WH Smith PLC

ANNUAL REPORT AND ACCOUNTS 2019

CONTENTS

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

ABOUT US

REVENUE
£1,397m

HEADLINE GROUP PROFIT BEFORE TAX[1]
£155m

GROUP PROFIT BEFORE TAX
£135m

HEADLINE EARNINGS PER SHARE[1]
114.7p

DIVIDEND PER SHARE
58.2p

DIVIDEND PER SHARE – GROWTH
+8%

- WH Smith PLC is one of the UK's leading travel retailers with a smaller business located on the UK high street.
- WHSmith Travel is a leading travel retailer with a presence in a wide range of locations in the UK including airports, hospitals, railway stations and motorway service areas with a fast growing International business in 30 countries, mainly in airports.
- WHSmith High Street is present mainly in prime locations on most of the significant high streets and shopping centres in the UK.
- WHSmith reaches customers online via www.whsmith.co.uk, its specialist personalised greetings cards and gifts website www.funkypigeon.com, its specialist online pen shop www.cultpens.com and through its personalised stationery websites www.treeofhearts.co.uk and www.dottyaboutpaper.co.uk.
- WHSmith employs approximately 14,000 colleagues.
- WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index.
- A commitment to the principles of corporate responsibility is a key focus for WHSmith.
- Find out more about WHSmith at **www.whsmithplc.co.uk**.

@whsmith
youtube.com/WHSmithDirect
@whsmithofficial
linkedin.com/company/whsmith

Find out more at **whsmithplc.co.uk**

[1] Headline measures exclude Non-underlying items as described on page 117 for definition of Alternative performance measures ('APM').

WH SMITH PLC IS MADE UP OF TWO CORE BUSINESSES: TRAVEL AND HIGH STREET

TRAVEL

WHSmith Travel is a leading travel retailer in the UK with a fast growing international business outside of the UK. During the year, we acquired InMotion, a market leading digital accessories retailer in US airports. InMotion has an excellent store portfolio with 116 stores across 43 airports. On 17 October 2019, we also announced our intention to acquire Marshall Retail Group, a leading and fast growing US travel retailer, further accelerating our international reach in the world's largest travel retail market.

WHSmith Travel sells a range of products serving customers in travel locations or in need of a convenience offer.

Our goal is to be the leading retailer in news, books and convenience for the world's travelling customer.

As at 31 August 2019, the business operated from 1,019 units (2018: 867 units), mainly in the UK, in airports, hospitals, railway stations and motorway service areas. 433 of these units (2018: 286 units) are outside the UK across 30 countries and mainly in airports.

Travel delivered another strong trading profit[1] performance at £117m, up 14 per cent year on year. We made good progress in Travel's growing International business, winning an additional 45 units, (including WHSmith and InMotion units), bringing the total number of units open outside the UK to 433 units.

REVENUE
£817m
(2018: £672m)

GROSS MARGIN GROWTH[2]
100bps
(2018: 120bps)

TRADING PROFIT[1]
£117m
(2018: £103m)

UNITS
1,019
(2018: 867)

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

[2] Basis points ('bps'). See Glossary on page 117 for an explanation of the Group's alternative performance measures.

HIGH STREET

High Street sells a wide range of Stationery, Books, Newspapers, Magazines and Impulse products.

Our goal is to be Britain's most popular high street stationer, bookseller and newsagent.

As at 31 August 2019, the business operated from 576 WHSmith High Street stores[4] (2018: 578 stores[4]), located on most of the UK's significant high streets. We now operate over 200 Post Offices from within our High Street stores further cementing our position on the high street and at the heart of the communities we serve.

Our online digital business operates through five websites:

www.funkypigeon.com, www.whsmith.co.uk, www.cultpens.com, www.treeofhearts.co.uk and www.dottyaboutpaper.co.uk.

High Street delivered a good trading performance with profit of £60m.

REVENUE

£580m

(2018: £590m)

GROSS MARGIN GROWTH[2]

70bps

(2018: 70bps)

TRADING PROFIT[3]

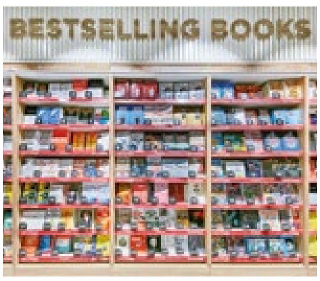
£60m

(2018: £60m)

WHSMITH STORES[4]

576

(2018: 578)



[3] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

[4] Excludes 18 Cardmarket stores (2018: 29 Cardmarket stores).

OUR BUSINESS MODEL AND STRATEGY TO CREATE VALUE

BUSINESS MODEL AND STRATEGY

WHSmith is one of the UK's leading travel retailers with a smaller business located on UK high streets. At the heart of both our businesses are our people and our customers.

Our business model explains what we do and how we create value. We aim to do this through improving our profitability and cash flow, and delivering sustainable returns.

OUR GOALS

TRAVEL

Our goal is to be the leading retailer in news, books and convenience for the world's travelling customer.

HIGH STREET

Our goal is to be Britain's most popular high street stationer, bookseller and newsagent.

We aim to deliver our goals through our strategic priorities and initiatives. These are detailed on the following page.

Travel and High Street are run by separate management teams reflecting the different customers, strategies, operating models and cost structures.

TRAVEL

Driving like-for-like sales, profit growth and high levels of cash generation with a growing International business

Forensic focus on space and category returns to meet the changing needs of our customers

Improved execution and service

Winning new space and developing new formats and channels in the UK and internationally

HIGH STREET

Delivering sustainable profit and cash generation

Optimise returns from a forensic focus on space

Margin growth from category mix management

Cost efficiency

Utilising our assets and third party partnerships to enhance our customer offer e.g. Post Offices

DELIVERING SHAREHOLDER RETURNS

FOCUSED USE OF CASH

Investing in the business where returns are greater than our cost of capital

Value accretive acquisitions in attractive markets with good growth prospects

Return surplus cash to shareholders through a progressive dividend policy and share buybacks

OPERATING RESPONSIBLY

You can read more about our approach to corporate responsibility on pages 25 to 30.

RIGHT PEOPLE AND SKILLS

You can read more about our values, employees and diversity on pages 28 to 29.

OUR CUSTOMERS

You can read more about our markets on page 6.

TRAVEL

Travel units sell a range of products serving customers in travel locations and in need of a convenience offer. Travel's typical customer has less time to browse and is more interested in purchasing convenience and impulse products such as food, drink and confectionery, travel accessories and souvenirs, as well as reading materials for a journey.

Travel units are typically located in high footfall locations with higher operating and occupation costs and rents paid as a percentage of sales (subject to minimum guarantees). Travel is less affected by the Christmas trading period than high street retailers. Increased passenger traffic during the summer holiday season, particularly in airports, contributes to a summer peak in sales.

Travel is impacted by macroeconomic trends (including any impact arising from the process of exiting the European Union) and other factors which influence the number and nationality of travelling customers. These include levels of employment and investment, the cost of travelling, as well as specific category trends such as the growth of consumable products and digital accessories.

Where we have reliable data on passenger trends, we see a correlation between changes in passenger numbers and our sales. Travel faces competition in its product categories primarily from other retailers in air, rail, motorways and hospitals. The growth of these retailers may take market share from Travel.

Travel operates in 154 air units, 120 rail units, 140 hospital units and in other locations in the UK, and 433 units outside of the UK.

HIGH STREET

High Street sells a wide range of products in the following categories: Stationery (including greetings cards, general stationery, art and craft, and gifting), News and Impulse (including newspapers, magazines, confectionery and drinks) and Books. High Street's trading is seasonal, peaking at Christmas and in August/September for 'Back to School'.

The High Street business operates 576 WHSmith stores with an extensive reach across the UK, and a presence on nearly every significant UK high street and mainly in prime locations.

High Street also includes our online business www.whsmith.co.uk which sells a range of Stationery, Books, Magazines and Gifts. Our online personalised greetings card site, www.funkypigeon.com, is part of the broader greetings card market and has grown strongly. Our online specialist pens website, www.cultpens.com, continues to perform well and is part of the pens and writing implements market. During the year, we acquired The Card Gallery, comprising www.treeofhearts.co.uk and www.dottyaboutpaper.co.uk – both online personalised stationery businesses. This acquisition aligns with our digital strategy and complements our existing stationery ranges in both our High Street stores and our online businesses, as well as enhancing our customer offer.

High Street's performance is dependent upon overall growth in consumer spending (including any impact arising from the process of exiting the European Union), growth in the non-food, non-clothing sector, its ability to take share in its product markets as well as specific category trends such as the impact of digitisation on printed products. Additionally, trends in the book market are impacted mainly by the quality of publishing in any year. High Street's competition comes primarily from other high street specialists, discounters, supermarkets and online retailers. The growth of these formats may take market share away from the High Street business and reduce footfall in the locations in which we operate.

CHAIRMAN'S STATEMENT

I am very pleased to report another year of good performance to 31 August 2019. Our UK and international travel businesses continue to deliver strong growth as we advance to transform the Group into a travel focused retailer, now accounting for over half our sales and two thirds of our operating profit. Our acquisition of InMotion during the year, a market leading digital accessories retailer in US airports, provides attractive growth opportunities for the Group and I am delighted to announce that we have recently won our first tender for both WHSmith and InMotion stores in a major US airport.

In addition, on 17 October we signed an agreement to acquire Marshall Retail Group, a leading and fast growing travel retailer in the US. This acquisition will broadly double the size of our international business and accelerate our growth opportunities in the US, the world's largest travel retail market.

Our High Street business remains an important part of the WHSmith Group and continues to deliver a good performance despite the well documented challenges facing high street retailers. Our strategy continues to focus on sustainable profit and cash generation. During the year, we installed further Post Offices into our High Street stores, bringing the total number of Post Offices within our High Street portfolio to over 200.

The Group remains highly cash generative delivering a free cash flow[1] of £109m and has, once again, grown its profit in the year with Headline Group profit before tax[2] increasing by seven per cent to £155m. Group profit before tax increased to £135m (2018: £134m).

Value creation remains central to our plans and we will continue to invest in both businesses and in new opportunities to help us deliver future growth.

CORPORATE GOVERNANCE

Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy. A more detailed explanation of our approach to corporate governance can be found in our Corporate governance report on pages 31 to 62.

CORPORATE RESPONSIBILITY

This year we have continued to make good progress on our corporate responsibility activities across the four areas of our strategy: environmental stewardship, responsible sourcing and selling, looking after our workforce and helping the local communities where we are based. The current phase of our CR plan has a series of objectives and targets, backed up by policies, programmes and governance for all of our significant issues, and these are due for completion by 2020. We will be working on a new set of targets over the next 12 months, and look forward to disclosing them in next year's report.

Further information on all aspects of our CR programmes can be found on pages 25 to 30.

PEOPLE

These results would not be possible without the continued hard work and support of our employees across the entire business: our stores, our distribution centres, and head offices, and I would like to offer my sincere thanks to each and every colleague. I would also like to take this opportunity to thank Stephen Clarke for his outstanding contribution to WHSmith. The Board is particularly grateful to him for his dedication and leadership which has seen WHSmith go from strength to strength and deliver exceptional shareholder value over the last six years. He has built an excellent management team and has put in place a proven strategy which will continue to deliver for all our stakeholders. We wish Stephen well for the future.

I am also delighted that Carl Cowling, currently Managing Director of our High Street business, and formerly Managing Director of WHSmith Travel, will be Stephen's successor. Carl has been instrumental in the development and execution of our successful strategy that has led to the Company's outstanding performance. Carl has the qualities and experience to lead the Company and continue to deliver superior shareholder returns over the years to come.

OUTLOOK

While the broader economic and political environment is uncertain, we believe we are well positioned for the year ahead. We will invest in each business for the long term while continuing to be disciplined with our capital allocation in order to maximise the contribution from both businesses and best deliver value for our shareholders.

HENRY STAUNTON
CHAIRMAN

17 October 2019

1 Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, less capital expenditure. See Group cash flow statement on page 75, Note 23 to the financial statements, Cash generated from operating activities on page 102 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

2 Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 72. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

CHIEF EXECUTIVE'S REVIEW

> Our distinct strategy has been successful in driving profit and creating shareholder value."

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

I am pleased to report another year of good performance across the Group. In our Travel business, which now delivers over half our sales and two thirds of our profits, we continue to perform strongly across all channels driven by our UK store investment programme, our key initiatives and our expanding international business. During the year, we acquired InMotion, a market leading digital accessories retailer in US airports, giving us a platform to enter the world's largest travel retail market in North America. In addition, we have announced our intention to acquire Marshall Retail Group, a leading and fast growing travel retailer in the US, which will further build on this platform.

We were also successful in winning a number of significant tenders internationally including our first WHSmith units in a major US airport. In our High Street business, our strategy of optimising the return from our space and assets continues to produce strong cash generation and sustainable profits.

I would like to thank everyone across the business for their continued support and valued contribution. Without the hard work and commitment of our teams across our stores, distribution centres and head offices, we would not be able to achieve these results and I am sincerely grateful to each and every team member.

GROUP OVERVIEW

Our distinct strategy has been successful in driving profit and creating shareholder value, together with our disciplined approach to cash generation and capital allocation and making appropriate value-creating acquisitions.

In UK Travel, we aim to deliver high levels of revenue and profit growth and good cash generation. We seek to achieve this by driving like-for-like revenue growth in existing stores through improved execution and service; investment in store environments and layouts; a forensic store by store focus on retail space and category management; winning new space and developing new formats in the UK.

In International Travel, we aim to expand profitably by winning new tenders and retaining existing space; building critical mass in our emerging hubs; driving like-for-like sales in existing stores; and by executing the same retail and operational disciplines and insights as we do in the UK.

In High Street, we aim to deliver sustainable profit and, as we do in Travel, good cash generation in a constantly changing consumer environment. We seek to do this by adopting a forensic store by store focus on retail space management to optimise the returns from our core categories particularly Stationery, complemented by our online propositions; driving margin growth through category mix management; reducing our cost base to reflect our changing sales profile and productivity initiatives; and creating value from our assets, including third party partnerships that enhance the customer offer.

Group profit from trading operations[1] increased by nine per cent on the prior year to £177m, with Headline Group profit before tax[2] increasing by £10m to £155m (2018: £145m), up seven per cent. Group profit before tax increased by £1m to £135m (2018: £134m).

Compared to last year, total Group revenue was up 11 per cent to £1,397m (2018: £1,262m) with like-for-like[3] revenue up one per cent.

TRAVEL PERFORMANCE

Travel, which generates over two thirds of Group profit from trading operations, delivered a strong performance. Trading profit[1] increased by 14 per cent to £117m of which £20m (2018: £11m) relates to our growing international business, including InMotion. Total revenue was up 22 per cent compared to last year and up three per cent on a like-for-like (LFL) basis driven by our initiatives and ongoing investment and growth in passenger numbers. We continue to invest in the business and opened 19 new units in the UK during the year, taking us to a total of 586 units in the UK. During the year, we acquired InMotion, comprising 116 units and we won a further 45 units internationally, including a number of significant wins in Australia, Europe and the Middle East. We also won our first WHSmith units in a major US airport. We opened 53 units in the year making the total number of units open internationally, including InMotion units to 433 (2018: 286).

HIGH STREET PERFORMANCE

High Street delivered a good performance despite the well documented challenges of the UK high street. As expected, trading profit[1] was £60m (2018: £60m) and second half profit was up £2m on last year. Total revenue was down two per cent with like-for-like revenue also down two per cent compared to the prior year. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £9m were delivered in the year. An additional £7m of cost savings have been identified, making a total of £17m over the next three years, of which £9m are planned for 2019/20.

GROUP

Headline earnings per share[4] increased by six per cent to 114.7p (2018: 108.2p). This reflects the increase in Headline profit and a lower basic weighted average number of shares in issue following the share buyback.

RETURN OF CASH TO SHAREHOLDERS

The Group remains highly cash generative and has a strong balance sheet. Net debt, including the £200m term loan used to finance the acquisition of InMotion and after finance leases was £180m at 31 August 2019 (2018: £2m), with a Group free cash flow[5] of £109m (2018: £96m). At 17 October 2019, the Group has a committed revolving credit working capital facility of £200m through to December 2023.

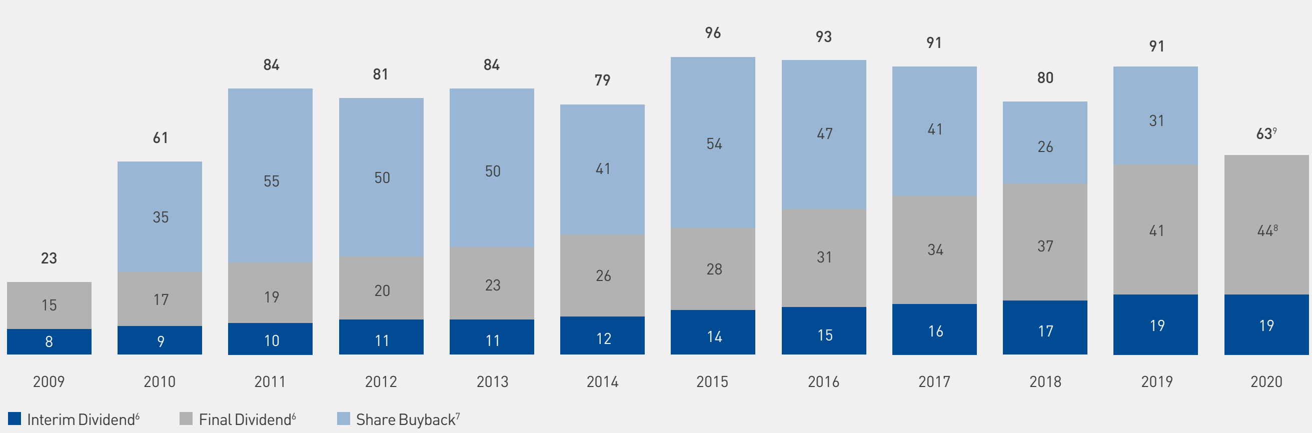
We completed £31m of the share buyback announced on 11 October 2018 through a rolling on-market share buyback programme.

The Board has proposed a final dividend of 41.0p per share, an eight per cent increase on last year, giving a total dividend per ordinary share of 58.2p, an eight per cent increase on the prior year. The proposed increase in final dividend reflects our progressive dividend policy, the Board's confidence in the future prospects of the Group and the strong cash generative nature of the business. The annual dividend has now increased every year since demerger from 11.8p in 2007 to 58.2p for 2019.

Both the Travel and High Street businesses are cash generative and we allocate our capital efficiently. We operate with a level of net debt of up to 1.25x EBITDA. At the end of the financial year, our leverage was around 0.9x EBITDA. Following the announcement of our proposed acquisition of Marshall Retail Group on 17 October 2019, we expect our leverage to return to below target leverage of 1.25x by the end of our first full financial year following Completion. We will suspend our buyback programme whilst we deleverage. Our approach to cash and capital allocation remains unchanged: investing in the business and new opportunities where we see attractive rates of return ahead of the cost of capital; capex for the year was £59m; returning cash to shareholders through a progressive dividend policy and then a share buyback; and making appropriate value-creating acquisitions in markets which have good growth prospects.

Including the proposed final dividend, since our 2007 financial year, we will have returned over £1bn of cash to shareholders, increased the dividend each year and reduced our issued share capital by 41 per cent.

RETURN OF CASH TO SHAREHOLDERS (£M)



1 Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

2 Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 72. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

3 Like-for-like revenue is calculated on stores with a similar selling space that have been open for more than one year (constant currency basis). See Glossary on page 117 for an explanation of the Group's alternative performance measures.

