This announcement contains inside information

Smiths News plc
(Smiths News or the Company)
Unaudited Interim Financial Results for the 26 weeks ended 26 February 2022

Good performance delivering profit growth and strong net debt reduction

Resilient sales and a clear focus on our operational priorities have driven a good performance, with Adjusted profit growth, cash generation and Bank Net Debt reduction all showing progress in line with or ahead of expectations. Total revenue at -1.2% is a strong performance in the context of long-term trends, with a beneficial product mix resulting in a 2.9% increase in core sales margin. Achieving Bank Net Debt of below 1 x Adjusted EBITDA (ex IFRS16 leases) is ahead of the expectations announced in November 2021. The inflationary pressures outlined at that time continue to be balanced by a combination of favourable margin mix, additional revenues and structured cost control underpinning our confidence that full year performance will be in line with market expectations.

Adjusted continuing results (7)	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021	Change
Revenue	**£544.8m**	£551.6m	-1.2%
Adjusted EBITDA (ex IFRS16 leases) (4)	**£20.7m**	£20.5m	1.0%
Operating profit (1)	**£19.1m**	£18.9m	1.1%
Profit before tax (1)	**£15.3m**	£14.4m	6.3%
Earnings per share	**5.1p**	4.6p	10.9%
Statutory continuing results (7)			
Revenue	**£544.8m**	£551.6m	-1.2%
Profit before tax	**£14.6m**	£16.0m	-8.8%
Statutory profit	**£11.6m**	£13.0m	-10.8%
Earnings per share	**4.8p**	5.3p	-9.4%
Interim dividend per share	**1.4p**	Nil p	-
Free cash flow (2)	**£17.5m**	£4.6m	280.4%
Bank Net Debt (5)	**£38.8m**	£70.0m	-44.6%
Net debt (including IFRS16 leases) (5)	**£67.4m**	£101.3m	-33.5%

Headlines

- Performance in line with market expectations, with progress driven by favourable margin mix, structured cost control and additional revenues.
- Key performance measures of Adjusted EBITDA (ex IFRS16 leases), Free cash flow, Adjusted EPS and Bank Net Debt all show progress and are on track for the full year.
- Interim dividend of 1.4p representing an increase of 180% compared to the reinstated dividend of 0.5p announced in June 2021.
- Revenue of -1.2% reflects a historically strong performance from newspapers and magazines, with margins further benefiting from mix and one shot sales.
- Impact of inflationary costs in line with expectations, mitigated by a carefully structured programme to secure offsetting efficiencies and additional revenue streams.
- Successful extension and amendment of banking facilities in December 2021, enabling increased returns for shareholders in line with business performance.
- Bank Net Debt below 1 x Adjusted EBITDA (ex IFRS16 leases), has been achieved well ahead of the initial target, after benefiting from planned one off receipts totalling £14.6m.

Outlook

Building on a good first half, underlying trading for the year to date is in line with market expectations. The net impact of inflationary pressure remains consistent with our planning assumptions, while the cost mitigation programme and continued favourable sales mix means the business is on track to meet the market's expectations for the full year.

Jonathan Bunting, Chief Executive Officer, commented:
"The combination of resilient sales, well-structured cost planning and revenue gains has been the foundation of a pleasing first half performance. The delivery of growing and sustainable shareholder returns from the core business remains our top priority as demonstrated by the increase in the interim dividend."

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A recording of the presentation for analysts will be made available on the Company's website on the afternoon of Wednesday 4 May 2022 – see the Investor Zone section at https://smithsnews.co.uk

Notes

The Company uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'Bank Net Debt', 'free cash flow', '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 and including finance income 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 – Adjusting items of income or expense are excluded in arriving at Adjusted operating profit to present a further measure of the Company's performance. Each adjusting item is considered to be significant in nature and/or quantum, non-recurring in nature and/or considered to be unrelated to the Company's ordinary activities or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team. They are disclosed and described separately in Note 4 of the Interim Consolidated 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 and EBT share purchases.
(3) Operating cash flow is defined as operating profit adding back non-cash items amortisation, depreciation, share based payments, share of profits of jointly controlled entities, and non-cash pension costs, adjusting the increase/ decrease in working capital then deducting pension contributions and tax payments in accordance with its presentation in Note 10 of the Interim Consolidated Financial Statements.
(4) 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.
(5) 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.
(6) H1 2022 - refers to the 26 weeks ended 26 February 2022 and FY2022 refers to the 52 week period ending 27 August 2022. H1 2021 refers to the 26 week period ended 27 February 2021 and FY2021 refers to the 52 week period ended 28 August 2021.
(7) The Interim Results have been prepared and presented on a Continuing Operations basis after adjusting for the Discontinued Operations of the Tuffnells business, which was sold in May 2020.

Cautionary Statement
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 26 February 2022 and the Report and Accounts for the year ended 28 August 2021 which can be found on the Investor Zone section of the Smiths News plc website - https://smithsnews.co.uk. However, the contents of Smiths News plc's website are not incorporated into and do not form part of this document.

OPERATING REVIEW

Overview

Trading in the first half was characterised by resilient sales revenue on core newspapers and magazine categories, with margin benefitting from a favourable sales mix and further benefit to EBITDA from additional revenue streams (including from the leasing of spare warehouse space and an increase in contracted prices for the sale of waste paper).

Adjusted EBITDA (ex IFRS16 leases) of £20.7m was up 1.0% *(H1 2021: £20.5m)* from revenue of £544.8m, which was down 1.2% (*H1 2021: £551.6m)*. Core sales of newspapers and magazines continue to provide a relatively predictable bedrock of revenue, and while year on year comparisons are still complicated by prior year COVID-19 restrictions, overall trends are now stable in comparison to the fluctuations of the last two years.

The business has delivered strong cash flow in H1 2022 benefitting from £14.6m of one-off receipts, further reducing its borrowings so that Bank Net Debt is now below 1x EBITDA. As a consequence, an interim dividend of 1.4p per share has been proposed, representing an increase of 180% on the reinstated dividend of 0.5p per share announced in June 2021.

Sales resilience

The combined sales of newspapers and magazines are down compared to the prior year period by (-1.6%) with monthly magazines (+1.1%) performing better than newspapers (-2.9%) and weekly magazines (-2.6%). This represents a resilient performance in the context of historic long term trends. Total sales revenue has also benefited from a boost in higher margin one shots and specials (+45.2%) as traffic returned to high street stores. This favourable mix results in an increase in overall margin of 2.9% in the period.

While year on year comparisons are complicated by prior year COVID-19 restrictions, the overall trend is pleasing and reflects a re-stabilisation of the market after two years of relative volatility. We anticipate the recent ending of virtually all COVID-19 restrictions in the United Kingdom to be supportive of the gradual restoration of demand in high volume travel and commuting retailers, representing those sectors most impacted by the pandemic.

Inflationary pressure and mitigation

In addition to general cost inflation, virtually all distribution businesses have been impacted by three additional pressures: driver shortages and consequent wage/contractor inflation; national minimum wage increases; and fuel price rises. Our response has been structured and proportionate. Our well-established cost efficiency programme has continued, focused on maintaining service levels while seeking efficiencies and compensating new revenues.

Managing inflationary pressure continues to be a top operational priority. In line with the estimates we gave at our Preliminary Financial Results in November 2021 we currently expect the full year net impact to be in the region of £2.0m. The rise in national minimum wage and further increases in fuel prices largely as a result of the war in Ukraine will result in some annualised carry over to FY2023.

Capital management

On 2 November 2021 the Company received a payment of £6.5m in relation to the first instalment of deferred consideration arising from the sale of Tuffnells in May 2020. More recently (and following the balance sheet date), the Company has received a further payment of £7.5m on 29 April 2022 in full and final settlement of the deferred consideration, payment being received ahead of the second instalment due in August 2022 and the final instalment in May 2023. This sum will be used to pay down debt under the terms of the banking agreement.

In December 2021 the Company received a sum of £8.1m in consideration of the net cash surplus resulting from the winding up of the WHSmith Pension Trust (News section). More broadly, these funds represent the finalisation of the buy-out process, removing any potential future cash drain from legacy pension commitments.

In December 2021 the Company also favourably extended and amended its current banking agreements to comprise a £60.0m amortising term loan and a revolving credit facility with an initial limit of £30.0m. The agreement also increased the cap on dividends and distributions from £6m to £10m for each financial year during the term of the facilities, enabling the business to increase cash returns to shareholders.

Free cash flow and Bank Net Debt

Continuing free cash flow of £17.5m *(H1 2021: £4.6m)* benefitted from the receipts of the pension surplus (£8.1m) and Tuffnells deferred consideration (£6.5m), both of which were used to pay down debt under the terms of the previous banking agreements. Bank Net Debt of £38.8m *(H1 2021: £70.0m)* is equivalent to 0.9 x Adjusted EBITDA (ex IFRS16 leases) and the Company's average daily Bank Net Debt during H1 2022 was £58.9m, a decrease of 34.2% from the prior period *(H1 2021: £89.5m).* Looking ahead, management will continue to apply a prudent capital management policy, using excess free cash to meet the needs of all stakeholders through a balance of lower borrowings, investment in the business, and paying dividends within the distribution limits of our banking agreements.

Dividend

In the light of the good first half performance and the Board's confidence in ongoing trading, the Board has proposed an interim dividend of 1.4p per share, representing an increase of 180% on the reinstated dividend of 0.5p per share announced in June 2021. The dividend will be paid on 7 July 2022 to all shareholders who are on the share register at the close of business on 10 June 2022; the ex-dividend date will be 9 June 2022.

Outlook

Building on a good first half, underlying trading for the year to date is in line with market expectations. The net impact of inflationary pressure remains consistent with our planning assumptions, while the cost mitigation programme and continued favourable sales mix means the business is on track to meet the current market expectations for the full year.

