53.3</b>                | <b>66.5</b>                |
| <b>Discontinued operations</b>                          | <b>-</b>                   | <b>73.7</b>                | <b>98.2</b>                | <b>-</b>                                       | <b>-</b>                   | <b>-</b>                   |
| <b>Total continuing and<br/>discontinued operations</b> | <b>551.6</b>               | <b>696.8</b>               | <b>1,262.7</b>             | <b>50.6</b>                                    | <b>53.3</b>                | <b>66.5</b>                |

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 4 Adjusted Items

| £m  | 26 weeks to 27 Feb 2021 |              |              | 26 weeks to 29 Feb 2020 |              |              | 52 weeks to 29 Aug 2020 |               |              |               |
|---|-------------------------|--------------|--------------|-------------------------|--------------|--------------|-------------------------|---------------|--------------|---------------|
|   | Continuing              | Discontinued | Total        | Continuing              | Discontinued | Total        | Continuing              | Discontinued  | Total        |               |
| Network and re-organisation costs                 | (a)                     | 0.1          | -            | 0.1                     | (2.3)        | (0.5)        | (2.8)                   | (6.8)         | (1.0)        | (7.8)         |
| Asset impairments                                 | (b)                     | -            | -            | -                       | (6.9)        | (0.6)        | (7.5)                   | (6.4)         | (0.6)        | (7.0)         |
| Pension   | (c)                     | (0.2)        | -            | (0.2)                   | (0.4)        | -            | (0.4)                   | (0.9)         | -            | (0.9)         |
| Other   |                         | -            | -            | -                       | -            | -            | -                       | 0.1           | -            | 0.1           |
| Review and sale of Tuffnells                      | (d)                     | -            | (0.4)        | (0.4)                   | -            | (0.5)        | (0.5)                   | -             | 0.6          | 0.6           |
| Sale and Leaseback                                | (e)                     | -            | -            | -                       | -            | (1.0)        | (1.0)                   | -             | (1.0)        | (1.0)         |
| <b>Total before tax and interest</b>              |                         | <b>(0.1)</b> | <b>(0.4)</b> | <b>(0.5)</b>            | <b>(9.6)</b> | <b>(2.6)</b> | <b>(12.2)</b>           | <b>(14.0)</b> | <b>(2.0)</b> | <b>(16.0)</b> |
| Finance income – unwind of deferred consideration | (f)                     | 1.7          | -            | 1.7                     | -            | -            | -                       | 0.9           | -            | 0.9           |
| <b>Total before tax</b>                           |                         | <b>1.6</b>   | <b>(0.4)</b> | <b>1.2</b>              | <b>(9.6)</b> | <b>(2.6)</b> | <b>(12.2)</b>           | <b>(13.1)</b> | <b>(2.0)</b> | <b>(15.1)</b> |
| Taxation  |                         | -            | -            | -                       | 0.8          | (3.5)        | (2.7)                   | 1.4           | (3.6)        | (2.2)         |
| <b>Total after taxation</b>                       |                         | <b>1.6</b>   | <b>(0.4)</b> | <b>1.2</b>              | <b>(8.8)</b> | <b>(6.1)</b> | <b>(14.9)</b>           | <b>(11.7)</b> | <b>(5.6)</b> | <b>(17.3)</b> |

Adjusted items on a continuing basis for the period totalled credit £1.6m after tax for the period, compared to £8.8m cost in the prior period.

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

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 4 Adjusted Items (continued)

##### Continuing operations

##### a) Network and re-organisation costs: £0.1m credit (H1 2020: £2.3m charge)

These are analysed as follows:

| £m                               | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
|----------------------------------|----------------------------|----------------------------|
| Business restructuring           | 0.1                        | (0.2)                      |
| Outsourcing of central functions | -                          | (1.9)                      |
| Executive team redundancies      | -                          | (0.2)                      |
| Total                            | 0.1                        | (2.3)                      |

##### *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.

In June 2019, DMD's biggest contract with British Airways expired and as a result DMD entered into a period of restructure which continued into H1 2020, resulting in £0.2m of costs being incurred.

##### *Outsourcing central functions*

In the prior financial period, £1.9m costs were incurred off-shoring selected technology, customer services and finance functions which comprised £0.5m related to redundancy costs as part of this transition and £1.4m related to set up costs which include the cost of parallel running the previous finance team when the shared service centre was up and running. These costs were considered adjusting as the impact of the transition to an off shored central function is considered a one off. The running costs of the parts of the centre which are fully operational are being treated as non-adjusted.

##### *Executive Team redundancies*

In the prior period, costs of £0.2m were incurred as a result of the departure of the former CEO in November 2020.

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

**4 Adjusted Items (continued)**

**b) Asset impairment: £nil (H1 2020: £6.9m)**

In the prior financial period the impact of the lockdowns associated with the COVID-19 pandemic triggered impairment reviews of a number of the Company'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.

In the prior financial period the Company recognised £0.9m increased expected credit loss provision against customers impacted by the COVID-19 pandemic.

A further £0.3m prior period charge was incurred as a result of the write down of an investment in one of the Company's joint ventures that was impacted by COVID-19 travel restrictions.

**c) Pensions: £0.2m cost (H1 2020: £0.4m)**

In H1 2021, the Company incurred £0.2m (H1 2020 £0.4m), in professional fees as a result of the continuing process to buy-out the WH Smith Pension Trust (the Company's defined benefit pension schemes) see Note 5 for details. In the prior financial period this included £0.4m in rationalising the Company's pension portfolio which was triggered by the buy-in of an insurance backed annuity relating to WH Smith Pension Trust.

These pension charges are not considered to be part of normal operations due to their size and nature and are therefore considered to be an Adjusted item.

**d) Finance Income – Deferred consideration £1.7m income (H1 2020: £nil)**

During the current period, £1.7m of finance income has been recognised in relation to the unwind of discount on deferred consideration. The deferred consideration arose on the disposal of Tuffnells and for that reason has been classified as adjusting because it does not relate to the underlying trade of the business.

