Company Registration No. 471941

# WH Smith Retail Holdings Limited

## Annual Report and Financial Statements

## 31 August 2020

# WH Smith Retail Holdings Limited

## Annual report and financial statements 31 August 2020
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# WH Smith Retail Holdings Limited

## Annual report and financial statements 31 August 2020

## Officers and professional advisers

**Directors**

C Cowling (appointed 19 September 2019)
R J Moorhead
I Houghton
S Clarke (resigned 31 October 2019)

**Company Secretary**

I Houghton

**Registered Office**

Greenbridge Road
Swindon
Wiltshire
SN3 3RX

**Independent Auditors**

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
1 Embankment Place,
London
WC2N 6RH
United Kingdom

# WH Smith Retail Holdings Limited

## Directors' report

The directors present their annual report to shareholders together with the audited financial statements for the year ended 31 August 2020.

**Directors**

The Directors of the Company who were in office during the year and up to the date of signing are shown on page 1.

**Directors' indemnities**

The Company has qualifying third party indemnity provisions for the benefit of its directors which remained in force throughout the year and at the date of this report.

**Results and dividends**

As shown in the Company's profit and loss account on page 11, the Company's loss for the financial year to 31 August 2020 was £45,856,000 (2019: profit of £121,424,000 (restated – see Note 1)).

The Company did not pay any dividends in the year (2019: £109,000,000). During the year, the Company received no dividends from subsidiary undertakings (2019: £141,000,000). The directors do not recommend the payment of a final dividend.

**Events after the balance sheet date and future developments**

The Company is expected to continue to trade profitably in the foreseeable future. Details on events after the balance sheet date and future developments of the Company are given in the Strategic report on pages 4 to 8.

**Going concern and financial risk management**

Disclosures in respect of financial risk management are given in the Strategic report on page 7 to 8. Disclosures in respect of going concen are given in Note 1 to the financial statements and in the Strategic report on page 8.

**Elective resolutions**

At an Extraordinary General Meeting of the Company held on 26 July 2001, Elective Resolutions were passed dispensing with:

i) the laying of financial statements before the Company in general meeting;

ii) the holding of Annual General Meetings; and

iii) the obligation to appoint auditors annually.

**Equal Opportunities**

The directors believe in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment and maximise their potential.

**Section 172 statement**

The directors are aware of their statutory duty to promote the success of the Company for the benefit of the members as a whole, and in doing so having regard to those factors set out in section 172(1) (a)-(f) of the Companies Act 2006.

As a result of the Group's governance structure, the matters that the directors are responsible for considering under section 172(1) of the Companies Act 2006 have been considered to an appropriate extent by the WH Smith PLC Group board in relation to both the WH Smith PLC Group and its subsidiaries (the 'Group') and also to the Company. The directors have also considered relevant matters where appropriate.

To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group board has considered the matters set out in s172 (for the Group and for the Company) is set out on pages 35 to 37 of the Group's Annual Report and Accounts, which does not form part of this report.

**Employee involvement**

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, large employee events, intranet sites and regular e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development. The Company, when appropriate, consults directly with employees and/or employee representatives so that their views can be taken into account when decisions are made which are likely to affect them.

**Statement on business relationships**

The directors acknowledge the need for the Company to foster business relationships with suppliers, customers and other stakeholders. All policies, practices and procedures adopted by the Group with regard to stakeholder relationships and engagement are applied by the Company. Refer to pages 35 to 37 of the Group's Annual Report and Accounts 2020, which does not form part of this report, for more details. The Company identifies its key business relationships as being the same as the Group as described on pages 35 to 37 of the Group's Annual Report and Accounts 2020, other than having a more limited number of relationships than the Group.

**Statement of Directors' Responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

**Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The auditors, PricewaterhouseCoopers LLP, will continue in office as auditors to the Company.

This report was approved by the Board of Directors on 26 May 2021.

On behalf of the Board

Robert J Moorhead
Director

# WH Smith Retail Holdings Limited

## Strategic report

The Strategic report is prepared in accordance with s414c(11) of the Companies Act 2006.

**Principal activities and key performance indicators**

The Company is a holding company for a group of trading companies. In addition, the Company is the principal employer of the Group's defined benefit pension trust, WHSmith Pension Trust, and also operates central functions of the WH Smith PLC group.

As shown in the Company's profit and loss account on page 11, the Company's loss for the financial year to 31 August 2020 was £45,856,000 (2019: profit of £121,426,000 (restated – see Note 1)). The balance sheet on page 12 of the financial statements shows that during the year, the Company's net assets have increased by £279,063,000 to £890,889,000 (2019: £611,826,000 (restated – see Note 1)) reflecting newly issued shares of £315,380,000, offset by the loss in the year.

The Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, of which this Company is a part, is discussed in the WH Smith PLC Annual Report and Accounts 2020, which does not form part of this Report.

**Business review**

On 20th December 2019, the Company issued new ordinary shares to its parent, WH Smith PLC, for consideration of £315,380,000. On the same date, the Company subscribed for additional shares in its subsidiary, WH Smith US Group Holdings Limited for consideration of £315,380,000, in order to facilitate the acquisition of Marshall Retail Group. Details of the amounts owed by and owed to other Group undertakings are shown in Notes 15 and 16 on page 39.

Following the outbreak of Covid-19 pandemic in March 2020 and the consequent restrictions on trading due to national lockdowns and travel restrictions, the WH Smith Group, including WH Smith Retail Holdings Limited, has been significantly impacted. The Group acted fast to take a number of actions to support our colleagues, customers and our business. The Group immediately focused on cost and cash management, including the following activities:

- Reduced stock purchases to reflect ongoing demand, returning sale or return stock and negotiating extended payment terms.
- Reviewed all capital expenditure to focus on essential and strategic projects.
- Stopped all discretionary expenditure and reduced corporate overheads
- Worked with landlords to significantly reduce or remove rent payments and to link, as far as possible, with revenue.
- Reduced headcount across stores and head offices through furlough arrangements; including participating in the UK Government Job Retention Scheme, and subsequently restructured to ensure headcount is in line with business requirements and reduced sales.
- Deferred tax payments in line with UK government announcements.
- No dividends proposed in respect of the financial year ending 31 August 2020.
- Focused on strengthening the balance sheet and the Group's liquidity position including bank covenant waivers for February 2021 and August 2021.

On 6 April 2020, the Group raised net proceeds of c.£160m via a share placing and at the same time agreed a £120m 12 month (plus 7 months at the option of the Group) committed banking facility from BNP Paribas, HSBC Bank PLC and Santander UK PLC, on which the Company is a guarantor. This was in addition to existing facilities. The Group also agreed waivers for its bank covenant tests at August 2020, February 2021 and August 2021.

**Events after the balance sheet date**

Since the balance sheet date, the ongoing impact of the Covid-19 pandemic has resulted in a second lockdown across England in November 2020 and further lockdowns of varying levels across the UK in the period from January to May 2021, as well as continuing international travel restrictions. While the trading environment has remained challenging throughout the first half of the 2021 financial year, with reduced footfall on the UK high street and extensive travel restrictions in place, we have focused on initiatives within our control that support us in the immediate term and position us well to emerge operationally stronger as our markets recover.

**Events after the balance sheet date (continued)**

The Travel business remained impacted by the government enforced travel restrictions throughout the first half of 2021 with the tighter UK restrictions impacting from January. We saw a consistently good performance in the High Street business throughout the half with the important December trading period at 92% of 2019. Whilst the third lockdown in the UK impacted January and February, we saw an improved performance at the start of Q3, with a stronger performance in High Street. We also saw an improvement in Travel, led by the recovery in North America.

On 9 March 2021, the Group extended the maturity of its two existing £200m Term Loans to October 2023 and agreed a new minimum liquidity covenant for both the August 2021 and February 2022 covenant tests. The previously agreed covenant waiver for February 2021 remained unchanged. These changes enabled the Group to cancel its existing £120m liquidity loan which was undrawn and due to expire in November 2021.

Further to the above changes, on 28 April 2021 the Group announced new financing arrangements which include a £250m RCF (increased from £200m) with an extended maturity from 2023 to 2025 and provided by an expanded syndicate of lending banks. This facility, and the term loan outlined below, carries a minimum liquidity covenant for August 2021, February 2022 and August 2022 (which supersedes the previous covenants described above). As part of the financing arrangements, the Group launched an offering of convertible bonds maturing in 2026. The convertible bonds raised £327m and provide £50m of new capacity for the Group to fund the opening of c.100 new Travel stores won and yet to open over the next three years and new growth opportunities. The remainder of the proceeds have been used to partially pay down the existing £400m of term loans from both the MRG and InMotion acquisitions. The maturity of the remaining term loan has also been extended from 2023 to 2025 in line with the RCF.

**Environmental matters**

The Group recognises that good environmental management also makes good business sense. The directors are committed to reducing the environmental impact of our business, and measure our performance each year. A copy of our Environmental Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/ and further information with regard to environmental matters is given in the WH Smith PLC Annual Report and Accounts 2020.

**Employee matters**

The Company employs approximately 11,000 people in the UK, and is proud of its long history of being regarded as a responsible and respected employer. Further information on equal opportunities and employee involvement is given in the Directors' report and information on the Group's Employee policies is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies.

The Company operates an HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 875 employees participate in the scheme.

**Social, Community and Human rights issues**

As a leading bookseller and stationer, the Group focuses our community investment on supporting education and life-long learning. Over the year we invested nearly £1,200,000 into local communities (2019: over £1,200,000). Included in this figure are cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report, available at www.whsmithplc.co.uk/cr.

The WHSmith Group Charitable Trust, an independent registered charity, actively supports employees that are involved with charitable organisations in their local communities, as well as working in partnership with the Group to support literacy projects.

The Group is committed to good labour standards and respecting the environment in our supply chain. Our Ethical Trading Code of Conduct and Human Rights Policy outlines our expectations of our suppliers. A copy of our Ethical Trading Code of Conduct and Human Rights Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

**Principal risks and uncertainties**

The WH Smith PLC group manages its operations, including WH Smith Retail Holdings Limited, on a divisional basis and has identified the following factors as major potential risks to the successful performance of the business of the Group. Many of these factors are applicable to WH Smith Retail Holdings Limited.

### Principal risks and uncertainties (continued)

***Changes to the Risk Profile due to Covid-19***

Following the outbreak of Covid-19, the Directors have assessed its ongoing impact to be a significant risk facing the Group, due to uncertainty around the timing and extent of recovery on our ability to re-open and operate our Travel and High Street stores, both in the UK and Internationally, and its impact upon the levels of global and domestic travel. The Group has deployed a framework of operational procedures, mitigating actions and business continuity plans and will continue to adapt these plans as the situation evolves.