FINANCIAL REVIEW

OVERVIEW

The Company has continued to generate good levels of profit and free cash flow since last year's interim report, which, along with the £8.1m receipt of pension surplus and £6.5m receipt of Tuffnells deferred consideration, have resulted in a reduction in Bank Net Debt to below 1x EBITDA *(H1 2022: 0.9x; H1 2021: 1.8x)*.

The solid base of cash generation and the amendment to the terms of the Company's banking facilities in December 2021 allows for an increase in the interim dividend to 1.4p per share (£3.3m) compared to 0.5p per share (£1.2m) announced in June 2021.

Adjusted EBITDA (ex IFRS16) of £20.7m and Adjusted operating profit of £19.1m were both up on H1 2021 by £0.2m, with the impact of inflationary pressures in the cost base more than offset by better wholesale margin and the benefit of additional revenue streams. While revenue decreased overall by 1.2% there was a mix benefit at a margin level from year on year increases in magazine and one shot sales.

At an Adjusted profit before tax level, 34.2% lower average debt resulted in £0.7m lower bank interest, contributing to a £0.9m increase to £15.3m *(H1 2021: £14.4m).*

Continuing free cash flow of £17.5m *(H1 2021: £4.6m)* benefitted from pension surplus (£8.1m) and Tuffnells (£6.5m) receipts, both of which were used to pay down debt under the terms of the previous banking agreement. A scheduled amortisation payment of £7.5m was also made in October 2021, allowing the facility to be resized at £90m at its amendment in December 2021, compared to £112.5m at the end of August 2021.

Closing Bank Net Debt of £38.8m is a reduction of £31.2m on H1 2021 (£70.0m) and Bank Net Debt: Adjusted EBITDA (ex IFRS16) is now 0.9x *(H1 2021: 1.8x)* after allowing for the payment of the FY2021 final dividend (£2.8m) in February 2022. Reported Bank Net Debt in the current and prior year period and at FY2021 year-end benefitted from the timing of c.£20m publisher payments which fell due in the following financial period. An interim dividend of 1.4p per share (£3.3m) is proposed by the Board, due to be paid in July 2022.

CONTINUING ADJUSTED RESULTS
GROUP

Continuing Adjusted results £m	**26 weeks to 26 Feb 2022**	**26 weeks to 27 Feb 2021**	Change
Revenue	**544.8**	551.6	(1.2)%
Adjusted EBITDA (ex IFRS 16)	**20.7**	20.5	1.0%
Operating profit	**19.1**	18.9	1.1%
Net finance costs	**(3.8)**	(4.5)	(15.6)%
Profit before tax	**15.3**	14.4	6.3%
Taxation	**(3.1)**	(3.0)	3.3%
Effective tax rate	***20.3%***	*20.8%*	*(50)bps*
Profit after tax	**12.2**	11.4	7.0%

Revenue was £544.8m *(H1 2021: £551.6m)*, down 1.2% on the prior year, a positive performance compared to the historic trend of c.3%-5%. Monthly magazines (+1.1%) and one shots (+45.2%) performed strongly against a prior year period which had been impacted by lockdowns, aided by successful releases of football stickers and Pokémon trading cards. Newspapers and weekly magazine sales revenue were both down c.3%, at the lower end of historic trends, having recovered faster after the initial COVID-19 lockdowns in H2 2020.

DMD revenue of £2.1m *(H1 2021: £1.8m)* was up £0.3m (16.7%) due to the easing of travel restrictions which impacted airlines and airports in H1 2021. DMD's operating profit of £0.1m was consistent with H1 2021 as the prior period benefitted from a £0.2m one off gain.

The increase in Adjusted operating profit of £0.2m to £19.1m *(H1 2021: £18.9m)* can be attributed to:

- Improvement in wholesale margin (£1.1m), driven by higher underlying revenue from monthly magazines and one shots (trading cards and stickers);
- The benefit of additional revenue streams (£1.5m) including the leasing of spare warehouse space and an increase in contracted prices for the sale of waste paper;
- Inflationary pressures (net impact £1.4m) affecting the depot cost base, particularly over the pre-Christmas peak period, offset by depot cost savings; and
- The impact of £1.1m of incidental items in H1 2022 and of one off items that benefitted the prior period which did not reoccur, for example strategic planning support costs in H1 2022 and the DMD lease exit in H1 2021 as mentioned above.

Net finance charges of £3.8m *(H1 2021: £4.5m)* were lower than the prior period by £0.7m due to lower average net debt.

Adjusted profit before tax was £15.3m, up 6.3% on H1 2021. Taxation of £3.1m indicates a marginally lower effective tax rate of 20.3% compared to the prior period *(H1 2021: 20.8%)* for continuing operations.

STATUTORY RESULTS
GROUP

Continuing Operations £m	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021	Change
Revenue	**544.8**	551.6	(1.2)%
Operating profit	**17.0**	18.8	(9.6)%
Net finance costs	**(2.4)**	(2.8)	(14.3)%
Profit before tax	**14.6**	16.0	(8.8)%
Taxation	**(3.0)**	(3.0)	-%
Effective tax rate	***20.5%***	*18.7%*	
Profit after tax	**11.6**	13.0	(10.8)%
Discontinued Operations £m			
Loss for the year from discontinued operations	**(0.1)**	(0.4)	(75.0)%
Profit attributable to equity shareholders continuing and discontinued operations	**11.5**	12.6	(8.7)%

Statutory Continuing profit before tax of £14.6m was a £1.4m decrease on the prior year *(H1 2021: £16.0m).* The decrease was primarily driven by the £1.6m of adjusting items in respect of the costs associated with the receipt of the pension surplus from the Trustee.

The Company has net liabilities of £38.7m on its balance sheet *(H1 2021: £69.0)*. The net liabilities arose largely as the result of impairments to the assets and goodwill of the Tuffnells business prior to its sale in May 2020.

EARNINGS PER SHARE

	Continuing Adjusted		Continuing Statutory	
	26 weeks to 26 Feb 2022	26 weeks to 27 Feb 2021	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021
Earnings attributable to ordinary shareholders (£m)	**12.2**	11.4	**11.6**	13.0
Basic weighted average number of shares (millions)	**240.7**	245.2	**240.7**	245.2
Basic Earnings per share	**5.1p**	4.6p	**4.8p**	5.3p
Diluted weighted number of shares (millions)	**252.0**	256.1	**252.0**	256.1
Diluted Earnings per share	**4.8p**	4.5p	**4.6p**	5.1p

Continuing Adjusted EPS of 5.1p, is an increase of 0.5p on the prior year driven by the improved trading of the business and lower interest charges.

Statutory continuing earnings per share, which includes adjusted items, is down 0.5p to 4.8p *(H1 2021: 5.3p)* and reflects the inclusion of a £1.6m pension administration charge in respect of indemnity insurances and pension wind up costs within profit, noting that the gross gain from the return of pension surplus is recorded in Other Comprehensive Income.

DIVIDEND

	26 weeks to 26 Feb 2022	26 weeks to 27 Feb 2021
Dividend per share (proposed)	**1.4p**	nil
Dividend per share (paid and recognised)	**1.15p**	nil

The Board is proposing an interim dividend of 1.4p per share, *(FY2021: 0.5p per share declared in June 2021)*. The proposed dividend will be paid on 7 July 2022 to shareholders on the register at close of business on 10 June 2022. The ex-dividend date will be 9 June 2022. While no dividend was proposed within the H1 2021 interim report, an interim dividend of 0.5p per share (£1.2m) was subsequently declared in June 2021 and paid in July 2021.

The FY2021 final dividend of 1.15p per share (£2.8m) was approved by shareholders at the Annual General Meeting on 20 January 2022, paid on 10 February 2022 and is recognised in the Group Financial Statements.

ADJUSTED ITEMS

Continuing Operations £m	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021
Transformation programme planning costs	**(0.6)**	-
Pensions	**(1.7)**	(0.2)
Network and reorganisation costs	**0.2**	0.1
Total before tax and interest	**(2.1)**	**(0.1)**
Finance income – unwind of deferred consideration	**1.4**	1.7
Total before tax	**(0.7)**	**1.6**
Taxation	**0.1**	-
Total after taxation	**(0.6)**	**1.6**

Adjusted items before tax of £0.7m were a £2.3m increase on the prior year period (H1 2021: £1.6m credit). The increase was due to £1.6m of additional costs in respect of the return of the net £8.1m pension surplus and £0.1m of costs incurred in respect of rationalising the Company's pension portfolio, £0.6m of costs related to strategic planning projects and £0.3m related to the lower unwind of the Tuffnells deferred consideration. Further information on these items can be found in Note 4 of the Group Financial Statements.

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

FREE CASH FLOW

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

£m	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021
Operating profit continuing (including Adjusted items)	**17.0**	18.8
Adjusting items	**2.1**	0.1
Depreciation & amortisation	**5.3**	5.5
Adjusted EBITDA (including IFRS 16)	**24.4**	24.4
Working capital movements	**(7.8)**	(4.8)
Capital expenditure	**(1.2)**	(0.6)

Lease payments	**(3.3)**	(2.9)
Net interest and fees	**(5.2)**	(6.3)
Taxation	**(3.4)**	(2.8)
Other	**0.4**	0.2
Free cash flow (excluding Adjusted items)	**3.9**	**7.2**
Adjusted items (cash effect) – return of pension surplus	**8.1**	-
Adjusted items (cash effect) – receipt of deferred consideration	**6.5**	-
Adjusted items (cash effect) – Other	**(1.0)**	(2.6)
Continuing Free cash flow	**17.5**	**4.6**

The Company generated £17.5m of free cash flow which was £12.9m higher than H1 2021 (£4.6m) due to the £8.1m receipt of pension surplus and £6.5m deferred consideration received from Tuffnells.