**Discontinued operations**

**a) Network and re-organisation costs: £nil (H1 2020: £0.5m)**

**Executive Team redundancies**

Costs of £nil (H1 2020: £0.4m) have been incurred as a result of the restructure of the Tuffnells executive team as part of the strategic review. These costs were considered to be adjusting given the size and as the business was disposed of these costs are not expected to reoccur.

**Network Reorganisation**

Costs of £nil (H1 2020: £0.1m) have been incurred as a result of the closure of the North London depot. The depot closure was identified as a cost saving measure from the strategic review; the depot closure enabled greater flexibility. These costs were considered to be adjusting given the strategic impact on the business unit.

**b) Asset impairment: £nil (H1 2020: £0.6m)**

In the prior financial period impairments of £0.6m were recognised by the Company against Tuffnells property plant and equipment.

It is considered adjusting due to its significant value and aids comparability between years to show the underlying performance of the Company.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 4 Adjusted Items (continued)

##### c) Review and sale of Tuffnells: £0.4m (H1 2020: £0.5m)

As part of the sale of Tuffnells the Company assumed liability to settle certain pre-disposal Insurance and legal claims relating to: employer's liability, public liability, motor accident claims and legal claims. In the current financial period £0.4m of costs were recognised due to the greater than expected claims raised in the period see - Note 13 for more information.

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.

The costs incurred as a result of this review in the prior financial period was £0.5m (H1 2021 £nil).

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

##### d) Sale and leaseback: £nil (H1 2020: £1.0m)

Tuffnells a discontinued division of the Company, disposed of eight properties in the prior period as a result the following were incurred:

| £m                          |       | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
|-----------------------------|-------|----------------------------|----------------------------|
| <b>Sale &amp; leaseback</b> |       |                            |                            |
| Profit on disposal          | (i)   | -                          | 1.5                        |
| Rectification costs         | (ii)  | -                          | (0.6)                      |
| Impairment                  | (iii) | -                          | (1.9)                      |
| <b>Total</b>                |       | -                          | <b>(1.0)</b>               |

##### (i) Profit on loss on disposal

In the prior year £1.5m profit on disposal of the 8 Tuffnells properties was recognised.

##### (ii) Rectification costs

As part of the terms of the disposal the Company 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

After the sale discussed 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.

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

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 5 Retirement Benefit Obligation

##### Defined benefit pension schemes

In the period the Company operated one defined benefit scheme, the WH Smith Pension Trust (the 'Pension Trust'). In the prior financial period the Company also operated the Tuffnells Parcels Express Pension Scheme, which is now outside the Company following the disposal of Tuffnells in May 2020.

The amounts recognised in the balance sheet are as follows:

| £m  | As at 27 Feb 2021 | *restated<br>As at 29 Feb 2020 | As at 29 Aug 2020 |
|---|-------------------|--------------------------------|-------------------|
| Present value of defined benefit obligation | (470.4)           | (470.6)                        | (481.2)           |
| Fair value of assets                        | 486.4             | 484.2                          | 496.4             |
| <b>Net surplus</b>                          | <b>16.0</b>       | <b>13.6</b>                    | 15.2              |
| Amounts not recognised due to asset limit   | (16.0)            | (15.5)                         | (15.2)            |
| Transferred to liabilities held for sale    | -                 | 1.9                            | -                 |
| <b>Pension liability</b>                    | <b>-</b>          | <b>-</b>                       | -                 |

\*The above table has been restated to reflect the updated defined benefit obligation of the WH Smith pension Trust in Feb 2020. The obligation changed by £8.2m and is offset fully by a reduction in the unrecognised surplus asset limit, no other changes have been made. For more information see Note 1C.

The valuation of the defined benefit schemes for the IAS 19 (revised) disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

The W.H.Smith Pension Trust purchased an insurance backed annuity 'buy-in' in October 2018 to cover the liabilities of the scheme. In FY 2020 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 FY 2020 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 W.H.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 £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 judgement 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 £0.3m which is not covered by 'buy-in' insurance.

At the balance sheet date, the Company does not recognise the £16.0m 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 conclusion of; a member consultation, pension regulator approval, settlement of the GMP liabilities which are outside the scope of the insurance policy and final acceptance from the Trustees.



## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 5 Retirement Benefit Obligation (continued)

If any surplus is returned to the Company it will be net of additional professional fees and tax which will be charged at a rate significantly higher than the Company's effective tax rate and will materially reduce the surplus balance available to the Company.

#### Tuffnells Parcels Express scheme

The £1.9m of pension liabilities at the prior period end relates entirely to the Tuffnells Parcels Express scheme and was reclassified to liabilities held for sale.

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

| % p.a.                      | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 52 weeks to<br>29 Aug 2020 |
|-----------------------------|----------------------------|----------------------------|----------------------------|
| Discount rate               | 1.80%                      | 1.70%                      | 1.50%                      |
| Inflation assumptions – CPI | 2.70%                      | 1.95%                      | 2.10%                      |
| Inflation assumptions – RPI | 3.30%                      | 2.95%                      | 3.10%                      |

A summary of the movements in the net balance sheet asset / (liability) and amounts recognised in the Company Income Statement and Other Comprehensive Income are as follows:

| £m   | Fair value<br>of scheme<br>assets | *Restated<br>Defined<br>benefit<br>obligation | *Restated<br>Impact of IFRIC 14<br>on defined benefit<br>pension schemes | Total        |
|--|-----------------------------------|---|--|--------------|
| <b>At 31 August 2019</b>   | <b>504.7</b>                      | <b>(491.8)</b>                                | <b>(15.8)</b>  | <b>(2.9)</b> |
| Interest cost  | 4.3                               | (4.1)   | (0.2)  | -            |
| Administrative costs   | (0.2)                             | -   | -  | (0.2)        |
| <b>Total amount recognised in income statement</b>               | <b>4.1</b>                        | <b>(4.1)</b>                                  | <b>(0.2)</b>   | <b>(0.2)</b> |
| Return on plan assets excluding amounts included in net interest | (15.0)                            | -   | -  | (15.0)       |
| Actuarial gains on scheme liabilities                            | -                                 | 15.0  | -  | 15.0         |
| Change in surplus not recognised                                 | -                                 | -   | 0.5  | 0.5          |
| <b>Amount recognised in other comprehensive income</b>           | <b>(15.0)</b>                     | <b>15.0</b>                                   | <b>0.5</b>   | <b>0.5</b>   |
| Employer contributions   | 0.7                               | -   | -  | 0.7          |
| Benefit payments   | (10.4)                            | 10.4  | -  | -            |
| <b>Amounts included in cash flow statement</b>                   | <b>(9.7)</b>                      | <b>10.4</b>                                   | <b>-</b>   | <b>0.7</b>   |
| <b>Amounts transferred to liabilities held for sale</b>          | <b>(10.3)</b>                     | <b>12.2</b>                                   | <b>-</b>   | <b>1.9</b>   |
| <b>At 29 February 2020</b>                                       | <b>473.8</b>                      | <b>(458.3)</b>                                | <b>(15.5)</b>  | <b>-</b>     |
| Interest cost  | 4.2                               | (4.1)   | (0.1)  | -            |
| Administration expenses  | (0.1)                             | -   | -  | (0.1)        |
| <b>Total amount recognised in income statement</b>               | <b>4.1</b>                        | <b>(4.1)</b>                                  | <b>(0.1)</b>   | <b>(0.1)</b> |
| Return on plan assets excluding amounts included in net interest | 29.8                              | -   | -  | 29.8         |
| Actuarial gains on scheme liabilities                            | -                                 | (29.7)  | -  | (29.7)       |
| Change in surplus not recognised                                 | -                                 | -   | 0.4  | 0.4          |
| <b>Amount recognised in other comprehensive income</b>           | <b>29.8</b>                       | <b>(29.7)</b>                                 | <b>0.4</b>   | <b>0.5</b>   |
| Employer contributions   | 0.1                               | -   | -  | 0.1          |
| Benefit payments   | (11.4)                            | 11.4  | -  | -            |
| <b>Amounts included in cash flow statement</b>                   | <b>(11.3)</b>                     | <b>11.4</b>                                   | <b>-</b>   | <b>0.1</b>   |
| <b>Amounts transferred to liabilities held for sale</b>          | <b>-</b>                          | <b>(0.5)</b>                                  | <b>-</b>   | <b>(0.5)</b> |
| <b>At 29 August 2020</b>   | <b>496.4</b>                      | <b>(481.2)</b>                                | <b>(15.2)</b>  | <b>-</b>     |

\*The above table has been restated to reflect the updated defined benefit obligation of the WH Smith pension Trust in H1 2020. The obligation changed by £8.2m and is offset fully by a reduction in the unrecognised surplus asset limit, no other changes have been made. For more information see Note 1C.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 5 Retirement Benefit Obligation (continued)

| £m   | Fair value of scheme assets | Defined benefit obligation | Surplus not recognised | Total        |
|--|-----------------------------|----------------------------|------------------------|--------------|
| <b>At 29 August 2020</b>   | <b>496.4</b>                | <b>(481.2)</b>             | <b>(15.2)</b>          | <b>-</b>     |
| Interest cost  | 3.6                         | (3.6)                      | (0.1)                  | (0.1)        |
| Administrative expenses  | -                           | -                          | -                      | -            |
| <b>Total amount recognised in income statement</b>               | <b>3.6</b>                  | <b>(3.6)</b>               | <b>(0.1)</b>           | <b>(0.1)</b> |
| Return on plan assets excluding amounts included in net interest | (2.9)                       | -                          | -                      | (2.9)        |
| Actuarial gains on scheme liabilities                            | -                           | 3.7                        | -                      | 3.7          |
| Change in surplus not recognised                                 | -                           | -                          | (0.7)                  | (0.7)        |
| <b>Amount recognised in other comprehensive income</b>           | <b>(2.9)</b>                | <b>3.7</b>                 | <b>(0.7)</b>           | <b>0.1</b>   |
| Employer contributions   | -                           | -                          | -                      | -            |
| Benefit payments   | (10.7)                      | 10.7                       | -                      | -            |
| <b>Amounts included in cash flow statement</b>                   | <b>(10.7)</b>               | <b>10.7</b>                | <b>-</b>               | <b>-</b>     |
| <b>At 27 February 2021</b>                                       | <b>486.4</b>                | <b>(470.4)</b>             | <b>(16.0)</b>          | <b>-</b>     |
| <b>Included within Current liabilities</b>                       |                             |                            |                        | <b>-</b>     |
| <b>Included within Non-current liabilities</b>                   |                             |                            |                        | <b>-</b>     |

#### 6 Income Tax Expense

The income tax charge for the 26 weeks ended 27 February 2021 is calculated based upon the effective tax rates expected to apply to the Company for the full year. The rate of tax on adjusted profits before from continuing operations is 20.8% (H1 2020: 19.0%). The rate of tax on adjusted profits (on both continuing and discontinued operations) is 18.7% (H1 2020: 19.0%).

In March 2021, the UK Government announced its intention to increase the corporation tax rate to 25.0% from April 2023. As this change had not been substantively enacted as at 27 February 2021, the deferred tax assets/liabilities of the Company have been calculated based on the substantively enacted corporation tax rate of 19.0%.

#### 7 Dividends

| Proposed dividends for the period          | 26 weeks to 27 Feb 2021 | 26 weeks to 29 Feb 2020 | 52 weeks to 29 Aug 2020 | 26 weeks to 27 Feb 2021 | 26 weeks to 29 Feb 2020 | 52 weeks to 29 Aug 2020 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | Per share               | Per share               | Per share               | £m                      | £m                      | £m                      |
| Final dividend                             | -                       | -                       | -                       | -                       | -                       | -                       |
| Interim dividend                           | -                       | -                       | -                       | -                       | -                       | -                       |
|  | -                       | -                       | -                       | -                       | -                       | -                       |
| <b>Recognised dividends for the period</b> |                         |                         |                         |                         |                         |                         |
|  | Per share               | Per share               | Per share               | £m                      | £m                      | £m                      |
| Final dividend – prior year                | -                       | 1.0                     | 1.0                     | 2.4                     | 2.4                     | 2.4                     |
| Interim dividend – current year            | -                       | -                       | -                       | -                       | -                       | -                       |
|  | -                       | 1.0                     | 1.0                     | 2.4                     | 2.4                     | 2.4                     |

During the 26 week period to 27 February 2021, there were no dividends announced or paid (Feb 2020: 1p paid) to shareholders. The Directors have not proposed an interim dividend in respect of the period ended 27 February 2021 (Feb 2020: nil per ordinary share).