Where the consequences of the Covid-19 pandemic may impact the business, we have incorporated these considerations into our assessment in relation to each of our principal risk headings. The grid below explains where the potential risk implications of the pandemic link with, and impact upon, our other Principal Risks.

| | |
|---|---|
| Economic, political, competitive and market risks | The Group may fail to effectively respond to the pressures of an increasingly changing retail environment, where Covid-19 materially changes consumer spending patterns and habits, such as shifting from physical to online shopping, and from any longer-term damage to the travel industry and reductions in the level of International travel. |
| Brand and reputation | The reputation of the Brand may be impacted in the event that customers were to perceive that our Store environments are insufficiently safe and secure in response to the continuing experience of the virus. |
| Key suppliers and supply chain management | Given that large elements of our sourcing rely on factories and shipment from the Far East, these supply chains and principal product flows could be negatively impacted by any interruptions due to any further shutdown of factories and supply routes or growing international outbreaks. |
| Store portfolio | The Group's performance is reliant upon trading from our wide portfolio of premier shopping locations, where our performance may be negatively impacted in the event of further store closures, constraints on trading and travel restrictions, or further extensions in the scale and nature of local lockdowns. |
| Business interruption | The business could be negatively impacted by any concentration of illness in a particular location such as Head Office, DC or particular stores, should these need to close temporarily, and large numbers staff were required to self-isolate. |
| Reliance on key personnel | The business could be negatively impacted in the event that any of the senior leadership team were to fall ill or be personally impacted by the virus. |
| International expansion | The ongoing growth of the business has been generated through continued international expansion. Such ongoing growth could therefore be negatively impacted from further enforced store closures, constraints on trading and the longer-term continuation of international travel restrictions or curtailment in passenger numbers. |
| Treasury, financial and credit risk management | Significantly reduced trading over an extended period from further outbreaks of new Covid strains and the lack of an effective vaccine could cause further negative impact on the Group's financial position in the longer term. |
| Cyber risk and data security | Further risks from significant increases in industry wide phishing activity and cyber threats could pose further risks of potential systems interruption. |

Group risks are discussed in further detail within the Principal risks and uncertainties section of the Strategic report of the Group's Annual Report and Accounts 2020, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

All principal business functions compile risk registers and summary risk maps to identify key risks, assess them in terms of their likelihood and potential impact, and determine appropriate control strategies to mitigate the impact of these risks taking account of risk appetite. The ongoing monitoring of this framework is overseen by the respective Business Risk Committees and the Group Audit Committee. During the year, the Group Board reviewed the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and review of the risk registers and the internal controls across all business functions, as part of an annual exercise facilitated by the Internal Audit team. During the year, the Group Board also received presentations from management on specific risk areas such as cyber risk, international expansion, and the ongoing risk monitoring processes and appropriate mitigating controls.

# WH Smith Retail Holdings Limited

## Strategic report (continued)

**Financial Risk Management**

The Company's operations expose it to a variety of financial risks that include the effects of foreign exchange rate risk and interest rate risk. The Company is subject to the WH Smith PLC Group policies to ensure proper monitoring and control of financial risk. The policies are set by the Group and are implemented by the Company's finance department.

The Group's treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review. Further information on the Group's financial risk management policies and procedures are given in the WH Smith PLC Annual Report and Accounts 2020, which does not form part of this report.

***Liquidity risk***

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has a five-year committed multi-currency revolving credit facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital.

The Group has a policy of pooling cash flows in order to optimise the return on surplus cash and also to utilise cash within the Group to reduce the costs of external short-term funding.

***Credit risk***

Credit risk is the risk that a counterparty may default on their obligation to the Company in relation to lending, hedging, settlement and other financial activities. The Company's principal financial assets are trade and other receivables, bank balances and cash.

The Company has credit risk attributable to its trade and other receivables including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of expected credit losses. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a short-term credit rating of P-1.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold collateral over any of these financial assets.

***Interest rate risk***

The Company is exposed to cash flow interest rate risk on floating rate intercompany loans, bank loans and overdrafts.

At 31 August 2020, the Company was not drawn down on the Group's committed revolving credit facility (2019: drawn down £15m). The Company draws down on its facility periodically, but does not view any draw down as long-term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

***Foreign currency risk***

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. As an intermediate holding company in a group of companies which engage in retailing with overseas operations the Company is indirectly exposed to foreign currency risk. The Group's foreign currency exposures are principally to the US dollar, euro and Australian dollar.

The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD/GBP exchange rates. These are designated as cash flow hedges. At 31 August 2020, the Group had no material un-hedged currency exposures.

# WH Smith Retail Holdings Limited

## Strategic report (continued)

### Financial Risk Management (continued)

***Foreign currency risk (continued)***

The Group's euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in France, Ireland, Spain, Italy, Germany and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure. Forward foreign exchange contracts have been used to hedge Ireland retail stores purchases in GBP to minimise foreign exchange risk in movements of the GBP/EUR exchange rates. These are designated as cash flow hedges.

### Payment policy for suppliers

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms.

### Going concern and future developments

The Company's business activities, together with factors that are likely to affect its future developments, performance and position are detailed within this Strategic Report. The financial position of the Company and its liquidity position are described in the financial statements and notes. The WH Smith PLC Annual Report and Accounts 2020, which does not form part of this report, includes further information regarding the Group's financial position, cash flows and borrowing facilities, as well as its policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report of the WH Smith PLC Annual Report and Accounts 2020 also highlights the main risks and uncertainties facing the Group, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

Due to the ongoing impact of Covid-19 on the WH Smith Group, and therefore the Company, in making the going concern assessment, the directors have modelled a number of scenarios for the period to August 2022. The base case scenario is based on the latest Board-approved forecast, adjusted for subsequently announced government support measures, and the three-year plan for the period ending 31 August 2022. These reflect our expectations of ongoing challenging trading conditions, with sales remaining significantly below pre-Covid levels for the duration of the going concern period.

In light of the continuing uncertainty surrounding the ongoing impact of Covid-19, a downside scenario has also been modelled, applying severe but plausible assumptions to the base case. This replicates the Group's forecast performance in the year ending 31 August 2021 by applying the same cash flows from the year ending August 2021 to the year ending August 2022, but excludes non-recurring restructuring costs and government support received in the year ending 31 August 2021. These scenarios include a number of mitigating actions including further savings in store and head office payrolls, a reduction in inventory purchases, a reduction in discretionary spend and reductions in capital expenditure.

On 28 April 2021 the Group announced new financing arrangements which include a multi-currency revolving credit facility of £250m, which expires in April 2025. The covenants tests on the above facility for August 2021, February 2022 and August 2022 are based on a minimum liquidity test. Under the conditions of both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on these facilities at each of the above dates.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities, as outlined above. The directors also confirm that they have the ability to determine the timing of repayment of balances due to the Company's subsidiaries. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements. No changes in its principle activities are foreseen

This report was approved by the Board on 26 May 2021.

On behalf of the Board

Robert J Moorhead
Director

# Independent auditors' report to the members of WH Smith Retail Holdings Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, WH Smith Retail Holdings Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 August 2020; the Profit and loss account, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

# Independent auditors' report to the members of WH Smith Retail Holdings Limited (continued)

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### Responsibilities for the financial statements and the audit

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 May 2021

# WH Smith Retail Holdings Limited

## Profit and loss account
## For the year ended 31 August 2020

| | Note | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|---|
| **Turnover** | 3 | 181,561 | 187,524 |
| Cost of sales | | (179,121) | (183,434) |
| **Gross profit** | | **2,440** | **4,090** |
| Administrative expenses | | (50,063) | (29,360) |
| Other operating income | 4 | - | 2,157 |
| **Operating loss** | 4 | **(47,623)** | **(23,113)** |
| Income from shares in group undertakings | 8 | - | 141,000 |
| **(Loss) / profit before interest and taxation** | | **(47,623)** | **117,887** |
| Net interest payable and similar expenses | 9 | (1,601) | (1,286) |
| **(Loss) / profit before taxation** | | **(49,224)** | **116,601** |
| Tax on (loss) / profit | 10 | 3,368 | 4,823 |
| **(Loss) / profit for the financial year** | | **(45,856)** | **121,424** |

All results are derived from continuing operations.

## Statement of comprehensive income
## For the year ended 31 August 2020

| | Note | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|---|
| **(Loss) / profit for the financial year** | | **(45,856)** | **121,424** |
| Other comprehensive income / (expense): | | | |
| *Items that will not be reclassified subsequently to profit and loss account:* | | | |
| Remeasurements of net defined benefit obligations | 7 | 11,175 | (1,927) |
| Deferred tax on retirement benefit obligations | | - | (105) |
| *Items that may be reclassified subsequently to profit and loss account:* | | | |
| Revaluation of investments | | (1,636) | 52 |
| Other comprehensive income / (expense) for the year | | 9,539 | (1,980) |
| **Total comprehensive (loss) / income for the year** | | **(36,317)** | **119,444** |

# WH Smith Retail Holdings Limited

## Balance Sheet
## As at 31 August 2020

| | Note | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 11 | - | 163 |
| Property, plant and equipment | 12 | 15,007 | 19,726 |
| Investments in subsidiary undertakings | 13 | 1,076,124 | 765,497 |
| Investments | 14 | 2,397 | 6,174 |
| Deferred tax assets | 10 | 3,284 | 2,522 |
| Trade and other receivables: amounts falling due after more than one year | 15 | 198,382 | - |
| | | 1,295,194 | 794,082 |
| **Current assets** | | | |
| Trade and other receivables: amounts falling due within one year | 15 | 659,016 | 364,339 |
| Derivative financial assets | | 327 | - |
| Cash and cash equivalents | | 22,679 | - |
| | | 682,022 | 364,339 |
| **Current liabilities** | | | |
| Trade and other payables: amounts falling due within one year | 16 | (796,261) | (534,474) |
| Retirement benefit obligations | 7 | (694) | (694) |
| Lease liabilities | 18 | (83,078) | - |
| **Net current liabilities** | | (198,011) | (170,829) |
| **Total assets less current liabilities** | | 1,097,183 | 623,253 |
| **Non-current liabilities** | | | |
| Trade and other payables: amounts falling due after more than one year | 17 | - | (9,365) |
| Retirement benefit obligations | 7 | (2,446) | (2,062) |
| Lease liabilities | 18 | (203,848) | - |
| **Net assets** | | **890,889** | **611,826** |
| **Capital and reserves** | | | |
| Called up share capital | 20 | 482,692 | 167,312 |
| Share premium account | | 22,474 | 22,474 |
| Revaluation reserve | | (1,358) | 278 |
| Capital redemption reserve | | 371,423 | 371,423 |
| Merger reserve | | 34,000 | 34,000 |
| (Accumulated losses) / retained earnings | | (18,342) | 16,339 |
| **Total shareholders' funds** | | **890,889** | **611,826** |

The notes on pages 14 to 44 are an integral part of these financial statements.

These financial statements of WH Smith Retail Holdings Limited, registered number 471941, on pages 11 to 44, were approved by the Board of Directors and authorised for issue on 26 May 2021.