The increase in working capital in the year was £7.8m *(H1 2021: £4.8m)* due to the timing of period end compared to the billing cycles of both publishers and retailers. These cycles lead to intra-month working capital movements of up to £40m. Underlying working capital levels remain consistent with the prior year period.

Cash capital expenditure in the period was £1.2m *(H1 2021: £0.6m),* an increase of £0.6m due to depot refurbishments which were initiated at the end of FY2021.

Lease payments of £3.3m *(H1 2021: £2.9m)* have increased by £0.4m due to lease renewals and rent reviews signed during the period.

Net interest and fees of £5.2m *(H1 2021: £6.3m)* has decreased by £1.1m, due to the lower levels of net debt. Both the current and the prior year period included the payment of arrangement fees in relation to the Company's refinancing of its banking facilities *(H1 2022: £2.7m, H1 2021 £2.8m).*

Cash tax outflow of £3.4m was a £0.6m increase on the prior year period *(H1 2021: £2.8m outflow)* owing principally to the final payment in respect of the 2020 tax return in September 2021.

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

In November 2021 the first scheduled instalment of deferred consideration was received from Tuffnells (£6.5m).

The total net cash impact of other Adjusted items was a £1m outflow *(H1 2021: £2.6m outflow)*. This comprised: £0.8m *(H1 2021: £nil)* of Transformation programme planning costs; £0.1m *(H1 2021: £0.2m)* of Pension related costs and £0.1m *(H1 2021: £2.4m)* of Network and reorganisation costs.

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

NET DEBT

£m	**As at 26 Feb 2022**	**As at 27 Feb 2021**
Opening Bank Net Debt	**(53.2)**	**(79.7)**
Continuing operations free cash flow	**17.5**	**4.6**
Discontinued operations free cash flow	(0.3)	(1.3)
Free cash flow	**17.2**	**3.3**
Dividend paid	(2.8)	-
Purchase of own shares for employee share schemes	-	(0.4)
Discontinued operations – Tuffnells working capital loan	-	6.7
Other	-	0.1
Bank Net Debt	**(38.8)**	**(70.0)**

Bank Net Debt closed the period at £38.8m compared to £53.2m at August 2021, a decrease of £14.4m. The reduction in debt was driven by free cash flow from continuing operations of £17.5m as described above. These inflows were offset by the payment of the FY2021 final dividend of £2.8m in February 2022.

The Company's Bank Net Debt/EBITDA ratio decreased to 0.9x *(H1 2021: 1.8x, FY2021 1.2x).* The period end fell just before major publisher payments of c.£20m were made, which benefitted reported Bank Net Debt. Bank Net Debt rose to £61.5m on 28 February 2022 after the half year end. Following the balance sheet date, the Company received a payment of £7.5m on 29 April 2022 in full and final settlement of the deferred consideration arising from the sale of Tuffnells in May 2020. This sum will be used to pay down debt under the terms of the banking agreement.

The intra-month working capital cash flow cycle generates a routine and predictable cash swing of up to £40m within the overall bank facility of £90m at the period end. This results in a predictable fluctuation of net debt during the month compared to the closing net debt position. Our average daily Bank Net Debt during H1 2022 was £58.9m *(H1 2021: £89.5m)* a decrease of 34.2%.

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

The Bank Net Debt to EBITDA covenant of 0.9x is comfortably within our main leverage covenant ratio of 2.0x and we remain well within all our other bank covenant tests at period end.

A reconciliation of Bank Net Debt (which excludes the IFRS16 lease creditor and unamortised arrangement fees) to the balance sheet is provided in the Glossary.

GOING CONCERN

Having considered the Company's banking facility, the ongoing impact of COVID-19 and inflationary pressures within the macro economy and the funding requirements of the Group and Company, the directors are confident that headroom under our bank facility remains adequate, future covenant tests can be met and there is a reasonable expectation that the business can meet its liabilities as they fall due for a period of greater than 12 months (being an assessment period of 16 months) from the date of approval of the Group Financial Statements. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements and no material uncertainty has been identified.

PENSION SCHEMES

On 3 December 2021, the Company received the sum of £8.1m in respect of the net cash surplus held by the Trustee from the finalisation of the buy-out of the defined benefit liabilities in the News Section of the WH Smiths Pension Scheme. As agreed with the Trustee of the Scheme, the return of surplus preceded the formal winding up steps of the News Section - the winding up of the News Section being formally completed on 25 February 2022 through the purchase of insurance run-off cover and the payment of taxes owed to HMRC, which were settled by the Trustee.

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 the regular reporting to, and robust challenge from, both the Executive Team and Audit Committee. The directors' assessment of these principal risks is aligned to the strategic business planning process and regulatory landscape.

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

As part of the Board's ongoing assessment of the principal and emerging risks, the Board has considered the performance of the business, its markets, the changing regulatory landscape and the Company's future strategic direction and ambition. The directors have carried out a robust assessment of the Company's emerging and principal risks, including those that could threaten its business model, future performance, solvency or liquidity.

Risks are still subject to ongoing monitoring and appropriate mitigation.

The table 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 and potential impact	Mitigations	Strategic link/ change
Macro-economic uncertainty		
Deterioration in the macro-economic environment results in supply side cost inflation. The Company is presented with cost challenges in a number of areas which are being driven by increased competition in the distribution labour market and rises in fuel and commodity prices. These cost increases present a risk when they cannot be fully mitigated through increased prices or other productivity gains. This results in deterioration in the level of profitability in both the short and medium term, and impacts on the Company's ability to execute its strategies, including level of debt, liquidity objectives and returns to shareholders.	Annual budgets and forecasts take into account the current macro-economic environment to set expectations internally and externally, allowing for or changing objectives to meet short and medium term financial targets. Weekly cost monitoring enables oversight and action on a timely basis. Predictable level of volume decline within the core business enables cost optimisation planning. In the short term the Company has fixed energy contracts that mitigate current pricing volatility in the market. The Company continues to be significantly cash generating to support its strategic priorities.	Strategic link: Cost and efficiencies, Operations Change: **Heightened** Significant market uncertainty exists as a result of the conflict in Ukraine and continuing impact of COVID-19 on the wider indirect supply chain
Acquisition and retention of labour		
Due to the current competition in the distribution labour market, the Company is facing an increased risk of being unable to recruit and retain warehouse colleagues and support staff. The same pressures are also being felt in sourcing and retaining self-employed delivery sub-contractors. A failure to maintain an appropriate level of resourcing could result in increased costs, employee disengagement and/or loss of management focus and underpins the ability to address the strategic priorities and to deliver the forecast performance.	We seek to offer market competitive terms to ensure talent remains engaged. We offer long term contracts with our sub-contracted delivery partners. We use a variety of platforms to recruit colleagues and to engage self-employed contractors. The level of vacancies across warehouse and delivery contractors is monitored daily. We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and promote the Company's culture and core values. Retention plans are reviewed to address key risk areas, and attrition across the business is regularly monitored. Regular surveys are undertaken to monitor the engagement of colleagues.	Strategic link: People first, Culture and values, Costs and efficiencies Change: **No Change** The market continues to be challenging, however the measures put in place have successfully stablised the risk.
IT infrastructure and cyber security		
To meet the needs of our stakeholders, our IT infrastructure needs to be flexible, reliable and secure. Secure infrastructure prevents external cyber-attack, insider threat or supplier breach which could cause service interruption and/or the loss of Company and customer data. Cyber incidents could lead to major adverse customer, financial, reputational and regulatory impacts. Flexible and reliable IT infrastructure means the Company is able to meet its strategic goals and react quickly to changing events. The lack of this could lead to the Company being unable to execute its strategic goals.	Defined risk based approach to the information security roadmap and technology strategy which is aligned to the strategic plans. Regular tracking of key programmes against spend targets and delivery dates. The Company assesses cyber risk on a day to day basis, using proactive and reactive information security controls to mitigate common threats. Dedicated information security investments and access to third-party cyber security specialists. The Company encourages a cyber aware culture by undertaking exercises such as computer-based training and more regular communications about specific cyber threats.	Strategic link: Technology Change: **No Change** The Company continues to invest in its infrastructure, however the background risk remains high.

Legal and regulatory compliance		
The Company is required to be compliant with all applicable laws and regulations. Failure to adhere to these could result in financial penalties and/or reputational damage. Key areas of legal and regulatory compliance include: GDPR Health & Safety Tax compliance Environmental legislation Employment law	Changes in laws and regulations are monitored with policies and procedures being updated as required. Business-wide mandatory training programmes are in place for higher risk regulatory areas. External experts are used where applicable. All major policies are reviewed by the Board or Audit Committee on an annual basis. Operational auditing and monitoring systems for higher risk areas.	Strategic link: Technology, Sustainability, Operations Change: **No Change** The Company has a well managed process for monitoring changes in legislation and complying with them.