# Smiths News PLC

## Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

### 8 Earnings per share

|   | 26 weeks to 27 Feb 2021 |   |                 | 26 weeks to 29 Feb 2020 |   |                 | 52 weeks to 29 Aug 2020 |   |                 |
|---|-------------------------|---|-----------------|-------------------------|---|-----------------|-------------------------|---|-----------------|
|   | Earnings (£m)           | Weighted average number of shares million | Pence per share | Earnings (£m)           | Weighted average number of shares million | Pence per share | Earnings (£m)           | Weighted average number of shares million | Pence per share |
| Weighted average number of shares in issue              |                         | 247.7                                     |                 |                         | 247.7                                     |                 |                         | 247.7                                     |                 |
| Shares held by the ESOP (weighted)                      |                         | (2.5)                                     |                 |                         | (1.8)                                     |                 |                         | (3.2)                                     |                 |
|   |                         | 245.2                                     |                 |                         | 245.9                                     |                 |                         | 244.5                                     |                 |
| <b>Basic earnings per share (EPS)</b>                   |                         |   |                 |                         |   |                 |                         |   |                 |
| <b>Continuing</b>                                       |                         |   |                 |                         |   |                 |                         |   |                 |
| Adjusted earnings attributable to ordinary shareholders | 11.4                    | 245.2                                     | 4.6             | 13.2                    | 245.9                                     | 5.4             | 23.7                    | 244.5                                     | 9.7             |
| Adjusted items  | 1.6                     |   |                 | (8.8)                   |   |                 | (11.7)                  |   |                 |
| Earnings attributable to ordinary shareholders          | 13.0                    | 245.2                                     | 5.3             | 4.4                     | 245.9                                     | 1.8             | 12.0                    | 244.5                                     | 4.9             |
| <b>Discontinued</b>                                     |                         |   |                 |                         |   |                 |                         |   |                 |
| Adjusted Losses attributable to ordinary shareholders   | -                       | 245.2                                     | -               | (8.4)                   | 245.9                                     | (3.4)           | (13.1)                  | 244.5                                     | (5.3)           |
| Adjusted items  | (0.4)                   |   |                 | (6.1)                   |   |                 | (5.6)                   |   |                 |
| Losses attributable to ordinary shareholders            | (0.4)                   | 245.2                                     | (0.2)           | (14.5)                  | 245.9                                     | (5.9)           | (18.7)                  | 244.5                                     | (7.7)           |
| <b>Total - continuing and discontinued operations</b>   |                         |   |                 |                         |   |                 |                         |   |                 |
| Adjusted earnings attributable to ordinary shareholders | 11.4                    | 245.2                                     | 4.6             | 4.8                     | 245.9                                     | 2.0             | 10.6                    | 244.5                                     | 4.3             |
| Adjusted items  | 1.2                     |   |                 | (14.9)                  |   |                 | (17.3)                  |   |                 |
| (Losses)/Earnings attributable to ordinary shareholders | 12.6                    | 245.2                                     | 5.1             | (10.1)                  | 245.9                                     | (4.1)           | (6.7)                   | 244.5                                     | (2.7)           |
| <b>Diluted earnings per share (EPS)</b>                 |                         |   |                 |                         |   |                 |                         |   |                 |
| Effect of dilutive securities                           |                         | 10.9                                      |                 |                         | 1.2                                       |                 |                         | 2.6                                       |                 |
| <b>Continuing</b>                                       |                         |   |                 |                         |   |                 |                         |   |                 |
| Diluted adjusted EPS                                    | 11.4                    | 256.1                                     | 4.5             | 13.2                    | 247.1                                     | 5.3             | 23.7                    | 247.2                                     | 9.6             |
| Diluted EPS   | 13.0                    | 256.1                                     | 5.1             | 4.4                     | 247.1                                     | 1.8             | 12.0                    | 247.2                                     | 4.9             |
| <b>Discontinued</b>                                     |                         |   |                 |                         |   |                 |                         |   |                 |
| Diluted adjusted EPS                                    | -                       | 256.1                                     | -               | (8.4)                   | 247.1                                     | (3.4)           | (13.1)                  | 244.5                                     | (5.3)           |
| Diluted EPS   | (0.4)                   | 245.2                                     | (0.2)           | (14.5)                  | 247.1                                     | (5.9)           | (18.7)                  | 244.5                                     | (7.7)           |
| <b>Total - continuing and discontinued operations</b>   |                         |   |                 |                         |   |                 |                         |   |                 |
| Diluted adjusted EPS                                    | 11.4                    | 256.1                                     | 4.5             | 4.8                     | 247.1                                     | 1.9             | 10.6                    | 247.2                                     | 4.3             |
| Diluted EPS   | 12.6                    | 256.1                                     | 4.9             | (10.1)                  | 247.1                                     | (4.1)           | (6.7)                   | 244.5                                     | (2.7)           |

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 8 Earnings per share (continued)

Dilutive shares increased the basic number of shares at February 2021 by 9.0m to 256.1m (Feb 2020: 247.1m) and resulted in a continuing diluted adjusted EPS of 4.5, a decrease of 0.8p or 15.1% on prior period.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 10.9m dilutive shares (Feb 2020: 1.2m). There is no further dilutive effect from deferred consideration in the period.

#### 9 Discontinued operations and held for sale

##### Discontinued operations

##### Tuffnells strategic review

On 29 February 2020 the Board concluded that the requirements of IFRS 5 to classify Tuffnells as held for sale and a discontinued operation had been met.

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

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

Unsecured consideration payable by Palm Bidco Limited to the Company 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, since completion this has unwound to £9.7m (current £6.5m, non-current £3.2m) and is included within other receivables.