4 Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

5 Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, less capital expenditure. See Group cash flow statement on page 75, Note 23 to the financial statements, Cash generated from operating activities on page 102 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

6 Cash dividend paid, except for year ending 31 August 2020, see footnotes 8 and 9.

7 Buyback in the year.

8 Proposed final dividend for year ended 31 August 2019.

9 Includes proposed final dividend for year ended 31 August 2019, and, for illustrative purposes only, assumes interim dividend to be the same as in 2019.

TRAVEL

Our international business is growing rapidly. We won a record 45 new units outside of the UK during the year."

REVENUE

£817m

(2018: £672m)
Total revenue +22%
Like-for-like revenue +3%

TRADING PROFIT[1]

£117m

(2018: £103m)
+14%

RETAIL SELLING SPACE (SQ FT '000S) AND NUMBER OF UNITS[2]

	NUMBER OF UNITS	RETAIL SELLING SPACE
2019	**1,019**	**744**
2018	867	650
2017	815	613
2016	768	597
2015	736	579

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

[2] Travel units include motorway and international joint ventures and franchise units and exclude kiosks in China and India, and Wild Cards and Gifts franchisees in Australia.

PERFORMANCE REVIEW 2018/19

Travel delivered a strong performance in the year with trading profit[1] up 14 per cent to £117m. Travel profits are now almost twice the profits of High Street. Total revenue in the year was up 22 per cent with like-for-like revenue up three per cent on a constant currency basis. Gross margin, excluding InMotion, increased by 100 bps.

While the increase in passenger numbers continues to be an important driver of growth, we are well placed to take advantage of the structural growth opportunities in our markets by:

- focusing in our existing stores on improved execution and customer service; investment in store layouts; space and category management;
- developing new formats and opening new space in the UK; and
- expanding profitably overseas.

TRAVEL – UK

During the year, we delivered a strong revenue performance across all our key channels driven by our continued investment, growth in passenger numbers and growth in spend per passenger. In air, total revenue was up five per cent with like-for-like revenue up three per cent; in hospitals, total revenue was up 12 per cent with like-for-like revenue up six per cent, and in rail, total revenue was up one per cent with like-for-like revenue also up one per cent.

Retail space in travel locations is often very constrained. It varies substantially by channel and location and is expensive. As a result, we seek to maximise the return from every square metre of this space through our detailed analysis of the space and category elasticities of each square metre of display space. This, along with our operational capabilities to make space changes three or four times a year even in our busiest stores, means we are able to respond to the changes in our customers' needs, growth opportunities and adapt to seasonal variations. This process has, over the years, led to a significant evolution of our formats and ranges.

During the year, we have continued to invest in our store environments and focus on developing new formats that position us well for the future. We have seen some particularly pleasing results from our recently opened large airport format stores at Gatwick, Heathrow, Birmingham and Belfast airports, delivering superior sales per passenger across these stores. In April, we reformatted our large international departure lounge WHSmith store at Gatwick North terminal to include a Well Pharmacy, the UK's third largest pharmacy chain. This 6,000 square feet store combines a traditional WHSmith format with a pharmacy offer, providing customers with everything they would expect from a WHSmith Travel store, alongside a licensed pharmacy with over 2,500 health and beauty lines and an in-store pharmacist.

In addition to the WHSmith pharmacy format trial, we also opened a new 2,000 square feet Bookshop by WHSmith at Gatwick during the second half. This store provides customers with a specialist customer experience with a unique look and feel. This has been well received by customers and our landlord. Across Gatwick, we now have over 25,000 square feet of selling space, with a number of different formats, positioning us well for the expected growth in passenger numbers. These new formats present good opportunities for WHSmith and our landlords going forward.

Revenue in hospitals grew by 12 per cent in total and six per cent on a LFL basis. Hospitals are now our second biggest channel by revenue with good opportunities to grow further. Over the years, we have built strong relationships with NHS Trusts, working closely with them to develop our healthy eating ranges, and we have a clear pricing policy to ensure prices are in line with other high street retailers or local supermarkets. We have also invested in our hospital stores, developing new formats and ranges to suit the individual requirements of each hospital.

Our partnership with M&S in hospitals continues to deliver strong results and we now have 22 M&S implants within our stores and operate 21 Simply Food stores, including eight smaller trial units. During the year, we also opened our first Costa Coffee franchise units in Blackburn Hospital and Churchill Hospital, Oxford.

We now offer hospital landlords any combination of a WHSmith, M&S Simply Food and Costa Coffee format and this positions us to better meet the needs of our NHS partners and customers in a variety of different sized hospitals across the country. This is demonstrated by our tender win in Colchester Hospital where we will operate a WHSmith store, an M&S Simply Food and a Costa Coffee; all due to open later this year.

At the end of August 2019, we had 140 hospital stores open across 100 hospitals, including 21 M&S Simply Food stores, and we believe there are around 300 hospitals that have the potential to support one or more of our store formats. There is a good pipeline of store openings going forward.

We continue to invest in rail. During the year, we have developed further our 'Tech Express' format. Our recent openings in Waterloo Station and Euston Station are performing well. These Tech Express units incorporate our learnings from InMotion to create a compelling customer proposition. We expect to open another two Tech Express units at Liverpool Street Station and Birmingham New Street Station this financial year. Following the success of our large store format in airports, we have recently re-furbished our store at Paddington Station, taking the learnings from our large airport format and applying them to the rail format. Although very early days, the results are looking positive.

In the UK, we are on track to open around 15 to 20 new units this year which will be across all three channels in air, hospitals and rail. We anticipate opening around 15 new units each year over the following three years.

In addition to investing in our stores, we are also investing in our people. We have introduced tailored training programmes for our staff in our specialist book and Tech Express units, developing product specialists to help customers select the right item for their journey. We have invested in new technology to support a faster and simpler improved payment experience for customers enabling us to reduce queue times at peak periods.

INTERNATIONAL TRAVEL

Total revenue for the year, including InMotion, was £252m (2018: £132m), up 91 per cent versus the previous year. LFL revenue was up three per cent on a constant currency basis. Trading profit for the year was £20m (2018: £11m), including £8m profit from InMotion.

Excluding InMotion, profit from International was £12m which includes a challenging performance from Madrid Airport where we have a short term contract due to airport re-development. We won a record 45 new units outside of the UK during the year.

Of the 36 WHSmith units won during the year, four are in Australia, five are in Europe, 14 are in the Middle East, 11 are in South East Asia and India and two are in the US. We won 10 InMotion units, including our first InMotion airport units outside of North America in: Perth, Australia; Alicante, Spain and Leeds, UK.

WHSMITH

Our International business is growing rapidly. We are able to demonstrate that we can deliver improved performance and add value relative to the previous incumbents. Our active space management and focus on providing a compelling offer to customers and landlords enables us to win and retain business. During the year, we have won a further 36 WHSmith units and opened 53 units, making a total of 317 units open internationally, as at 31 August 2019. However, our share of the global news, books and convenience (NBC) travel market is still very small and we continue to see opportunities to grow using our three economic models of directly-run, joint venture and franchise.

We have also, more recently, won our first WHSmith units in a major US airport. North America is the world's largest travel market and has good growth opportunities.

INMOTION

On 30 November 2018, we acquired 100 per cent of the issued share capital of InMotion, a market leading digital accessories retailer in US airports. InMotion has an excellent store portfolio with 116 stores across 43 airports in the US, the largest travel market in the world. InMotion also benefits from great relationships with landlords and brand suppliers as well as a best in class customer service proposition.

The acquisition of InMotion offers three attractive growth opportunities for the WH Smith Group: the travel retail market in North America for digital accessories offers significant growth potential. As the market leader, recognised for its best-in-class customer service, InMotion is well positioned to take advantage of that potential; InMotion provides us with a scalable platform to launch the WHSmith airport format into the US, and opening InMotion stores outside of the US.

We are pleased with the performance of InMotion. Integration is complete and the profits from InMotion at £8m were higher than our initial expectations, confirming the attractiveness of the US travel market. Our understanding of the North American travel retail market has increased significantly and we were delighted to win our first WHSmith units in a package with InMotion in North America in the second half.

In total, across our Travel business outside of the UK, we are now present in 102 airports and 30 countries with 81 units open in Europe, 55 in Australia, 114 in the Middle East and India, 56 in Asia Pacific and 127 across North and South America.

Of the 433 WHSmith units open, 54 per cent are directly run, 38 per cent are franchised with the balance joint venture. We will continue to use these three economic models flexibly in order to create value and win new business.

As at 31 August 2019, Travel operated from 1,019 units (31 August 2018: 867 units) and, excluding franchises, operates from 0.7m square feet.

HIGH STREET

> Stationery remains an important area of investment in our High Street business."

REVENUE

£580m

(2018: £590m)
Total revenue (2)%
Like-for-like revenue (2)%

TRADING PROFIT[1]

£60m

(2018: £60m)

RETAIL SELLING SPACE (SQ FT '000S) AND NUMBER OF UNITS

	NUMBER OF STORES	RETAIL SELLING SPACE
2019	**576[2]**	**2,740**
2018	607	2,764
2017	611	2,799
2016	612	2,827
2015	615	2,892

PERFORMANCE REVIEW 2018/19

High Street delivered a good performance, with trading profit, as expected, of £60m (2018: £60m). Second half profit was up £2m on the same period last year.

Total revenue in High Street was down two per cent, with LFL revenue also down two per cent, as expected. Gross margin improved by around 70 bps, through rebalancing the mix of our business, better buying and markdown management.

As we do with our Travel business, we consider retail space as a strategic asset and we utilise our space to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we utilise our space to maximise the return on every metre drop of display space in every store. We also create value through improving margins, reducing costs and driving third party income opportunities.

The majority of our stores are located in the best retail locations in the catchments in which we operate. This, and the huge variability in the size and shape of our stores, continues to give us opportunities to reconfigure our space to deliver margin mix benefits and efficiencies in the store operating model. During the year, we have conducted a number of trials to further extend our Stationery ranges and provide more, better quality space in store to this category. These trials have ranged from lower cost initiatives that deliver key benefits, to additional space with new features, such as a dedicated pen shop and digital area, through to a complete store refurbishment.

Stationery remains an important area of investment in our High Street business with good economics and growth potential. It now generates around half our High Street sales and over 60 per cent of store contribution. The market remains robust, particularly for fashion and seasonal stationery and our seasonal ranges, art and craft and 'Back to School' ranges all performed well during the year.

Beyond our stores we are growing our stationery business through a number of other initiatives:

- Funkypigeon.com, our online personalised greetings card business, performed well over the key seasons in the year delivering good revenue and profit growth.
- Whsmith.co.uk continues to provide customers with a comprehensive book and stationery offer and during the second half, we launched a new website providing customers with an improved shopping experience and extended ranges. Customer feedback has been positive and we delivered a strong 'Back to School' period.
- Cultpens.com, our specialist pen website, continues to perform well as we further develop the site and grow sales.
- During the second half, we acquired The Card Gallery, comprising www.treeofhearts.co.uk and www.dottyaboutpaper.co.uk, for a small consideration. Although small, this online personalised wedding stationery business aligns with our digital strategy of broadening our stationery ranges and enhancing our customer offer.

[1] High Street trading profit is stated after directly attributable share-based payments and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

[2] Excluding 18 Cardmarket stores that have not yet closed (2018: 29 Cardmarket stores) and including branches in Guernsey and Isle of Man.

Over the years, as part of our strategy of actively managing our space, we have developed a number of key partnerships, including our partnership with Post Office Limited. In October 2018, we announced our intention to install a further 40 Post Offices into our High Street stores and convert 33 hosted branches to franchise. This is now complete, bringing the total number of Post Offices within our High Street stores to over 200. The opening of these additional Post Offices further cements our position on the High Street and at the heart of the communities we serve.

The newspaper and magazine market continues to be challenging, however we are pleased with our performance and we continue to grow our share in magazines. Like-for-like revenue was up two per cent for the full year and we saw further improvement in gross margin. In Travel, we have continued to focus on our healthy eating ranges across our food, snacking and drink categories. During the year, we have introduced more protein and plant based products as well as extending our vegan and dairy free ranges, which have been well received by our customers.

Our approach to our books business goes unchanged. We continue to build on our areas of relative strength to make WHSmith High Street the home for lighter readers, kids and educational books while at the same time driving the overall net profitability of the category by improving the efficiency of our books operating model. Like-for-like revenue was down five per cent. In addition, we continue to make improvements to our customer proposition and, during the second half, we launched a new concept bookshop trial within our store in Bath. Customer feedback has been positive.

Driving efficiencies remains a core part of our strategy and we focus on all areas of cost in the business. We continue to deliver savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. During the year we achieved cost savings of £9m. These savings come from right across the business, including rent savings at lease renewal (on average 35 per cent) which continue to be a significant proportion, marketing efficiencies and a more efficient store operating model through greater use of technology.

We have worked hard over the years to create flexibility in our store portfolio. The average lease length is under four years and we only renew a lease where we are confident of delivering economic value over the life of that lease. Over the next three years, the leases on around 300 stores expire giving us further opportunities to renegotiate our occupation costs. We have a number of stores where we pay zero rent and others where we now pay rent in arrears.

An additional £7m of cost savings have been identified, making a total of £17m over the next three years, of which £9m are planned for 2019/20.

As at 31 August 2019, the High Street business operated from 576 WHSmith stores[2] (2018: 578), which occupy 2.7m square feet (2018: 2.7m square feet). Two WHSmith stores were closed in the year.

OUTLOOK

The distinct strategies for each of our businesses continue to deliver a good performance. In Travel, we have seen another year of good like-for-like sales growth and our UK business has further opportunities to grow across all channels as we continue to invest and actively manage our space. Internationally, we have established a good business which is profitable and growing fast. Including the InMotion units, we now have 433 units open across 102 airports and 30 countries. We see further opportunities to grow our margin and reduce our cost base in our High Street business and we will continue to focus on driving returns from our existing space with our forensic approach to space management. Going forward, while the broader economic and political environment is uncertain, the Group is well positioned for the current year and beyond.

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

17 October 2019

FINANCIAL REVIEW

> The Board has proposed a final dividend of 41.0p per share, an increase of eight per cent on the prior year."

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER AND
CHIEF OPERATING OFFICER

GROUP REVENUE

Total Group revenue was up 11 per cent at £1,397m with Group like-for-like revenue up one per cent compared to last year. Second half Group like-for-like revenue was up one per cent. In Travel, total revenue was up 22 per cent with like-for-like revenue up three per cent reflecting investment in our key initiatives and growth in passenger numbers. As expected, in High Street, total revenue was down two per cent with like-for-like revenue also down two per cent.

In the first half, Travel like-for-like revenue was up three per cent and also up three per cent in the second half. In High Street, first half like-for-like revenue was down two per cent, and also down two per cent in the second half.

Like-for-like revenue	H1 %	H2 %	Year to August 2019 %
Travel	3	3	3
High Street	(2)	(2)	(2)
Group	**1**	**1**	**1**

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like revenue was up two per cent, with an increase in gross margin. Stationery remains an attractive category for us with good economics and growth potential. During the year, Stationery has continued to be the main beneficiary of space with more stores benefitting from additional space towards the front of store and further range improvements. This additional space, combined with our range development initiatives drove good like-for-like revenue growth over the key Christmas and 'Back to School' periods.

The newspaper and magazine market continues to be challenging however we are pleased with our performance and we continue to grow our share in magazines. Like-for-like revenue was up two per cent for the full year and we saw further improvement in gross margin. In Travel, we have continued to focus on our healthy eating ranges across our food, snacking and drink categories. During the year, we have introduced more protein and plant based ranges, as well as extending our vegan and dairy free products which have been well received by our customers.

Our approach to our books business goes unchanged. We continue to build on our areas of relative strength to make WHSmith High Street the home for lighter readers, kids and educational books while at the same time driving the overall net profitability of the category by improving the efficiency of our books operating model. Like-for-like revenue was down five per cent and the margin increased compared to the prior year. We continue to make improvements to our customer proposition and, during the second half, we launched a new concept bookshop within our High Street store in Bath. Customer feedback has been positive. In Travel, we now have 11 standalone bookshops, including our recently opened bookshop at Gatwick Airport. During the year, we were delighted to win 'Book Retailer of the Year' Award 2019.

Category like-for-like sales	H1 %	H2 %	Year to August 2019 %
Stationery	2	2	2
News and Impulse	2	2	2
Books	(5)	(6)	(5)
Group	**1**	**1**	**1**

GROUP PROFIT

Group profit from trading operations[1] increased by nine per cent on the prior year to £177m (2018: £163m) with Headline Group profit before tax[2] increasing by £10m to £155m (2018: £145m), up seven per cent. Including non-underlying items relating to the acquisition of InMotion and the completed review in High Street announced in October 2018, Group profit before tax was £135m (2018: £134m).

	2019 £m	2018 £m	Change %
Travel trading profit[1]	**117**	103	14
High Street trading profit[1]	**60**	60	–
Group profit from trading operations[1]	**177**	163	9
Unallocated costs	**(17)**	(16)	
Group operating profit[2]	**160**	147	9
Net finance costs	**(5)**	(2)	
Headline Group Profit before tax[3]	**155**	145	7
Non-underlying items	**(20)**	(11)	
Group profit before tax	**135**	134	1

1 Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 86 and Glossary on page 117 for an explanation of the Group's alternative performance measures.

2 Headline, excludes £20m (2018: £11m) non-underlying items explained on page 15.

3 Headline Group profit before tax excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 72. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

NON-UNDERLYING ITEMS

Items which are not considered part of the normal operating costs of the business, are non-recurring and are exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately.

Non-underlying items relate to the InMotion acquisition and the completion of the High Street review announced in October 2018.

	Income statement 2019 £m	**Cash impact in 2019 £m**
Costs associated with acquisition:		
– Transaction costs	6	6
– Integration costs	5	3
– Amortisation of acquired intangible assets	2	–
Completed High Street review	7	7
	20	**16**

Costs relating to the acquisition of InMotion were £13m most of which were taken in the first half. We also completed the review in High Street, announced in October 2018, in the first half of the financial year and there are no further income statement costs to come relating to this. The remaining £5m of cash costs relating to the High Street review will be incurred over the next two financial years.

TAXATION

The effective tax rate[4] was 18 per cent (2018: 18 per cent), reflecting the statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 18 per cent. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

Our tax payments will be around £15m higher in our 2019/20 financial year as a result of previously announced changes in tax legislation concerning the timing of tax payments. This year, we will make six payments of UK tax rather than four payments in 2018/19 and we will revert to four payments in 2020/21.

In the year ended 31 August 2019, WHSmith contributed £263m (2018: £263m) in taxes, both paid and collected for the UK government. The key taxes paid by the Group were business rates, UK corporation tax and employers' national insurance incurred in employing our 14,000 people. Other taxes incurred include environmental levies and customs duties. The main taxes the Group collects for the government are the sales taxes charged to its customers on their purchases and employee payroll related taxes.

	£m
Taxes borne	89
Taxes collected	174
Total tax contribution	**263**

EARNINGS PER SHARE

Headline diluted earnings per share[5] increased by six per cent to 114.7p (2018: 108.2p). This reflects the increase in profit and a lower basic weighted average number of shares in issue following the share buyback. Diluted earnings per share decreased by one per cent to 97.2p (2018: 98.2p) reflecting some non-underlying items.

DIVIDENDS

The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis. The Board has proposed a final dividend of 41.0p per share, an increase of eight per cent on the prior year, giving a total ordinary dividend per share of 58.2p, an eight per cent increase on the prior year. This increase on the prior year, reflects the continuing cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 30 January 2020 to shareholders registered at the close of business on 10 January 2020. The final dividend will be paid gross.

4 See Glossary on page 117 for an explanation of Group's alternative performance measures.

5 Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

BALANCE SHEET AND CASH FLOW

As at 31 August 2019, the Group had net assets of £237m (2018: £212m). The increase in net assets reflects the acquisition of InMotion, capital investment and the cash generation of the business, offset by the return of cash to shareholders.