Responsibility Statement

We confirm that to the best of our knowledge:

- the unaudited condensed set of financial statements has been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting';
- 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 3 May 2022	Paul Baker Chief Financial Officer 3 May 2022

Smiths News plc
Condensed Consolidated Income Statement (Unaudited)
For the 26 weeks to 26 February 2022

£m	Note	26 weeks to 26 Feb 2022			26 weeks to 27 Feb 2021			Audited 52 weeks to 28 Aug 2021		
		Adjusted	Adjusted items (Note 4)	Total	Adjusted	Adjusted items (Note 4)	Total	Adjusted	Adjusted items (Note 4)	Total
Continuing Operations										
Revenue	3	**544.8**	**-**	**544.8**	**551.6**	**-**	**551.6**	**1,109.6**	**-**	**1,109.6**
Cost of Sales		**(508.0)**	**-**	**(508.0)**	(515.9)	-	(515.9)	(1,036.2)	-	(1,036.2)
Gross profit		**36.8**	**-**	**36.8**	**35.7**	**-**	**35.7**	**73.4**	**-**	**73.4**
Administrative expenses		**(17.9)**	**(2.1)**	**(20.0)**	(16.9)	(0.1)	(17.0)	(33.9)	(1.9)	(35.8)
Income from joint ventures		**0.2**	**-**	**0.2**	0.1	-	0.1	0.1	(0.3)	(0.2)
Impairment of joint venture investment		**-**	**-**	**-**	-	-	-	-	(1.6)	(1.6)
Operating profit/(loss)	3	**19.1**	**(2.1)**	**17.0**	**18.9**	**(0.1)**	**18.8**	**39.6**	**(3.8)**	**35.8**
Finance costs		**(3.8)**		**(3.8)**	(4.5)	-	(4.5)	(8.8)	-	(8.8)
Finance Income		**-**	**1.4**	**1.4**	-	1.7	1.7	0.1	3.5	3.6
Profit before tax	3	**15.3**	**(0.7)**	**14.6**	**14.4**	**1.6**	**16.0**	**30.9**	**(0.3)**	**30.6**
Income tax (expense)/credit	6	**(3.1)**	**0.1**	**(3.0)**	(3.0)	-	(3.0)	(4.6)	0.3	(4.3)
Profit/(loss) for the period from Continuing Operations		**12.2**	**(0.6)**	**11.6**	**11.4**	**1.6**	**13.0**	**26.3**	**-**	**26.3**
Discontinued Operations										
Loss for the period from Discontinued Operations	9	**-**	**(0.1)**	**(0.1)**	**-**	**(0.4)**	**(0.4)**	**-**	**(0.1)**	**(0.1)**
Profit/(loss) attributable to equity shareholders Continuing and Discontinued Operations		**12.2**	**(0.7)**	**11.5**	**11.4**	**1.2**	**12.6**	**26.3**	**(0.1)**	**26.2**

	Note	26 weeks to 26 Feb 2022		26 weeks to 27 Feb 2021		Audited 52 weeks to 28 Aug 2021	
Earnings in pence per share from Continuing Operations							
Basic	8	**5.1**	**4.8**	4.6	5.3	10.8	10.8
Diluted	8	**4.8**	**4.6**	4.5	5.1	10.3	10.3
Earnings in pence per share total							
Basic	8	**5.1**	**4.8**	4.6	5.1	10.8	10.8
Diluted	8	**4.8**	**4.6**	4.5	4.9	10.3	10.3
Equity dividends pence per share	**7**		**1.4**		**nil**		**1.65**

Condensed Consolidated Statement of Comprehensive Income (Unaudited)
For the 26 weeks to 26 February 2022

£m	Note	26 weeks to 26 Feb 2022	26 weeks to 27 Feb 2021	Audited 52 weeks to 28 Aug 2021
Continuing				

Items that will not be reclassified to the Income Statement:				
Reassessment as to recoverability of retirement benefit scheme surplus	5	**14.8**	0.1	0.4
Tax relating to components of other comprehensive income that will not be reclassified	**5**	**(5.1)**	-	0.2
		9.7	0.1	0.6
Other comprehensive income for the period - Continuing		**9.7**	**0.1**	**0.6**
Profit for the period – Continuing		**11.6**	13.0	26.3
Total comprehensive income for the period - Continuing		**21.3**	**13.1**	**26.9**
Other comprehensive income for the period Discontinued		**-**	-	-
Loss for the year – Discontinued		**(0.1)**	(0.4)	(0.1)
Total comprehensive loss for the period - Discontinued		**(0.1)**	**(0.4)**	(0.1)
Total comprehensive income for the period attributable to shareholders:		**21.2**	**12.7**	**26.8**

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

Consolidated Balance Sheet (Unaudited)

As at 26 February 2022

£m	**Note**	**As at 26 Feb 2022**	As at 27 Feb 2021	Audited As at 28 Aug 2021
Non-current assets				
Intangible assets	11	**2.0**	3.0	2.3
Property, plant and equipment		**8.3**	8.1	9.4
Right of use assets		**27.7**	30.7	28.4
Interest in joint venture		**3.0**	4.8	2.9
Other receivables		**-**	3.2	2.3
Deferred tax assets		**1.7**	0.8	1.8
		42.7	**50.6**	**47.1**
Current assets				
Inventories		**14.6**	15.2	13.2
Trade and other receivables		**106.0**	98.4	106.6
Cash and bank deposits	12	**24.3**	10.0	19.3
		144.9	**123.6**	**139.1**
Total assets		**187.6**	**174.2**	**186.2**
Current liabilities				
Trade and other payables		**(131.3)**	(125.4)	(136.5)
Current tax liabilities		**-**	(1.9)	(0.3)
Lease Liabilities		**(6.1)**	(5.9)	(5.9)
Bank overdrafts and other borrowings	12	**(13.3)**	(21.3)	(21.2)
Provisions	13	**(2.4)**	(4.1)	(3.6)
		(153.1)	**(158.6)**	**(167.5)**
Non-current liabilities				
Bank loans and other borrowings	12	**(46.9)**	(56.7)	(50.1)
Non-current provisions	13	**(3.8)**	(2.5)	(3.0)

Lease Liabilities		**(22.5)**	(25.4)	(23.3)
		(73.2)	**(84.6)**	**(76.4)**
Total liabilities		**(226.3)**	**(243.2)**	**(243.9)**
Total net liabilities		**(38.7)**	**(69.0)**	**(57.7)**
Equity				
Called up share capital	15	**12.4**	12.4	12.4
Share premium account	15	**60.5**	60.5	60.5
Other reserves		**(282.1)**	(281.5)	(283.6)
Retained earnings		**170.5**	139.6	153.0
Total shareholders' equity		**(38.7)**	**(69.0)**	**(57.7)**

Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the 26 weeks to 26 February 2022

£m	Note	Share Capital	Share Premium Account	Other Reserves	Retained Earnings	Total equity
Balance at 29 August 2020		12.4	60.5	(281.5)	127.0	(81.6)
Profit for the period		-	-	-	12.6	12.6
Remeasurements of retirement benefit schemes		-	-	-	0.1	0.1
Total comprehensive income for the period		-	-	-	12.7	12.7
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
Balance at 27 February 2021		**12.4**	**60.5**	**(281.5)**	**139.6**	**(69.0)**
Profit for the period		-	-	-	13.6	13.6
Actuarial gain on defined benefit pension scheme		-	-	-	0.3	0.3
Tax relating to components of other comprehensive income		-	-	-	0.2	0.2
Total comprehensive income for the period		-	-	-	14.1	14.1
Dividends Paid		-	-	-	(1.2)	(1.2)
Employee share schemes purchases		-	-	(2.2)	-	(2.2)
Employee share schemes awards		-	-	0.1	(0.1)	-
Recognition of share-based payments		-	-	-	0.6	0.6
Balance at 28 August 2021		**12.4**	**60.5**	**(283.6)**	**153.0**	**(57.7)**
Profit for the period		**-**	**-**	**-**	**11.5**	**11.5**
Actuarial gain on defined benefit pension scheme		**-**	**-**	**-**	**14.8**	**14.8**
Tax relating to components of other comprehensive income		**-**	**-**	**-**	**(5.1)**	**(5.1)**
Total comprehensive income for the period		**-**	**-**	**-**	**21.2**	**21.2**
Dividends Paid		**-**	**-**	**-**	**(2.8)**	**(2.8)**
Employee share schemes awards		**-**	**-**	**1.5**	**(1.5)**	**-**
Recognition of share-based payments		**-**	**-**	**-**	**0.6**	**0.6**
Balance at 26 February 2022		**12.4**	**60.5**	**(282.1)**	**170.5**	**(38.7)**

Condensed Consolidated Cash Flow Statement (Unaudited)

For the 26 weeks to 26 February 2022

£m	Note	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021
Net cash from operating activities	10	**20.3**	**13.1**	**41.4**
Investing activities				
Dividends from joint ventures		**0.1**	0.1	0.2
Capital expenditure		**(1.2)**	(0.6)	(2.4)
Loan receipts		**-**	6.5	6.5
Deferred consideration receipts		**6.5**	-	-
Interest receivable		**-**	0.2	0.1
Net cash received in investing activities		**5.4**	**6.2**	**4.4**
Financing activities				
Interest paid		**(2.5)**	(3.5)	(6.8)
Arrangement fees paid		**(2.7)**	(2.8)	(2.7)
Dividends paid		**(2.8)**	-	(1.2)
Repayments of leases		**(3.3)**	(2.9)	(5.9)
Purchase of share for employee benefit trust		**-**	(0.4)	(2.6)
Repayment of term loan and revolving credit facility		**(50.4)**	(80.0)	(57.5)
New loans issued		**60.0**	80.0	80.0
Net (decrease) in borrowings		**(19.0)**	(50.3)	(80.2)
Net cash used in financing activities		**(20.7)**	**(59.9)**	**(76.9)**
Net increase/(decrease) in cash and cash equivalents		**5.0**	**(40.6)**	**(31.1)**
Effect of foreign exchange rate changes		**-**	-	(0.2)
		5.0	**(40.6)**	**(31.3)**
Opening net cash and cash equivalents		**19.3**	50.6	50.6
Closing net cash and cash equivalents		**24.3**	**10.0**	**19.3**

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £0.3m *(H1 2021: £1.3m outflow)* and £nil was received in respect of investing activities *(H1 2021: £nil received).* There were £nil *(H1 2021: £nil)* cash outflows associated with financing activities attributable to Discontinued Operations.

Notes to the Condensed Unaudited Interim Financial Statements

For the 26 weeks to 26 February 2022

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 UK-adopted IAS 34 'Interim Financial Reporting' and also in accordance with the measurement and recognition principles of UK adopted international accounting standards. They do not include all of the information required for full annual financial statements and should be read in conjunction with the 2021 Annual Report and Accounts. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into the UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted international accounting standards in its consolidated financial statements for the 52 week period ending 27 August 2022. There was no impact or changes in accounting from the transition. The financial period represents the 26 weeks ended 26 February 2022 (prior financial period 26 weeks to 27 February 2021, prior financial period 52 weeks ended 28 August 2021).