Signed on behalf of the Board of Directors

Robert J Moorhead
Director

# WH Smith Retail Holdings Limited

## Statement of changes in equity
## Year ended 31 August 2020

| | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Revaluation reserve £'000 | Merger reserve £'000 | Retained earnings / (accumulated losses)[1] £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|---|---|---|
| Balance as at 1 September 2018 | 3,952 | 22,474 | 371,423 | 226 | 34,000 | 8,706 | 440,781 |
| Impact of adoption of FRS 101 | - | - | - | - | - | (3,324) | (3,324) |
| Tax effect of adoption of FRS 101 | - | - | - | - | - | 565 | 565 |
| **Adjusted balance at 1 September 2018** | **3,952** | **22,474** | **371,423** | **226** | **34,000** | **5,947** | **438,022** |
| Profit for the financial year (restated) | - | - | - | - | - | 121,424 | 121,424 |
| Other comprehensive expense for the year | | | | | | | |
| Remeasurements of net defined benefit obligations | - | - | - | - | - | (1,927) | (1,927) |
| Deferred tax on retirement benefit obligations | - | - | - | - | - | (105) | (105) |
| Revaluation of investments | - | - | - | 52 | - | - | 52 |
| **Total comprehensive income for the year** | - | - | - | **52** | - | **119,392** | **119,444** |
| Dividends paid (Note 19) | - | - | - | - | - | (109,000) | (109,000) |
| Shares issued in the year | 163,360 | - | - | - | - | - | 163,360 |
| **Total transactions with owners, recognised directly in equity** | **163,360** | - | - | - | - | **(109,000)** | **54,360** |
| **Balance as at 31 August 2019** | **167,312** | **22,474** | **371,423** | **278** | **34,000** | **16,339** | **611,826** |
| Balance as at 1 September 2019 (restated) | 167,312 | 22,474 | 371,423 | 278 | 34,000 | 16,339 | 611,826 |
| (Loss) / profit for the financial year | - | - | - | - | - | (45,856) | (45,856) |
| Other comprehensive (expense) / income for the year | | | | | | | |
| Remeasurements of net defined benefit obligations | - | - | - | - | - | 11,175 | 11,175 |
| Revaluation of investments | - | - | - | (1,636) | - | - | (1,636) |
| **Total comprehensive expense for the year** | - | - | - | **(1,636)** | - | **(34,681)** | **(36,317)** |
| Shares issued in the year | 315,380 | - | - | - | - | - | 315,380 |
| **Total transactions with owners, recognised directly in equity** | **315,380** | - | - | - | - | - | **315,380** |
| **Balance as at 31 August 2020** | **482,692** | **22,474** | **371,423** | **(1,358)** | **34,000** | **(18,342)** | **890,889** |

[1] The Company has adopted FRS 101 as at 1 September 2018 and comparative information for the year ended 31 August 2019 has been restated (see Note 25). In addition the Company has initially applied IFRS 16 as at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 1).

# WH Smith Retail Holdings Limited
# Notes to the financial statements
# Year ended 31 August 2020

**1. Accounting policies**

**General information**

WH Smith Retail Holdings Limited is a private company limited by shares incorporated and domiciled in the UK, and registered in England and Wales. The address of the registered office is given on page 1.

**Accounting convention**

The financial statements of WH Smith Retail Holdings Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The financial statements have been prepared under the historical cost basis as modified to include the revaluation of certain fixed assets, and are in compliance with the Companies Act 2006 as applicable to companies applying FRS 101 and applicable United Kingdom law and accounting standards.

All accounting policies have been applied consistently in the current year and the prior year, except as noted below and under "New standards adopted in the year."

**Basis of preparation**

The financial statements are for the year ended 31 August 2020. The prior year financial statements were for the year ended 31 August 2019.

The Company is a wholly owned subsidiary of WH Smith PLC, which is its ultimate parent. It is included in the consolidated financial statements of WH Smith PLC which are publicly available. Therefore the Company is exempt from producing consolidated financial statements under section 400 of the Companies Act 2006. The financial statements have been prepared on the going concern basis as explained below.

The Company has chosen to transition to FRS 101 in the current year, in order to bring its accounting policies in line with other Group companies following the implementation of IFRS 16. The prior year financial statements were prepared under FRS 102. The prior year financial statements have been restated to reflect the impact of adoption of FRS 101, and the effects of the transition are disclosed in Note 25.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective and certain related party transactions.

Where relevant, equivalent disclosures have been given in the group financial statements of WH Smith PLC. The group financial statements of WH Smith PLC are available to the public and can be obtained as set out in Note 26.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

The functional currency of WH Smith Retail Holdings Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

**Going concern**

The Company's business activities, together with factors that are likely to affect its future developments, performance and position are detailed within the Strategic Report. The financial position of the Company and its liquidity position are described in the financial statements and notes. The WH Smith PLC Annual Report and Accounts 2020, which does not form part of this report, includes further information regarding the Group's financial position, cash flows and borrowing facilities, as well as its policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report of the WH Smith PLC Annual Report and Accounts 2020 also highlights the main risks and uncertainties facing the Group, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

## 1. Accounting policies (continued)

### Going concern (continued)

Due to the ongoing impact of Covid-19 on the WH Smith Group, and therefore the Company, in making the going concern assessment, the directors have modelled a number of scenarios for the period to August 2022. The base case scenario is based on the latest Board-approved forecast, adjusted for subsequently announced government support measures, and the three-year plan for the period ending 31 August 2022. These reflect our expectations of ongoing challenging trading conditions, with sales remaining significantly below pre-Covid levels for the duration of the going concern period.

In light of the continuing uncertainty surrounding the ongoing impact of Covid-19, a downside scenario has also been modelled, applying severe but plausible assumptions to the base case. This replicates the Group's forecast performance in the year ending 31 August 2021 by applying the same cash flows from the year ending August 2021 to the year ending August 2022, but excludes non-recurring restructuring costs and government support received in the year ending 31 August 2021. These scenarios include a number of mitigating actions including further savings in store and head office payrolls, a reduction in inventory purchases, a reduction in discretionary spend and reductions in capital expenditure.

On 28 April 2021 the Group announced new financing arrangements which include a multi-currency revolving credit facility of £250m, which expires in April 2025. The covenants tests on the above facility for August 2021, February 2022 and August 2022 are based on a minimum liquidity test. Under the conditions of both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on these facilities at each of the above dates.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities, as outlined above. The directors also confirm that they have the ability to determine the timing of repayment of balances due to the Company's subsidiaries. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements. No changes in its principle activities are foreseen.

### New standards adopted in the year

The Company has adopted the following standards and interpretations which became mandatory during the current financial year. With the exception of IFRS 16 (outlined below), these changes have had no material impact on the Company's financial statements:

- IFRS 16 Leases (including amendments)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendment to IFRS 9 Financial instruments – Prepayment features with negative compensation
- Amendments to IAS 28 Investments in associates – Long-term interests in associates and joint ventures
- Amendments to IAS 19 Employee benefits – Plan amendment, curtailment or settlement
- Annual improvements 2015-2017 cycle

### IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases.

At the commencement date of a lease, a lessee recognises a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There is no impact on the Company's cash flows.

**1. Accounting policies (continued)**

**Impact on the Company**

The standard has primarily affected the accounting for the Company's operating leases relating to properties that are all sub-leased to other group companies at mirror terms as the head lease.

The Company has applied the simplified transition approach (modified retrospective approach) and has recognised the lease liability on transition at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of transition with a corresponding financial asset (intercompany lease receivable).

The weighted average discount rate applied on transition date is 1.7 per cent.

The Company has not restated comparatives and the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to opening reserves at the date of transition.

The Company has elected to apply the following practical expedients in relation to recognising the lease liability as allowed under IFRS 16:

- exclude short-term leases (leases with a remaining term of less than one year);
- apply a single discount rate for a portfolio of leases with similar characteristics; and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Company has not applied the practical expedient of placing reliance on the previous identification of a lease under IAS 17 but has assessed all its existing lease contracts to determine whether they meet the new definition of a lease and therefore fall within the scope of IFRS 16.

**Impact on the financial statements**

On application of IFRS 16, the Company has recognised a lease liability of £329,106,000 and corresponding intercompany lease receivable representing the sub-lease at mirror terms to the head lease. There is no impact on the opening retailed earnings of the Company on transition.

During the year, the Company recognised £5,128,000 additional interest costs on the lease liability and equal amount of interest income on the intercompany lease receivable with the net nil impact on profit.

## 1. Accounting policies (continued)

**Reconciliation from IAS 17 lease commitment to opening IFRS 16 lease liability**

The table below shows a reconciliation from the total operating lease commitment as disclosed at 31 August 2019 to the total lease liability recognised in the financial statements on the date of transition:

| | **£'000** |
|---|---|
| Operating lease commitment at 31 August 2019 as disclosed in the Company's financial statements | 359,033 |
| Discounted using the incremental borrowing rate at 1 September 2019 | 333,271 |
| Leases where landlords have substantive substitution rights (i.e. leases outside the scope of IFRS 16)[1] | (3,569) |
| Recognition exemption for short-term leases[2] | (6,547) |
| Termination options reasonably certain to be exercised[3] | (7,164) |
| Non-IFRS 16 lease - Licence arrangement | (243) |
| Correction/adjustment where Company was not party to the lease | (2,469) |
| Other adjustments[4] | 1,579 |
| Finance lease liability as at 31 August 2019 | 14,248 |
| **Total lease liabilities recognised at 1 September 2019** | **329,106** |

[1] Contracts that were considered to be a lease under IAS 17 which do not meet the definition of a lease under IFRS 16, principally because the landlord is considered to have substantive substitution rights over the associated assets. This is explained further below under the section 'key areas of judgement'.

[2] The Company has applied the practical expedient to classify leases for which the leases term ends within 12 months of the date of initial application of IFRS 16 as short-term leases. The Company has also applied the recognition exemption for short-term leases.

[3] Previously, lease commitments only included non-cancellable periods in the lease agreements. Under IFRS 16, the lease term includes period covered by options to extend or terminate the lease where the Company is reasonably certain that such options will be exercised.

[4] Other adjustments mainly relate to differences in the methodology applied to discount the operating lease commitment compared to the lease liability recognised in the financial statements.

**Key areas of judgement in applying IFRS 16**

**Substantive substitution rights**

Judgement is involved in determining whether a contract meets the definition of a lease under IFRS 16. Management has determined that certain retail concession contracts give the landlord substantive substitution rights because the contract gives the landlord rights to relocate the retail space occupied by the Company. In such cases, management has concluded that there is not an identified asset and therefore such contracts are outside the scope of IFRS 16. For these contracts, the Company recognises the payments as an operating expense on a straight-line basis over the term of the contract unless another systematic basis is more representative of the time pattern in which economic benefits from the underlying contract are consumed. The value of such contracts excluded from the lease liability on transition to IFRS 16 is £3,569,000.