CASH FLOW

The cash generative nature of both the Travel and High Street businesses is one of the key strengths of the Group.

	2019 £m	2018 £m
Group operating profit[1]	160	147
Depreciation, amortisation and amounts written off fixed assets[2]	49	44
Non cash items	5	4
Working capital[2]	(13)	(14)
Employers' payroll tax on exercised share awards	(1)	(2)
Capital expenditure	(59)	(53)
Net tax paid	(27)	(27)
Net interest paid	(4)	(1)
Movement on provisions[2]	(1)	(2)
Free cash flow	**109**	**96**

1 Headline, excludes £20m (2018: £11m) non-underlying items as described on page 15 of the Strategic report and Note 4 of the financial statements on page 88.

2 Headline, cash flow impact excludes non-underlying items as described on page 15 of the Strategic report and Note 4 of the financial statements on page 88.

The Group generated free cash flow of £109m (2018: £96m). This is higher than last year due to increased operating profit partially offset by higher investment capex. Non-cash charges, including depreciation and share based payments, were £6m higher than last year.

The working capital movement reflects continued investment in opening new stores, some timing and a combination of some early rent payments on a couple of new contracts and a wash-up of historic rents on a number of contract extensions. While this has a one-off impact on the Group's working capital, the new and extended contracts set us up well for the future.

Net corporation tax paid was flat year on year at £27m.

Capital expenditure for the year was £59m, £6m higher than last year. Capital expenditure includes investment in new Travel stores both in the UK and internationally, investment in High Street stores (including the latest tranche of Post Offices) and further investment in our in-store operating model.

This year we expect capex spend to also be around £70m. Going forward after this year, we expect capex to also be around £60m–£70m per annum although this will depend on the number of new stores we open.

Analysis of capex:

	2019 £m	2018 £m
New stores and store development	31	25
Refurbished stores	16	17
Systems	11	9
Other	1	2
Total capital expenditure	**59**	**53**

As at 31 August 2019, the Group had net debt of £180m, including term loan of £200m relating to the InMotion acquisition, £14m of finance lease liabilities and net cash[3] of £34m (2018: net debt of £2m, including £14m of finance lease liabilities and net cash[3] of £12m).

The movement in net debt is as follows:

	2019 £m	2018 £m
Opening net (debt)/funds	(2)	4
Free cash flow	109	96
Dividends paid[4]	(60)	(54)
Pension funding	(3)	(3)
Net purchase of own shares for employee share schemes	(6)	(3)
Purchase of own shares for cancellation	(32)	(26)
Acquisitions of businesses, net of cash acquired	(161)	(5)
Repayments of obligations under finance leases	(6)	(5)
Other	(3)	(1)
Non-underlying items[5]	(16)	(3)
Closing net funds before net movement in finance leases	**(180)**	–
Net movement on finance leases	–	(2)
Closing net (debt)/funds	**(180)**	(2)

3 Net cash is Cash and cash equivalents (£49m; 2018: £45m) less bank overdrafts and other borrowings (£15m; 2018 £33m). See Group balance sheet on page 74.

4 Dividends paid include current year interim and prior year final dividends paid.

5 Cash flow effect of Non-underlying items explained on page 15 and Note 4 to the financial statements on page 88.

The cash outflow from non-trading items (excluding acquisitions and non-underlying items) was £18m higher compared to last year, mainly reflecting our capital allocation policy with dividends of £60m, £6m higher than last year, and the share buyback at £32m, was £6m higher than last year. We also spent £6m on purchase of own shares for employee share schemes, and pension deficit funding of £3m. During the year, the Group acquired InMotion for a cash consideration of £162m. The cash flow impact of non-underlying items was £16m. Further detail is provided in Note 4 to the financial statements on page 88.

We returned £31m to shareholders through an on-market buyback.

RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE for the Group after capitalising operating leases is 18 per cent (2018: 26 per cent) with Travel at 20 per cent (2018: 31 per cent) and High Street at 19 per cent (2018: 23 per cent).

	Operating capital employed £m[6]	ROCE %[7]	ROCE with operating leases capitalised %[8]
Travel	272	43	20
High Street	156	38	19
Trading operations	**428**	**41**	**19**
Unallocated central liabilities	(8)		
Operating assets employed	**420**	**38**	**18**

6 Net assets adjusted for net debt and retirement benefit obligations (net of deferred tax).

7 Return on capital employed is calculated as the trading profit as a percentage of operating capital employed.

8 Return on capital employed after capitalised net operating leases is calculated as the adjusted trading profit as a percentage of operating assets after capitalising operating leases. Adjusted trading profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

For the prior year, comparable ROCE was 68 per cent (Travel 112 per cent and High Street 44 per cent). The 2019 ROCE includes the acquisition of InMotion which took place during the year.

PENSIONS

The latest actuarial revaluation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2017 at which point the deficit was £11m (31 March 2014 actuarial revaluation deficit of £24m). The Group agreed a revised annual funding schedule with the Trustees from September 2017 for the next six years of £3m. This includes the deficit recovery contributions and other running costs. During the year ended 31 August 2019, the Group made a contribution of £3m to the scheme.

The scheme has been closed to new members since 1996 and closed to defined benefit service accrual since 2007. The Liability Driven Investment (LDI) policy adopted by the scheme continues to perform well with around 90 per cent of the inflation and interest rate risks hedged.

As at 31 August 2019, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £3m (2018: £3m) and an associated deferred tax asset of £1m (2018: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2019, the scheme had an IAS 19 surplus of £354m (2018: surplus of £294m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2018: £1m).

IFRS 16

IFRS 16 'Leases' applies to the Group for the first time for the year ending 31 August 2020. The Group will apply the modified retrospective transition approach and the first reporting period under IFRS 16 will be the Group's interim results as at 29 February 2020. The expected impact of the standard on the financial statements is provided in Note 1 to the financial statements on page 78.

The business has an annual minimum net rental commitment of £212m (2018: £184m) (net of £1m of external rent receivable (2018: £1m)). The total future rental commitment at the balance sheet date amounted to £986m (2018: £824m) with the leases having an average life of four years.

MARSHALL RETAIL GROUP

On 17 October 2019, we announced that we have signed an agreement to acquire Marshall Retail Group, a fast growing independent travel retailer operating in high footfall airport and tourist locations in the United States.

Marshall Retail Group currently operates in 170 North American locations, with 59 of these inside airports, and generates the majority of its revenue through the sale of news, gifts and convenience products.

The Transaction will be financed through a new £200m term loan facility provided by the Group's existing relationship banks, alongside a £155m fully underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility has been expanded to £200m (from the existing £140m).

The Group aims to operate with a level of net debt to EBITDA of 1.25x. At the end of the financial year, our leverage was 0.9x EBITDA. Following the proposed acquisition, we expect our leverage to return to below target leverage of 1.25x by the end of our first full financial year following Completion. We will suspend our buyback programme whilst we deleverage.

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER
AND CHIEF OPERATING OFFICER

17 October 2019

KEY PERFORMANCE INDICATORS

DRIVING PROFITABLE GROWTH

REVENUE (£M)

1. Total revenue (£m) including retail sales, wholesale sales to franchisees, and commission and fee income on concession and franchise arrangements.
2. Year-on-year percentage movement.

TRAVEL

	(1)	(2)
2019	**817**	**22%**
2018	672	8%
2017	624	9%
2016	573	10%
2015	521	9%

HIGH STREET

	(1)	(2)
2019	**580**	**(2)%**
2018	590	(3)%
2017	610	(5)%
2016	639	(3)%
2015	657	(4)%

GROUP

	(1)	(2)
2019	**1,397**	**11%**
2018	1,262	2%
2017	1,234	2%
2016	1,212	3%
2015	1,178	1%

GROSS MARGIN MOVEMENT[1] (BASIS POINTS)

Gross profit divided by revenue.

Year-on-year movement expressed in basis points.

TRAVEL

2019	**100[2]**
2018	120
2017	100
2016	30
2015	50

HIGH STREET

2019	**70**
2018	70
2017	110
2016	130
2015	140

GROUP

2019	**70[2]**
2018	90
2017	90
2016	80
2015	90

PROFIT[1] (£M)

Travel and High Street trading profit[1] is stated after directly attributable share based payments and pension charges, and before non-underlying items, unallocated costs, finance costs and taxation.

Group is Headline Group profit before tax[1].

TRAVEL

2019	**117**
2018	103
2017	96
2016	87
2015	80

HIGH STREET

2019	**60**
2018	60
2017	62
2016	62
2015	59

GROUP

2019	**155[1]**
2018	145
2017	140
2016	132
2015	123

1 See Glossary on page 117 for an explanation of the Group's alternative performance measures.

2 Excludes InMotion.

RETURNS TO SHAREHOLDERS

HEADLINE EARNINGS PER SHARE[1] (P)

Headline earnings per share is the headline diluted earnings per share in pence per share and percentage increase to prior year.

2019	**114.7**	**6%**
2018	108.2	4%
2017	103.6	9%
2016	94.8	9%
2015	87.3	12%

DIVIDEND PER SHARE (P)

Total dividend per share.

2019	**58.2**
2018	54.1
2017	48.2
2016	43.9
2015	39.4

RETURN OF CASH TO SHAREHOLDERS (£M)

Total cash returned to shareholders through dividends and buybacks.

2019	**91**
2018	80
2017	91
2016	93
2015	96

FOCUSED USE OF CASH

FREE CASH FLOW[1] (£M)

Free cash flow is defined as net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, less capital expenditure. See reconciliation of free cash flow on page 16.

2019	**109**
2018	96
2017	105
2016	108
2015	109

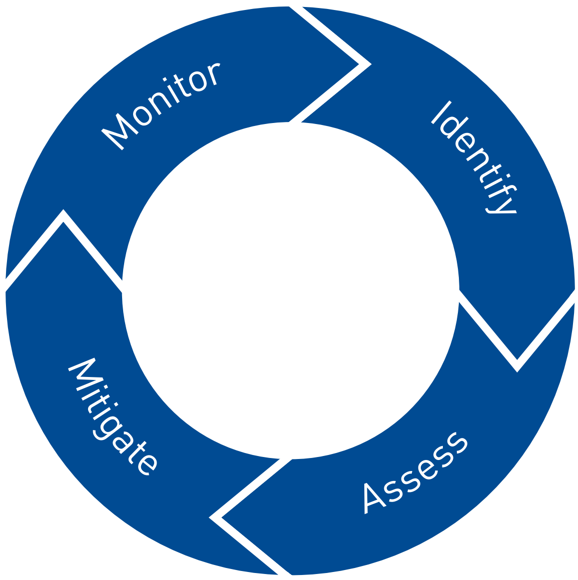
Performance indicators relating to operating responsibly can be found in the Corporate responsibility and environment section of the Strategic report set out on pages 25 to 30 and in our full CR report, available at www.whsmithplc.co.uk/cr.

[1] See Glossary on page 117 for an explanation of the Group's alternative performance measures.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT FRAMEWORK

Our risk management framework is designed so that material business risks throughout the Group can be identified, assessed and effectively managed. This framework incorporates the following core elements:



Identify – Risk registers compiled by each business function
– Risk mapping to identify emerging issues

Assess – Determining the likelihood of risk occurrence
– Evaluating the potential impact

Mitigate – Agreeing actions to manage the identified risks
– Ensuring control measures are in place

Monitor – Reviewing the effectiveness of controls
– Maintaining continued oversight and tracking

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 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 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.

BOARD REVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board has undertaken a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those principal risks are described on the following pages, along with explanations of how they are managed and mitigated. The Group recognises that the profile of risks constantly changes and additional risks not presently known, or that may be currently deemed immaterial, may also impact the Group's business objectives and performance. Our risk management framework is therefore designed to manage rather than eliminate the risk of failure to achieve business objectives, and, as such, can only provide reasonable and not absolute assurance against these principal uncertainties impacting on business performance.

CHANGES IN PRINCIPAL RISKS COMPARED TO LAST YEAR

The table on the following page summarises the principal risks and uncertainties agreed by the Board. The table incorporates further information relating to the movement in the level of these risk exposures during the year, to highlight whether, in our view, exposure to each of the principal risks is increasing, decreasing or remains broadly the same.

Where the consequences of Brexit negotiations may impact the business, we have incorporated these considerations into our assessment in relation to each of the principal risk headings as referenced in the table.

Key: Change in risk level

↑ higher ↔ no change ↓ lower

Risk/description	Mitigation	Change in risk level
Economic, political, competitive and market risks		
The Group operates in highly competitive markets and in the event of failing to compete effectively with travel, convenience and other similar product category retailers, this may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. Factors such as the economic climate, levels of household disposable income that may be impacted by Brexit, seasonality of sales, changing demographics and customer shopping patterns, and raw material costs could also impact on profit performance. The Group may also be impacted by political developments wherever it operates, such as exiting the European Union, regulatory and tax changes, increasing scrutiny by competition authorities and other changes in the general condition of the retail and travel markets.	The Group's performance is dependent upon effectively predicting and quickly responding to changing consumer demands both in the UK and internationally. The Group conducts customer research to understand current demands and preferences, in order to help translate market trends into saleable merchandise. The Group continues to monitor the implications arising from the process of exiting the European Union and is a member of a number of key industry bodies which provide insight and updates on this process.	↑ There are continuing uncertainties in relation to the nature, timing and resulting impact of the UK's exit from the EU.
Brand and reputation		
The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business, adversely affecting revenues. As the Group continues to expand its convenience food offer in travel locations, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all of our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. We operate a framework for monitoring compliance with all regulatory, hygiene and safety standards, encompassing supplier and store audits and clearly defined sourcing policies and procedures. Our corporate responsibility programme monitors our performance in respect of our key themes of the Marketplace, Workplace, Environment and Impact on the Community.	↔

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk/description	Mitigation	Change in risk level
Key suppliers and supply chain management		
The Group has agreements with key suppliers in the UK, Europe, the Far East, the US and other countries in which it operates. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade. Changes to import procedures and customs declarations on EU imports and exports to our European stores could impact supply chain lead times, tariff and duty costs. Product availability could also be impacted by any change in customs procedures that result in process delays at UK ports.	The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. Suppliers are required to comply with the conditions laid out in our Supplier Code of Conduct, which covers areas such as production methods, employee working conditions and quality control. We continue to work closely with our suppliers to manage any changes in the supply chain as part of our ongoing Brexit planning. The Group has contractual and other arrangements with numerous third parties in support of its business activities. None of these arrangements alone are individually considered to be essential to the business of the Group.	
Store portfolio		
The quality and location of the Group's store portfolio are key contributors to the Group's strategy. Retailing from a portfolio of good quality real estate in prime retail areas and key travel hubs at commercially reasonable rates remains critical to the performance of the Group. Changes to passenger numbers, flight scheduling or tax and duty rates could impact on our landlord's allocation of space. All of High Street's stores are held under operating leases, and consequently the Group is exposed to the extent that any store becomes unviable as a result of rental costs. Most Travel stores are held under concession agreements on average for five to ten years, although there is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts.	The Group undertakes research of key markets and demographics to ensure that we continue to occupy prime sites and identify appropriate locations to acquire new space. We maintain regular dialogue and good relationships with our landlords, discussing any business or potential space changes. The Group also conducts extensive customer research and analysis to gather feedback on changing consumer requirements which is shared with landlords as part of this ongoing relationship management programme.	
Business interruption		
An act of terrorism or war, or an outbreak of a pandemic disease, could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. In the past, our Travel business has been particularly impacted by geopolitical events such as major terrorist attacks, which have led to reductions in customer traffic. Closure of travel routes, both planned and unplanned, such as the disruption caused by natural disasters or weather-related events, may also have a material effect on business. The Group operates distribution centres in the UK and the US and the closure of any one of them may cause disruption to the business. In common with most retail businesses, the Group also relies on a number of important IT systems, where any system performance problems, cyber risks or other breaches in data security could affect our ability to trade.	The Group has a framework of operational procedures and business continuity plans that are regularly reviewed, updated and tested, including our planning for the impact of Brexit. The Group also has a comprehensive insurance programme covering our global assets, providing cover ranging from property damage and product and public liability, to business interruption and terrorism. Back-up facilities and contingency plans are in place and are reviewed and tested regularly to ensure that business interruptions are minimised. The Group's IT systems receive ongoing investment to ensure that they are able to respond to the needs of the business. Back-up facilities and contingency plans are in place and are reviewed and tested regularly to ensure that data is protected from corruption or unauthorised use.	

Risk/description	Mitigation	Change in risk level
Reliance on key personnel		
The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment. Labour retention may also be impacted in some areas in the event of Brexit restrictions to migrant labour.	The Group reviews key roles and succession plans. The Remuneration Committee monitors the levels and structure of remuneration for directors and senior management and seeks to ensure that they are designed to attract, retain and motivate the key personnel to run the Group successfully.	↔
International expansion		
The Group continues to expand internationally, both organically and through acquisitions. In each country in which the Group operates, the Group may be impacted by political or regulatory developments, or changes in the economic climate or the general condition of the travel market.	The Group utilises three business models to manage risk in our overseas locations: directly run, joint venture and franchise. The Group uses external consultants to advise on compliance with international legislative and regulatory requirements, to monitor developments that may impact on our operations in overseas territories and to conduct reputational due diligence on potential new acquisitions and business partners. Our geographical spread of activity mitigates against the material concentration of risk in any one area.	↑ This is an area of increasing risk, reflecting the continuing growth of our International business, and the acquisition during the year of InMotion.
Treasury, financial and credit risk management		
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 24 on pages 103 and 104 of the financial statements. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs 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 value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a committed facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. This facility matures in December 2023. During the year the Group entered into a £200m term loan to fund the acquisition of InMotion.	↑ This increasing risk reflects a change in gearing from the new loan funding to finance the acquisition of InMotion.
Cyber risk and data security		
The Group is subject to the risk of systems breach or data loss from various sources including external hackers, or the infiltration of computer viruses. Theft or loss of Company or customer data or potential damage to any systems from viruses, ransomware or other malware could result in fines and reputational damage to the business that could negatively impact on our sales.	The Group employs a framework of IT controls to protect against unauthorised access to our systems and data, including monitoring developments in cyber security. This control framework encompasses the maintenance of firewalls and intruder detection, encryption of data, regular penetration testing conducted by our appointed external quality assurance providers and engagement with third party specialists, where appropriate. We have a Steering Group overseeing our approach and response to cyber risk, and monitoring our programme of ongoing compliance with the Payment Card Industry Data Security Standard and the GDPR.	↑ While the external threat level is ever changing, there has been a general increase in the number of externally reported cyber attacks affecting business.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

ASSESSING THE IMPACT OF OUR PRINCIPAL RISKS ON OUR STRATEGIC PRIORITIES

The table below maps our strategic priorities with our principal risks, to demonstrate which of these risks could have an impact on the ongoing achievement of these strategic priorities.

	Economic, political, competitive and market risks	Brand and reputation	Key suppliers and supply chain management	Store portfolio	Business interruption	Reliance on key personnel	International expansion	Treasury, financial and credit risk management	Cyber risk and data security
1. Travel									
i. Winning new space/developing new formats in UK and internationally	✓	✓	✓	✓	✓	✓	✓	✓	✓
ii. Managing our space to meet the changing needs of our customers	✓	✓	✓	✓			✓		✓
iii. Improved execution and service	✓	✓	✓	✓			✓		✓
2. High Street									
i. Optimise returns on space	✓	✓	✓	✓					✓
ii. Margin growth from mix management	✓	✓	✓	✓					✓
iii. Cost efficiency	✓	✓	✓	✓					✓
iv. Utilising our assets and third party partnerships	✓	✓	✓	✓					✓
3. Focused use of cash	✓	✓	✓	✓			✓	✓	✓

BREXIT

Following the UK referendum to leave the EU, there continues to be uncertainty as to the timing and nature of the UK exiting from the EU. The extent to which our operations and financial performance are likely to be affected in the longer term will be dependent on the resolution of such ongoing uncertainty.