The Company also agreed to make available a loan facility secured against selected properties. The total facility available was £10.5m and included a 10% coupon, on Completion £6.5m was drawn immediately. The facility was fully repaid in October 2020. As a result, the remaining part of the loan has been cancelled and the security held over the properties has been released.

Tuffnells were covered under a Company insurance policy and as part of the disposal the decision was made that the Company would pay for certain 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 £1.3m remains at 27 February 2021.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 9 Discontinued operations and held for sale (continued)

##### Discontinued operations (continued)

##### Accounting impact

Tuffnells was considered to be held for sale at the end of H1 2020, and the fair value less cost to sell were £14.1m negative, this was calculated based on the bids received. Included within this calculation were the discounted deferred consideration and the forecast future cash trading losses of Tuffnells.

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

##### Tuffnells strategic review

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

| £m                                       | 26 weeks to 27 Feb 2021 |                |              | 26 weeks to 29 Feb 2020 |                |               | 52 weeks to 29 Aug 2020 |                |               |
|--|-------------------------|----------------|--------------|-------------------------|----------------|---------------|-------------------------|----------------|---------------|
|  | Adjusted                | Adjusted items | Total        | Adjusted                | Adjusted items | Total         | Adjusted                | Adjusted items | Total         |
| <b>Revenue</b>                           | -                       | -              | -            | <b>73.7</b>             | -              | <b>73.7</b>   | 98.2                    | -              | 98.2          |
| Cost of sales                            | -                       | -              | -            | <b>(78.0)</b>           | -              | <b>(78.0)</b> | (102.5)                 | -              | (102.5)       |
| Gross profit                             | -                       | -              | -            | <b>(4.3)</b>            | -              | <b>(4.3)</b>  | <b>(4.3)</b>            | -              | <b>(4.3)</b>  |
| <b>Administrative expenses</b>           | -                       | <b>(0.4)</b>   | <b>(0.4)</b> | <b>(4.9)</b>            | <b>(2.6)</b>   | <b>(7.5)</b>  | <b>(7.4)</b>            | <b>(2.0)</b>   | <b>(9.4)</b>  |
| <b>Operating loss</b>                    | -                       | -              | -            | <b>(9.2)</b>            | <b>(2.6)</b>   | <b>(11.8)</b> | <b>(11.7)</b>           | <b>(2.0)</b>   | <b>(13.7)</b> |
| Finance costs                            | -                       | -              | -            | <b>(1.1)</b>            | -              | <b>(1.1)</b>  | (1.6)                   | -              | (1.6)         |
| <b>Loss before tax</b>                   | -                       | <b>(0.4)</b>   | <b>(0.4)</b> | <b>(10.3)</b>           | <b>(2.6)</b>   | <b>(12.9)</b> | <b>(13.3)</b>           | <b>(2.0)</b>   | <b>(15.3)</b> |
| Income tax expense                       | -                       | -              | -            | <b>1.9</b>              | <b>(3.5)</b>   | <b>(1.6)</b>  | 0.2                     | (3.6)          | (3.4)         |
| <b>Loss from discontinued operations</b> | -                       | <b>(0.4)</b>   | <b>(0.4)</b> | <b>(8.4)</b>            | <b>(6.1)</b>   | <b>(14.5)</b> | <b>(13.1)</b>           | <b>(5.6)</b>   | <b>(18.7)</b> |

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 9 Discontinued operations and held for sale (continued)

##### Discontinued operations (continued)

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.3m (H1 2020: £1.1m outflow) and £nil in respect of investing activities (H1 2020: £12.5m received). There were £nil (H1 2020: £11.4m) cash outflows associated with financing activities attributable to Discontinued Operations.

##### Held for sale

In the prior period to 29 February 2020, the Tuffnells business unit met the definition of being held for sale and thus all its assets and liabilities were classified as such. The Tuffnells business was disposed of in May 2020 and therefore from that point no assets or liabilities relating to the Tuffnells business remain on the balance sheet. There were no other assets or liabilities held for sale in the current or prior period.

A summary of assets and liabilities held for sale is included in the table below:

| £m                                     | Period<br>ending 27<br>February<br>2021 | Period<br>ending 29<br>February<br>2020 | Period<br>ending 31<br>August<br>2020 |
|--|---|---|---------------------------------------|
| <b>Assets</b>                          |   |   |                                       |
| Property, plant and equipment          | -                                       | 12.3                                    | -                                     |
| Right of use assets                    | -                                       | 36.8                                    | -                                     |
| Inventories                            | -                                       | 0.6                                     | -                                     |
| Trade and other receivables            | -                                       | 20.0                                    | -                                     |
| <b>Total assets held for sale</b>      | -                                       | <b>69.7</b>                             | -                                     |
| <b>Liabilities</b>                     |   |   |                                       |
| Trade and other payables               | -                                       | (22.2)                                  | -                                     |
| Lease Liabilities                      | -                                       | (45.1)                                  | -                                     |
| Bank overdrafts and other borrowings   | -                                       | (10.1)                                  | -                                     |
| Provisions                             | -                                       | (4.5)                                   | -                                     |
| Retirement benefits obligation         | -                                       | (1.9)                                   | -                                     |
| <b>Total liabilities held for sale</b> | -                                       | <b>(83.8)</b>                           | -                                     |

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 10 Net Cash Inflow from Operating Activities