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 period has been filed with the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006 issued by BDO LLP. The auditors review opinion on the 26 weeks period ended 26 February 2022 is at the end of this report.

A) Discontinued Operations

On 28 February 2020, the Board concluded that 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'. On 2 May 2020 Tuffnells was sold, but 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, held as provisions, the movement on which has passed through the income statement in the period. The net results of Discontinued Operations are presented separately in the consolidated income statement.

B) Going concern

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

The Company currently has a net liability position of £38.7m as at 26 February 2022. All bank covenant tests were met at the period end with the key Bank Net Debt: EBITDA (ex IFRS16) ratio of 0.9x, below the facility agreement covenant test threshold of 2.0x reducing by 0.25x to 1.75x at 25 February 2023.

The intra-month working capital cash flow cycle generates a routine and predictable cash swing of up to £40m, the Company utilises the Revolving Credit Facility (RCF) to manage this, £27.0m of the RCF remains available at the period end. This results in a predictable fluctuation of Bank Net Debt during the month compared to the closing Bank Net Debt position. Our average daily Bank Net Debt during H1 2022 was £58.9m *(*H1 2021: £89.5m*).*

Bank facility

The Company has a facility of £90 million, comprising a £60 million amortising term loan ('Facility A') and a £30 million revolving credit facility ('RCF'). The agreement is with a syndicate of banks comprising lenders HSBC, Barclays, Santander and Clydesdale Banks.

The facility's current margin is 4.25% per annum, plus SONIA (in respect of Facility A and the RCF).

Consistent with the Company's stated strategic priorities to reduce net debt, the terms of the facility agreement include: agreed repayments against Facility A arising from funds received in relation to deferred consideration received following the sale of Tuffnells and any disposal proceeds, plus an amortisation schedule of £3.0m in the remainder of FY2022, £8m in FY2023 and then £10m in FY2024 and FY2025 respectively for the repayment of Facility A and a final bullet payment; and capped dividend payments of up to £10m in respect of any financial year. The RCF will reduce by £5m in November 2022 and then by £2.5m every 6 months from February 2023 onwards. As part of the terms of the financing, the Company and its principal trading subsidiaries have agreed to provide security over their assets to the lenders.

Any remaining balances will be repaid on or before the final maturity date of the facility which is 31 August 2025.

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 February 2023 if EBITDA (ex IFRS 16) was 40% below expectations and the deferred consideration from the sale of Tuffnells was not received. The directors consider the likelihood of this level of downturn and non-receipt to be remote based on:

- current trading which is in line with expectations;
- year-on-year declines in revenues would have to be significantly greater than historical trends;
- the contracts are secured with publishers until at least 2024;
- banking facilities extend to August 2025; and
- the Company continues to trade with adequate profit to service its debt covenants.

Mitigating actions

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

- optimise liquidity by working capital management of the peak-to-trough intra-month movement of up to £40m. Utilising existing vendor management finance arrangements* with retailers and optimising contractual payment cycles to suppliers which would improve liquidity headroom;
- not pay planned dividend payments;
- delay non-essential capex projects;
- cancel discretionary annual bonus payments; and
- identify other overhead and depot savings.

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

*The Company has vendor finance arrangements in place where it has the ability to request early payment of invoices at a small discount, the payments are non-recourse and the invoices are considered settled from both sides once payment is received. The Company has not made use of this facility in FY2022 nor FY2021.

Assessment

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

2 Accounting Policies

Adoption of new IFRSs

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

Alternative performance measures

In reporting financial information, the Company presents alternative performance measures (APMs), which are not defined or specified under the requirements of IFRS and therefore may not be directly comparable to similar measures presented by other companies.

The Company believes that these APMs (listed in the Glossary), are not considered to be a substitute for, or superior to, IFRS measures but provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Team.

Estimates and judgements

The preparation of these accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Key accounting judgements

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

Retirement benefit obligations

During the period, the Trustee reached the position where it was advised that it could legally distribute the pension cash surplus to the employer as it had completed activities to trace former members of the Trust impacted by the GMP ruling. This gave the Company an unconditional right to the surplus asset and as such the IAS 19 pre-tax surplus of £14.8m has been recognised through other comprehensive income in H1 2022 and the IFRIC14 ceiling eliminated. Subsequently, the Company received the sum of £8.1m, the value of the surplus net of tax and costs on 3 December 2021.

As agreed with the Trustee, the return of the surplus preceded the formal winding up steps of the News Section of the pension scheme, with the winding up of the scheme formally being completed on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC by the Trustee.

As part of the closure of the scheme the Company agreed to deposit £1.3m of the pension surplus into an escrow account to fund the insurance costs for the Trustee and the outstanding liability to former members in respect of the Lloyds GMP ruling in November 2020. The funds held in escrow are not considered an asset of the Company and are not recognised on the balance sheet. The cost of the insurances have been recognised through administration expenses in the income statement and treated as an Adjusted item.

The Company has agreed run-off indemnity coverage for any member claims that are uninsured liabilities capped at £6.5m over the next 60 years. This potential liability is considered a contingent liability at the period end and reported as such.

Tuffnells deferred consideration

In H1 2022, Tuffnells Holdings Limited (formerly Palm Bidco Limited (THL)) approached the Company regarding the outstanding deferred consideration payable following the acquisition of Tuffnells in May 2020. Mindful of the current macro-economic climate and to extinguish any further liability or outstanding arrangements with THL, the Board agreed revised terms such that the Company will accept £7.5m in full and final settlement of the outstanding deferred consideration where received on or before 2 August 2022 (Note 9 for further details). If payment of £7.5m is not received on or before 2 August 2022, the terms revert back to the original agreement with a total of £8.5m payable in two equal tranches of £4.25m with the first due on or prior to 2 August 2022 and the second due on or prior to 2 May 2023.

The carrying value of the deferred consideration as at the balance sheet date has been assessed in light of the revised terms, expected timing of the cashflows and amended discount rate and there is no material impact.

The Company has performed sensitivity analysis on the carrying value of the deferred consideration as at the balance sheet date using the possible scenarios below:

- If the assumption for the likely timing of the cash receipt is accelerated by one month, the impact as at H1 2022 would be a £0.4m increase in the carrying value of the Tuffnells deferred consideration receivable and a credit to finance income of the same amount; and

- If the assumption for the likely timing of the cash receipt is accelerated by three months, the impact as at H1 2022 would be a £0.7m increase in the carrying value of the Tuffnells deferred consideration receivable and a credit to finance income of the same amount.

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. Since the discontinuation of the Tuffnells business, management consider that due to size there is now only one Continuing segment that meets the IFRS 8 criteria.

4 Adjusted Items

The table below summarises the (costs) / income that have been classified as Adjusted items in the period:

£m		**26 weeks to 26 Feb 2022**			26 weeks to 27 Feb 2021			52 weeks to 28 Aug 2021		
	Note	Continuing	Discontinued	Total	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Transformation programme planning costs	**(a)**	**(0.6)**	**-**	**(0.6)**	-	-	-	(1.1)	-	(1.1)
Pension	**(b)**	**(1.7)**	**-**	**(1.7)**	(0.2)	-	(0.2)	(1.0)	-	(1.0)
Network and re-organisation costs	**(c)**	**0.2**	**-**	**0.2**	0.1	-	0.1	0.1	-	0.1
Share of loss from joint ventures	**(d)**	**-**	**-**	**-**	-	-	-	(0.3)	-	(0.3)
Asset impairments	**(e)**	**-**	**-**	**-**	-	-	-	(1.6)	-	(1.6)
Review and sale of Tuffnells	**(f)**	**-**	**(0.1)**	**(0.1)**	-	(0.4)	(0.4)	-	(0.6)	(0.6)
VAT Refund	**(g)**	**-**	**-**	**-**	-	-	-	-	0.4	0.4
Other		**-**	**-**	**-**	-	-	-	0.1	-	0.1
Total before tax and interest		**(2.1)**	**(0.1)**	**(2.2)**	**(0.1)**	**(0.4)**	**(0.5)**	**(3.8)**	**(0.2)**	**(4.0)**
Finance income – unwind of deferred consideration	**(h)**	**1.4**	**-**	**1.4**	1.7	-	1.7	3.5	-	3.5
Total before tax		**(0.7)**	**(0.1)**	**(0.8)**	**1.6**	**(0.4)**	**1.2**	**(0.3)**	**(0.2)**	**(0.5)**
Taxation		**0.1**	**-**	**0.1**	-	-	-	0.3	0.1	0.4
Total after taxation		**(0.6)**	**(0.1)**	**(0.7)**	**1.6**	**(0.4)**	**1.2**	**-**	**(0.1)**	**(0.1)**

Adjusted items on a continuing basis for the period totalled a cost £0.6m after tax for the period, compared to £1.6m credit in the prior period.

Adjusted items are defined in the Glossary. In the directors' opinion, removing these items from Adjusted profit provides a relevant analysis of the trading results of the Company because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team. However, these additional measures are not intended to be a substitute for, or superior to, IFRS measures. They comprise:

a) **Transformation programme planning costs £0.6m *(H1 2021: £nil, FY 2021: £1.1m)***
The Company continued to incur professional fees in relation to strategic planning projects which will be concluded in H2 2022. These costs are reported as adjusting items on the basis that they are significant in both nature and quantum and are non-recurring in nature.

b) **Pensions £1.7m *(H1 2021: £0.2m, FY 2021: £1.0m)***
The Trust completed the wind-up of the News Section of the WH Smith Pension Trust (the Company's defined benefit pension scheme), with a Deed of Termination signed by the Company and the Trustee on 25 February 2022.