Where the consequences of Brexit may impact the business, we have incorporated these considerations into our assessment in relation to each of the principal risk headings listed above.

Our Brexit Working Party continues to review and monitor these issues, as part of our ongoing Risk Management framework. This includes consideration of those risks that could arise in the event of a possible 'no deal' outcome, where we continue to work closely with our suppliers to manage the impact of any amendments in tariff and duty rates, changes to import procedures for EU imports, and availability.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the directors are required to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities over a period greater than 12 months, taking into account its current position and principal risks.

The Group's strategy is highlighted on page five. The key factors are:

- **In Travel:** driving like-for-like sales, profit growth and cash generation; better understanding of space and category returns to meet changing consumer needs; winning new space; and developing new formats both in the UK and internationally.
- **In High Street:** optimising returns from a forensic focus on space; margin growth from category mix management; and a continuous focus on efficiency and hence cost reduction.

The strategic review incorporates plans at both the Group and Operating Division level. The plans consider the Group's cash flows, committed funding liquidity positions, forecast future funding and key financial metrics.

Using the strategic plan as a base, we have modelled a range of severe but plausible scenarios reflecting the Group's principal risks to establish their effect on the Group's cash and bank facilities. These reflect the incremental debt resulting from the proposed acquisition of Marshall Retail Group post year end.

These scenarios include material reductions in both High Street, Travel and Marshall Retail Group sales, margin reduction and the loss of key contracts in Travel.

The directors have assessed the prospects of the Group over a three year period, taking into account its recent historical performance, forecasts, a robust assessment of the principal risks facing the Group and mitigating factors. A three year period is considered the appropriate timeframe to assess the Group's prospects as it is consistent with the Group's strategic planning and review period, management incentive schemes and medium term financing considerations, including the anticipated refinancing of the Group's term debt.

However, should the proposed acquisition not proceed, there is sufficient headroom in the Group's working capital facilities for the Group to continue to be viable for the three year period to 31 August 2022.

We have also modelled the adverse impact following the UK's vote to leave the European Union, including reduced consumer spending.

Taking account of the above matters, and the Group's current position and principal risks, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 August 2022.

NON-FINANCIAL INFORMATION STATEMENT

CORPORATE RESPONSIBILITY PROGRAMME

WHSmith has a long-standing commitment to high standards of corporate responsibility (CR). Our CR strategy plays an important role in risk management, business development and delivering the expectations of our stakeholders. The four pillars of our CR programme – in the areas of environmental stewardship, responsible sourcing and selling, managing our workforce and our impact on local communities – enable the business to identify and manage risks.

Accountability for each area rests with named members of our Board, who, in turn, are supported by senior executives responsible for delivering our objectives. In this way we ensure our CR work is embedded across our organisation. The Board carries out annual reviews to ensure the successful implementation of the CR strategy, monitoring performance against our objectives and targets.

The following pages provide a summary of our work this year, with details of policies, activities and performance for our key risk areas. More detailed information, including performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/corporate_responsibility/.

ENVIRONMENT

Our main environmental impacts relate to:

- greenhouse gas (GHG) emissions from the energy used to power our stores and distribution centres, and fuel used for transport and distribution of products from our suppliers to our stores; and
- the production and disposal of waste materials from the primary and secondary packaging used to protect our products.

We are committed to minimising the impact on the environment from our operations and the products that we sell. We regularly review progress against our objectives and targets, aiming for continual improvement year on year. A copy of our Environmental Policy is available at www.whsmithplc.co.uk/docs/Environmental_Policy.pdf.

NON-FINANCIAL INFORMATION STATEMENT CONTINUED

GREENHOUSE GAS EMISSIONS

We have been working for many years to reduce the amount of energy we use, recognising the opportunity to minimise our overall GHG emissions and to reduce operating costs for the business. We have now met our objective to cut GHG emissions from stores and distribution centres by 45 per cent per square foot by 2020 (from a 2007 baseline), this year achieving a 66 per cent reduction against the baseline. The ownership for energy consumption sits with our store managers who have direct accountability for energy costs, driving high levels of awareness and engagement among our store teams.

We have continued to roll-out energy best practice, installing building management systems to monitor energy consumption across our stores, and optimising energy settings for lighting, heating and air conditioning to minimise energy consumption, whilst maintaining a welcoming and comfortable environment for customers. We have started to replace some of our current LED lights, which are now coming to the end of their life, with new equipment which provides a wider beam of light for wall displays and till points, reducing the need for more energy-intensive perimeter lighting in store. These lights have been installed in 70 stores to date and roll-out will continue next year. We have also introduced aerofoils to the front of our refrigeration units in 360 stores to minimise energy consumption as a result of cold air loss.

WHSmith's transport and distribution network is a long and complex one, delivering goods from our distribution centres to well over 1,000 stores across the length and breadth of the UK. The emissions from our fleet of lorries make up a significant part of our GHG footprint and we work hard to maximise efficiency wherever we can. We set ourselves a long-term target to reduce our GHG emissions per pallet by 20 per cent by 2020 (against a 2007 baseline). We have now met this target, achieving a reduction against the baseline of 24 per cent this year.

REPORTING ON THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES RECOMMENDATIONS

The Task Force on Climate-related Financial Disclosures (TCFD) recommended that organisations include information on climate-related risks and opportunities in their mainstream financial reports. The Government expects all listed companies and large asset owners to be disclosing in line with the TCFD recommendations by 2022. We recognise the threat that climate change presents to the world, and that there will be implications for all businesses. This year represents our first year of reporting against the TCFD recommendations and provides additional information on how we are managing climate-related risks and opportunities.

GOVERNANCE

Climate change related issues and performance against objectives and targets are reviewed at the main Board meeting at least annually as part of an update on our CR programme of activities. In addition, climate-related risks and opportunities are integrated into the management process and reporting framework for the Group Risk report to the Group Audit Committee.

STRATEGY

Climate change impacts of our operations and supply chain are incorporated into the Environmental pillar of our CR strategy. This includes objectives, targets and action plans for reducing our impact on climate change from our operations and supply chain. We also continually assess and review other risks and opportunities to our business from the changing climate.
We have begun to assess the potential business impacts under different future climate scenarios, incorporating changes in global temperatures, extreme weather events, and changes in forestry and agriculture. The resulting impacts could present risks and opportunities for our operational facilities, supply of the products that we sell, and changes in the purchasing practices of our customers. We are also reviewing the potential for changes in policy and legislation under different scenarios and the resulting implications for our business.

RISK MANAGEMENT

Identification, assessment and management of the risks from climate change follow our established risk management process, as described on page 20.

METRICS AND TARGETS

We currently have two climate-related targets for our business:

- to reduce GHG emissions from stores and distribution centres by 45 per cent per square foot by 2020 (from a 2007 baseline)
- to reduce GHG emissions per pallet by 20 per cent by 2020 (against a 2007 baseline).

Progress against these targets is reported annually in this report, and in more detail in our CR report. During the next 12 months, we will be working to set a new long-term science-based target for our operations.

GLOBAL GREENHOUSE GAS EMISSIONS DATA FOR PERIOD 1 SEPTEMBER 2018 TO 31 AUGUST 2019 IN TONNES OF CO_2E

	2018/19	Percentage of carbon footprint	2017/18
Scope 1 emissions			
Combustion of gas to heat and cool WHSmith stores, offices and distribution centres.	**2,653**	10	2,659
Scope 2 emissions			
Electricity purchased for WHSmith's own use (used to power, light and heat stores, offices and distribution centres).	**16,152**	63	18,667
Scope 3 emissions			
Combustion of fuel for the transport of products from distribution centres to stores using vehicles owned by third parties. Also emissions from WHSmith employee business travel (by air, rail, and owned and non-owned motor vehicle).	**6,940**	27	6,430
Total	**25,745**	100	27,756

SCOPE AND METHODOLOGY

Our methodology for the reporting of GHG emissions has been developed using the following guidance: GHG Protocol (including the Corporate Standard and Scope 2 and 3 guidance documents); CDP guidance (including the 2019 Climate Change Responder's Pack and the Technical Note on Accounting of Scope 2 Emissions); and guidance from the Climate Disclosure Standards Board. Conversion factors from the UK Government Department for the Environment, Food and Rural Affairs (DEFRA) have been used to calculate GHG emissions. Scope 2 emissions are reported using the location-based method. The data in the table covers the activities undertaken by our operations in the UK. Emissions from directly-run international stores are approximately 6,040 tonnes CO_2e. Assurance of greenhouse gas emissions has been provided by Corporate Citizenship.

WASTE MANAGEMENT

Waste is not only damaging to the environment but also costly for our business, so we are focused on reducing excess materials and maximising recycling wherever we can. In our High Street stores, we operate a recycling system which enables the stores to recycle most forms of waste, including cardboard, paper, plastics and metals. Waste is also segregated in our distribution centres and offices. Overall 88 per cent of our waste was recycled during 2018/19.

The number of food lines that we sell is growing, and we are working hard to eliminate food waste. One of the main sources of food waste is from unsold sandwiches which have reached their use by date. We have implemented a number of initiatives, including a new stock control system to improve forecasting and ordering of chilled food sales, so that we only stock food that we expect to sell, reducing waste volumes. Following a successful trial, we have also rolled out a discounting strategy in all our stores – engaging store colleagues to reduce the price of any sandwiches that are approaching but have not yet exceeded their use-by date. Over the past three years we have delivered a 34 per cent reduction in sandwich waste.

Packaging materials are designed to protect items to maintain quality and enhance product shelf life. However, excessive packaging can negatively impact the environment, because energy and raw materials such as forestry products or oil are used in the manufacturing process. Inappropriate disposal of packaging can also impact the air, land and marine environments when it is no longer needed.

We regularly review the type and quantities of packaging we use, including primary packaging of our own-brand products and the secondary packaging used to protect goods during transit and distribution. We seek to identify opportunities to minimise packaging where possible, and use more environmentally-preferable solutions such as cardboard for products and reusable skips for internal transfer of stock.

We have continued engagement with the government consultations on reform to packaging regulations and the introduction of a deposit return scheme which will require retailers to take back drinks containers for recycling once a customer has finished with them. Our Coffee House coffee shops and office restaurants now only stock wooden stirrers, rather than plastic ones and we have introduced re-usable cups. We have also introduced a much wider range of refillable water bottles into our stores and have switched our best selling line of bottled water to a product contained in 100 per cent recycled plastic. In our stationery business, we have re-designed the packaging for our Christmas ranges to use cardboard in place of plastic, and cut-out windows to showcase products rather than photos on plastic labels. We have also started to mandate that suppliers of greetings cards provide them without cellophane wrapping, removing the need for unnecessary packaging.

SUSTAINABLE FORESTRY

Paper-based products are a core part of WHSmith's business and sustainable timber sourcing is one of our key CR priorities. We are committed to minimising the environmental impact of the paper used in our own-brand products and ensuring that all virgin (i.e. non-recycled) material in our products is from known, legal, well-managed and credibly-certified forests.

As part of our work towards this objective, and in line with the requirements of the EU timber regulations, we carry out an in-depth and rigorous assessment of supplier timber-sourcing systems. We have set certified or recycled timber as a minimum standard, which gives additional assurance that pulp is from low risk sources. A copy of our Forest Sourcing Policy is available at www.whsmithplc.co.uk/docs/Forest_Sourcing_Policy.pdf.

Our sourcing teams work with our suppliers to help them understand our requirements and how the data they provide is needed to demonstrate that the pulp used in a WHSmith product is sourced from a certified or recycled source. We have made significant progress and this year we have achieved our 2020 target, with 98 per cent of paper in our own-brand products now originating from certified and recycled material.

ETHICAL TRADING AND RESPECT FOR HUMAN RIGHTS

One of our key social risks is the need for us to source products sustainably, ensuring that workers in our supply chain are treated well, and that their human rights are respected. WHSmith is a member of the Ethical Trading Initiative, an alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our Ethical Trade Code of Conduct (www.whsmithplc.co.uk/docs/Ethical_Trading_Code_of_Conduct.pdf) is based on the ETI Base Code and underpins our strategy and sustainable sourcing activities. We will only place orders with suppliers who are committed to working towards compliance with this Code, and we endeavour to bring about continual improvement through a programme of factory audits and ongoing engagement.

NON-FINANCIAL INFORMATION STATEMENT CONTINUED

Our in-house ethical audit team in China conducts audits of our own-brand suppliers at least every two years, assessing compliance with our Code of Conduct and grading suppliers Gold, Silver, Bronze and Unacceptable. We use a mix of announced and unannounced audits and a factory must be graded Bronze or above if we are to work with them. The Board reviews our ethical trade strategy annually, looking in detail at our audit and engagement programmes, emerging trends and risks, targets and performance.

To supplement the information we gain from supplier audits, our team also spends a significant part of its time engaging with suppliers on an on-going basis to build stronger and more transparent relationships. Engagement focuses on resolving specific issues identified during audits, as well as wider projects working with suppliers on key issues such as worker representation or health and safety. We also have an independent hotline for workers to report issues they are concerned about, which we then investigate and follow-up with suppliers to address.

We are committed to ensuring full respect for the human rights of anyone working for us in any capacity and we take a zero tolerance to modern slavery. We have developed a due diligence process to make sure we are identifying and assessing any potential and actual risks, and that we are providing appropriate risk control, mitigation and remedy where needed. We have reported on this area in detail in a separate Modern Slavery Statement, available at www.whsmithplc.co.uk/docs/ModernSlaveryStatement2018.pdf.

SOCIAL AND COMMUNITY MATTERS

WHSmith is at the heart of communities across the UK and we are committed to making a positive impact wherever we operate. Over the year we invested over £1.2 million into local communities, including 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.

This year, we again partnered with the three charities we selected as part of our 225th anniversary celebrations, and have now raised over £2.4 million for Cancer Research UK, Mind and the National Literacy Trust from customer and employee donations and fundraising. Once again, we sold pin badges, wristbands, Christmas cards and books to raise money for the three charities, and customers and employees across the UK have been generous with fundraising support. We have held special events to celebrate World Book Day with the National Literacy Trust, to provide additional stock for Mind in support of Mental Health Awareness Week and to publicise Cancer Research's Stand Up To Cancer event in October.

The WHSmith Group Charitable Trust is an independent registered charity, which works in partnership with the Group to support literacy projects and actively supports WHSmith employees involved with charitable organisations in their local communities. This year, it has continued its support of the National Literacy Trust's Young Readers Programme, incorporating 'live literature' events to bring children into direct contact with authors, storytellers and illustrators, helping to bring books to life and inspiring children to discover the joy of reading. Over the year, the project has worked with 1,500 children in 26 primary schools across the UK, allowing them to choose more than 4,500 free new books to keep. Further details of the WHSmith Trust can be found at www.whsmithplc.co.uk/sustainability/whsmith_trust/.

EMPLOYEES

The Group employs approximately 14,000 people, primarily in the UK, and is proud of its long history of being regarded as a responsible and respected employer. Information on our Employee policies is available at www.whsmithplc.co.uk/docs/Employee_Policies.pdf.

EQUAL OPPORTUNITIES

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. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

DIVERSITY AND INCLUSION

WHSmith recognises that talented people are core to the success of our business, whatever their age, race, religion, gender, sexual orientation or physical ability. We are committed to promoting a culture of equality and diversity through our policies, procedures and working practices. We want to ensure that all our employees receive equal and fair treatment, and this applies to recruitment and selection, terms and conditions of employment, promotion, training and development opportunities and employment benefits. We believe in creating a culture throughout the Company that is free from discrimination and harassment and will not permit or tolerate discrimination in any form.

We continue to implement a number of initiatives to promote more women into senior positions, including developing our succession pipeline to ensure we have a number of women ready for promotion. Mentoring plays a critical role in the development of our talent pipeline at all levels, providing targeted one-to-one support from a more senior role model. We continue to work with 'Everywoman' who provide a host of personal development tools aimed at women, including monthly webinars, workbooks and relevant career development articles. The partnership also provides our employees with links to an external network of professional women in other organisations so that contact, connections and relationships can be made easily. Both external research and our own employee surveys highlight that role models are critical in encouraging women to develop their careers.

We benchmark our diversity profile versus our peers and the national average to ensure that our employee profile and that of our management team reflect our commitment to diversity. In terms of gender diversity, we measure our performance across the Group, looking at Board level, our senior management and store management populations. To promote gender diversity, we understand the importance of work-life balance and promoting agile working. Our line managers are encouraged to consider requests for flexible working hours and home working.

TRAINING AND DEVELOPMENT

Our Learning and Development programmes are designed to support our employees as they develop their careers. We provide a range of learning opportunities and initiatives that are designed to help our employees develop their skills and experience. These include training workshops, online courses, external events and mentoring and coaching. We review and develop these activities, to ensure that they continue to meet the requirements of our business and the learning and development needs for our employees.

In our High Street business, where we are transforming a number of our highest volume stores, we have provided extra training and development to store managers. We have successfully integrated over 200 Post Office concessions into our High Street estate, and continue to embed the teams and operational processes into our overall Business Model.

Individuals have regular career conversations with their managers during the year, with more formal performance reviews taking place annually. In addition to monitoring performance, we also use a model of employee potential to help us to identify, develop and retain our talent within the business. We run a graduate scheme which offers learning and development opportunities for employees at the start of their career, providing 15 months of experience in a commercial environment, working with our trading, finance or IT teams.

EMPLOYEE INVOLVEMENT

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded via team briefings, employee events, intranet sites and e-newsletters. We conduct regular employee engagement surveys and the results are shared with all staff and actions agreed to respond to specific points of feedback, with employee focus groups used to help understand the staff feedback in more depth.

EMPLOYEE SHARE OWNERSHIP

The Company operates a 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 1,000 employees participate in the scheme.

OUR EMPLOYEES: KEY INFORMATION

The table below shows a breakdown of the composition of the Board as at year end.

Tenure		**Male/Female**		
0–1 year	3	Male	7	78%
1–3 years	0	Female	2	22%
3–6 years	0			
6–9 years	4	**Executive/non-executive**		
10+ years	2	Executive	3	33%
		Non-executive	6	67%

The tables below show the number and percentage of women and men in the senior management team, the management team and the mix of UK-based employees across the Group as at year end.

Senior Management team[1]		
Women	6	30%
Men	14	70%

1 This group comprises employees who are members of the executive committees (who are not also members of the Board).

Management team[2]		
Women	358	44%
Men	458	56%

2 This wider group includes store managers and senior head office staff (who are not also members of the senior management team).

Employee mix across the Group (UK-based)		
Women	7,853	64%
Men	4,335	36%

NON-FINANCIAL INFORMATION STATEMENT CONTINUED

HEALTH, SAFETY AND WELLBEING

We are committed to maintaining high standards of health and safety. The management team, supported by professional safety advisers, monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a Health and Safety Committee that comprises employee representatives and professional health and safety advisers. We provide an ongoing training programme for staff in stores, consisting of 'modular' courses focusing on key issues such as fire safety, manual handling and slips, trips and falls. We continue to see a reduction in the number of reportable accidents, which have more than halved over the last six years. A copy of our Health and Safety at Work Policy is available at www.whsmithplc.co.uk/docs/Health_and_Safety_at_Work.pdf.

We believe that it is just as important to support our colleagues' mental wellbeing as it is to look after their physical wellbeing. Our strategy is led from the top, with CEO Stephen Clarke signing the Time to Change pledge in February 2017. We are working hard to raise awareness of mental health issues and the associated stigma through partnerships with accredited organisations, such as Time to Change, and mental health charities including MQ, the mental health research charity; Place2Be, the leading national children's mental health charity; and CALM, a movement against male suicide.