| £m  | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 | 52 weeks to<br>29 Aug 2020 |
|---|----------------------------|----------------------------|----------------------------|
| Continuing statutory operating profit               | 18.8                       | 10.3                       | 21.1                       |
| Discontinued operating loss                         | (0.4)                      | (11.8)                     | (13.7)                     |
| <b>Operating profit/(loss)</b>                      | <b>18.4</b>                | <b>(1.5)</b>               | <b>7.4</b>                 |
| Profit on disposal of property, plant and equipment | (0.2)                      | (1.5)                      | (1.4)                      |
| Impairment of Goodwill                              | -                          | 5.7                        | 5.7                        |
| Impairment of investments                           | -                          | 0.3                        | 0.3                        |
| Share of profits of jointly controlled entities     | (0.1)                      | (0.2)                      | 0.1                        |
| Profit on disposal of subsidiary                    | -                          | -                          | (1.8)                      |
| Pension funding                                     | -                          | (0.7)                      | (0.8)                      |
| Depreciation of property, plant and equipment       | 1.3                        | 1.4                        | 3.0                        |
| Depreciation of ROU assets                          | 3.1                        | 8.0                        | 11.0                       |
| Amortisation of intangible assets                   | 0.9                        | 1.1                        | 2.0                        |
| Impairment of Tuffnells assets                      | -                          | 2.6                        | 2.5                        |
| Share based payments                                | 0.4                        | 0.2                        | 0.4                        |
| (Increase)/Decrease in inventories                  | (1.2)                      | (1.3)                      | 2.2                        |
| (Increase)/Decrease in receivables                  | 9.3                        | (15.0)                     | 23.0                       |
| Increase/(Decrease) in payables                     | (13.8)                     | 13.2                       | (31.3)                     |
| (Decrease)/Increase in provisions                   | (2.2)                      | 0.4                        | 0.8                        |
| Non cash pension and admin costs                    | -                          | 0.2                        | 0.3                        |
| Net income tax (paid)/receipt                       | (2.8)                      | 0.3                        | -                          |
| <b>Net cash inflow from operating activities</b>    | <b>13.1</b>                | <b>13.2</b>                | <b>23.4</b>                |

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £1.3m (H1 2020: £1.1m outflow) and £nil was received in respect of investing activities (H1 2020: £12.5m received). There were £nil (H1 2020: £11.4m) cash outflows associated with financing activities attributable to Discontinued Operations.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 11 Intangible Assets

Goodwill is not amortised, but tested annually for impairment or more frequently if there are indications that goodwill might be impaired with the recoverable amount being determined from value in use calculations. The recoverable amounts of the combined cash generating units are determined from the value in use calculations.

As goodwill is written down to £nil, no impairment testing is required.

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

| £m                             | Goodwill       |         |         |         | Acquired Intangibles |         |         |         | Total          |            |            |         |
|--------------------------------|----------------|---------|---------|---------|----------------------|---------|---------|---------|----------------|------------|------------|---------|
|                                | On acquisition | H1 2021 | H1 2020 | FY 2020 | On acquisition       | H1 2021 | H1 2020 | FY 2020 | On acquisition | H1 2021    | H1 2020    | FY 2020 |
| DMD                            | 5.7            | -       | -       | -       | 2.6                  | -       | -       | -       | 8.3            | -          | -          | -       |
| Smiths News                    | -              | -       | -       | -       | 0.3                  | -       | -       | -       | 0.3            | -          | -          | -       |
| Tuffnells                      | 52.1           | -       | -       | -       | 58.1                 | -       | -       | -       | 110.2          | -          | -          | -       |
| <b>Total</b>                   | <b>57.8</b>    | -       | -       | -       | <b>61.0</b>          | -       | -       | -       | <b>118.8</b>   | -          | -          | -       |
| Other intangibles              |                |         |         |         |                      |         |         |         | 3.0            | 5.2        | 4.0        |         |
| <b>Total Intangible assets</b> |                |         |         |         |                      |         |         |         | <b>3.0</b>     | <b>5.2</b> | <b>4.0</b> |         |



## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 12 Cash and Borrowings

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

| £m   | Sterling      | Euro | USD | Other | Total<br>27 Feb<br>2021 | At 29<br>Feb 2020 | At 29<br>Aug<br>2020 |
|--|---------------|------|-----|-------|-------------------------|-------------------|----------------------|
| Cash and bank deposits                               | 9.0           | 0.5  | 0.3 | 0.2   | 10.0                    | 37.1              | 50.6                 |
| Overdrafts   | -             | -    | -   | -     | -                       | (16.0)            | (41.3)               |
| Revolving credit facility                            | -             | -    | -   | -     | -                       | (28.0)            | (39.0)               |
| Term loan – disclosed within current liabilities     | (21.3)        | -    | -   | -     | (21.3)                  | (49.5)            | (49.8)               |
| Term loan – disclosed within non-current liabilities | (56.7)        | -    | -   | -     | (56.7)                  | -                 | -                    |
| Total borrowings - continuing                        | (78.0)        | -    | -   | -     | (78.0)                  | (93.5)            | (130.1)              |
| Overdrafts – discontinued                            | -             | -    | -   | -     | -                       | (10.1)            | -                    |
| Total overdraft and borrowings                       | (78.0)        | -    | -   | -     | (78.0)                  | (103.6)           | (130.1)              |
| Unamortised arrangement fees                         | (2.0)         | -    | -   | -     | (2.0)                   | (0.6)             | (0.2)                |
| <b>Net borrowings</b>                                | <b>(71.0)</b> | 0.5  | 0.3 | 0.2   | <b>(70.0)</b>           | <b>(67.1)</b>     | <b>(79.7)</b>        |
| <b>Total borrowings</b>                              |               |      |     |       |                         |                   |                      |
| Amount due for settlement within 12 months           | (21.5)        | -    | -   | -     | (21.5)                  | (104.2)           | (130.3)              |
| Amount due for settlement after 12 months            | (58.5)        | -    | -   | -     | (58.5)                  | -                 | -                    |
|  | <b>(80.0)</b> | -    | -   | -     | <b>(80.0)</b>           | <b>(104.2)</b>    | <b>(130.3)</b>       |

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, AIB and Clydesdale and one new lender, Shawbrook Bank. The final maturity date of the new facility is 6 November 2023.

The terms of the new facility agreement include: an amortisation schedule of £15.0m 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 proposed move to buy-out of the Company's defined benefit pension scheme; and an absolute preclusion of payments of dividends in respect of FY 2020 and capped dividend payments thereafter for FY 2021 (up to £4m) and FY 2022 onwards (up to £6m per year).

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.

The current rate on the facility is 4.5% per annum over LIBOR (in respect of Facility A and the RCF) and 5.0% per annum over LIBOR (in respect of Facility B).