As part of the wind up, £1.3m was paid to an escrow account in December 2021 for the Trustee to purchase indemnity insurance and to cover future claims from former members owed amounts following the Lloyds GMP ruling in November 2020. The monies paid into the escrow account have been accounted for as an Adjusted item through the income statement. The winding up of the News Section was formally completed on 25 February 2022 through the purchase of insurance run-off cover at a cost of £0.1m less than the amount held in the escrow account. This amount has been credited to the Adjusted items in the Income statement.

In H1 2022, the Company incurred £0.4m (*H1 2022: £0.2m*) in pension administrative expenses and other professional fees as a result of the winding up process.

Costs of £0.1m (*H1 2021: £0.4m*) were incurred in the rationalisation of the Company's pension portfolio.

These costs are reported as adjusting items on the basis they are significant in both nature and quantum and are unrelated to the Group's ordinary activities.

c) **Network and re-organisation credits £0.2m *(H1 2021: £0.1m, FY 2021: £0.1m)***
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 £0.2m *(H1 2021: £0.1m, FY 2021: £0.1m)* of this provision in the current period.

These costs are reported as adjusting items on the basis that the original provision was reported as adjusting.

d) **Share of profit of joint ventures £nil *(H1 2021: £nil, FY 2021: £0.3m)***
During the period ended 28 August 2021 Rascal Solutions Limited, one of the Company's joint ventures wrote off an intangible asset in its own accounts as it considered it to have no future economic value. There has been no significant asset impairments or write downs in the current period.

These costs are considered adjusting because they are significant to the investment in Rascal, are non-recurring in nature and to aid comparability between periods.

e) **Asset Impairments £nil *(H1 2021: £nil, FY 2021: £1.6m)***
During the period ended 28 August 2021 the Company reviewed the business plan for its Rascal joint venture and assessed that its investment had been impaired by £1.6m. In the current period Rascal has performed in line with expectations and no further impairment loss or reversal is indicated.

The Company considers the impact to be adjusting given the impairment charge is significant in both quantum and nature to the results of the Company.

f) **Review and sale of Tuffnells £0.1m *(HY 2021: £0.4, FY 2021: £0.6m)***
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 £0.1m *(HY 2021: £0.4m, FY 2021: £0.6m)* of costs were recognised due to clarification of the likely settlement costs of existing claims.

These costs are considered adjusting because they are unrelated to the Company's ordinary activities and to aid comparability between periods.

g) **VAT refund £nil *(HY 2021: £nil, FY 2021: £0.4m)***
During the period ended 28 August 2021 the Company received a refund of VAT previously considered as non-recoverable on prior disposals of businesses previously owned by the Group.

This income was reported as adjusted based on its quantum and that it was unrelated to the Group's ordinary activities.

h) **Finance income – deferred consideration £1.4m income *(H1 2021: £1.7m, FY 2021: £3.5m)***
During the current period, £1.4m of finance income has been recognised in relation to the unwind of the discount on the Tufnells 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.

5 Retirement Benefit Obligation

Defined benefit pension schemes

In the period the Company was responsible for one defined benefit scheme, the WH Smith Pension Trust (the 'Pension Trust'). On 25 February 2022 the scheme was wound-up with a Deed of Termination being signed by the Company and the Trustee at that date.

The amounts recognised in the balance sheet are as follows:

£m	**As at 26 Feb 2022**	As at 27 Feb 2021	As at 28 Aug 2021
Present value of defined benefit obligation	-	(470.4)	(0.1)
Fair value of assets	-	486.4	14.9
Net surplus	-	**16.0**	**14.8**
Amounts not recognised due to asset limit	-	(16.0)	(14.8)
Pension liability	-	-	-

The IAS 19 pre-tax surplus of £14.8m has been recognised through other comprehensive income in H1 2022 after the Trustee confirmed its intention to return the surplus cash to the employer giving the Company an unconditional right to the surplus. The asset was not previously recognised as the Company did not have an unconditional right to the surplus and, therefore, the net surplus in the scheme was restricted with an IFRIC 14 asset ceiling, which has now been reversed.

On 3 December 2021, the Company received the sum of £8.1m in respect of the net cash surplus held by the Trustee following finalisation of the buy-out of the defined benefit liabilities in the News Section of the Trust. As agreed with the Trustee, the return of surplus preceded the formal winding up steps of the News Section, the winding up of the News Section being formally completed on 25 February 2022 through the purchase of insurance run-off cover and payment of taxes owed to HMRC.

The pension surplus of £8.1m (net of tax and costs) received was recognised as cash on the balance sheet and in accordance with the requirements of the banking agreement, this cash has been used to repay existing debt.

The tax charge which represents 35% of the surplus (£5.1m) has been treated in accordance with the recognition of the surplus and recognised through other comprehensive income. The liability was extinguished in January 2022 when the Trustee paid the outstanding tax balance on behalf of the Company.

The Company had agreed to deposit £1.3m of the pension surplus into an escrow account to fund the insurance costs for the Trustee and the outstanding liability to former members in respect of the Lloyds GMP ruling in November 2020. The funds held in escrow are not considered an asset of the Company and are not recognised on the balance sheet. The cost of the insurances have been recognised through administration expenses in the income statement and treated as an Adjusted item.

During the period £0.4m of administration expenses were incurred by the Trustee to obtain legal and consulting advice before the surplus of £8.1m could be refunded. These administration costs have been recognised in the income statement as an Adjusted item.

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

% p.a.	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021
Discount rate	**N/a**	1.80%	1.95%
Inflation assumptions – CPI	**N/a**	2.70%	2.80%

Inflation assumptions – RPI	**N/a**	3.30%	3.40%

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 of scheme assets**	**Defined benefit obligation**	**Impact of IFRIC 14 on defined benefit pension schemes**	**Total**
At 29 August 2020	**496.4**	**(481.2)**	**(15.2)**	**-**
Interest cost	3.6	(3.6)	(0.1)	(0.1)
Total amount recognised in income statement	**3.6**	**(3.6)**	**(0.1)**	**(0.1)**
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)
Amount recognised in other comprehensive income	**(2.9)**	**3.7**	**(0.7)**	**0.1**
Employer contributions	-	-	-	-
Benefit payments	(10.7)	10.7	-	-
Amounts included in cash flow statement	**(10.7)**	**10.7**	**-**	**-**
At 27 February 2021	**486.4**	**(470.4)**	**(16.0)**	**-**
Interest cost	0.8	(0.6)	(0.1)	0.1
Administration expenses	(0.4)	-	-	(0.4)
Total amount recognised in income statement	0.4	(0.6)	(0.1)	(0.3)
Return on plan assets excluding amounts included in net interest	(5.8)	-	-	(5.8)
Actuarial gains on scheme liabilities	-	4.8	-	4.8
Change in surplus not recognised	-	-	1.3	1.3
Amount recognised in other comprehensive income	**(5.8)**	**4.8**	**1.3**	**0.3**
Employer contributions	-	-	-	**-**
Benefit payments	(3.8)	3.8	-	-
Amounts included in cash flow statement				
Settlement	**(462.3)**	**462.3**	**-**	**-**
At 28 August 2021	**14.9**	**(0.1)**	**(14.8)**	**-**
Purchase of indemnity insurance	**(1.2)**	**-**	**-**	**(1.2)**
Other Administrative expenses	**(0.4)**	**-**	**-**	**(0.4)**
Total amount recognised in income statement	**(1.6)**	**-**	**-**	**(1.6)**
Change in surplus not previously recognised	**(0.1)**	**0.1**	**14.8**	**14.8**
Tax relating to the repayment of pension surpluses	**-**	**-**	**(5.1)**	**(5.1)**
Amount recognised in other comprehensive income	**(0.1)**	**0.1**	**9.7**	**9.7**
Tax paid	**(5.1)**	**-**	**5.1**	**-**
Refund of surplus to Company	**(8.1)**	**-**	**-**	**(8.1)**
Amounts included in cash flow statement	**(13.2)**	**-**	**5.1**	**(8.1)**
At 26 February 2022	**-**	**-**	**-**	**-**

6 Income Tax Expense

The income tax charge for the 26 weeks ended 26 February 2022 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 tax from Continuing Operations is 20.3% *(H1 2021: 20.8%).* The rate of tax on Adjusted profits (on both Continuing and Discontinued Operations) is 20.5% *(H1 2021: 18.7%).*

An increase in the UK corporation tax rate to 25% from 1 April 2023 was substantially enacted at the balance sheet date. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7 Dividends

Paid and proposed dividends for the period	26 weeks to 26 Feb 2022	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021	26 weeks to 26 Feb 2022	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021
	Per share	Per share	Per share	£m	£m	£m
Interim dividend	1.4p	-	0.5p	3.3	-	1.2
Final dividend	-	-	1.15p	-	-	2.8
	1.4p	-	1.65p	3.3	-	4.0

Recognised dividends for the period	Per share	Per share	Per share	£m	£m	£m
Final dividend – prior year	-	-	1.15p	2.8	-	-
Interim dividend – current year	-	-	-	-	-	-
	-	-	1.15p	2.8	-	-

An interim dividend of 1.4p per ordinary share is proposed for the 26-week period to 26 February 2022 (February 2021: £nil per ordinary share), which is expected to be paid on 7 July 2022 to all shareholders who are on the register of members at the close of business on 10 June 2022. The ex-dividend date will be 9 June 2022. While no dividend was proposed at the H1 2021 interim financial report, a dividend of 0.5p per share was subsequently proposed in June 2021 and paid in July 2021.

The FY2021 final dividend of 1.15p per share (£2.8m) was approved by shareholders at the Annual General Meeting on 20 January 2022 and paid on 10 February 2022 and is recognised in this period.