We continue to work closely with Mental Health First Aid (MHFA) England to create a tailored approach to training and have six instructors qualified by MHFA to deliver in-house training. On World Mental Health Day in 2016, WHSmith made a pledge to have as many mental health first aiders as physical health first aiders and to train all line and store managers to be mental health aware. We have now met our target with over 170 employees completing a two-day training course on mental health first aid and continuing to attend monthly meetings to keep their knowledge alive. In addition, over 90 per cent of our line managers and store managers have received a half-day MHFA awareness course. This year, we were one of the first retailers to deliver MHFA refresher training to those who had previously attended the training course.

ANTI-BRIBERY AND ANTI-CORRUPTION

WHSmith prides itself on its values and commitment to acting with integrity throughout the organisation and we will not tolerate bribery or corruption in any form in our business or from others working on our behalf. Our Code of Conduct sets out in detail how our colleagues should behave and what they should do if they are confronted with corruption. We expect that all of them will embrace the Code and use it in all aspects of their day-to-day work. In turn, we expect our suppliers and other business partners to act at all times in a professional and ethical manner, complying with all relevant laws including the UK Bribery Act. Our Code of Conduct states that employees or others working on our behalf must never offer or accept any kind of bribe, and that our subcontractors, consultants, agents and others we work with must have similar anti-corruption measures in place. All employees are required to confirm that they have re-read and accept our Code of Conduct on an annual basis and are encouraged to report any suspected breaches using our confidential Speak Up helpline. Further details of our policy on anti-bribery and anti-corruption are provided at www.whsmithplc.co.uk/docs/Bribery_Ethics_Statement2.pdf.

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

17 October 2019

CORPORATE GOVERNANCE REPORT

> "The Board of the Company is committed to achieving the highest standards of corporate governance."

HENRY STAUNTON
CHAIRMAN

INTRODUCTION FROM THE CHAIRMAN

The Board of the Company is committed to achieving the highest standards of corporate governance. As Chairman, my role is to run the Board to ensure that the Company operates effectively and ensure that the Board has the right balance of skills, knowledge, independence and experience to assess, manage and mitigate risks.

This report, which forms part of the Directors' report, provides details of how the Company has applied the principles of, and complied with, the UK Corporate Governance Code 2016 (the 'Code'). A copy of the Code is available publicly from www.frc.org.uk.

During the year the Board received updates on the developments and changes to the corporate governance landscape and the Code. In July 2018, the FRC published a new edition of the UK Corporate Governance Code which will apply to the Company's financial year ending August 2020. We will report fully on this new version of the code for the first time in our Annual report and accounts 2020. As a Company, we have a long-standing commitment to high standards of corporate responsibility, which includes considering the interests of a broad stakeholder group in making business decisions. The Board remains focused on all our stakeholders, including our workforce, customers, shareholders and the communities we are part of. You can read about our engagement with shareholders on page 41 and our commitments to customers, workforce and community matters on pages 25 to 30.

A number of actions are being undertaken by the Board to ensure that we will be compliant with the new Code as follows. We are taking steps to strengthen the Board's engagement with our workforce. There are already a number of effective employee engagement processes in place across the Group, including the employee satisfaction survey and employee forums. We have appointed Simon Emeny as the member of the Board responsible for ensuring effective engagement with the workforce. He will attend meetings with employee representatives and report back to the Board. Feedback relating to workforce engagement will be reported to the Board and Committees as part of their responsibilities under the new Code. Section 172 of the Companies Act 2006 sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the Company. Accordingly, we have taken steps to ensure that considerations relating to section 172 continue to be embedded in the decision-making processes across the Group. During the year, the Board received refresher training from our external lawyers and the Company Secretary on discharging its duty to comply with section 172.

The information that is required by Disclosure Guidance and Transparency Rules ('DTR') 7.2 to be contained in the Company's Corporate governance statement is included in this Corporate governance report, in the Directors' remuneration report on pages 44 to 58 and in the Directors' report on pages 59 to 61.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised the Chairman, three executive directors and five independent non-executive directors. Short biographies of each of these directors, which illustrate their range of experience, are set out on pages 42 and 43. There is a clear division of responsibility at the head of the Company: Henry Staunton (Chairman) being responsible for running the Board and Stephen Clarke (Group Chief Executive) being responsible for implementing strategy, leadership of the Company and managing it within the authorities delegated by the Board. Drummond Hall is the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process. Stephen Clarke will step down as Group Chief Executive on 31 October and will be replaced by Carl Cowling, currently Managing Director High Street.

CORPORATE GOVERNANCE REPORT CONTINUED

All the directors, whose biographies are on pages 42 and 43, served throughout the financial year ended 31 August 2019 except as follows:

Carl Cowling was appointed as an executive director on 26 February 2019.

Simon Emeny was appointed as a non-executive director on 26 February 2019.

Maurice Thompson was appointed as a non-executive director on 26 February 2019.

All of the non-executive directors who served during the year and up to the date of this report are considered by the Board to be independent. Drummond Hall was appointed as a non-executive director in September 2008. He was appointed as the Senior Independent Director in September 2013. He began his eleventh year as a director of the Company in September 2018. In light of the provisions of the Code, the Board has considered Drummond's role and has concluded that Drummond Hall demonstrates independence and provides effective counsel. Drummond Hall will not stand for re-election as a non-executive director at the 2020 AGM. I would like to thank Drummond for his valuable contribution and strong commitment to the Company.

Following Drummond Hall's decision to step down as a non-executive director, Simon Emeny will be appointed as the Senior Independent Director with effect from the AGM in January 2020. Further information on the Board evaluation process can be found on page 33 of this report.

ATTENDANCE AT BOARD MEETINGS

The Board met 10 times during the year. It is expected that all directors attend Board meetings, Committee meetings and the Annual General Meeting ('AGM') unless they are prevented from doing so by prior commitments. The minimum time commitment expected from the non-executive directors is one day per month attendance at meetings, together with attendance at the AGM, Board away days and site visits, plus adequate preparation time. Where directors are unable to attend meetings, they receive the papers for that meeting giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting, the Chairman briefs any director not present on the discussions and any decisions taken at the meeting.

The following table shows the number of Board meetings held during the year ended 31 August 2019 and the attendance record of individual directors.

Board membership	Number of meetings attended
Henry Staunton	10 of 10
Suzanne Baxter	10 of 10
Stephen Clarke	10 of 10
Carl Cowling	5 of 5
Annemarie Durbin	10 of 10
Simon Emeny	5 of 5
Drummond Hall	10 of 10
Robert Moorhead	10 of 10
Maurice Thompson	4 of 5

a) Carl Cowling was appointed as a director of the Company on 26 February 2019.

b) Simon Emeny was appointed as a director of the Company on 26 February 2019.

c) Maurice Thompson was appointed as a director of the Company on 26 February 2019. Maurice Thompson was unable to attend one meeting of the Board due to a prior commitment which had been arranged before he was appointed as a director of the Company. He received the papers in advance of the meeting and gave his comments to the Chairman.

The Board has met twice since 31 August 2019 and all the directors attended the meetings.

MATTERS RESERVED FOR THE BOARD

The Board manages the Company through a formal schedule of matters reserved for its decision, with its key focus being on creating long-term sustainable shareholder value. The significant matters reserved for its decision include: the overall management of the Company; approval of the business model and strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the Annual report and financial statements, material agreements and non-recurring projects; treasury and dividend policy; control, audit and risk management; executive remuneration; and corporate social responsibility.

The Board has a forward timetable to ensure that it allocates sufficient time to key areas of business. The timetable is flexible enough for items to be added to any agenda as necessary. The Board's annual business includes Group Chief Executive's reports, including business reports; financial results; strategy and strategy updates, including in-depth sessions on specific areas of the business and strategic initiatives; consideration of potential acquisitions and meeting with new management teams; risk management; dividend policy; investor relations; health and safety; whistleblowing; Board evaluation; governance and compliance; communications and the Annual report.

RISK MANAGEMENT

The Board has overall responsibility for the Group's system of risk management and internal control (including financial controls, controls in respect of the financial reporting process and operational and compliance controls) and has conducted a detailed review of its effectiveness during the year to ensure that management has implemented its policies on risk and control. This review included receiving reports from management, discussion, challenge, and assessment of the principal risks.

No significant failings or weaknesses were identified from this review. In addition, the Board also received presentations from management on higher risk areas, for example, cyber risk, risks arising from the process of exiting the European Union and growing international expansion. The Board has established an organisational structure with clearly defined lines of responsibility which identify matters requiring approval by the Board. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas that require improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing emerging and principal risks faced by the Group, including those risks relating to social, environmental and ethical matters. The Board confirms that the processes have been in place for the year under review and up to the date of this report and that they accord with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'Risk Management and Internal Control Guidance'). The processes are regularly reviewed by the Board. The principal risks and uncertainties facing the Group can be found in the Strategic report on pages 20 to 25.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 35 to 39.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, with Board and Committee papers normally being sent out a week before meetings take place. Carl Cowling, Simon Emeny and Maurice Thompson received induction training on joining the Board, which was tailored to meet their needs to learn about the business, its markets and risks, and included store visits and meetings with employees across the businesses and with external advisers. The need for director training is regularly assessed by the Board.

BOARD EVALUATION

The performance of the Board, its Committees and its individual directors is a fundamental component of the Company's success. The Board regularly reviews its own performance. A formal internally facilitated evaluation was carried out in August 2019. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The main areas considered during the evaluation were strategy, operations and risk; succession planning; Board composition; culture and Board Committees. The Board intends to undertake an externally facilitated evaluation in 2020.

The findings were presented to the Board in October 2019. The results of the assessment were considered by the Board and confirmed the strength of the management of the Company, a shared focus and deep understanding of the business, a sound governance framework and practices compliant with the Code. Additionally, the culture of the Board remains very good, being open and frank, whilst also supportive and collaborative. As a result of the review, the Board agreed an action plan that will be implemented in the financial year ending 31 August 2020 and will include continued focus on succession planning and the overall composition of the Board, including developing more structured plans for internal candidates; strengthening engagement between members of the Board and employees, including the appointment of Simon Emeny as the non-executive director responsible for ensuring effective engagement with the workforce; continuing to maintain oversight of the Group's culture and further engagement with stakeholders; additional measures to ensure maximum benefit is derived from the strategy session held each year by focusing on the priorities of each business to deliver shareholder returns and holding detailed discussions on the overall market, drivers of trading performance and value creation; and steps to improve the Board's procedures and effectiveness. In addition to the Board and Committee evaluation process, the Group Chief Executive reviews the performance of the Chief Financial Officer/Chief Operating Officer ('CFO/COO') and other senior executives. The Chairman reviews the performance of the Group Chief Executive.

The Chairman also undertook a rigorous review with each of the non-executive directors to assess their effectiveness and commitment to the role. The Board has also scrutinised the factors relevant to the determination of the independence of Drummond Hall given that he has been a director for 11 years. The Board considers that he continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Drummond Hall will not stand for re-election as a non-executive director at the 2020 AGM. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to maintain the best possible team. The Board is satisfied that each of the non-executive directors commits sufficient time to the business of the Company and contributes to its governance and operations. The Senior Independent Director met the other non-executive directors to assess the Chairman's performance, taking into account the views of the executive directors, and they concluded that Henry Staunton continues to be an effective Chairman and demonstrates his commitment to the role.

CORPORATE GOVERNANCE REPORT CONTINUED

Under the Company's Articles of Association, directors are required to retire and submit themselves for re-election every three years and new directors appointed by the Board offer themselves for election at the next AGM following their appointment. However, in accordance with the Code, the Board has agreed that all directors wishing to be appointed will stand for election or re-election at the AGM to be held on 22 January 2020. At the last AGM on 23 January 2019, all the directors stood for re-election and were duly elected with a range of 94.38 per cent to 98.13 per cent of votes cast by shareholders. Biographies of all the directors are set out on pages 42 and 43 of this Annual report and are also available for viewing on the Company's website www.whsmithplc.co.uk.

The Company's Articles of Association give a power to the Board to appoint directors and, where notice is given and signed by all the other directors, to remove a director from office. The Company's Articles of Association themselves may be amended by special resolution of the shareholders.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share awards, are contained in the Directors' remuneration report on pages 44 to 58.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

BOARD COMMITTEES

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 35 to 39, the Nominations Committee on pages 40 and 41 and the Remuneration Committee on pages 44 to 58. The role and responsibilities of each Committee are set out in formal terms of reference which are available on the Company's website www.whsmithplc.co.uk. In addition, following the implementation of the EU Market Abuse Regulation (MAR) in July 2016, the Board established a Disclosure Committee which is responsible for ensuring compliance with the Company's obligations under MAR.

DIVERSITY POLICY

The Board values diversity in all its forms, both within its own membership and at all levels of the Group, and are highly supportive of the initiatives the Company has in place to promote diversity throughout the business. The Board believes that diversity in its widest sense is a key component to the success of the Company and receives reports on the Company's diversity profile to ensure that our workforce reflects our commitment to diversity. The Board aims to ensure its membership, and that of the wider Group, reflects diversity in its broadest sense so that it has a combination of demographics, skills, experience, race, age, gender, education and professional background thereby providing a wide range of perspectives, insights and challenge needed to support good decision-making. The Board's diversity policy aims to ensure that the Board nominations/appointments process is based on fairness, respect and inclusion, and that the search for candidates will be conducted with due regard to the benefits of diversity. It is the Company's aim to achieve a minimum of 30 per cent of women at Board and senior levels.

Further information on diversity can be found in the Nominations Committee section on pages 40 and 41 and is set out in the Employees section of the Strategic report on pages 28 and 29.

UK GENDER PAY GAP REPORTING

During the year the Board was kept up to date on the Company's obligation to report gender pay gap data for UK legal entities on the UK Government website and on our website. Further information can be found in the Nominations Committee report on pages 40 and 41.

SUCCESSION PLANNING AND CULTURE

During the year ahead, the Board will continue to focus on succession planning to ensure the readiness of internal candidates for all key roles across the business. The Board is committed to good governance, culture and leadership, recognising that these are key considerations for a strong sustainable business and that the tone comes from the top. Our business model on pages 4 and 5 outlines the importance of having the right people and skills, and operating responsibly. The Company's values, behaviours and culture will continue to form an important part of the Board's discussions. The Nominations Committee will continue to support the Board by ensuring that culture is built into recruitment and succession considerations.

The Board recognises the importance of being visible and accessible to customers and employees. During the year the non-executive directors accompanied management on site visits to the High Street and Travel stores. The Board believes that site visits provide directors with valuable insights into the business, helping to deepen their knowledge and understanding of the Company.

FAIR, BALANCED AND UNDERSTANDABLE

The Board confirms that it considers the 2019 Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Discussion of the Board's assessment of the Annual report and accounts is described in the Audit Committee Report on page 38.

CORPORATE GOVERNANCE REPORT CONTINUED

AUDIT COMMITTEE REPORT

"As Chair of the Audit Committee I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2019."

SUZANNE BAXTER
CHAIR OF THE AUDIT COMMITTEE

AUDIT COMMITTEE REPORT

DEAR SHAREHOLDER

As Chair of the Audit Committee, I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2019. Our principal objectives are to oversee and assist the Board in its responsibility to produce a set of Annual report and accounts which are fair, balanced and understandable and to provide effective financial governance in respect of the Group's financial results, the performance of both the internal audit function and the external Auditor, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Annemarie Durbin, Simon Emeny, Drummond Hall and Maurice Thompson, who are all independent non-executive directors. The Board considers that I have recent and relevant financial experience, as required by the Code and that the Committee, as a whole, has competence relevant to the sector in which the Company operates. At the invitation of the Committee, the Chairman of the Board, the Group Chief Executive, the CFO/COO, the Managing Director High Street, the Director of Audit and Risk, representatives of the Group's senior management team and of the external auditor attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

The Committee met four times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2019 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Suzanne Baxter	4 of 4
Annemarie Durbin	4 of 4
Simon Emeny	2 of 2
Drummond Hall	4 of 4
Maurice Thompson	2 of 2

a) Simon Emeny was appointed as a director of the Company on 26 February 2019.
b) Maurice Thompson was appointed as a director of the Company on 26 February 2019.
c) Henry Staunton, Stephen Clarke, Robert Moorhead and Carl Cowling were invited to and attended all four meetings of the Audit Committee.

The Audit Committee has met once since 31 August 2019 and all the Committee members attended the meeting.

A summary of the activities undertaken by the Committee during the year is as follows:

- reviewing the effectiveness (including focus on the Group's growing International business) of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security and tax;
- monitoring the integrity of the Group's financial statements and trading statements;
- assessing and recommending to the Board that the Annual report is fair, balanced and understandable;
- considering the Company's viability statement and papers from management, which considers the long-term viability of the Group;
- considering papers from management on the key financial reporting judgements, including papers on the accounting for the acquisition of InMotion;
- reviewing the Interim report and the Annual report and accounts, including compliance with the Code and statutory reporting requirements and recommending those documents for Board approval;
- considering the Company's emerging and principal risks and uncertainties and reviewing the mitigating actions that management has taken to ensure that these risks are appropriately monitored and controlled;
- considering the Company's systems and framework of controls designed to detect and report fraud and money laundering;
- receiving reports and presentations from members of the Company's senior management and its business risk committees on areas of the Company's control and risk management processes, with detailed presentations including a post-acquisition controls and systems assessment in InMotion, updates on systems change programmes, Post Office operating procedures and the development of the operating and control environments in the International Travel business;
- receiving and reviewing reports from the Internal Audit and Risk teams;

- holding private meetings with the external and internal auditors;
- considering the potential impact of Brexit on the Company;
- agreeing the scope of PricewaterhouseCoopers LLP's ('PwC') annual audit plans, assessing the effectiveness of the external audit process and considering the accounting, financial control and audit issues reported by the auditors that flowed from their work;
- reviewing auditor independence and approving the policy on the engagement of PwC to supply non-audit services;
- negotiating and agreeing the audit fee;
- undertaking a performance review of Internal Audit and the external Auditor;
- reviewing the Company's treasury policy;
- approval of the Group Tax Strategy and Public Statement;
- receiving updates on the policies and procedures for the General Data Protection Regulation (GDPR);
- considering and approving the report on the Company's payment practices;
- assessing new accounting standards IFRS 9 (Financial Instruments), 15 (Revenue Recognition) and 16 (Leases); and
- reviewing the Committee's terms of reference.

LONG-TERM VIABILITY STATEMENT AND GOING CONCERN

The Committee reviewed the process and assessment of the Company's prospects made by management, including:

- the review period and alignment with the Company's internal forecasts;
- the assessment of the capacity of the Company to remain viable after consideration of future cash flows, borrowings and mitigating factors; and
- the modelling of the financial impact of certain of the Company's principal risks materialising using severe but plausible scenarios.

The long-term viability statement is set out in the Strategic report on pages 24 and 25.

The Committee reviewed management's analysis supporting the going concern basis of preparation including reviewing the Company's financial performance, budgets for 2019/20 and cash flow projections. As a result of the assessment, the Committee reported to the Board that the going concern basis of preparation remained appropriate. The going concern statement is set out in the Directors' report on page 61.

SIGNIFICANT FINANCIAL REPORTING ISSUES

In preparing the accounts, there are a number of areas requiring the exercise by management of particular judgement. The Committee's role is to assess whether the judgements made by management are reasonable and appropriate. In order to assist in this evaluation, the CFO/COO presents an accounting paper to the Committee twice a year, setting out the key financial reporting judgements, and other papers as required. The main areas of judgement that have been considered by the Committee in the preparation of the financial statements are as follows:

ACQUISITION ACCOUNTING FOR INMOTION

The Committee received a paper on the accounting treatment and related disclosures adopted by management in respect of the acquisition of InMotion in November 2018. The Committee reviewed the outcome from the assessment of asset fair values (including consideration of accounting policy alignment) at the acquisition date, the determination of the carrying value of goodwill for the InMotion business and the establishment of the valuation of acquired intangible assets.