At 27 February 2021, the Company had £35.0m (29 February 2020: £108.4m) of undrawn committed borrowing and cash facilities in respect of which all conditions precedent had been met.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 12 Cash and Borrowings (continued)

##### Analysis of net debt

| £m  | As at          | As at          | As at          |
|---|----------------|----------------|----------------|
|   | 27 Feb 2021    | 29 Feb 2020    | 29 Aug 2020    |
| Cash and bank deposits  | 10.0           | 37.1           | 50.6           |
| Overdrafts – included in cash flow as cash and cash equivalents | -              | (16.0)         | -              |
| Cash and cash equivalents                                       | 10.0           | 21.1           | 50.6           |
| Overdrafts  | -              | -              | (41.3)         |
| Overdrafts – included within liabilities held for sale          | -              | (10.1)         | -              |
| Current borrowings  | (21.3)         | (77.5)         | (88.8)         |
| Non-current borrowings  | (56.7)         | -              | -              |
| <b>Net borrowings including unamortised arrangement fees</b>    | <b>(68.0)</b>  | <b>(66.5)</b>  | <b>(79.5)</b>  |
| Unamortised arrangement fees                                    | (2.0)          | (0.6)          | (0.2)          |
| <b>Net borrowings</b>   | <b>(70.0)</b>  | <b>(67.1)</b>  | <b>(79.7)</b>  |
| Lease liabilities*  | (31.3)         | (79.1)         | (33.4)         |
| <b>Net debt</b>   | <b>(101.3)</b> | <b>(146.2)</b> | <b>(113.1)</b> |

\* The Company's banking covenants are on a frozen GAAP basis. Bank Net Debt is net borrowings of £70.0m (H1 2020: £67.1m) and finance lease liabilities of £nil as defined by IAS 17 (H1 2020: £1.4m) to calculate Bank Net Debt of £70.0m (H1 2020: £68.5m).

The movement in net debt in the period includes £0.9m (H1 2020: £0.2m) loan fee amortisation and £2.8m of fees incurred as a result of the refinancing.

#### 13 Provisions

| £m                                | Provision for onerous contracts | Reorganisation provisions | Insurance and legal provision | Property provisions | Total        |
|-----------------------------------|---------------------------------|---------------------------|-------------------------------|---------------------|--------------|
| <b>At 29 August 2020</b>          | (0.9)                           | (2.7)                     | (1.8)                         | (3.9)               | (9.3)        |
| Additions                         | -                               | -                         | (0.4)                         | -                   | (0.4)        |
| Utilised in period                | -                               | 2.0                       | 0.9                           | 0.1                 | 3.0          |
| Released                          | 0.1                             | 0.1                       | -                             | -                   | 0.2          |
| Unwinding of discount utilisation | -                               | -                         | -                             | (0.1)               | (0.1)        |
| <b>At 27 February 2021</b>        | <b>(0.8)</b>                    | <b>(0.6)</b>              | <b>(1.3)</b>                  | <b>(3.9)</b>        | <b>(6.6)</b> |

  

| £m                                      | 27 Feb 2021  | 29 Feb 2020  | 29 Aug 2020  |
|---|--------------|--------------|--------------|
| Included within current liabilities     | (4.1)        | (3.5)        | (6.8)        |
| Included within non-current liabilities | (2.5)        | (2.6)        | (2.5)        |
| <b>Total</b>                            | <b>(6.6)</b> | <b>(6.1)</b> | <b>(9.3)</b> |

Reorganisation provisions are primarily in relation to redundancy costs that were accrued in the prior year as part of the Company's strategy to right size following the sale of Tuffnells.

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 £1.1m relating to claims from the Tuffnells business prior to disposal.

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

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 14 Contingent Liabilities

The Company has a potential liability that could crystallise in respect of previous assignments of leases where the liability could revert to the Company if the lessee defaulted. Pursuant to the terms of the Demerger Agreement from WH Smith PLC in 2006, any such contingent liability, which becomes an actual liability, will be apportioned between Smiths News PLC and WH Smith PLC in the ratio 35:65 (the actual liability of Smiths News PLC in any 12 month period is limited to £5m). The Company's share of such liability has an estimated future cumulative gross rental commitment at 27 February 2021 of £0.4m (29 August 2020: £0.6m).

As at 27 February 2021, the Company have an approved letter of credit of £5.0m to the insurers of the Company for the motor insurance and employer liability insurance policy. The letter of credit covers the employer deductible element of the insurance policy for insurance claims.

#### 15 Share Capital

##### a) Share capital

| £m  | 27 Feb 2021 | 29 Feb 2020 | 29 Aug 2020 |
|---|-------------|-------------|-------------|
| <b>Issued and fully paid ordinary shares of 5p each</b> |             |             |             |
| Opening balance   | 12.4        | 12.4        | 12.4        |
| Closing balance   | <b>12.4</b> | <b>12.4</b> | <b>12.4</b> |

##### b) Movement in share capital

| Number (m)          | Ordinary shares of 5p each |
|---------------------|----------------------------|
| At 30 August 2020   | 247.7                      |
| At 27 February 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 meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

##### c) Share premium

| £m                           | 27 Feb 2021 | 29 Feb 2020 | 29 Aug 2020 |
|------------------------------|-------------|-------------|-------------|
| Opening balance at 30 August | 60.5        | 60.5        | 60.5        |
| Closing balance              | <b>60.5</b> | <b>60.5</b> | <b>60.5</b> |

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 16 Related Party Transactions

No related party transactions had a material impact on the financial performance in the period or financial position of the Company at 27 February 2021. There have been no material changes to or material transactions with related parties as disclosed in Note 33 of the Annual Report and Accounts for the 52 week period ended 29 August 2020.

#### Key management compensation

Transactions between the Company and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Company's 2020 Annual Report. There have been no other material changes to the arrangements between the Company and key management personnel in the period.