8 Earnings per share

	26 weeks to 26 Feb 2022			26 weeks to 27 Feb 2021			52 weeks to 28 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)		(7.0)			(2.5)			(4.2)	
		240.7			245.2			244.5	
Basic earnings per share (EPS)									
Continuing									
Adjusted earnings attributable to ordinary shareholders	12.2	240.7	5.1	11.4	245.2	4.6	26.3	243.5	10.8
Adjusted items	(0.6)			1.6			-		
Earnings attributable to ordinary shareholders	11.6	240.7	4.8	13.0	245.2	5.3	26.3	243.5	10.8
Discontinued									
Adjusted Profit attributable to ordinary shareholders	-	240.7	-	-	245.2	-	-	243.5	-
Adjusted items	(0.1)			(0.4)			(0.1)	-	-
Profit/(loss) attributable to ordinary shareholders	(0.1)	240.7	-	(0.4)	245.2	(0.2)	(0.1)	243.5	-
Total - Continuing and Discontinued Operations									
Adjusted earnings attributable to ordinary shareholders	12.2	240.7	5.1	11.4	245.2	4.6	26.3	243.5	10.8

Adjusted items	**(0.7)**			1.2			(0.1)		
Earnings attributable to ordinary shareholders	**11.5**	**240.7**	**4.8**	12.6	245.2	5.1	26.2	243.5	10.8
Diluted earnings per share (EPS)									
Effect of dilutive securities		**11.3**			10.9			2.6	
Continuing									
Diluted Adjusted EPS	**12.2**	**252.0**	**4.8**	11.4	256.1	4.5	26.3	254.8	10.3
Diluted EPS	**11.6**	**252.0**	**4.6**	13.0	256.1	5.1	26.3	254.8	10.3
Discontinued									
Diluted Adjusted EPS	**-**	**252.0**	**-**	-	256.1	-	-	254.8	-
Diluted EPS	**(0.1)**	**252.0**	**-**	(0.4)	245.2	(0.2)	(0.1)	254.8	-
Total - Continuing and Discontinued Operations									
Diluted Adjusted EPS	**12.2**	**252.0**	**4.8**	11.4	256.1	4.5	26.3	254.8	10.3
Diluted EPS	**11.5**	**252.0**	**4.6**	12.6	256.1	4.9	26.2	254.8	10.3

Due to the higher average amount of shares held in Trust during the period and the number of options outstanding in the prior period, the dilutive shares decreased the basic number of shares at February 2021 by 4.1m to 252.0m *(Feb 2021: 256.1m)* and resulted in a Continuing diluted Adjusted EPS of 4.8p, an increase of 0.3p or 6.7% on prior period.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes of 11.3m dilutive shares *(Feb 2021: 10.9m).* There is no further dilutive effect from deferred consideration in the period.

9 Discontinued Operations

Tuffnells

On 14 April 2020, a share purchase agreement was signed with Tuffnells Holdings Limited (formerly Palm Bidco Limited (THL)) 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 THL to the Company of £15.0m in cash, payable in three tranches as follows:

- £6.5m on the date 18 months following Completion (2 November 2021);
- £4.25m on or prior to the date 27 months following Completion (2 August 2022); and
- £4.25m on or prior to the date 36 months following Completion (2 May 2023).

The Company discounted the consideration at 30% and recognised £7.1m on Completion. The first tranche of the unsecured consideration (£6.5m) was paid on 2 November 2021 (18 months following Completion) by THL and the remaining balance has unwound to £6.5m and is shown as a current asset within Trade and 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 (£6.7m) 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.

In H1 2022, THL approached the Company regarding the outstanding deferred consideration payable following the acquisition of Tuffnells in May 2020. Mindful of the current macro-economic climate and to extinguish any further liability or outstanding arrangements with THL, the Board agreed revised terms such that the Company will accept £7.5m in full and final settlement of the outstanding deferred consideration where received on or before 2 August 2022. The carrying value of the deferred consideration has been assessed in light of the revised terms and there is no material impact.

Following the balance sheet date, the Company received a payment of £7.5m on 29 April 2022 in full and final settlement of the deferred consideration arising from the sale of Tuffnells in May 2020. This sum will be used to pay down debt under the terms of the banking agreement.

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. There was a charge in the period of £0.1m in respect of claims and a balance of £0.8m remains as a provision at 26 February 2022.

10 Net Cash Inflow from Operating Activities

£m	**26 weeks to 26 Feb 2022**	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021
Continuing statutory operating profit	**17.0**	18.8	35.8
Discontinued operating loss	**(0.1)**	(0.4)	(0.2)
Operating profit	**16.9**	**18.4**	**35.6**
Profit on disposal of property, plant and equipment	**-**	(0.2)	(0.2)
Share of (profits)/losses of jointly controlled entities	**(0.2)**	(0.1)	1.8
Pension receipts	**8.1**	-	-
Depreciation of property, plant and equipment	**1.2**	1.3	2.4
Depreciation of ROU assets	**3.3**	3.1	6.4
Amortisation of intangible assets	**0.8**	0.9	1.9
Impairment of Tuffnells assets	**-**	-	0.1
Share based payments	**0.6**	0.4	1.0
(Increase)/decrease in inventories	**(1.4)**	(1.2)	0.7
(Increase)/decrease in receivables	**(2.2)**	9.3	5.4
Decrease in payables	**(4.5)**	(13.8)	(5.1)
Decrease in provisions	**(0.5)**	(2.2)	(2.8)
Non cash pension and admin costs	**1.6**	-	0.5
Net income tax paid	**(3.4)**	(2.8)	(6.3)
Net cash inflow from operating activities	**20.3**	**13.1**	**41.4**

During the period, cash outflow from operating activities attributed to Discontinued Operations amounted to £0.3m *(H1 2021: £1.3m outflow).*

11 Intangible Assets

Goodwill is not amortised but tested annually for impairment. As a result of these reviews, goodwill was fully impaired in previous periods.

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

	Goodwill				**Acquired Intangibles**				**Total**			
£m	**On acquisition**	**H1 2022**	H1 2021	FY 2021	On acquisition	**H1 2022**	H1 2021	FY 2021	On acquisition	**H1 2022**	H1 2021	FY 2021
DMD	**5.7**	**-**	**-**	-	**2.6**	**-**	**-**	**-**	**8.3**	-	-	-
Smiths News	**-**	**-**	**-**	-	**0.3**	**-**	**-**	**-**	**0.3**	-	-	-
Total	**5.7**	**-**	**-**	**-**	**2.9**	**-**	**-**	**-**	**8.6**	**-**	**-**	**-**
Other intangibles										2.0	3.0	2.3
Total Intangible assets										**2.0**	**3.0**	**2.3**

12 Cash and Borrowings

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

£m	Sterling	Euro	USD	Other	Total 26 Feb 2022	At 27 Feb 2021	At 28 Aug 2021
Cash and bank deposits	**23.2**	**0.6**	**0.3**	**0.2**	**24.3**	10.0	19.7
Overdrafts- included in cash and cash equivalents	**-**	**-**	**-**	**-**	**-**	-	(0.4)
Net Cash and cash equivalents	**23.2**	**0.6**	**0.3**	**0.2**	**24.3**	**10.0**	**19.3**
Revolving credit facility	**(3.0)**	**-**	**-**	**-**	**(3.0)**	-	-
Term loan – disclosed within current liabilities	**(10.3)**	**-**	**-**	**-**	**(10.3)**	(21.3)	(21.2)
Term loan – disclosed within non-current liabilities	**(49.8)**	**-**	**-**	**-**	**(49.8)**	(58.7)	(51.3)
Unamortised arrangement fees – disclosed within non-current liabilities	**2.9**				**2.9**	2.0	1.2
Total borrowings - Continuing	**(60.2)**	**-**	**-**	**-**	**(60.2)**	(78.0)	(71.3)
Overdrafts – Discontinued	**-**	**-**	**-**	**-**	**-**	-	-
Total overdraft and borrowings	**(60.2)**	**-**	**-**	**-**	**(60.2)**	**(78.0)**	**(71.3)**
Net borrowings	**(37.0)**	**0.6**	**0.3**	**0.2**	**(35.9)**	**(68.0)**	**(52.0)**
Total borrowings							
Amount due for settlement within 12 months	**(13.3)**	**-**	**-**	**-**	**(13.3)**	(21.3)	(21.2)
Amount due for settlement after 12 months	**(46.9)**	**-**	**-**	**-**	**(46.9)**	(56.7)	(50.1)
	(60.2)	**-**	**-**	**-**	**(60.2)**	**(78.0)**	**(71.3)**

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

In December 2021, an agreement was signed to extend and amend the existing financing arrangements. The original facility which was due to expire in November 2023 has been extended to August 2025. The new facility comprises a £60 million amortising term loan ('Facility A') and a £30 million revolving credit facility ('RCF'). Facility A is also repayable from any proceeds received from the deferred consideration as part of the sale of Tuffnells, and any disposal proceeds. The agreement is with a syndicate of banks comprising lenders HSBC, Barclays, Santander and Clydesdale Banks. The final maturity date of the facility is 31 August 2025.

The terms of the facility agreement include: agreed repayments against Facility A arising from funds received in relation to deferred consideration received following the sale of Tuffnells and any disposal proceeds, plus an amortisation schedule of £3.0m in the remainder of FY2022, £8m in FY2023 and then £10m in FY2024 and FY2025 respectively for the repayment of Facility A and a final bullet payment; and capped dividend payments of up to £10m in respect of any financial year. The RCF will reduce by £5m in November 2022 and then by £2.5m every 6 months from February 2023 onwards. As part of the terms of the financing, the Company and its principal trading subsidiaries have agreed to provide security over their assets to the lenders.

The current rate on the facility is 4.25% per annum over SONIA (in respect of Facility A and the RCF).

At 26 February 2022, the Company had £27.0m *(27 February 2021: £35.0m)* of undrawn committed borrowing and cash facilities in respect of which all conditions precedent had been met.