The Committee considered the cash generating units (CGUs) to which the goodwill arising on the acquisition of InMotion was allocated, along with the assumptions used in, and results of, the sensitivity testing undertaken by management in their asset impairment assessments. The Committee also considered the assumptions used in the acquired intangibles valuation model, primarily the budgets and forecasts, discount rates and royalty rates used, along with the conclusions of the advice taken by management in determining the valuation of the acquired intangible asset.

PwC provided the Committee with a detailed explanation of their review of all aspects of the InMotion acquisition accounting and related disclosures, including their challenge of management's key assumptions and discount rates.

GOODWILL

The Committee considered a paper from management on goodwill. This set out the determination of the CGUs to which goodwill has been allocated across the Group, the carrying value of goodwill, the results of the value in use calculations and the outcomes from impairment testing. The Committee noted the Company's approach to allocating individual store CGUs to two CGU groups of Travel (incorporating UK Travel, International Travel and InMotion) and High Street, reflecting the operating segments of the Company and the lowest level at which goodwill is monitored for internal management purposes. The disclosures in respect of goodwill were also reviewed.

PwC's paper to the Committee set out their work done in respect of goodwill and the approach to the accounting, CGU determination, impairment testing and disclosure used by the Company.

NON-UNDERLYING ITEMS

The Committee considered the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of non-underlying items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax in determining an alternative performance measure where charges are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence. The Committee received detailed reports from management outlining the judgements applied in relation to the non-underlying costs incurred during the year. These costs were attributable to the costs of acquiring and integrating the InMotion acquisition, the amortisation of acquisition related intangible assets relating to InMotion and costs relating to the completion of a business review in the High Street business. This was an area of major focus for the Committee which was cognisant of the need to ensure that costs were appropriately classified and that the disclosure of the non-underlying items was sufficient for users of the accounts to understand the nature and reason for the costs.

The external Auditor outlined the details and nature of the audit work carried out by them in this area, along with their consideration of the disclosures presented by management.

ACCOUNTING FOR INVENTORY

The Committee received a paper from management on accounting for and valuation of inventory and considered the judgements made by management, with specific consideration given to inventory provisioning, including provision for slow moving or obsolete stock. The Committee also received a paper from the external Auditor regarding the audit work they performed over the valuation of inventory. The Committee is satisfied that the process adopted by management for the valuation of inventory is sufficiently robust to establish the value of inventory held and is satisfied as to the appropriateness of the Company's provisioning policy.

IMPAIRMENT REVIEW OF STORE ASSETS

The Committee received and considered a paper from management covering the judgements made by management in respect of the Group's store assets given that sales and cost pressures may adversely impact the recoverable value of assets used within the store portfolio. The Committee noted that management had considered the trading results of each store for the year and noted that where a store is loss making and is not expected to return to profitability in the near future, an impairment charge is recognised over the assets that cannot be recycled within the store portfolio. The Committee was satisfied that the approach adopted by management was sufficiently robust to identify when an impairment charge of store assets needs to be recognised.

PROPERTY TRANSACTIONS AND PROVISIONS

The Committee considered the nature of property transactions undertaken by the Company in the year and reviewed the Company's obligations and provisions for the cost of onerous property leases, including lease obligations in respect of discontinued operations. The Committee also considered the disclosure of property transactions and provisions within the accounts.

PENSIONS

The Committee assessed the accounting treatment adopted by management and the application of IAS 19 in relation to the WH Smith defined benefit pension scheme. The Committee considered the current guidance and requirements in respect of pensions accounting, reviewed the judgements made in respect of the assumptions used in the valuation of the Company's obligations under the scheme and the recognition of future liabilities in respect of committed scheme contributions on the balance sheet.

DISCLOSURE IN RESPECT OF IFRS 16 – LEASES

The Group has a large portfolio of leases, the most significant of which relate to contracts for retail shop space in the High Street and Travel businesses. Due to this, the Committee spent time during the year considering reports from management on the new lease accounting standard, IFRS 16 – Leases, and its impact on the Group's financial position. The new standard will be adopted by the Group with effect from 1 September 2019, with the impact of the new framework limited to balance sheet disclosures only in the year ended 31 August 2019.

The Committee considered the Group's proposed approach to the implementation of the new lease accounting rules, notably the methodology and discount rates used in determining whether, and at what value, a value-in-use asset and related liability should be recognised for each of the Group's significant leasing contracts. The Committee discussed the nature of landlords' contractual rights in determining how leases held by the Group should be accounted for and valued under IFRS 16.

The Committee discussed the use of the modified retrospective approach for the recognition of the Group's contracts that are accounted for as leases under IFRS 16 due to the age and complexity of the estate.

The Committee discussed with management and PwC the impact assessment disclosure for the financial year ended 31 August 2019 and the key judgements made.

RECOGNITION OF SUPPLIER INCOME

The Committee considered, and reviewed in detail, management's paper which set out the nature and value of these arrangements and the policy for recognition in the financial statements. The Committee is satisfied with management's conclusion that the level of complexity and judgement is low in relation to establishing the accounting entries and estimates, and the timing of recognition. The Committee also considered the disclosure included by management in the Annual report and accounts.

Each of the above areas of judgement has been identified as an area of focus and therefore the Committee has also reviewed detailed reporting from the external Auditor on the relevant issues.

CORPORATE GOVERNANCE REPORT CONTINUED

FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT

At the request of the Board, the Committee has considered whether, in its opinion, the 2019 Annual report and accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee was assisted in its review by a number of processes, including the following:

- the Annual report and accounts is drafted by senior management with overall co-ordination by a member of the Group Finance team to ensure consistency across the relevant sections;
- an internal verification process is undertaken to ensure factual accuracy;
- an independent review is undertaken by the Director of Audit and Risk to assess whether the Annual report and accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information and investor communications);
- comprehensive reviews of drafts of the Annual report and accounts are undertaken by the executive directors and other senior management;
- an advanced draft is reviewed by the Board and the Company's Legal Director and, in relation to certain sections, by external legal advisers; and
- the final draft of the Annual report and accounts was reviewed by the Committee prior to consideration by the Board.

Following its review, the Committee advised the Board that the Annual report and accounts, taken as a whole, was considered to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee monitors and regularly reviews the effectiveness of the Group's risk management processes and internal financial and non-financial controls. The key features of the risk management process that were in place during the year are as follows:

- each business conducts risk assessments based on identified business objectives, which are reviewed and agreed annually by the executive management of each business. Risks are considered in respect of strategy, reputation, operations, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly and are reported to the Committee;
- a Group risk assessment is also undertaken by the Internal Audit team, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment, together with the business risk assessments, forms the basis for determining the Internal Audit Plan. Audit reports in relation to areas reviewed are discussed and agreed with the Committee;
- the Internal Audit team meets annually with all senior executives, to undertake a formal review and certification process in assessing the effectiveness of the internal controls across the Group. The results of this review are reported to the Committee;
- the Committee confirmed to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational, and compliance controls and risk management for the period of this report, in accordance with the Code and the Risk Management and Internal Control Guidance;
- the Board is responsible for approving the annual budget and the three-year plan, for approving major acquisitions and disposals and for determining the financial structure of the Company, including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee invites input and attendance from members of the senior management team of the Group at its meetings to discuss the design and operation of key business and internal controls and the assessment of risks that affect the Group. The Committee provides a link between the Board and the external Auditor through regular meetings;
- the Internal Audit team advises and assists management in the establishment and maintenance of adequate internal controls and reports to the Committee on the effectiveness of those controls;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in light of actual performance. These results and forecasts cover profits, cash flows, capital expenditure and balance sheets;
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Committee covering tax, treasury policies, insurance and pensions;
- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impact that our activities have on the environment, workplace, marketplace and community. More detailed information is available in our full CR report, available at www.whsmithplc.co.uk/cr; and
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy, which is regularly reviewed by the Board. A copy of our Health and Safety Policy is available at www.whsmithplc.co.uk/cr. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All reportable accidents are investigated and targets are set to reduce the level of incidence.

The Director of Audit and Risk attends the meetings of the Committee to discuss the above matters.

EXTERNAL AUDITOR

During the year the external Auditor reported to the Committee on their independence from the Company. The Committee and the Board are satisfied that PwC has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The Committee has recommended to the Board the re-appointment of the external Auditor for the 2020 financial year and the directors will be proposing the re-appointment of PwC at the 2020 AGM.

PwC were first appointed as auditor at the 2015 AGM, following a competitive tender process completed in 2014. As PwC will have now audited the WH Smith Group of companies for five years, in accordance with their rules on audit partner rotation and to maintain auditor independence, a new audit partner from the firm will be appointed to replace John Ellis, the current PwC audit partner, to lead the external audit for the next financial year and beyond. During the year, the Committee worked with PwC to identify a new audit partner to lead the future external audit work and agreed that Jon Lambert will take on that role. A transition plan is in place.

In line with the Company's policy for the external audit contract to be put out to tender at least every ten years, and in compliance with the rules on mandatory audit rotation, the Committee propose that a competitive tender process will next be completed no later than for the 2024 year end. The Committee will continue to monitor the appointment, effectiveness and independence of PwC as external Auditor, as well as considering whether this proposed timing remains appropriate in light of business developments, applicable law and regulation.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2018 year end audit provided by PwC. The Director of Audit and Risk prepared a questionnaire seeking the views and feedback of the Board, together with those of Group and divisional management, and it formed the basis of further discussion with respondents. The findings of the survey were considered by the Committee who concluded that PwC continued to perform effectively. As a result, PwC's re-appointment as external Auditors at the 2020 AGM is recommended to shareholders.

The Committee has a formal policy on the Company's relationship with its external Auditor in respect of non-audit work to ensure that auditor objectivity and independence are maintained. The policy is reviewed annually by the Committee and was updated in 2017 following the introduction of the FRC Revised Ethical Standard 2016. The majority of non-audit work undertaken by PwC in 2018/19 related to due diligence work in relation to the acquisition of InMotion, the interim review and tax advice. The Company decided to use PwC in respect of the transaction after considering alternative approaches and taking into account their understanding of our business, their retail expertise and the tight timescales for completing due diligence. PwC used a specialist team which was separate from the audit team for this work. The Auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance.

In future, and in keeping with developing best practice, the Committee has approved that the Company will not use the external Auditor to undertake financial due diligence work. As Chair of the Audit Committee, my approval is required before the Company uses non-audit services as specifically set out in the policy, or if the fees exceed £25,000 per matter. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum level of permitted fees incurred for non-audit services provided by PwC. For the financial year ended 31 August 2019 the non-audit fees paid to PwC were £339,800, of which £270,400 related to due diligence for the acquisition of InMotion, and the audit fees payable to PwC were £551,500.

The Company has complied during the financial year under review, and up to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

SUZANNE BAXTER
CHAIR OF THE AUDIT COMMITTEE

17 October 2019

CORPORATE GOVERNANCE REPORT CONTINUED

NOMINATIONS COMMITTEE

HENRY STAUNTON
CHAIR OF THE NOMINATIONS COMMITTEE

NOMINATIONS COMMITTEE

DEAR SHAREHOLDER

As Chair of the Nominations Committee I am pleased to present my report on the activities of the Nominations Committee for the financial year ended 31 August 2019. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge, independence and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee comprises a majority of independent non-executive directors. The other members of the Committee are Suzanne Baxter, Stephen Clarke, Simon Emeny, Annemarie Durbin, Drummond Hall and Maurice Thompson. In the event of any matters arising concerning my membership of the Board, I would absent myself from the meeting as required by the Code and the Senior Independent Director would take the Chair.

The Committee met five times during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, the appointment of a new Group Chief Executive, appointment of two new non-executive directors, the appointment of a new Senior Independent Director, career planning and identifying talent across the businesses and reviewing the work that has been undertaken in respect of the Company's gender pay gap reporting obligations.

Following the decision by Stephen Clarke to step down as Group Chief Executive, the Committee, in accordance with the Company's long-term succession plan, recommended that Carl Cowling, currently Managing Director of the High Street business, be appointed as Group Chief Executive with effect from 1 November 2019. Carl is the unanimous choice of the Board as he has the qualities and experience to lead the Group and to continue to deliver superior shareholder returns. As part of the Company's Board development plans, the Committee appointed external recruitment consultants, Lygon Group, to assist in the process of identification of potential candidates to join the Board.

As a result of this search, Simon Emeny and Maurice Thompson were appointed as non-executives on 26 February 2019. I confirm that Lygon have no other relationship with the Company or individual directors and have signed up to the voluntary Code of Conduct covering Board appointments established following the Davies Review.

Following Drummond Hall's decision to step down as a non-executive director, Simon Emeny will be appointed as the Senior Independent Director with effect from the conclusion of the AGM in January 2020. I confirm that Simon Emeny absented himself from the meetings at which his appointment as Senior Independent Director was discussed.

I have served as a director for nine years and as Chairman for six years. In the coming year, the Committee will be focused on succession planning for the position of Chairman and will have close regard to the requirements of the new Corporate Governance Code.

All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2019 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Henry Staunton	5 of 5
Suzanne Baxter	5 of 5
Stephen Clarke	5 of 5
Annemarie Durbin	5 of 5
Simon Emeny	1 of 1
Drummond Hall	5 of 5
Maurice Thompson	1 of 1

a) Simon Emeny was appointed as a director of the Company on 26 February 2019.

b) Maurice Thompson was appointed as a director of the Company on 26 February 2019.

c) Robert Moorhead was invited to and attended one meeting of the Nominations Committee.

The Nominations Committee has met twice since 31 August 2019 and all the Committee members attended both meetings.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity. Information on diversity, including gender, in respect of the Board and the Company is set out in the Employees section of the Strategic report on pages 28 and 29. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer.

The Board is a member of 'The 30% Club', which aims to achieve a minimum of 30 per cent of women on FTSE 350 Boards and in senior management within FTSE 100 companies by 2020. The organisation runs targeted initiatives and campaigns to improve gender diversity and accelerate the pace of change. The Board is committed to strengthening the pipeline of women in senior roles across the business and continues to take steps to ensure there are no barriers to women succeeding at the highest level of the Company. An action plan has been agreed to take further steps to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity within the senior management team, and the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company.

During our 'Learning at Work Week' programme, 'Women in Leadership' has been a key theme, with talks from our most senior female executives, master classes and chances to network. To ensure we attract more women at senior level, we continue to aim for gender balanced shortlists for internal and external recruitment at a senior executive level. The Company continues to work with 'Everywoman' who provide a host of personal development tools aimed at women and also provide our employees with links to an external network of professional women in other organisations.

The Board recognise that diversity is not limited to gender, but includes skills, experience, ethnicity, disability and sexual orientation. The Board is committed to having a diverse and inclusive leadership team and will monitor ethnic diversity across the Group. We will continue to appoint on merit, whilst aiming to broaden the diversity of the talent pipeline.

Further information on diversity is set out in the Employees section of the Strategic report on pages 28 and 29.

The Committee will continue to focus on succession planning and talent management for key roles across the business, to ensure the Company develops a pipeline of high quality internal candidates for senior management roles. Work is being undertaken to ensure succession arrangements are in place for Board members and key management.

The recent Board evaluation has again confirmed that the culture of the Board is excellent, being very open and collaborative. The Board continues to have a broad mix of skills, diversity, experience and talent, which enables the Board and the Committees to work effectively.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

HENRY STAUNTON
CHAIR OF THE NOMINATIONS COMMITTEE

17 October 2019

REMUNERATION COMMITTEE

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 44 to 58.

APPROVALS COMMITTEE

The Approvals Committee facilitates the internal approvals process by approving matters as delegated by the Board. The Approvals Committee comprises the Group Chief Executive and the CFO/COO.

DISCLOSURE COMMITTEE

The Disclosure Committee is responsible for ensuring compliance with the Company's obligations under MAR and the maintenance of disclosure controls and procedures. The Disclosure Committee comprises all of the directors of the Company and the Company Secretary.

ENGAGEMENT WITH SHAREHOLDERS

The Board's primary role is to promote the success of the Company and the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group. The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. This is achieved principally through the Annual report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website www.whsmithplc.co.uk.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer questions that shareholders may wish to raise.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and CFO/COO update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. The Head of Investor Relations also carries out a regular programme of work and reports to the Board the views and information needs of institutional and major investors. This is part of the regular contact that the Group maintains with its institutional shareholders. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

ANTI-CORRUPTION

The Company has continued to enhance its policies and procedures in order to meet the requirements of the Bribery Act 2010. These policies and procedures include training for individuals to ensure awareness of acts that might be construed as contravening the Bribery Act. The Group's Bribery Ethics Statement is included on the Company's website www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

COMPLIANCE WITH THE CODE

Throughout the year ended 31 August 2019 and up to the date of this report the Company has been in compliance with the provisions of the Code.

This report was approved by the Board on 17 October 2019.

Signed on behalf of the Board

HENRY STAUNTON
CHAIRMAN

17 October 2019

DIRECTORS' BIOGRAPHIES

HENRY STAUNTON
CHAIRMAN

Date of appointment: 1 September 2010. Henry was appointed as Chairman on 1 September 2013.

Committee membership: Chair of the Nominations Committee and a member of the Remuneration Committee.

Skills and experience: Henry brings a breadth of experience and leadership in both executive and non-executive roles. He has extensive finance, media and retail expertise and is Chairman of Capital and Counties Properties plc. He was previously the Finance Director of Granada and ITV, Chairman of Ashtead Group, Phoenix Group Holdings and Vice Chairman of Legal and General PLC.

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

Date of appointment: 1 June 2012. Stephen was appointed as Group Chief Executive on 1 July 2013. He will step down as Group Chief Executive on 31 October 2019.

Committee membership: Nominations Committee.

Skills and experience: Stephen has extensive retail experience and continues to create shareholder value through his outstanding leadership of the Company. He joined WH Smith in August 2004 as Marketing Director for WH Smith High Street. In 2006, he was appointed Commercial and Marketing Director and in 2008 became Managing Director of WH Smith High Street. He began his career at the Dixons Group where he carried out a number of store, product and marketing roles.

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER AND CHIEF OPERATING OFFICER

Date of appointment: 1 December 2008.

Skills and experience: Robert has over 25 years of retail and financial management experience, which has proved invaluable in his role as Chief Financial Officer and Chief Operating Officer. He has a deep understanding of the Group's businesses and strategy and has a strong track record of creating shareholder value. He is a Chartered Accountant and joined WH Smith in 2004 as Retail Finance Director. He is a non-executive director and Chair of the Audit Committee of The Watches of Switzerland Group PLC. Previously, he was Group Finance Director at Specsavers Optical Group and Finance and IT Director of World Duty Free Europe. He also held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse.

CARL COWLING
EXECUTIVE DIRECTOR

Date of appointment: 26 February 2019. Carl is CEO designate and will become Group Chief Executive on 1 November 2019.

Skills and experience: Carl has considerable retail experience and has made a significant contribution to both the Travel and High Street businesses since joining the Company in November 2014. He has been instrumental in the development and execution of the Company's strategy and has the qualities and experience to lead the Group and to continue to deliver superior shareholder returns. He joined WH Smith as Managing Director, Travel. In 2017, he was appointed Managing Director, High Street. Prior to joining WH Smith, Carl was Managing Director of Global partnerships at Carphone Warehouse and previously spent over a decade at Dixons where he held the roles of Ecommerce director, Commercial director and Managing director of the airport retailing business, Dixons Travel.

SUZANNE BAXTER
NON-EXECUTIVE DIRECTOR

Date of appointment: 4 February 2013.