#### 17 Reconciliation of free cash flow to net movement in cash and cash equivalents

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

|  | 27 Feb 2021   | 29 Feb 2020  | 29 Aug 2020   |
|--|---------------|--------------|---------------|
| Net (decrease)/increase in cash and cash equivalents | <b>(40.6)</b> | <b>13.2</b>  | <b>42.7</b>   |
| Decrease/(Increase) in borrowings and overdrafts     | <b>50.3</b>   | <b>(8.0)</b> | <b>(50.8)</b> |
| Movement in borrowings and cash                      | <b>9.7</b>    | <b>5.2</b>   | (8.1)         |
| Dividend paid  | -             | <b>2.4</b>   | 2.4           |
| Adjustment for pension funding                       | -             | <b>0.7</b>   | 0.8           |
| Tuffnells disposal costs                             | -             | -            | 3.7           |
| Receipt of Tuffnells Loan                            | <b>(6.7)</b>  | -            | -             |
| Payment of Tuffnells Loan                            | -             | -            | 6.5           |
| Net outflow on purchase of shares for EBT            | <b>0.4</b>    | <b>0.7</b>   | <b>0.7</b>    |
| Other  | <b>(0.1)</b>  | <b>0.1</b>   | -             |
| Total free cash flow                                 | <b>3.3</b>    | <b>9.1</b>   | <b>6.0</b>    |
| Discontinued free cash flow                          | <b>(1.3)</b>  | <b>4.1</b>   | (4.9)         |
| Continuing free cash flow                            | <b>4.6</b>    | <b>5.0</b>   | <b>10.9</b>   |

#### 18 Adjusted EBITDA (ex IFRS 16) continuing operations reconciliation

A reconciliation of operating profit to Adjusted EBITDA (ex IFRS 16) is included below:

| £m                            | 26 weeks to<br>27 Feb 2021 | 26 weeks to<br>29 Feb 2020 |
|-------------------------------|----------------------------|----------------------------|
| <b>Operating profit</b>       | <b>18.8</b>                | <b>10.3</b>                |
| Adjusted items                | 0.1                        | <b>9.6</b>                 |
| Depreciation and amortisation | 5.5                        | <b>5.0</b>                 |
| Adjusted EBITDA               | <b>24.4</b>                | <b>24.9</b>                |
| IAS 17 rental charge*         | (3.9)                      | <b>(3.2)</b>               |
| Adjusted EBITDA (exc IFRS 16) | <b>20.5</b>                | <b>21.7</b>                |

\* IAS 17 rental charge is the charge that would have occurred for leases defined as operating leases under IAS 17.

## Smiths News PLC

### Notes to the Condensed Unaudited Interim Financial Statements (continued)

For the 26 weeks to 27 February 2021

#### 19 Subsequent events

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.

At the balance sheet date, the Company does not recognise the £16.0m 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 conclusion of; a member consultation, pension regulator approval, settlement of the GMP liabilities which are outside the scope of the insurance policy and final acceptance from the Trustees.

If any surplus is returned to the Company it will be net of additional professional fees and tax which will be charged at a rate significantly higher than the Company’s effective tax rate and will materially reduce the surplus balance available to the Company.

## **Smiths News PLC**

### **Glossary – Alternative performance measures**

#### **Introduction**

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

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

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

#### **Purpose**

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

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

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

## Smiths News PLC

### Glossary – Alternative performance measures (continued)

The key APMs that the Company 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  |
|-----------------------------|--|--|--|---|
| <b>Income Statement</b>     |  |  |  |   |
| Adjusted Items              | No direct equivalent                     | N/A  | Note 4                                 | Are items of income or expense that are excluded in arriving at Adjusted operating profit. This enhances users understanding of the Company's performance as it aids the comparability of information between reporting periods and business units by adjusting for non-recurring or uncontrollable factors which affect IFRS measures. |
| Adjusted operating profit   | Operating profit*                        | Adjusted items   | Income statement/<br>Note 4            | Adjusted operating profit is defined as operating profit from continuing operations, excluding the impact of Adjusted items (defined above).  |
| Adjusted profit before tax  | Profit before tax (PBT)                  | Adjusted items   | Income statement/<br>Note 4            | Adjusted profit before tax is defined as profit before tax from continuing operations, excluding the impact of Adjusted items (defined above).  |
| Adjusted profit after tax   | Profit after tax (PAT)                   | Adjusted items   | Income statement/<br>Note 4            | Adjusted profit after tax is defined as profit after tax from continuing operations, excluding the impact of Adjusted items (defined above).  |
| Adjusted EBITDA (IFRS16)    | Operating profit*                        | Depreciation and amortisation<br>Adjusted items  | Note 18                                | This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and Adjusted items.  |
| Adjusted EBITDA (ex IFRS16) | Operating profit*                        | Depreciation and amortisation<br>Adjusted items  | Note 18                                | This measure is based on business unit operating profit from continuing operations. It excludes depreciation, amortisation and Adjusted items after deducting IAS 17 operating lease costs.<br><br>This is the headline measure of the Company's performance and is a key management incentive metric.                                  |
| Adjusted earnings per share | Earnings per share                       | Adjusted items   | Note 8                                 | Adjusted earnings per share is defined as continuing adjusted PBT, less taxation attributable to adjusted PBT and including any adjustment for minority interest to result in adjusted PAT attributable to shareholders; divided by the basic weighted average number of shares in issue.   |
| <b>Cash flow Statement</b>  |  |  |  |   |
| Free cash flow              | Cash generated from operating activities | Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments | Note 17                                | 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.  |
| <b>Balance Sheet</b>        |  |  |  |   |
| Bank net debt               | Borrowings less cash                     |  | Cash flow statement                    | Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases as defined by IAS 17.  |

|          |                      |  |                     |  |
|----------|----------------------|--|---------------------|--|
| Net debt | Borrowings less cash |  | Cash flow statement | Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans borrowings, overdrafts and lease liabilities. |
|----------|----------------------|--|---------------------|--|

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



## **Smiths News PLC**

### **INDEPENDENT REVIEW REPORT TO SMITHS NEWS PLC**

#### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the twenty six weeks period ended 27 February 2021 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Company Cash Flow Statement and the related notes to the Consolidated Unaudited Interim Financial Statements.

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

#### **Directors' responsibilities**

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

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

#### **Our responsibility**

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

#### **Scope of review**

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

## **Smiths News PLC**

### **INDEPENDENT REVIEW REPORT TO SMITHS NEWS PLC (CONTINUED)**

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the twenty six weeks period ended 27 February 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### **Use of our report**

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

BDO LLP  
Chartered Accountants  
London, UK  
04 May 2021

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