**Determination of Incremental Borrowing Rate (IBR)**

The application of IFRS 16 required judgement around the calculation of the IBR. This has been determined on a lease-by-lease basis based on the right-of-use asset in a similar economic environment and taking into account the risk-free rate, adjusted for factors such as the credit rating and the lease term.

**Determination of lease term**

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

## 1. Accounting policies (continued)

**Leases**

The Company has applied IFRS 16 using the modified retrospective transition approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below and on the following page.

**Policies applicable from 1 September 2019**

***The Company as a lessee***

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

All the lease contracts that the Company enters as a lessee are immediately sub-leased to other group companies at mirror terms as the head lease. Therefore, right of use asset is derecognised and the Company recognised an intercompany lease receivable for the sub-lease arrangement which is generally equal to the lease liability on head lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Company's balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability whenever:

- The lease payments change due to changes in an index, rent review or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The lease contracts that include variable rents based on sales, which is the case with many of our retail concession contracts, are not included in the measurement of the lease liability. The related rents payable are recognised as an expense in the period in which the event or condition that triggers those payables occurs and are included in profit or loss.

**1. Accounting policies (continued)**

**Leases (continued)**

**Policies applicable from 1 September 2019 (continued)**

***The Company as a lessee (continued)***

The Company has applied the Amendment to IFRS 16 issued in June 2020, and endorsed by the EU in October 2020. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2021, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset.

For leases acquired as part of a business combination, the lease liability is measured at the present value of the remaining lease payments. The right-of-use asset is measured at the same amount as the lease liability adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.

***The Company as a lessor***

The Company enters into lease agreements with other group entities as an intermediate lessor with respect to all its property leases. It accounts for the head lease and the sublease as two separate contracts. The sublease arrangements are always at mirror terms to the head lease and therefore all the sub-lease arrangements are classified as a finance lease because in effect it transfers substantially all the risks and rewards of ownership to the assets to the lessee. The Company derecognises the right of use asset and recognise the financial asset in the form of an intercompany lease receivable which is equal to the lease liability recognised for the head lease. Interest income is recognised on intercompany lease receivable using the effective interest method.

Rents receivable from operating leases are recognised on a straight-line basis over the term of the relevant lease.

**Policies applicable prior to 1 September 2019**

Leases that do not transfer all of the risks and rewards of ownership are classified as operating leases. Rental costs under operating leases held in the name of WH Smith Retail Holdings Limited are settled by other Group companies over the length of the lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Leases of assets that transfer substantially all of the risk and rewards incidental to ownership are classified as finance leases.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the Company's accounting policy for that class of asset. The capital element of future lease payments is included in creditors. The interest cost is allocated to accounting periods based on the outstanding capital element of the lease.

**Turnover**

Turnover is measured at the fair value of the consideration received or receivable for the provision of employees and other central services to other companies within the WH Smith PLC Group.

**Share-based payments**

Employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares in WH Smith PLC. These are accounted for as cash-settled share-based payments. A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

**1. Accounting policies (continued)**

**Foreign currencies**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Pounds Sterling (GBP), which is WH Smith Retail Holdings Limited's functional and presentation currency.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of profit or loss and other comprehensive income for the year.

**Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**Investments in subsidiary undertakings**

Investments in equity and long terms loans in subsidiary undertakings are valued at historical cost less provision for impairments in value. Impairments of investments in subsidiary undertakings are recognised in the Profit and loss account in Administrative expenses.

## 1. Accounting policies (continued)

### Investments

*WH Smith Employee Share Trust 1999 and the WH Smith Employee Benefit Trust*

As a result of the demerger of Smiths News PLC from WH Smith PLC on 1 September 2006, the WH Smith's Employees' Share Trust 1999 was split in proportion to the Trust's obligation to the Retail business and the News business. This involved segregating the assets of the trust relating to each of the Retail Group and the News Group. From 1 September 2006, WH Smith PLC has accounted for the section of the trust allocated from the segregation, which is called the WH Smith Employee Benefit Trust.

The WH Smith Employee Benefit Trust holds ordinary shares in WH Smith PLC, which may be used to satisfy awards and options granted under the Group share schemes. Full details of the Trust and the share schemes are disclosed in the consolidated financial statements of WH Smith PLC for the year ended 31 August 2020.

After initial recognition, WH Smith PLC shares are measured at fair value with temporary gains or losses being recognised within equity until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit or loss account. The fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

### Intangible assets

Intangible fixed assets are stated at cost, net of accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful economic life of up to five years. Amortisation is recorded in Administrative expenses.

### Property, and equipment

Property, plant and equipment assets are stated at cost, net of accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value, of each asset over its expected useful life, as follows. Depreciation is recorded in the Profit and loss account in Administrative expenses.

| | | |
|---|---|---|
| Freehold properties | - | 20 years |
| Leasehold improvements | - | 20 years |
| Fixtures and fittings | - | up to 10 years |
| Equipment | - | 8 years |

### Provisions for liabilities

Provisions are recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Retirement benefit costs

The Company's main UK pension fund is a defined benefit scheme. The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit and loss account in the Statement of other comprehensive income.

## 1. Accounting policies (continued)

**Retirement benefit costs (continued)**

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from the calculation is limited to the present value of available refunds and reductions in future contributions to the plan. Where the Company is considered to have a contractual obligation to fund the pension scheme above the accounting value of the liabilities, an onerous obligation is recognised.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

**Dividends payable and receivable**

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Dividends receivable from subsidiary undertakings are recorded in profit or loss in the period in which they are received.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the grants will be received and that the Group will comply with any conditions attached to them.

Government grants are recognised in the profit and loss account over the same period as the costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grant income in relation to the UK Government's Job Retention Scheme is disclosed in Note 4.

**Financial instruments**

a) Trade receivables

Trade receivables are measured at fair value at initial recognition, do not carry any interest and are subsequently measured at amortised cost using the effective interest rate method.

Allowances for doubtful debts are recognised based on management's expectation of losses, without regard to whether an impairment trigger has occurred or not (an 'expected credit loss' model under IFRS 9). Impairments of trade receivables are recognised in Profit and loss in Administrative expenses.

b) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

c) Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

**1. Accounting policies (continued)**

**Financial instruments (continued)**

d) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

e) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

f) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

g) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Capital and reserves**

Share premium account represents the excess of the issue price over the par value on shares issued less transaction costs arising on issue.

The Merger reserve represents reserves created as a result of historical demergers, being the difference between the value of consideration and the nominal value of shares issued as consideration.

The Capital redemption reserve represents reserves arising from historical purchases of own share capital.

The revaluation reserve represents revaluation of investments to fair value. Gains and losses are deferred in this reserve until such time as the underlying asset is sold.

# WH Smith Retail Holdings Limited
# Notes to the financial statements (continued)
# Year ended 31 August 2020

## 2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumption and estimate include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and the liabilities for potential corporation tax. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical judgements and estimates in determining the financial condition and results of the Company are those requiring the greatest degree of subjective or complex judgement. These relate to retirement benefit obligations, impairment of investments in subsidiaries, assessment of lease substitution rights, determination of the lease term and determination of the incremental borrowing rate.

a) Retirement benefit obligation

The Company recognises and discloses its retirement benefit obligation of £3,140,000 (2019: £2,756,000) in accordance with the measurement and presentational requirements of FRS 101. The calculations include a number of judgements and estimations in respect of the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others (see Note 7). Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

b) Impairment of investments in subsidiary undertakings

Investments in subsidiary undertakings of £1,076,124,000 (2019: £765,497,000) are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted, the recoverable amounts of the cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. The key assumptions in the value-in-use calculations include growth rate of revenue and expenses, discount rates and likelihood of lease renewal.

c) Carrying value of loans and receivables

The Company reviews its receivables from Group undertakings (see Note 15) in accordance with IFRS 9 'Financial Instruments' to assess if a provision for expected credit loss is required. This assessment involves judgement in assessing the capability of the counterparty to repay amounts owed to the Company and estimates in determining the future cash flows of the counterparty.

The Company has included a charge £7,107,000 (2019: £nil) in its income statement in respect of expected credit losses, principally in relation to amounts receivable from the Group's US and Spanish businesses. These loans are repayable on demand, however it was determined that the counterparties would not be in a position to repay the loans in full if demanded at the balance sheet date.

The calculation of expected credit losses involves the use of estimates when assessing the ability of the counterparty to repay the loans. The most significant estimates include the timing and extent of future cash flow generation by the counterparty entities. The estimated cash flow is mainly derived from the latest Board approved three year plan, as adjusted for more recent information where applicable.

If the estimated future cash flow was 10% lower than expected during the recovery scenario, the expected credit loss charge to the Company's income statement would be £511,000 higher.

The Company also holds a substantial receivable from a subsidiary that acts as a holding company for the WH Smith Group. The amount of the receivable is £204,567,000. No expected credit loss has been recognised in respect of this balance as the Directors have determined that the loan could be extinguished with no loss to the Company. The Company could extinguish the loan by subscribing for additional shares in the subsidiary. In this instance, the Directors have also assessed if the resulting increased investment in subsidiary balance would be impaired. Following this assessment, it is noted that no impairment would arise on the increased investment in subsidiary balance.

## 2. Critical accounting judgements and key sources of estimation uncertainty

c) Carrying value of loans and receivables (continued)

In addition to the above outlined mechanism of extinguishing the loan balance, other recovery scenarios have been assessed including compelling the subsidiary to sell its subsidiaries to repay the loan, and other avenues of repayment, such as repayment through dividend streaming to the subsidiary, which would then be used to settle the loan. These recovery scenarios would result in expected credit losses ranging from £nil to £35,333,000. Judgement has been applied in concluding that these recovery scenarios are highly unlikely to be implemented due to the unnecessary complexity involved in implementing such a recovery scenario.

On the basis that the Company is in control of which recovery scenario would be implemented, the expected credit loss has been calculated based on the most likely recovery mechanism, which is through the additional subscription for shares in the subsidiary, resulting in the recognition of no expected credit loss.

d) Substantive substitution rights

Judgement is required in determining whether a contract meets the definition of a lease under IFRS 16. Management has determined that certain retail concession contracts give the landlord substantive substitution rights because the contract gives the landlord rights to relocate the retail space occupied by the Group. In such cases, management has concluded that there is not an identified asset and therefore such contracts are outside the scope of IFRS 16. The value of such contracts excluded from the lease liability on transition to IFRS 16 is £3,569,000.

e) Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

f) Determination of Incremental Borrowing Rate ('IBR')

The application of IFRS 16 requires judgement around the calculation of the IBR. This is determined on a lease-by-lease basis based on the right-of-use asset in a similar economic environment and taking into account the risk-free rate, adjusted for factors such as credit rating and lease term.

## 3. Turnover

All of the Company's turnover and profit before taxation arose in the United Kingdom and from provision of services.