Committee membership: Chair of the Audit Committee and a member of the Nominations Committee and Remuneration Committee.

Skills and experience: Suzanne has extensive finance, commercial and operational experience gained from working internationally with large workforces and complex contracts across multi-site locations. She is a Chartered Accountant having trained at Price Waterhouse, and is Chair of the Audit Committee. She has extensive executive and non-executive Board experience that enables her to provide substantial insight into the Company's reporting and risk management processes. She is a non-executive Board member and Nominations Committee Chair for Pinsent Masons International LLP, and a Commissioner on the Board of the Equality and Human Rights Commission where she is also a member of its Audit and Risk Assurance Committee and UN Treaty Monitoring Group. She was formerly the Group Finance Director of Mitie Group Plc and has 30 years of experience gained in the services industry. She was also previously the Chair of the Business in the Community South West Strategic Advisory Board, Deputy Chair of Opportunity Now and Chair of the Business Services Association.

ANNEMARIE DURBIN
NON-EXECUTIVE DIRECTOR

Date of appointment: 3 December 2012.

Committee membership: Chair of the Remuneration Committee and a member of the Audit Committee and Nominations Committee.

Skills and experience: Annemarie's international background and her legal experience and knowledge of regulatory and compliance matters provides a valuable contribution to the operation of WH Smith. She is a non-executive director and Chair of the Remuneration Committee of Santander UK plc, Chair of Cater Allen Limited and Head of Faculty of Merryck & Co. Limited. Previously, she was a non-executive director of Ladbrokes Coral Group plc and was Chair of the Listing Authority Advisory Panel. She has 25 years' international banking experience, particularly across Asia, Africa and the Middle East, operating at Board and Executive Committee level. In addition to her directorships, Annemarie is an executive coach, a conflict mediator and provides Board governance consultancy services.

SIMON EMENY
NON-EXECUTIVE DIRECTOR

Date of appointment: 26 February 2019.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee. Simon will become the Senior Independent Director following the Company's AGM on 22 January 2020.

Skills and experience: Simon has a wealth of consumer facing experience, including transport hub sites, and brings this broad range of skills and commercial expertise to the Board and its Committees. He is Group Chief Executive of Fuller, Smith & Turner PLC, a role he has held since 2013. Simon was previously the Senior Independent Director of Dunelm Group PLC.

DRUMMOND HALL
SENIOR INDEPENDENT DIRECTOR

Date of appointment: 1 September 2008. He will step down as a non-executive director following the Company's AGM on 22 January 2020.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee.

Skills and experience: Drummond's extensive UK and international commercial experience together with many years' significant Board experience enables him to contribute greatly to the ongoing success of WH Smith. He is a non-executive director of The Sage Group plc. He spent the early part of his career with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC. He was previously Chairman of Mitchell's & Butlers, and a non-executive director of First Group plc and TNS.

MAURICE THOMPSON
NON-EXECUTIVE DIRECTOR

Date of appointment: 26 February 2019.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee.

Skills and experience: Maurice has substantial Board and financial expertise, with over 30 years of experience in the international banking industry. He is able to draw upon his extensive knowledge of financial and strategic experience to assist the Board and its Committees. He is Chairman of Greensill Capital and previously held the position of Chief Executive of Citibank in the UK.

Ian Houghton is Company Secretary and Legal Director, and was appointed in September 1998.

DIRECTORS' REMUNERATION REPORT

> "I am pleased to present my first remuneration report as Chair of the Remuneration Committee, having taken over the role from Drummond Hall in January 2019."
>
> **ANNEMARIE DURBIN**
> CHAIR OF THE REMUNERATION COMMITTEE

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

DEAR SHAREHOLDER

I am pleased to present my first remuneration report as Chair of the Remuneration Committee (the 'Committee'), having taken over the role from Drummond Hall in January 2019. On behalf of the Board, I would like to thank Drummond for his highly effective leadership of the Committee and valuable contribution to the Company.

Accordingly, on behalf of the Committee, I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2019 which is in line with the Company's approved remuneration policy. The Directors' remuneration policy was supported by 98.78 per cent of our shareholders at our AGM in 2019.

Our remuneration policy focuses on our approach to pay which we believe is in our shareholders' best interests and can be summarised as providing executive remuneration packages which are competitive but have a very clear bias to variable pay with stretching and rigorous performance measures and conditions which are designed to deliver superior returns for shareholders. As can be seen over the last 10 years, our remuneration policy has effectively supported the Company's long-term strategy to create shareholder value as the Company's total shareholder return has increased by 515 per cent during this period and the Company has also returned approximately £865m cash to shareholders. The Company's business model and strategy is set out on pages 4 and 5.

Executive remuneration packages are structured so that they:

- are aligned to the Company's strategy to deliver shareholder returns and promote its long-term success;
- are aligned with the interests of shareholders;
- are competitive and provide a very clear bias to variable pay with stretching and rigorous performance measures and conditions;
- do not promote unacceptable behaviours or encourage unacceptable risk taking;
- include robust malus/clawback provisions and holding periods which permit the recoupment of variable pay, either if the pay-out was based on a material error or if the recipient commits gross misconduct or, going forward, if there is an insolvency (having regard to the Committee's assessment of the involvement of the individual to such event); and
- take into account Company-wide pay and employment conditions.

The other members of the Committee are Suzanne Baxter, Simon Emeny, Drummond Hall, Henry Staunton and Maurice Thompson. At the invitation of the Committee, the Group Chief Executive and representatives of the Committee's external independent remuneration advisor regularly attend meetings.

The Committee met six times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2019 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Annemarie Durbin	6 of 6
Suzanne Baxter	6 of 6
Simon Emeny	2 of 2
Drummond Hall	6 of 6
Henry Staunton	6 of 6
Maurice Thompson	1 of 2

[1] Maurice Thompson could not attend the 6 June 2019 Committee meeting due to a prior engagement which had been arranged before he joined the Board. He received the papers for the meeting and gave comments to the Chair of the Committee prior to the meeting.

Stephen Clarke was invited to and attended six meetings of the Committee but excluded himself in relation to any discussion in respect of his own remuneration. Robert Moorhead was invited to and attended one meeting of the Committee but excluded himself in relation to any discussion in respect of his own remuneration.

The Committee has met twice since 31 August 2019 and all Committee members attended both meetings.

KEY DECISIONS AND CHANGES

The key decisions and changes made by the Committee during the financial year ended 31 August 2019 are highlighted as follows:

- The Committee undertook a review of executive remuneration in respect of the appointment of Carl Cowling as a director of the Company. The Committee agreed that his salary on joining the Board should be £400,000 per annum and that his total benefit under the Company's defined contribution pension scheme be reduced from 25 per cent of base salary to 12.5 per cent of base salary.
- As we signposted last year and following the review of executive remuneration, the Committee decided to increase Stephen Clarke's salary by 6.4 per cent to £585,000 per annum and Robert Moorhead's by 6.8 per cent to £400,000 per annum. In making these decisions, the Committee took into consideration the level of increase awarded to staff generally over time, the performance of the Company and the fact that Stephen Clarke had not received a salary increase since September 2015 and Robert Moorhead had not received a salary increase since April 2016.
- The Committee agreed Carl Cowling's remuneration in respect of his appointment as Group Chief Executive as detailed below.
- The Committee agreed to further increase Robert Moorhead's salary to £440,000 on the announcement of Stephen Clarke's decision to step down as Group Chief Executive.
- The Committee approved the 2018 Directors' remuneration report.
- The Committee approved the performance targets for the Long-Term Incentive Plan ('LTIP') and annual bonus plan. The Committee also reviewed and approved the personal objectives for the executive directors, which are set out in Section 2.13 on pages 52 and 53.
- The Committee approved the pay-out under the LTIP and bonus plan.
- The Committee considered the Company's gender pay gap report.
- The Committee received updates on the new UK Corporate Governance Code (the 'Code') and its impact upon the Committee's remit and process.

MANAGEMENT CHANGES

Stephen Clarke will step down as Group Chief Executive on 31 October 2019 and will be replaced by Carl Cowling. Stephen Clarke will continue to receive his salary and other benefits until 31 October 2019. Under the rules of the WH Smith LTIP Stephen Clarke will be treated as a good leaver and will retain a reduced number of unvested awards as set out in the notes to the table of Outstanding Awards on page 54. These awards will continue to be subject to meeting the performance criteria and will be reduced on a pro-rata basis to reflect the time elapsed from the commencement of the performance period until his ceasing to be an employee of the Company. Stephen Clarke has also received, subject to appropriate deferral, a bonus under the Company's annual bonus plan for the financial year ended 31 August 2019. Stephen Clarke will receive no further awards under the WH Smith LTIP and will not be eligible for a bonus for the financial year ending 31 August 2020. Stephen Clarke will receive no other payments beyond these terms.

With effect from 1 November 2019, Carl Cowling will be paid an annual salary of £525,000 (being 10 per cent lower than that of his predecessor). He will have the opportunity to receive an annual bonus up to a maximum of 160 per cent of his base salary and an award of 335 per cent of his base salary under the WH Smith LTIP (both levels being consistent with that provided to Stephen Clarke as Group Chief Executive). The Committee has agreed that, without creating any legal obligation, it is intended that Carl Cowling's salary will increase by £25,000 per annum, subject to performance, in each of the next three years, with the first such increase proposed to take effect from 1 April 2020.

Robert Moorhead's salary was increased to £440,000 on the announcement of Stephen Clarke's decision to step down as Chief Executive on 21 May 2019 both to reflect his additional responsibilities following the InMotion acquisition and given his pivotal role through the transition of Group Chief Executive.

GOVERNANCE DEVELOPMENTS

The Committee has received updates on the new Code and is continuing to work towards implementation of the provisions. The Committee welcomes the new Code and is already aligned with the new provisions in a number of areas. For example, our policy provides the ability to apply discretion to incentive outcomes and our malus/clawback provisions are aligned with those suggested under the Code.

The Committee already receives information from the HR Director on wider workforce pay and conditions but, in the coming year, will work towards ensuring we are provided with more regular and in-depth data regarding employee remuneration so that we can exercise appropriate oversight throughout the Group. Additionally, we have appointed Simon Emeny as the non-executive director responsible for ensuring effective engagement with the workforce.

Finally, we took into account the new guidance around pension provision when setting arrangements for Carl Cowling upon his appointment as a director in February 2019, reducing the Company's pension contribution by 50 per cent. These decisions were taken while guidance was continuing to evolve and we confirm that any new executive director appointment will be aligned with the then average rate available to UK-based colleagues more generally.

We have also chosen to disclose our Chief Executive pay ratio for 2018/19. This is set out on pages 51 and 52.

LOOKING FORWARD

The Committee will continue to ensure that executive pay remains aligned to the Company's strategy and promotes its long-term success. We will further develop our compliance with the new Code and I look forward to reporting more fully next year on how the Committee has complied with the new Code obligations.

GENDER PAY

We published our gender pay gap report in March 2019. It showed a median gender pay gap of zero per cent and a mean gender pay gap of 19.7 per cent across all our UK employees. We are satisfied that our mean gender pay gap is caused by the gender imbalance in our senior executive positions and is not an issue of equal pay. As a business, we are committed to promoting a culture of inclusion and diversity and continue to develop initiatives to attract, retain and engage more women across the business. The Company is a member of 'The 30% Club', which helps businesses create sustainable strategies to increase the number of women in senior executive roles. Further information regarding diversity can be found in the Strategic report on pages 28 and 29.

OUTCOME 2018/19

The Group delivered another good performance during the year. The Travel and High Street businesses remain highly cash generative and continue to deliver good profit growth with Headline Group profit before tax[1] increasing by seven per cent to £155m. As a result of this good performance, the Company has increased Headline earnings per share[1] by six per cent to 114.7p per share and dividends by eight per cent to 58.2p per share. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 1 to 30.

The Company's good performance as well as individual directors' performance has resulted in the following bonus payments being made to the executive directors:

Stephen Clarke – £908,000

Carl Cowling – £520,000

Robert Moorhead – £516,454

Carl Cowling was appointed as a director of the Company on 26 February 2019.

The 2016 LTIP vesting percentage is determined by the growth in the Company's Headline earnings per share[1] and TSR over the three-year performance period which ended on 31 August 2019. The Company substantially met the performance targets for the 2016 LTIP as the Company's Headline earnings per share[1] increased by six per cent during the performance period and the Company's TSR ranked between 2 and 3 out of 30 companies in the comparator group.

The Committee determined that the formulaic out-turn under the plans was appropriate and should be applied without discretionary adjustment.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

ANNEMARIE DURBIN
CHAIR OF THE REMUNERATION COMMITTEE

17 October 2019

1 Headline Group Profit before tax and Headline diluted earnings per share exclude £20m Non-underlying items as described on page 15 of the Financial review. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

1. INFORMATION SUBJECT TO AUDIT

The following information has been audited by PwC:

- Section 2.5 – Summary of non-executive directors' remuneration 2019;
- Section 2.6 – Summary of executive remuneration 2019;
- Section 2.7 – Payments made to former directors;
- Section 2.8 – Payments for loss of office;
- Section 2.13 – Annual bonus targets;
- Section 2.14 – Share plans; and
- Section 2.18 – Directors' interests in shares.

2. ANNUAL REMUNERATION REPORT

The Committee presents the Annual report on remuneration which, together with the introductory letter by the Chair of the Committee on pages 44 to 46, will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 22 January 2020.

2.1 REMUNERATION COMMITTEE

During the year, the Committee continued to receive advice from FIT Remuneration Consultants LLP (FIT), which is a member of the Remuneration Consultants Group (the professional body) and adheres to its code of conduct. FIT was appointed by the Committee and has no other relationship with the Company. The Committee is satisfied that FIT continues to provide objective and independent advice. FIT's fees in respect of the year under review were £42,203 (excluding VAT) and were charged on the basis of FIT's standard terms of business.

Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration. No director or manager is involved in any decisions as to their own remuneration. The Group Chief Executive also attends Committee meetings but excludes himself in relation to discussion of his own remuneration, as does the Chairman.

2.2 STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY AND DIFFERENCES TO EXECUTIVE DIRECTOR POLICY

Our employees are a key component of the Company's performance and our overall reward strategy aims to support this. When considering remuneration arrangements for executive directors and senior management, the Committee takes into account the pay and conditions of employees across the Group.

The Committee receives updates on pay and conditions, including the impact of flexible working conditions/family friendly policies. Each business has an employee forum and employees are invited to participate in the annual Engagement Survey where their views on all aspects of working conditions can be collected and shared with the Committee and the Board. The Company is proud of its long history of being regarded as a responsible and respected employer and regularly reviews the overall structure of pay practices across the Group and the wider retail sector to ensure it remains competitive and is able to retain and attract employees.

All employees are entitled to base salary and benefits, including pension and staff discount. Eligible employees are able to participate in the Company's Sharesave plan and thereby become shareholders in the Company. Our Employee Assistance programme offers all employees access to free, 24/7 confidential telephone, online and face-to-face advice for problems they may be experiencing at home or at work. Employees also have access to the Company's Benevolent Fund charity, which can provide financial assistance in cases of significant hardship, recuperative holidays and care breaks.

Participation in a pension plan is offered to all employees on a contributory basis and we have approximately 6,580 employees in our pension plans.

2.3 IMPLEMENTATION OF REMUNERATION POLICY IN THE FINANCIAL YEAR ENDED 31 AUGUST 2019

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2019.

EXECUTIVE DIRECTORS

Element of pay	Implementation of policy
Base salary	With effect from 26 February 2019, Stephen Clarke's and Robert Moorhead's salaries were increased to £585,000 and £400,000 respectively being their first increases in at least 3 years and broadly equivalent to 2 per cent on an annualised basis. Carl Cowling joined the Board on 26 February 2019 with a salary of £400,000. Following Stephen Clarke's decision to leave the Company, the Committee determined that Carl Cowling's salary as Group Chief Executive would be £525,000 with effect from 1 November 2019 and Robert Moorhead's salary should be increased to £440,000 with effect from 21 May 2019. The current salaries are: Stephen Clarke – £585,000; Carl Cowling – £400,000; and Robert Moorhead – £440,000.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2019 (although the cost of providing benefits may change without any action by the Company). Executive directors received a car allowance, private medical insurance and life assurance, in addition to other benefits, during the financial year ended 31 August 2019.
Pension	The executive directors were members of the Company's defined contribution scheme. On appointment as a director of the Company, Carl Cowling's total benefit under the Company's defined contribution scheme was reduced from 25 per cent of base salary to 12.5 per cent of base salary. No other changes were made to this element of remuneration within the financial year ended 31 August 2019. Stephen Clarke and Robert Moorhead received a total benefit equivalent to 25 per cent of base salary. During the financial year ended 31 August 2019, Stephen Clarke received a pension contribution equal to one per cent of his base salary with the balance being received as a salary supplement. Carl Cowling and Robert Moorhead received all of their pension contribution as a salary supplement after applying for fixed protection. Part of the amount otherwise paid to the Company's defined contribution scheme was reduced to reflect the requirement to pay employers' National Insurance.
Annual bonus	The bonus payable for the financial year ended 31 August 2019 was: Stephen Clarke – £908,000; Carl Cowling – £520,000; and Robert Moorhead – £516,454. The bonus is primarily assessed against a sliding scale target of Headline profit before tax and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives. The target range for the year ended 31 August 2019 is set out on page 52. One-third of any bonus in excess of the on-target level will be deferred into shares.
Long-term incentives	Annual LTIP awards were set at the policy level being 335 per cent for Stephen Clarke and 310 per cent for Robert Moorhead. Carl Cowling did not receive any additional award following his appointment to the Board. The terms of and the performance measures applicable to the LTIP awards made in the financial year ended 31 August 2019 are described on page 53. Vesting of LTIP awards is determined based on the following measures: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR. The performance period is three years. There is a subsequent 2 year holding period. The Committee approved these performance measures as they are directly linked to the objectives set out in the Group's strategy; there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward.
Shareholding guidelines	Stephen Clarke was required to hold 300 per cent of salary in shares. Carl Cowling and Robert Moorhead were required to hold 250 per cent of salary in shares. In accordance with the Company's remuneration policy, Carl Cowling is expected to achieve compliance with the shareholding requirement within six years of him joining the Board on 26 February 2019. As at 31 August 2019: Stephen Clarke held 187,609 shares with a value of £3,673,384 (approximately 630 per cent of salary); Robert Moorhead held 177,676 shares with a value of £3,478,896 (approximately 790 per cent of salary); and Carl Cowling held 6,000 shares with a value of £117,480 (approximately 30 per cent of salary).
Malus/ clawback	The bonus plan and LTIP rules include a provision for clawback (before or within a period of three years following payment or vesting or earlier change of control) of a bonus or award if the Committee discovers information which leads it to conclude that any bonus or award was made, paid or vested to a greater extent than it should have been or if it concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned. In addition, a specific provision has been added permitting the Committee (as constituted immediately prior to any insolvency) to enforce malus/clawback in the event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.

NON-EXECUTIVE DIRECTORS

Element of pay	Implementation of policy
Annual fees	Current fees are £235,000 for the Chairman of the Board and £55,000 for the role of non-executive director with additional fees of: (i) £12,000 payable for the role of Senior Independent Director ('SID'); and (ii) £12,000 payable for being the Chair of the Audit or Remuneration Committee.