Analysis of net debt

£m	**As at 26 Feb 2022**	As at 27 Feb 2021	As at 28 Aug 2021
Cash and bank deposits	**24.3**	10.0	19.7
Overdrafts – included in cash flow as cash and cash equivalents	**-**	-	(0.4)
Cash and cash equivalents	**24.3**	10.0	19.3
Current borrowings	**(13.3)**	(21.3)	(21.2)
Non-current borrowings	**(46.9)**	(56.7)	(50.1)

Net borrowings including unamortised arrangement fees	**(35.9)**	**(68.0)**	**(52.0)**
Unamortised arrangement fees	**(2.9)**	(2.0)	(1.2)
Bank Net Debt	**(38.8)**	**(70.0)**	**(53.2)**
Lease liabilities*	**(28.6)**	(31.3)	(29.2)
Net debt	**(67.4)**	**(101.3)**	**(82.4)**

* The Company's banking covenants are on a 'frozen' GAAP basis. Bank Net Debt is net borrowings of £38.8m *(H1 2021: 70.0m)* and finance lease liabilities of £nil as defined by IAS 17 *(H1 2021: £nil)* to calculate Bank Net Debt of £38.8m *(H1 2021: £70.0m).*

The movement in net debt in the period includes £1.0m *(H1 2021: £0.9m)* loan fee amortisation and £2.7m of bank arrangement fees, being £1.2m fee paid on the 12 month anniversary of the signing of the original agreement in November 2021 plus £1.5m to extend and amend the facility in December 2021 *(H1 2021: £2.8m)*.

13 Provisions

£m	Provision for onerous contracts	Reorganisation provisions	Insurance and legal provision	Property provisions	Total
At 28 August 2021	**(0.7)**	**(0.8)**	**(1.3)**	**(3.8)**	**(6.6)**
Additions	-	-	(0.1)	(0.3)	**(0.4)**
Utilised in period	0.2	0.1	0.5	-	**0.8**
Released	0.1	-	-	-	**0.1**
Unwinding of discount utilisation	-	-	-	(0.1)	**(0.1)**
At 26 February 2022	**(0.4)**	**(0.7)**	**(0.9)**	**(4.2)**	**(6.2)**

£m	**26 Feb 2022**	27 Feb 2021	28 Aug 2021
Included within current liabilities	**(2.4)**	(4.1)	(3.6)
Included within non-current liabilities	**(3.8)**	(2.5)	(3.0)
Total	**(6.2)**	(6.6)	(6.6)

Reorganisation provisions of £0.7m relates to the restructure of the Smiths News network and the Company's support functions that was announced in prior periods.

Insurance and legal provisions represent the expected future costs of employer's liability, public liability, motor accident claims and legal claims. Included within the total balance is £0.8m relating to claims from the Tuffnells business prior to disposal.

The property provision represents the estimated future cost of the Company's potential dilapidation and other property exit costs across the Group. These provisions have been discounted to present value and this discount will be unwound over the life of the leases. The provisions cover the period to 2032, however, approximately £1.8m of the potential liability is likely to be payable within five years.

The Company has performed sensitivity analysis on the property provision using the possible scenarios below:

if the discount rate changes by +/- 0.5%, the property provision would change by +/- £0.1m;

if the repair cost per square foot changes by +/- £1.00p, the property provision would change by +/- £0.5m.

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 26 February 2022 of £0.5m *(28 August 2021: £0.5m).*

As at 26 February 2022, the Company have approved letters of credit of £3.1m 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. Subsequent to the period end the Company was notified that the letters of credit reduced from £3.1m to £2.4m.

The winding up of the News Section of the Pension Trust following finalisation of the buy-out process to Legal & General Assurance Society Limited was formally completed on 25 February 2022. As part of the wind up, the Company has agreed run-off indemnity coverage with the Trustee for any future member claims that are uninsured liabilities capped at £6.5m over the next 60 years.

15 Share Capital

a) Share capital

£m	26 Feb 2022	27 Feb 2021	28 Aug 2021
Issued and fully paid ordinary shares of 5p each			
Opening balance	12.4	12.4	12.4
Closing balance	**12.4**	**12.4**	**12.4**

b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 28 August 2021	247.7
At 26 February 2022	**247.7**

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

c) Share premium

£m	26 Feb 2022	27 Feb 2021	28 Aug 2021
Opening balance	60.5	60.5	60.5
Closing balance	**60.5**	**60.5**	**60.5**

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 26 February 2022. There have been no material changes to or material transactions with related parties as disclosed in Note 32 of the Annual Report and Accounts for the 52-week period ended 28 August 2021 other than the below;

During H1 2022, the Board agreed revised terms with Tuffnells Holdings Limited (formerly Palm Bidco Limited) regarding the outstanding deferred consideration payable such that the Company will accept £7.5m in full and final settlement of the outstanding deferred consideration where received on or before 2 August 2022 (see Note 9 for further detail). The Chairman of Tuffnells Holdings Limited is also a non-executive director of Smiths News plc.

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 2021 Annual Report. There have been no other material changes to the arrangements between the Company and key management personnel in the period.

17 Subsequent events

As at 26 February 2022, the Company have approved letters of credit of £3.1m 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. After the balance sheet date, the Company was notified that the letters of credit reduced from £3.1m to £2.4m.

The Company received a payment of £7.5m on 29 April 2022 from Tuffnells Holdings Limited (formerly Palm Bidco Limited) in full and final settlement of the deferred consideration arising from the sale of Tuffnells in May 2020. This sum will be used to pay down debt under the terms of the banking agreement.

Glossary – Alternative performance measures

Introduction
In the reporting of financial information, the directors have adopted various Alternative Performance Measures (APMs).

These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies' APMs, including those in the 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 measures of the Company's performance. They provide readers with additional information on the performance of the business across periods which is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income Statement				
Adjusted Items	No direct equivalent	N/A	Note 4	Adjusting items of income or expenses are excluded in arriving at Adjusted operating profit to present a further measure of the Company's performance. Each of these items is considered to be significant in nature and/or quantum, non-recurring in nature and/or are considered to be unrelated to the Company's ordinary activities or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Team.
Adjusted operating profit	Operating profit*	Adjusted items	Income statement/ Note 4	Adjusted operating profit is defined as operating profit from Continuing Operations, excluding the impact of adjusting items (defined above). This is the headline measure of the Company's performance and is a key management incentive metric.
Adjusted profit before tax	Profit before tax (PBT)	Adjusted items	Income statement/ Note 4	Adjusted profit before tax is defined as profit before tax from Continuing Operations, excluding the impact of adjusting items (defined above).
Adjusted profit after tax	Profit after tax (PAT)	Adjusted items	Income statement/ Note 4	Adjusted profit after tax is defined as profit after tax from Continuing Operations, excluding the impact of adjusting items (defined above).
Adjusted EBITDA	Operating profit*	Depreciation and amortisation Adjusted items	Adjusted EBITDA (ex IFRS 16) Continuing Operations reconciliation following this Glossary	This measure is based on business unit operating profit from Continuing Operations. It excludes depreciation, amortisation and adjusting items. This is the headline measure of the Company's performance and is a key management incentive metric.
Adjusted EBITDA (ex IFRS16)	Operating profit*	Depreciation and amortisation Adjusted items	Adjusted EBITDA (ex IFRS 16) Continuing Operations	This measure is based on business unit operating profit from Continuing Operations. It excludes depreciation, amortisation and adjusting items after deducting IAS 17 operating lease costs. This is the headline measure of the

			reconciliation following this Glossary	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.
Cash flow Statement				
Free cash flow	Cash generated from operating activities	Dividends, acquisitions and disposals, Repayment of bank loans, EBT share purchases, Pension deficit repair payments	Reconciliation of free cash flow to net movement in cash and cash equivalents following this Glossary	Free cash flow is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans and EBT share purchases. This measure reflects the cash available to shareholders.
Balance Sheet				
Bank Net Debt	Borrowings less cash		Cash flow statement	Bank Net Debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases as defined by IAS 17.
Net Debt	Borrowings less cash		Cash flow statement	Net Debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under leases.

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

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:

	26 Feb 2022	27 Feb 2021	28 Aug 2021
Net increase/(decrease) in cash and cash equivalents	**5.0**	(40.6)	(31.3)
Decrease in borrowings and overdrafts	**9.4**	50.3	57.8
Movement in borrowings and cash	**14.4**	9.7	26.5
Dividend paid	**2.8**	-	1.2
Receipt of Tuffnells Loan	**-**	(6.7)	(6.7)
Net outflow on purchase of shares for EBT	**-**	0.4	2.6
Other	**-**	(0.1)	-
Total free cash flow	**17.2**	3.3	23.6
Add back cash outflow from Discontinued Operations	**0.3**	1.3	0.4
Continuing free cash flow	**17.5**	**4.6**	**24.0**

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 26 Feb 2022**	26 weeks to 27 Feb 2021	52 weeks to 28 Aug 2021
Operating profit	**17.0**	**18.8**	**35.8**
Adjusted items	**2.1**	0.1	3.8
Depreciation and amortisation	**5.3**	5.5	10.7
Adjusted EBITDA	**24.4**	24.4	50.3
Operating lease charges*	**(3.7)**	(3.9)	(7.7)
Adjusted EBITDA (ex IFRS 16)	**20.7**	**20.5**	**42.6**

* Operating lease charges is the rental charge that would have passed through the income statement for leases previously defined as operating leases under IAS 17.

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 26 week period ended 26 February 2022 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity the Condensed Consolidated Group Cash Flow Statement and the related notes to the Consolidated Unaudited Interim Financial Statements.

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

Directors' responsibilities

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

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, ''Interim Financial Reporting''.

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.

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 26 week period ended 26 February 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 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
3 May 2022

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