# WH Smith Retail Holdings Limited
# Notes to the financial statements (continued)
# Year ended 31 August 2020

## 4. Operating loss

Operating loss is stated after charging / (crediting):

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Depreciation and impairment of property, plant and equipment assets | 5,107 | 5,503 |
| Amortisation of intangible assets | 163 | 305 |
| Impairment of investment in subsidiary | 4,799 | - |
| Impairment losses on trade receivables | 7,108 | - |
| Share-based payments (credit) | (7,088) | (1,076) |
| Other operating income | - | (2,157) |
| Government grant income | (46) | - |
| Auditors' fees | | |
| - fees payable to Company's auditors for the audit of the Company's financial statements | 5 | 2 |
| - non-audit fees relating to reporting account services | 450 | 337 |

Statutory disclosures in respect of non-audit fees are given in the consolidated financial statements of WH Smith PLC. Other operating income in the prior year is made up of a gain on the disposal of a head office building.

## 5. Directors' remuneration

C Cowling and R J Moorhead are directors of the parent company, WH Smith PLC, and a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. The total remuneration of C Cowling and R J Moorhead is paid by WH Smith Retail Holdings Limited and included within Staff costs. The total remuneration of C Cowling and R J Moorhead is included in the aggregate of directors' remuneration disclosed in the financial statements of the parent company.

I Houghton received no remuneration in respect of his services as a director of the Company during the year (2019: £nil).

## 6. Employees and staff costs

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | 158,887 | 188,940 |
| Social security costs | 10,630 | 12,268 |
| Employee share schemes | (7,088) | (1,076) |
| Other pension costs | 17,535 | 3,515 |
| | 179,964 | 203,647 |

| | 2020 No. | 2019 No. |
|---|---|---|
| **Monthly average number of employees** | | |
| Retailing | 11,074 | 11,660 |
| Central functions | 39 | 35 |
| **Total average number of employees** | 11,113 | 11,695 |

Employees are utilised by other Group companies for the provision of retailing services.

## 7. Pension arrangements

The Company is the principal employer of the Group's defined benefit pension trust, WHSmith Pension Trust and the Group's defined contribution plan. The most significant is WHSmith Pension Trust, which is described in Note 7 (a).

### (a) The WHSmith Pension Trust

The WHSmith Pension Trust is independent of the Company and is administered by a Trustee. The scheme has been closed to new members since 1996 and was closed to defined benefit service accrual on 2 April 2007. Benefits are based on service and salary at the date of closure or leaving service, with increases currently based on CPI inflation in deferment and RPI inflation in payment. The Trustee is responsible for the administration and management of the scheme on behalf of the members in accordance with the Trust Deed and relevant legislation. Responsibilities include the investment of funds, the triennial valuation and determining the deficit funding schedule. Under the terms of the Trust Deed there are ten Trustee directors of which three are appointed by the Sponsor, four are member-nominated directors, and three are independent. Trustee directors are appointed for a term of six years, and are then eligible for re-appointment.

*Adoption of FRS 101*

FRS 101 was adopted for the year ended 31 August 2020. This has resulted in a restatement of the retirement benefit obligation recognised in the balance sheet in the prior year as a result of recognition of a minimum funding requirement, see Note 25. In accordance with the requirements of IFRIC 14 the Company has recognised the schedule of contributions as a liability of £3,140,000 (2019: £2,756,000). The Company does not have an unconditional right to derive economic benefit from any surplus, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £268,072,000 (2019: £353,555,000) available as a reduction of future contributions is £nil.

The amounts recognised in the balance sheet at 31 August 2020 in relation to the aggregate fair values of the assets and liabilities of the WHSmith Pension Trust were:

| | **2020 £'000** | **Restated 2019 £'000** |
|---|---|---|
| Fair value of plan assets | 1,411,636 | 1,460,621 |
| Present value of the obligations | (1,143,564) | (1,107,066) |
| | **268,072** | **353,555** |
| **Surplus in the scheme before consideration of the asset ceiling** | | |
| Amounts not recognised due to the effect of the asset ceiling | (268,072) | (353,555) |
| Additional liability recognised due to minimum funding requirements | (3,140) | (2,756) |
| **Retirement benefit obligation recognised in the balance sheet** | (3,140) | (2,756) |
| Recognised as: | | |
| Current liabilities | (694) | (694) |
| Non-current liabilities | (2,446) | (2,062) |

## 7. Pension arrangements (continued)

### (a) The WHSmith Pension Trust (continued)

The WHSmith Pension Trust has assets valued at £1,411,636,000, as at 31 August 2020, managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

The principal risks associated with the Group's defined benefit pension arrangements are as follows:

**Longevity risk**

Liabilities are sensitive to life expectancy, with increases in life expectancy leading to an increase in the valuation of liabilities.

**Interest rate and inflation risk**

Liabilities are sensitive to movements in interest rates and inflation, with lower interest rates or higher inflation leading to an increase in the valuation of liabilities. As a result of the LDI policy outlined above, these risks are largely hedged.

An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Company is represented on this Committee. Although investment decisions are the responsibility of the Trustee, the Group is an active participant of the investment sub-committee to ensure that pension plan risks are managed efficiently.

The risk of failure of counterparties and of the investment manager is monitored regularly by the Committee. The Trustees have the right to determine the level of contributions and the Company has agreed with the Trustees a deficit funding schedule.

A full actuarial valuation of the Scheme is carried out at least every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2020 by independent actuaries using the projected unit credit method and has been completed. At 31 March 2020 the deficit was £9,000,000; at 31 March 2017 the deficit was £11,000,000. The Company has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the following 5 years, which includes the deficit recovery contributions and other running costs of just under £3,000,000. During the year ending 31 August 2020, the Company made a contribution of £2,664,000 to the WH Smith Pension Trust (2019: £2,594,000) in accordance with the agreed pension deficit funding schedule, being £700,000 of deficit funding payable to the trustee and £1,964,000 in relation to investment management costs. The weighted average duration of the defined benefit obligation is 19 years.

The amounts recognised in the profit and loss account were as follows:

| | 2020<br>£'000 | Restated<br>2019<br>£'000 |
|---|---|---|
| Current service cost | (34) | (45) |
| Administrative expenses | (203) | (190) |
| Net interest cost on the retirement benefit obligation | (25) | (54) |
| Past service cost | (14,164) | - |
| **Total expense recognised to profit and loss account** | (14,426) | (289) |
| Actual return on plan assets | (11,281) | 225,168 |

## 7. Pension arrangements (continued)

### (a) The WHSmith Pension Trust (continued)

The amounts recognised in the statement of comprehensive income were as follows:

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| Actuarial (loss) / gain on defined benefit obligations arising from experience | (52,992) | 1,801 |
| Actuarial loss on defined benefit obligations arising from changes in financial assumptions | (11,989) | (164,901) |
| Actuarial gain on defined benefit obligations arising from changes in demographic assumptions | 22,420 | 21,892 |
| **Total actuarial loss before consideration of asset ceiling** | **(42,561)** | **(141,208)** |
| Return on plan assets excluding amounts included in net interest cost | (37,955) | 189,995 |
| Gain / (loss) resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost | 92,024 | (51,375) |
| (Loss) / gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost | (333) | 661 |
| **Total actuarial gaing / (loss) recognised in other comprehensive income** | **11,175** | **(1,927)** |

Movements in the present value of the defined benefit scheme assets, obligations and minimum funding requirement in the current and prior years were as follows:

| £'000 | Assets | Liabilities | Effect of asset ceiling and recognition of minimum funding liability | Net retirement benefit obligation recognised |
|---|---|---|---|---|
| At 1 September 2019 | 1,460,621 | (1,107,066) | (356,311) | (2,756) |
| Current service cost | - | (34) | - | (34) |
| Past service cost | - | (14,164) | | (14,164) |
| Interest income / (expense) | 26,674 | (20,107) | (6,592) | (25) |
| Actuarial gains / (losses) | (37,955) | (42,561) | 91,691 | 11,175 |
| Contributions from the sponsoring companies | 2,664 | - | - | 2,664 |
| Benefits paid | (40,368) | 40,368 | - | - |
| **At 31 August 2020** | **1,411,636** | **(1,143,564)** | **(271,212)** | **(3,140)** |
| | | | | |
| At 1 September 2018 (restated) | 1,276,689 | (982,740) | (297,273) | (3,324) |
| Current service cost | - | (45) | - | (45) |
| Interest income / (expense) (restated) | 35,173 | (26,903) | (8,324) | (54) |
| Actuarial gains / (losses) (restated) | 189,995 | (141,208) | (50,714) | (1,927) |
| Contributions from the sponsoring companies | 2,594 | - | - | 2,594 |
| Benefits paid | (43,830) | 43,830 | - | - |
| **At 31 August 2019** | **1,460,621** | **(1,107,066)** | **(356,311)** | **(2,756)** |

# WH Smith Retail Holdings Limited
# Notes to the financial statements (continued)
# Year ended 31 August 2020

**7. Pension arrangements (continued)**

**(a) The WHSmith Pension Trust (continued)**

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below:

| | 2020 Quoted £'000 | 2020 Unquoted £'000 | 2020 Total £'000 | 2019 Quoted £'000 | 2019 Unquoted £'000 | 2019 Total £'000 |
|---|---|---|---|---|---|---|
| Government bonds | 1,156,326 | - | 1,156,326 | 975,700 | - | 975,700 |
| Corporate bonds | 628,368 | 475 | 628,843 | 433,463 | 475 | 433,938 |
| Investment funds | 324,069 | 187,727 | 511,796 | - | 90,858 | 90,858 |
| Derivatives | - | (645,141) | (645,141) | - | (93,416) | (93,416) |
| Cash and cash equivalents | (240,188) | - | (240,188) | 53,541 | - | 53,541 |
| **Total** | 1,868,575 | (456,939) | 1,411,636 | 1,462,704 | (2,083) | 1,460,621 |

The weighted average principal long-term assumptions used in the actuarial valuation were:

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 1.75% | 1.85% |
| Rate of increase in pensions payments | 3.04% | 3.13% |
| Rate of increase in deferred pensions | 2.30% | 2.20% |
| RPI inflation assumptions | 3.10% | 3.20% |
| CPI inflation assumptions | 2.30% | 2.20% |

**Sensitivity to changes in assumptions**

The valuation of the retirement benefit obligation is considered a significant source of estimation uncertainty, (see Note 2), and therefore changes in assumptions can have a significant effect on the amounts recognised in the financial statements. Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2020, while keeping all other assumptions consistent; in practice, changes in some of the assumptions may be correlated.

| | Effect on liabilities at 31 August 2020 £'000 |
|---|---|
| Discount rate +/- 0.1% per annum | -21,000 / +21,000 |
| Inflation assumptions +/- 0.1% per annum | +19,000 / -19,000 |
| Life expectancy +/- 1 year | +55,000 / -55,000 |

**(b) Defined contribution pension scheme**

The Company's pension cost charge to its define contribution scheme for the year amounted to £3,134,000 (2019: £3,280,000). The amount of unpaid contributions as at 31 August 2020 included in other creditors was £103,000 (2019: £116,000).

**8. Income from shares in group undertakings**

During the prior year the Company received dividends totalling £141,000,000 from other Group companies.

## 9. Net interest payable and similar expenses

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| Finance income: | | |
| Interest receivable from other group companies | 3,393 | 4,012 |
| Other interest receivable and similar income | 11 | 123 |
| | 3,404 | 4,135 |
| Finance costs: | | |
| Other interest payable and similar charges | (697) | (336) |
| Interest on lease liability (net) | (327) | (327) |
| Interest payable to other Group companies | (3,956) | (4,704) |
| Net interest cost on defined benefit pension liabilities | (25) | (54) |
| | (5,005) | (5,421) |
| | (1,601) | (1,286) |

## 10. Tax on (loss) / profit

### a) Tax on (loss) / profit

The tax charge comprises:

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| Current tax on profit | | |
| Current year credit | (3,222) | (5,030) |
| Adjustments in respect of prior years | 616 | (48) |
| | (2,606) | (5,078) |
| Deferred tax: origination and reversal of timing differences | | |
| Current year | (771) | (218) |
| Adjustments in respect of prior years | 9 | 473 |
| **Tax on (loss) / profit** | (3,368) | (4,823) |

## 10. Tax on (loss) / profit (continued)

### a) Tax on (loss) / profit (continued)

**Reconciliation of the tax credit**

The tax assessed for the year is lower (2019: lower) than the standard rate of corporation tax in the UK (2020: 19.00%, 2019: 19.00%). The differences are explained below:

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| (Loss) / profit before taxation | (49,224) | 116,601 |
| Tax charge on profit at UK rate of corporation tax – 19.00% (2019: 19.00%) | (9,353) | 22,154 |
| Effect of: | | |
| Non-taxable income / (expense) | - | (26,789) |
| Permanent adjustments | 5,360 | (613) |
| Adjustments in respect of prior years | 625 | 425 |
| **Total tax credit for the year** | (3,368) | (4,823) |

### b) Deferred tax

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| Share-based payments | 793 | 2,159 |
| Depreciation in excess of capital allowances | (119) | (106) |
| Retirement benefit obligations | 597 | 469 |
| Losses | 2,013 | - |
| **At 31 August** | **3,284** | **2,522** |

| | 2020 £'000 | Restated 2019 £'000 |
|---|---|---|
| At 1 September | 2,522 | 2,317 |
| Restatement on adoption of FRS 101 | - | 565 |
| Credit / (charge) to profit and loss account | 762 | (255) |
| Charge to equity | - | (106) |
| **At 31 August** | **3,284** | **2,522** |

These assets have been recognised in the financial statements as the directors are of the opinion, based on recent and forecast trading, that the level of group profits in the current and next financial year will exceed the losses arising in this entity including those arising on the reversal of these deferred tax assets, and therefore they expect those deferred tax assets to be recovered against those profits via group relief.

The UK corporation tax rate has been 19 per cent with effect from 1 April 2017. In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25 per cent (rather than remaining at 19 per cent). As the proposal to increase the rate to 25 per cent had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, to increase the deferred tax asset by £862,000.

### 11. Intangible assets

| | Software £'000 |
|---|---|
| **Cost** | |
| **At 1 September 2019 and 31 August 2020** | **1,524** |
| **Accumulated amortisation** | |
| At 1 September 2019 | 1,361 |
| Amortisation charge | 163 |
| **At 31 August 2020** | **1,524** |
| **Net book value** | |
| **At 31 August 2020** | - |
| At 31 August 2019 | 163 |

The net book value of leased assets included above is £nil (2019: net book value of assets held under finance leases of £163,000).

### 12. Property, plant and equipment

| | Freehold properties £'000 | Leasehold improvements £'000 | Fixtures and fittings £'000 | Equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 September 2019 | 19,622 | 3,085 | 4,795 | 22,273 | 49,775 |
| Additions | 388 | - | - | - | 388 |
| **At 31 August 2020** | **20,010** | **3,085** | **4,795** | **22,273** | **50,163** |
| **Accumulated depreciation** | | | | | |
| At 1 September 2019 | 14,815 | 1,352 | 1,248 | 12,634 | 30,049 |
| Depreciation charge | 120 | 616 | 853 | 3,518 | 5,107 |
| **At 31 August 2020** | **14,935** | **1,968** | **2,101** | **16,152** | **35,156** |
| **Net book value** | | | | | |
| **At 31 August 2020** | **5,075** | **1,117** | **2,694** | **6,121** | **15,007** |
| At 31 August 2019 | 4,807 | 1,733 | 3,547 | 9,639 | 19,726 |

Leasehold improvements, fixtures and fittings and equipment assets are all assets held under lease arrangements, therefore the net book value of right-of-use assets included above is equal to the net book value of each of those asset categories (2019: net book value of assets held under finance leases of £14,919,000).

## 13. Investments in subsidiary undertakings

| | £'000 |
|---|---|
| **Cost** | |
| At 1 September 2019 | 869,717 |
| Additions | 315,426 |
| **At 31 August 2019** | **1,185,143** |
| **Provision for impairment** | |
| At 1 September 2019 | (104,220) |
| Impairment | (4,799) |
| **At 31 August 2020** | **(109,019)** |
| **Net book value** | |
| **At 31 August 2020** | **1,076,124** |
| At 31 August 2019 | 765,497 |

During the year, the Company increased its investment in WH Smith US Group Holdings Limited by subscribing for shares in for aggregate consideration of £315,380,000. Following the acquisition of shares, the Company owns 100 per cent of the issued ordinary share capital of WH Smith US Group Holdings Limited. In addition the Company fully impaired its investment in WH Smith France S.A.S of £4,799,000.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

At 31 August 2020 the Company directly owned the entire issued share capital of the following companies.

| Name | Country of incorporation/ registration | Registered address | Class of shares | Percentage owned % | Percentage controlled % | Principal activity |
|---|---|---|---|---|---|---|
| **Held directly by WH Smith Retail Holdings Limited:** | | | | | | |
| WH Smith 1955 Limited | England & Wales | 1 | Ordinary | 100 | 100 | Holding Company |
| WH Smith Asia Limited | Hong Kong | 2 | Ordinary | 100 | 100 | Product sourcing for WH Smith Group companies |
| WH Smith France S.A.S | France | 5 | Ordinary | 100 | 100 | Retailing |
| WH Smith High Street Holdings Limited | England & Wales | 1 | Ordinary | 100 | 100 | Holding Company |
| WH Smith Jersey Limited | Jersey | 10 | Ordinary | 100 | 100 | Retailing |
| WH Smith Promotions Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| WH Smith Retirement Savings Plan Limited | England & Wales | 1 | Ordinary | 100 | 100 | Dormant |
| WH Smith Travel Holdings Limited | England & Wales | 1 | Ordinary | 100 | 100 | Holding Company |
| WH Smith US Group Holdings Limited | England & Wales | 1 | Ordinary | 100 | 100 | Holding Company |

**13. Investments in subsidiary undertakings (continued)**

At 31 August 2020 the Company also indirectly owned the issued equity share capital of the following companies.

| Name | Country of incorporation/ registration | Registered address | Class of shares | Percentage owned % | Percentage controlled % | Principal activity |
|---|---|---|---|---|---|---|
| Tree of Hearts Ltd | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| Dotty about Paper Ltd | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| Books & Stationers Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| Card Market Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| funkypigeon.com Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| Modelzone Limited | England & Wales | 1 | Ordinary | 100 | 100 | Dormant |
| Sussex Stationers Limited | England & Wales | 1 | Ordinary | 100 | 100 | Dormant |
| The SQL Workshop Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| The Websters Group Limited | England & Wales | 1 | Ordinary | 100 | 100 | Dormant |
| WH Smith (Qatar) Limited | England & Wales | 1 | Ordinary | 100 | 100 | Dormant |
| WH Smith Australia Pty Limited | Australia | 3 | Ordinary | 100 | 100 | Retailing |
| WH Smith Austria GmbH | Austria | 4 | Ordinary | 100 | 100 | Retailing |
| WH Smith - DFA Brasil Cafeteria, Livraria E Conveniencia Eireli | Brazil | 18 | Ordinary | 50 | 50 | Retailing |
| WH Smith Germany GmbH | Germany | 6 | Ordinary | 100 | 100 | Retailing |
| WH Smith Group Holdings (USA) Inc. | USA | 7 | Ordinary | 100 | 100 | Dormant |
| WH Smith High Street Limited | England & Wales | 1 | Ordinary & Preference | 100 | 100 | Retailing |
| WH Smith Hospitals Holdings Limited | England & Wales | 1 | Ordinary & Preference | 100 | 100 | Holding Company |
| WH Smith Hospitals Limited | England & Wales | 1 | Ordinary | 100 | 100 | Retailing |
| WH Smith Ireland Limited | Ireland | 8 | Ordinary | 100 | 100 | Retailing |
| WH Smith Italia S.R.L | Italy | 9 | Ordinary | 100 | 100 | Retailing |
| WH Smith LLC | Qatar | 11 | Ordinary | 49 | 100 | Retailing |
| WH Smith LLC | Oman | 12 | Ordinary | 50 | 50 | Retailing |
| WH Smith Malaysia SDN BHD | Malaysia | 13 | Ordinary | 50 | 50 | Retailing |
| WH Smith Music Inc. | USA | 7 | Ordinary | 100 | 100 | Dormant |
| WH Smith Nederland B.V. | Netherlands | 14 | Ordinary | 100 | 100 | Dormant |
| WH Smith Nevada Enterprises LLC | USA | 7 | Ordinary | 100 | 100 | Dormant |
| WH Smith Singapore Pte. Limited | Singapore | 16 | Ordinary | 100 | 100 | Retailing |
| WH Smith Spain S.L. | Spain | 17 | Ordinary | 100 | 100 | Retailing |
| WH Smith Travel 2008 Limited | England & Wales | 1 | Ordinary | 100 | 100 | Holding Company |
| WH Smith Travel Limited | England & Wales | 1 | Ordinary & Preference | 100 | 100 | Retailing |
| WH Smith US Retail Holdings Limited | England & Wales | 1 | Ordinary | 100 | 100 | Active |
| WH Smith USA Holdings Inc | USA | 19 | Ordinary | 100 | 100 | Active |

## WH Smith Retail Holdings Limited
## Notes to the financial statements (continued)
## Year ended 31 August 2020

### 13. Investments in subsidiary undertakings (continued)

| Name | Country of incorporation/ registration | Registered address | Class of shares | Percentage owned % | Percentage controlled % | Principal activity |
|---|---|---|---|---|---|---|
| WH Smith Retail Inc | USA | 19 | Ordinary | 100 | 100 | Active |
| WH Smith SFO, LLC | USA | 19 | Ordinary | 80 | 100 | Active |
| InMotion Entertainment Group, LLC | USA | 19 | Ordinary | 100 | 100 | Active |
| Soundbalance ATL-E, LLC | USA | 19 | Ordinary | 67 | 100 | Active |
| InMotion ATL-A, LLC | USA | 19 | Ordinary | 64 | 100 | Active |
| InMotion ATL, LLC | USA | 19 | Ordinary | 80 | 100 | Active |
| BTS- InMotion Atlanta, LLC | USA | 19 | Ordinary | 100 | 100 | Inactive |
| BTS - InMotion ATL FAB, LLC | USA | 19 | Ordinary | 64 | 100 | Inactive |
| InMotion FL ATL, LLC | USA | 19 | Ordinary | 59 | 100 | Inactive |
| InMotion AUS, LLC | USA | 19 | Ordinary | 88 | 100 | Retailing |
| InMotion BNA, LLC | USA | 19 | Ordinary | 84 | 100 | Retailing |
| Soundbalance BOS, LLC | USA | 19 | Ordinary | 67 | 100 | Dormant |
| InMotion BOS-A, LLC | USA | 19 | Ordinary | 80 | 100 | Dormant |
| InMotion BOS, LLC | USA | 19 | Ordinary | 70 | 100 | Dormant |
| InMotion BOS-BCE, LLC | USA | 19 | Ordinary | 80 | 100 | Retailing |
| InMotion BWI, LLC | USA | 19 | Ordinary | 60 | 100 | Retailing |
| InMotion CLE, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| Soundbalance CLT, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion - SB DC, LLA | USA | 19 | Ordinary | 75 | 100 | Retailing |
| InMotion DEN-B, LLC | USA | 19 | Ordinary | 75 | 100 | Retailing |
| DFW-A Retail Partners, LLC | USA | 19 | Ordinary | 60 | 100 | Retailing |
| DFW-E Retail Partners, LLC | USA | 19 | Ordinary | 65 | 100 | Retailing |
| DFW-D/E Retail Partners, LLC | USA | 19 | Ordinary | 70 | 100 | Retailing |
| Soundbalance DTW, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion DTW, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion EWR, LLC | USA | 19 | Ordinary | 80 | 100 | Retailing |
| InMotion EWR-B, LLC | USA | 19 | Ordinary | 85 | 100 | Retailing |
| InMotion FLL, LLC | USA | 19 | Ordinary | 62 | 100 | Dormant |
| InMotion FLL-T4, LLC | USA | 19 | Ordinary | 62 | 100 | Dormant |
| InMotion IAD, LLC | USA | 19 | Ordinary | 75 | 100 | Retailing |
| Soundbalance IAH, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| BR InMotion IAH, LLC | USA | 19 | Ordinary | 65 | 100 | Retailing |
| InMotion LAX, LLC | USA | 19 | Ordinary | 75 | 100 | Retailing |
| Soundbalance MCO, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion MCO, LLC | USA | 19 | Ordinary | 73 | 100 | Retailing |
| Soundbalance Miami, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion MKE, LLC | USA | 19 | Ordinary | 79 | 100 | Retailing |
| InMotion MSY, LLC | USA | 19 | Ordinary | 64 | 100 | Dormant |

## 13. Investments in subsidiary undertakings (continued)

| Name | Country of incorporation/ registration | Registered address | Class of shares | Percentage owned % | Percentage controlled % | Principal activity |
|---|---|---|---|---|---|---|
| InMotion ORD, LLC | USA | 19 | Ordinary | 70 | 100 | Retailing |
| InMotion ORD T2, LLC | USA | 19 | Ordinary | 70 | 100 | Retailing |
| Soundbalance PDX, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| Soundbalance PHL, LLC | USA | 19 | Ordinary | 67 | 100 | Retailing |
| InMotion PHL, LLC | USA | 19 | Ordinary | 65 | 100 | Dormant |
| InMotion PHX, LLC | USA | 19 | Ordinary | 80 | 100 | Retailing |
| InMotion PHX T3, LLC | USA | 19 | Ordinary | 90 | 100 | Retailing |
| Soundbalance SAN, LLC | USA | 19 | Ordinary | 55 | 100 | Retailing |
| InMotion SAT, LLC | USA | 19 | Ordinary | 75 | 100 | Dormant |
| InMotion SEA, LLC | USA | 19 | Ordinary | 88 | 100 | Retailing |
| InMotion SFO-T3, LLC | USA | 19 | Ordinary | 85 | 100 | Dormant |
| InMotion SFO-IT, LLC | USA | 19 | Ordinary | 90 | 100 | Dormant |
| Soundbalance SJC, LLC | USA | 19 | Ordinary | 67 | 100 | Inactive |
| InMotion SLC,LLC | USA | 19 | Ordinary | 80 | 100 | Retailing |
| InMotion CLT, LLC | USA | 19 | Ordinary | 74 | 100 | Dormant |
| MSP Innovations, LLC | USA | 19 | Ordinary | 33 | 100 | Dormant |
| InMotion LGA, LLC | USA | 19 | Ordinary | 75 | 100 | Dormant |
| Marshall Retail Group Holding Co Inc | USA | 20 | Ordinary | 100 | 100 | Active |
| MRG Holdings Corp | USA | 20 | Ordinary | 100 | 100 | Active |
| Marshall Retail Group LLC | USA | 20 | Ordinary | 100 | 100 | Active |
| The Marshall Retail Group Canada Inc | USA | 21 | Ordinary | 100 | 100 | Active |
| MRG Baltimore (BWI), LLC | USA | 20 | Ordinary | 70 | 100 | Retailing |
| MRG Denver, LLC | USA | 20 | Ordinary | 75 | 100 | Retailing |
| MRG Dallas II, LLC | USA | 20 | Ordinary | 65 | 100 | Retailing |
| MRG LaGuardia, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG Los Angeles, LLC | USA | 20 | Ordinary | 70 | 100 | Retailing |
| MRG Nashville, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG Raleigh Terminal 2, LLC | USA | 20 | Ordinary | 85 | 100 | Retailing |
| MRG Raleigh Terminal 1, LLC | USA | 20 | Ordinary | 55 | 100 | Retailing |
| MRG RDU T2, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG Sacramento, LLC | USA | 20 | Ordinary | 90 | 100 | Retailing |
| MRG San Francisco, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG San Francisco Terminal 1, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG San Francisco Terminal 3, LLC | USA | 20 | Ordinary | 80 | 100 | Retailing |
| MRG Washington (DCA), LLC | USA | 20 | Ordinary | 75 | 100 | Retailing |
| MRG Washington (IAD), LLC | USA | 20 | Ordinary | 75 | 100 | Retailing |
| Nash Nails MRG, LLC | USA | 20 | Ordinary | 39 | 100 | Retailing |

### 13. Investments in subsidiary undertakings (continued)

**Address references:**

| | |
|---|---|
| 1 | Greenbridge Road, Swindon, Wiltshire SN3 3RX |
| 2 | Suites 13A01-04 13 Floor, South Tower, World Finance Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong |
| 3 | Suite 401, 80 William Street, Woolloomooloo NSW 2011, Australia |
| 4 | Brucknerstrasse 2/4, 1040 Vienna, Austria |
| 5 | 248, Rue de Rivoli, 75001 Paris, France |
| 6 | Terminal Ring 1, Zentralgebaude Ost, Zi. 5. 035, 40474 Dusseldorf, Germany |
| 7 | c/o Greenbridge Road, Swindon, Wiltshire SN3 3RX |
| 8 | 6th Floor, Grand Canal Square, Dublin 2, Ireland |
| 9 | Via Borgogna, Cap 20122, Milano, Italy |
| 10 | 72/74 King Street, St Helier, Jersey, JE2 4WE |
| 11 | 27 Um Ghwalinah Road, 230 C-ring Road, Doha, Qatar |
| 12 | PO Box 3275, PC112, Ruwi, Oman |
| 13 | C2-6-1, Solaris Dutamas, 1, Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia |
| 14 | Weteringschans 94, 1017 XS, Amsterdam, Netherlands |
| 15 | c/o -Minter Ellison Rudd Watts, Lumley Centre, 88 Shortland Street, Auckland, 1010, New Zealand |
| 16 | 9 Battery Road, #15-01 Straits Trading Building, Singapore 049910 |
| 17 | Paseo de Recoletos, 27, 7ª, 28004, Madrid, Spain |
| 18 | Avenida das Americas, No. 3434, Barra da Tijuca, CEP 22640-102, Rio de Janeiro, RJ, Brazil |
| 19 | 4801 Executive Park Court, Suite 100 \| Jacksonville, FL 32216 |
| 20 | 3755 W Sunset Road, Las Vegas, Nevada, NV 89118, USA |
| 21 | 2200 HSBC Building, 885 West Georgia Street, Vancouver, BC V6C 3E8, Canada |

### 14. Investments

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Market value** | | |
| At 1 September | 6,174 | 5,471 |
| Additions | 2,413 | 7,184 |
| Utilisation | (4,770) | (6,461) |
| Revaluation | (1,420) | (20) |
| **At 31 August** | 2,397 | 6,174 |

At 31 August 2020 the number of shares held in WH Smith PLC was 203,628 (2019: 315,306) and the nominal value was £44,981 (2019: £69,650). The shares are held by an employee trust for the sole purpose of satisfying obligations under the parent company's Employee Share Schemes and are included in investments. Details of the Employee Share Schemes are given in Note 21.

# WH Smith Retail Holdings Limited
# Notes to the financial statements (continued)
# Year ended 31 August 2020

## 15. Trade and other receivables

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by group undertakings | 567,336 | 343,180 |
| Corporation tax | 9,439 | 14,712 |
| Lease receivables – amounts owed by group undertakings | 79,179 | - |
| Other debtors | 3,062 | 6,447 |
| | 659,016 | 364,339 |

Included within amounts owed by group undertakings is an unsecured loan of £208,000,000 which bears interest at GBP 6 month LIBOR plus 1 per cent. All other amounts owed by group companies are non-interest bearing and repayable on demand. In the prior year other debtors included an amount receivable in respect of the disposal of a head office building of £4,245,000.

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| **Amounts falling due after more than one year:** | | |
| Lease receivables – amounts owed by group undertakings | 198,382 | - |
| | 198,382 | - |

## 16. Trade and other payables: amounts falling due within one year

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Bank loans and overdrafts | - | 44,592 |
| Amounts owed to Group undertakings | 776,033 | 455,518 |
| Finance leases | - | 4,883 |
| Other creditors | 16,913 | 24,588 |
| Other taxation and social security | 3,315 | 4,893 |
| | 796,261 | 534,474 |

Included within amounts owed to group companies is an unsecured loan note for £4,857,430 which bears interest at GBP 6 month LIBOR; an unsecured loan note of £7,307,805 which bears interest at GBP 6 month LIBOR; an unsecured loan note of £4,895,000 which bears interest at GBP 6 month LIBOR; and an unsecured loan note of £238,000,000 which bears interest at GBP 6 month LIBOR plus 1 per cent. None of the unsecured loan notes have a fixed repayment date. All other amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

## 17. Trade and other payables: amounts falling due after more than one year

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Finance leases | - | 9,365 |
| | - | 9,365 |

## 18. Lease liabilities

| | Total £'000 |
|---|---|
| **Lease liability** | |
| - Current | 83,078 |
| - Non-current | 203,848 |
| **At 31 August 2020** | **286,926** |

| | |
|---|---|
| Cash outflow in respect of leases for the year ended 31 August 2020 | 5,187 |
| Interest on lease liability for the year ended 31 August 2020 | 5,458 |

## 19. Dividends paid

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year | - | 109,000 |
| | - | 109,000 |

There were no dividends paid during the year ended 31 August 2020 (2019: interim dividend paid of 1.41p per ordinary share).

## 20. Called up share capital

| | 2020 Number of shares No. '000 | Nominal value £'000 | 2019 Number of shares No. '000 | Nominal value £'000 |
|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of 2 13/81p (2019: 2 13/81p) each | 22,341,721,689 | 482,692 | 7,744,168,156 | 167,312 |
| Deferred shares of 2 13/81p (2019: 2 13/81p) each | 1 | - | 1 | - |
| | 22,341,721,690 | 482,692 | 7,744,168,157 | 167,312 |

During the year, WH Smith PLC subscribed for 14,597,553,533 additional shares in the Company for aggregate consideration of £315,380,000, in relation to the Group's acquisition of Marshall Retail Group Inc.

Deferred shares of 2 13/81p have no rights to receive a dividend or to attend or vote at any general meeting of the Company. Holders of the deferred shares are entitled to a return of the capital paid up on winding-up, subject to the payment of all other classes of shares of the amount paid up on such shares, but have no further rights of participation in the assets of the Company.

## 21. Share-based payment

The Company is the principal employer of the WH Smith Group. The Company operates a number of share schemes for employees which are treated as cash-settled share-based payments in the financial statements of the Company. The schemes are treated as equity-settled share-based payments in the consolidated financial statements of WH Smith PLC, and the relevant disclosures are provided in Note 24 and the Remuneration Report of the WH Smith PLC Annual report and accounts 2020, which does not form part of this report. The amount recorded in liabilities in relation to these schemes is £4,350,000 (2019: £11,590,000) and the credit to profit and loss was £7,088,000 (2019: £1,076,000). Included in this liability is £1,404,332 (2019: £218,366) relating to vested options.

All share options which have vested have been valued at WH Smith PLC's share price at year end. The share options outstanding, which have yet to vest, have been valued using a Black-Scholes model. The inputs to the Black-Scholes model for options over WH Smith PLC shares are as follows:

| | 2020 | 2019 |
|---|---|---|
| Share price – pence | 1,177.00 | 1,958.00 |
| Exercise price - pence | Nil-1610 | Nil-1,610 |
| Expected volatility – per cent | 7.94-18.14 | 18.87-24.21 |
| Expected life – years | 0.15-2.18 | 0-2.76 |
| Risk free rate – per cent | (0.08) –(0.03) | 0.00-0.42 |
| Dividend yield – per cent | 0.00 | 2.97 |

Expected volatility was determined by calculating the historical volatility of the Group's share price.

| | 2020 | 2019 |
|---|---|---|
| Weighted average share price at date of exercise of share options exercised during year – pence | 2,223.54 | 1,953.67 |
| Weighted average remaining contractual life at end of year – years | 7 | 7 |

Below is a summary of the details of the share schemes.

### LTIP

Under the terms of the current LTIP, executive directors and key senior executives may be granted conditional awards to acquire ordinary shares in the Company (in the form of nil cost options) which will only vest and become exercisable to the extent that the related performance targets are met.

Awards will first become exercisable on the vesting date, which is the third anniversary of the date of grant. Awards made on or after October 2016 are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant. For Awards made in October 2016 and October 2017 the holding period will apply to 50 per cent of any shares which vest. For awards made in November 2018 and all subsequent awards, the holding period will apply to 100 per cent of any shares that vest. The Awards will accrue dividends paid over the performance and any holding period. Awards are exercisable between October 2019 and November 2029.

### Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board grants options to purchase ordinary shares in the Company to employees with at least six months service who enter into an HM Revenue & Customs approved Save-As-You-Earn (SAYE) savings contract for a term of three years. Options are granted at up to a 20 per cent discount to the market price of the shares on the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract. Options are exercisable between August 2020 and January 2023. The range of exercise prices for SAYE options outstanding at the year end was 1,434p to 1,610p (2019: 1,434p to 1,610p).

## 21. Share-based payments (continued)

**Performance Share Plan (PSP)**

Under the terms of the Performance Share Plan, the Board may grant conditional awards to executives. The exercise of awards is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. The executive directors do not participate in this Plan. Awards are exercisable between November 2015 and November 2029.

**Deferred Bonus Plan (DBP)**

The Deferred Bonus Plan is applicable to executive directors only. Under the terms of the DBP, any bonus payable over target is deferred into shares for a period of up to three years. One third of the deferred shares are released on each anniversary of the bonus. The DBP is being implemented using transitional provisions. For the year ended 31 August 2019, one third of the bonus payable over target was deferred into shares. For the year ended 31 August 2020, two thirds of any bonus payable over target will be deferred into shares. In subsequent years, all bonuses payable over target will be deferred into shares. At 31 August 2020, 14,919 shares remain deferred in accordance with this plan.

## 22. Contingent liabilities

Potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Company if the lessee defaulted. The Company's 65 per cent share of these leases has an estimated future gross rental commitment at 31 August 2020 of £1 million (2019: £1 million). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

The Company is a guarantor on the Group's £200,000,000 revolving credit facility which is due to mature on 8 December 2023 alongside WH Smith High Street Limited and WH Smith Travel Limited.

The Company is also a guarantor, alongside WH Smith High Street Limited and WH Smith Travel Limited, on two 4-year committed term loans of £200 million each due to mature on 29 October 2022 and 17 October 2022 respectively. After the year end the maturity of these two loans was extended to 29 October 2023 and 17 October 2023 respectively.

## 23. Operating lease commitments (prior year – IAS 17)

The below disclosure is in relation to the comparative figure for the year ended 31 August 2019. This disclosure is no longer required since the implementation of IFRS 16 'Leases' on the initial date of application, 1 September 2019.

| | Land and buildings £'000 | Equipment and vehicles £'000 | Total (£'000 |
|---|---|---|---|
| Minimum lease payments under non-cancellable operating leases are payable as follows: | | | |
| Within one year | 70,559 | 861 | 71,420 |
| Between one and five years | 192,656 | 1,649 | 194,305 |
| After five years | 93,014 | 294 | 93,308 |
| | 356,229 | 2,804 | 359,033 |

The Company leases various properties under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are revenue-related leases, the annual net lease commitment is calculated using the minimum lease liability.

## 24. Related party transactions

The Company has taken advantage of the exemptions granted by paragraph 8(k) of FRS 101, not to disclose transactions with WH Smith PLC Group companies and interests of the Group who are related parties.

## 25. Transition to FRS 101

### Background

This is the first year in which the Company has prepared its financial statements under FRS 101. The previous financial statements for the year ended 31 August 2019 were prepared under FRS 102. The date of transition to FRS 101 for the Company is 1 September 2018. Set out below are descriptions of the various implementation options applied by the Company in preparing the financial statements for the year ended 31 August 2020, as well as reconciliations from FRS 102 to FRS 101 for both total comprehensive income for the year ended 31 August 2019 and total equity as at 1 September 2018 and 31 August 2019.

**Reconciliation of Total Equity as at 1 September 2018 and 31 August 2019**

| | 1 September 2018 £'000 | 31 August 2019 £'000 |
|---|---|---|
| FRS 102 – As previously reported | 440,781 | 614,113 |
| Recognition of IFRIC 14 minimum funding requirement | (3,324) | (2,756) |
| Deferred tax on net defined benefit obligations | 565 | 469 |
| | **438,022** | **611,826** |

IFRS requires the recognition of a liability in relation to a minimum funding requirement on a defined benefit pension scheme, under the guidance provided in IFRIC 14, and as described in Note 1 and Note 7. This liability was not previously recognised, under FRS 102. On adoption of FRS 101, the Company has recognised the schedule of contributions as a liability, with a corresponding adjustment to retained earnings. Remeasurements of this liability have been recognised in Other comprehensive income as set out below.

**Reconciliation of Total Comprehensive Income for the year ended 31 August 2019**

| | 2019 £'000 |
|---|---|
| FRS 102 – As previously reported | 118,972 |
| Change to remeasurements of net defined benefit obligations | 568 |
| Tax effect of recognition of net defined benefit obligations | (96) |
| | **119,444** |

## 26. Ultimate and immediate parent company

The immediate and ultimate parent company and controlling party is WH Smith PLC, a company incorporated in the United Kingdom, and registered in England and Wales. WH Smith PLC heads the largest and smallest group of companies of which the Company is a member for which consolidated financial statements are prepared.

Copies of the Group financial statements are available from:

The Company Secretary
WH Smith PLC
Greenbridge Road
Swindon
Wiltshire
SN3 3RX

## 27. Events after the balance sheet date

Since the balance sheet date, the ongoing impact of the Covid-19 pandemic has resulted in a second lockdown across England in November 2020 and further lockdowns of varying levels across the UK in the period from January to May 2021, as well as continuing international travel restrictions. The directors have performed an assessment of these government actions on the Company to ascertain if this constitutes an adjusting post balance sheet event under IAS 10 'Events after the Reporting Date'. Following this review, the directors have concluded that the above events are non-adjusting and are also not expected to have a material impact on the recognition and measurement of the Company's assets and liabilities.

On 9 March 2021, the Group extended the maturity of its two existing £200m Term Loans to October 2023 and agreed a new minimum liquidity covenant for both the August 2021 and February 2022 covenant tests. The previously agreed covenant waiver for February 2021 remained unchanged. These changes enabled the Group to cancel its existing £120m liquidity loan which was undrawn and due to expire in November 2021.

Further to the above changes, on 28 April 2021 the Group announced new financing arrangements which include a £250m RCF (increased from £200m), on which the Company is a guarantor, with an extended maturity from 2023 to 2025 and provided by an expanded syndicate of lending banks. This facility, and the term loan outlined below, carries a minimum liquidity covenant for August 2021, February 2022 and August 2022 (which supersedes the previous covenants described above). As part of the financing arrangements, the Group launched an offering of convertible bonds maturing in 2026. The convertible bonds raised £327m and provide £50m of new capacity for the Group to fund the opening of c.100 new Travel stores won and yet to open over the next three years and new growth opportunities. The remainder of the proceeds have been used to partially pay down the existing £400m of term loans from both the MRG and InMotion acquisitions. The maturity of the remaining term loan, on which the Company is a guarantor, has also been extended from 2023 to 2025 in line with the RCF.