2.4 IMPLEMENTATION OF REMUNERATION POLICY IN THE FINANCIAL YEAR ENDING 31 AUGUST 2020

The Committee envisages that there will be no changes to the implementation of the remuneration policy during the financial year ending 31 August 2020. The policy in respect of the executive directors will be applied as follows:

Element of pay	Implementation of policy
Base salary	Carl Cowling's salary will increase to £525,000 on becoming Group Chief Executive and then by £25,000 per annum, subject to performance, in each of the next three years, with the first such increase proposed to take effect from 1 April 2020. Robert Moorhead will be eligible, in line with other head office staff, for any increase in salary following the March 2020 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2020.
Pension	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2020. Any new executive director would have their allowance aligned to that available to the majority of UK-based employees.
Annual bonus	The bonus opportunity remains unchanged (at 160 per cent for the Group Chief Executive and 130 per cent for the CFO/COO) and the bonus metrics will again be based on a matrix of financial and personal performance, with the financial performance measure being Headline Group profit before tax for the financial year ending 31 August 2020. Two-thirds of any bonus in excess of the on-target level will be deferred into shares.
Long-term incentives	Annual LTIP awards will again be set at the policy level (335 per cent of salary for Carl Cowling and 310 per cent for Robert Moorhead). Vesting of LTIP awards is determined based on the following two measures: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR. The number of shares vesting for threshold performance is 25 per cent. The EPS performance targets will again be 25 per cent for EPS growth of five per cent per annum to 100 per cent for EPS growth of 10 per cent per annum, and the TSR condition remains a median to upper quartile scale relative to the FTSE All Share Retailers Index constituents.
Shareholding guidelines	Carl Cowling will be required to hold 300 per cent of salary in shares and Robert Moorhead is required to hold 250 per cent of salary in shares.
Malus/ clawback	No changes to the policy are envisaged.

The policy in respect of the non-executive directors will be applied as follows:

Element of pay	Implementation of policy
Annual fees	The fees of the chairman and non-executive directors will be subject to a review in March 2020.

2.5 SUMMARY OF NON-EXECUTIVE DIRECTORS' REMUNERATION 2019 (AUDITED)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2019:

	Base fee £'000		Committee/SID fee £'000		Benefits[a] £'000		Total £'000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Henry Staunton	**235**	223	**–**	–	**–**	–	**235**	223
Suzanne Baxter	**55**	52	**12**	11	**2**	2	**69**	65
Annemarie Durbin	**55**	52	**7**	–	**–**	–	**62**	52
Simon Emeny	**28**	–	**–**	–	**–**	–	**28**	–
Drummond Hall	**55**	52	**17**	22	**–**	–	**72**	74
Maurice Thompson	**28**	–	**–**	–	**1**	–	**29**	–

a) Benefits primarily consist of travel and subsistence costs incurred in the normal course of business, in relation to meetings on Board and Committee matters and other Company events which are considered taxable.

b) Simon Emeny and Maurice Thompson were appointed as directors on 26 February 2019.

c) Annemarie Durbin took over from Drummond Hall as Chair of the Remuneration Committee on 23 January 2019.

2.6 SUMMARY OF EXECUTIVE REMUNERATION 2019 (AUDITED)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2019:

	Salary £'000		Benefits £'000[a]		Annual bonus £'000[d]		LTI £'000[e, f]		Pension £'000[g]		Total £'000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Stephen Clarke	**568**	550	**14**	14	**908**	820	**1,787**	1,361	**139**	134	**3,416**	2,879
Carl Cowling[c]	**201**	–	**7**	–	**520**	–	**698**	–	**28**	–	**1,454**	–
Robert Moorhead	**399**	375	**14**	14	**516**	454	**1,126**	868	**97**	91	**2,152**	1,802

a) Benefits relate mainly to the provision of a car allowance, private medical insurance and life assurance.

b) Stephen Clarke's and Robert Moorhead's salaries were increased to £585,000 and £400,000 respectively on 26 February 2019. Robert Moorhead's salary was further increased to £440,000 on 21 May 2019 following Stephen Clarke's decision to leave the Company.

c) Carl Cowling joined the Board on 26 February 2019 with a salary of £400,000. The salary, benefits and pension figures have been disclosed on a pro-rata basis. The annual bonus and LTI figures are the actual amounts earned during the period.

d) The performance measures for the annual bonus, and achievement against them, are set out on pages 52 and 53. For the year under review, Stephen Clarke had the opportunity to receive an annual bonus up to a maximum of 160 per cent of his base salary. Carl Cowling and Robert Moorhead had the opportunity to receive an annual bonus of up to a maximum of 130 per cent of base salary. The calculated outcome under this measure may be moderated (downwards only) by the Committee having regard to personal performance ratings. The Company's Headline Group profit before tax was £155m. Stephen Clarke received an annual bonus equivalent to 160 per cent of his base salary, of which 17 per cent will be deferred into shares subject to malus and clawback provisions; Carl Cowling received an annual bonus equivalent to 130 per cent of his base salary, of which 17 per cent will be deferred into shares subject to malus and clawback provisions; and Robert Moorhead received an annual bonus equivalent to 130 per cent of his base salary, of which 17 per cent will be deferred into shares subject to malus and clawback provisions.

e) The performance measures for the LTIP, and achievement against them, are set out on page 53. The 2018 figures have been updated to the actual values of the LTIP and 2015 Co-Investment Plan ('CIP') awards that vested in respect of performance periods ending in that financial year.

f) The LTI figures in the table include both the WH Smith LTIP and CIP. The share price used to calculate the LTI figures in the table is 2013p, being the average share price for the Company over the last quarter of the financial year ended 31 August 2019.

g) The pension figures in the table above include both the pension contribution into the Company's defined contribution pension scheme and any salary supplement received in lieu.

The total aggregate emoluments paid to the Board in the financial year ended 31 August 2019 was £3,906,000 and in the financial year ended 31 August 2018 was £2,866,000.

2.7 PAYMENTS MADE TO FORMER DIRECTORS (AUDITED)

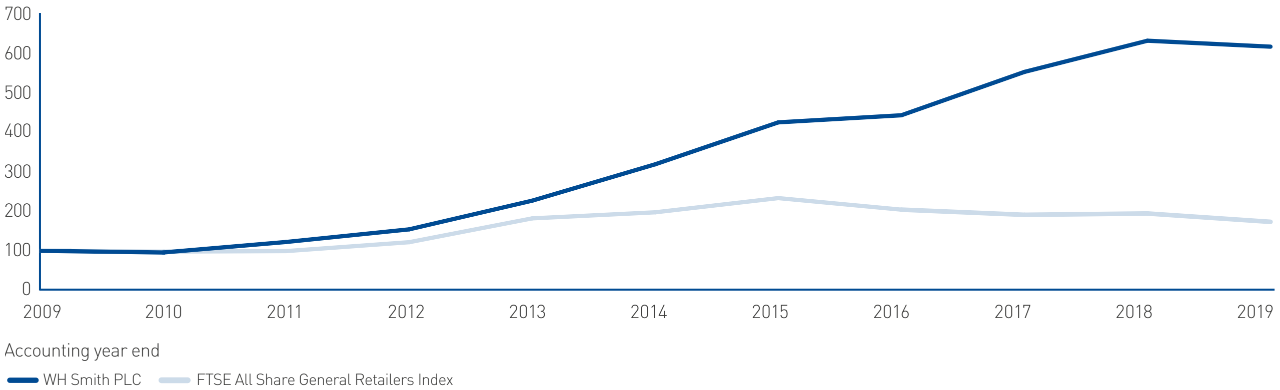
No payments were made in the financial year ended 31 August 2019 to former directors of the Company.

2.8 PAYMENTS FOR LOSS OF OFFICE (AUDITED)

No payments were made in respect of a director's loss of office in the financial year ended 31 August 2019. Stephen Clarke will step down as Group Chief Executive on 31 October 2019. Stephen Clarke will continue to receive his salary and other benefits until 31 October 2019. Under the rules of the WH Smith LTIP, Stephen Clarke will be treated as a good leaver and will retain a reduced number of unvested awards as set out in the notes to the table of Outstanding Awards on page 54. These awards will continue to be subject to meeting the performance criteria and will be reduced on a pro-rata basis to reflect the time elapsed from the commencement of the performance period until his ceasing to be an employee of the Company. Stephen Clarke will also receive, subject to performance, a bonus under the Company's annual bonus plan for the financial year ended 31 August 2019, part of which will be paid to him on or about 20 November 2019 with the balance subject to the normal deferral terms. Stephen Clarke will receive no further awards under the WH Smith LTIP and will not be eligible for a bonus for the financial year ending 31 August 2020. Stephen Clarke will receive no other payments beyond these terms.

2.9 ASSESSING PAY AND PERFORMANCE

TOTAL SHAREHOLDER RETURN PERFORMANCE SINCE 31 AUGUST 2009



a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last ten financial years compared with the FTSE All Share General Retailers Index (the 'Index') over the same period.

b) The Company is a member of the Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

The table below summarises the Group Chief Executive's remuneration and how the Company's variable pay plans have paid out over the past ten years. It can be compared with the historic TSR performance over the same period which indicates a TSR for the Company of 515 per cent, compared with a TSR for the Index of 73 per cent. This demonstrates consistently superior performance in line with the achievements under the variable pay plans.

Financial year ended 31 August	CEO	Single figure of total remuneration £'000	Annual bonus (vesting versus maximum opportunity) %	Long-term incentive (vesting versus maximum opportunity) %
2019	Stephen Clarke	3,416	100	69
2018	Stephen Clarke	2,879	93	58
2017	Stephen Clarke	4,112	98	81
2016	Stephen Clarke	5,179	100	98
2015	Stephen Clarke	4,148	100	100
2014	Stephen Clarke	2,546	100	100
2013 – from 1 June	Stephen Clarke	4,067	100	97
2013 – until 31 May	Kate Swann	9,192	100	98
2012	Kate Swann	3,147	100	90
2011	Kate Swann	3,313	100	92
2010	Kate Swann	6,966	100	97

The 2018 single figure of total remuneration has been updated to reflect the actual value of the LTIP and CIP awards that vested in respect of the performance period ending in that financial year.

2.10 CHANGE IN REMUNERATION OF GROUP CHIEF EXECUTIVE

The table below shows the percentage changes in the Group Chief Executive's remuneration (i.e. salary, annual bonus and taxable benefits) between the financial year ended 31 August 2018 and the financial year ended 31 August 2019 compared with the percentage changes in the average of those components of pay for all full-time equivalent ('FTE') employees based in the UK. This group has been selected as the most appropriate comparator for the Group Chief Executive as he is a full-time employee based in the UK and approximately 95 per cent of all WH Smith employees are based in the UK.

	Salary increase/decrease %	Annual bonus increase/decrease %	Taxable benefits increase/decrease %
Group Chief Executive	6.36	10.72	9.89
UK employees (average per FTE)	6.90	6.52	15.08

2.11 GROUP CHIEF EXECUTIVE PAY COMPARED TO PAY OF UK EMPLOYEES

As set out in the annual statement from the Chair of the Committee on page 46, we have chosen to voluntarily disclose the ratio of Group Chief Executive pay compared with the pay of UK full-time equivalent employees for the financial year ended 31 August 2019. We expect the pay ratio to vary from year to year, driven largely by the variable pay outcome for the Group Chief Executive, which will significantly outweigh any other changes in pay at WH Smith. The pay ratios are calculated by using actual earnings for the Group Chief Executive and UK employees. The Group Chief Executive total single figure remuneration of £3,415,633 is given in the table above.

GROUP CHIEF EXECUTIVE PAY RATIOS

Financial year ended 31 August	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	**Option A**	**239:1**	**207:1**	**201:1**

WH Smith has chosen to use Option A to calculate its Group Chief Executive pay ratio as it believes that it is the most robust way for it to calculate the three ratios from the options available in the regulations.

Total remuneration for all UK full-time equivalent employees of the Company on 31 August 2019 has been calculated in-line with the single figure methodology and reflects their actual earnings received in the financial year ended 31 August 2019 (excluding business expenses). Set out in the table below is the base salary and total pay and benefits for each of the percentiles.

£	25th percentile	Median	75th percentile
Salary	**14,039**	**16,200**	**16,686**
Total pay and benefits	**14,276**	**16,502**	**17,034**

The Company believes the median pay ratio for the year ended 31 August 2019 is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. This group has been selected as the most appropriate comparator for the Group Chief Executive as he is a full-time employee based in the UK and approximately 95 per cent of all WH Smith employees are based in the UK.

SUPPLEMENTAL RATIOS

The Company's Chief Executive pay ratio is likely to vary, potentially significantly, over time since it will be driven largely by variable pay outcomes. This means that depending on the Company's performance the ratio could increase or decrease significantly. The Committee believes that our senior executives should have a significant proportion of their pay directly linked to performance.

In light of this we have provided supplemental ratios, where the long-term incentive remuneration has been excluded. We believe this provides an additional view as long-term incentives form a substantial proportion of the Chief Executive's total remuneration for 2019. The Group Chief Executive's single figure of remuneration excluding long-term incentives is £1,628,471.

Financial year ended 31 August	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	**Option A***	**114:1**	**99:1**	**96:1**

*Total single figure remuneration less long-term incentive plans.

2.12 RELATIVE SPEND ON PAY

The table below shows the total cost of remuneration paid to or receivable by all employees in the Group as well as dividends/share buybacks made during the financial year ended 31 August 2019. There were not considered to be any other significant distributions and payments or other uses of profit or cash flow deemed by the directors to assist in understanding the relative importance of spend on pay for the purposes of the table below.

Total cost of remuneration			Distribution to shareholders		
2018 £m	**2019** **£m**	**% change**	2018 £m	**2019** **£m**	**% change**
216	**248**	**15%**	80	**91**	**14%**

2.13 ANNUAL BONUS TARGETS (AUDITED)

The performance targets used under the annual bonus plan are set annually to support the Company's strategic priorities and reinforce financial performance. The performance targets are set by the Committee based on a range of factors, principally the Company's budget as approved by the Board either prior to or shortly following the start of the financial year.

Under the annual bonus plan, participants can earn a bonus based on the achievement of a Headline Group profit before tax[1] target and a personal rating measured against one or more specific (financial and/or non-financial) objectives. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum target for the profit target and the highest personal performance rating. The Committee sets a threshold pay-out target and a maximum pay-out target with straight-line vesting between the targets.

No bonus is paid unless both the threshold profit target and at least an acceptable personal rating are achieved. For on-target achievement of the profit target and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus available under the plan. Following approval of the new remuneration policy last year and as explained further below, the Company is introducing deferral of any bonus payable to executive directors in excess of the on-target level on a transitional basis over three years. No other changes to the structure of the bonus plan are proposed for the forthcoming financial year.

Bonuses for the financial year ended 31 August 2019 were earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against Headline Group profit before tax target	Role Model	Outstanding	Strong	Developing	Under Achiever
Max: £154.6m	100%	80%	60%	40%	0%
Target: £147.2m	80%	64%	48%	32%	0%
Threshold: £142.8m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The Company's Headline Group profit before tax[1] for the financial year ended 31 August 2019 was £155m. For Stephen Clarke, his personal rating was based on a range of objectives including the development of the talent and succession pipeline to meet the future needs of the business; employee engagement and well-being at work; successful integration of InMotion, and new format development and international expansion. Following the successful achievement of all of his key personal objectives, the Committee determined that no downwards adjustment was appropriate and, therefore, Stephen Clarke will receive an unadjusted bonus payment reflecting the financial performance in the year of £908,000. For Carl Cowling, his personal rating was based on a range of objectives including achievement of financial targets, development of the talent and succession pipeline to meet the future needs of the High Street business and new format development. Following the successful achievement of all of his key personal objectives, the Committee also determined that no downwards adjustment was appropriate and, therefore, Carl Cowling will receive an unadjusted bonus payment reflecting the financial performance in the year of £520,000. For Robert Moorhead, his personal rating was based on a range of objectives including achievement of financial targets; development of a high performing executive team; developing Funky Pigeon; successful integration of InMotion, international expansion, managing pensions and management of cyber risk. Following the successful achievement of all of his key personal objectives, the Committee also determined that no downwards adjustment was appropriate and, therefore, Robert Moorhead will receive an unadjusted bonus payment reflecting the financial performance in the year of £516,454.

Any bonus payable in respect of the financial year ended 31 August 2019 will be paid in cash and shares. One-third of any bonus payable over target will be deferred into shares for a period of up to three years. The shares will be released one third on each anniversary of assessment.

For the annual bonus plan for the financial year ending 31 August 2020, the bonus metrics will also be based on a similar matrix of financial and personal performance with the financial performance measure again being Headline Group profit before tax[1]. The Committee will publish the targets for that financial year in next year's report and, consistent with market practice, has elected not to pre-disclose them (or give numerical personal objectives) on the basis of commercial sensitivity. Any bonus payable in respect of the financial year ending 31 August 2020 will be paid in cash and shares. Two-thirds of any bonus payable over target will be deferred into shares for a period of up to three years. The shares will be released one third on each anniversary of assessment. For the year ending 31 August 2021, all of any bonus over target will be subject to deferral.

2.14 SHARE PLANS (AUDITED)

The Committee regularly reviews the performance targets applicable to the LTIP to ensure that they align with the Company's strategy and reinforce financial performance. The Committee may change the measures and/or targets in respect of subsequent awards. The Committee believes that a combination of financial and market-based conditions as the basis for the performance targets for the LTIP is best suited to the needs of the Company and its shareholders in order to reward sustained long-term performance and the creation of shareholder value. The performance targets for awards made under the LTIP in the financial year ended 31 August 2019 were: 60 per cent is based on Headline earnings per share[2] growth and 40 per cent is based on relative TSR. EPS has for some years been defined as fully diluted pre-exceptional items and excluding IAS 19 pension charges together with other adjustments as considered appropriate by the Committee (although practice has been to make limited adjustments).

The Committee is also proposing that any awards made in the financial year ending 31 August 2020 will have the same target ranges as the performance targets for awards made in the financial year ended 31 August 2019.

The performance conditions for awards granted under the Company's long-term incentive plans in the financial year ended 31 August 2019 were as follows:

WH SMITH LTIP

As reported last year, the performance conditions, which apply over the three years, commencing with the financial year of grant (the 'Performance Period'), were as follows:

a) 60 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the Performance Period	Proportion exercisable
Below 5%	Zero
5%	25%
10% or more	100%
Between 5% and 10%	On a straight-line basis between 25% and 100%

For these purposes, EPS will continue to be determined by reference to fully diluted EPS pre-exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency. The Company has, as an inherent part of its corporate strategy and its rigorous capital allocation discipline, undertaken share buybacks and the Committee assumed a level of such buybacks consistent with its established approach in setting the above target range.

b) 40 per cent based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis:

TSR performance ranking at end of the Performance Period	Proportion exercisable
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	On a straight-line basis between 25% and 100%

It is envisaged that the grants to be made in 2019 will be subject to the same performance targets.

FIT independently carries out the relevant TSR growth calculation for the Company.

1 Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15 of the Strategic report. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 72. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

2 Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

OUTSTANDING AWARDS

Details of the conditional awards (in the form of nil-cost options) to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2018[b] (or date of appointment)	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2019[i]	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Stephen Clarke									
WH Smith CIP[a]	22.10.15	53,452[c]	–	16,570	36,882	**–**	1646.33	880	22.10.18 – 22.10.25
WH Smith LTIP[h]	22.10.15	66,815[e]	–	52,917	13,898	**–**	1646.33	1,100	22.10.18 – 22.10.25
	20.10.16[h]	118,794	–	–	–	**118,794**	1551.00	1,842	20.10.19 – 20.10.26
	26.10.17[j]	90,466	–	–	–	**90,466**	2036.67	1,842	26.10.20 – 26.10.27
	01.11.18[j]	–	100,534	–	–	**100,534**	1832.67	1,842	01.11.23 – 01.11.28
Total		**329,527**	**100,534**	**69,487[g]**	**50,780**	**309,794**			
Robert Moorhead									
WH Smith CIP[a][i]	22.10.15	28,995[d]	–	8,988	20,007	**–**	1646.33	477	22.10.18 – 22.10.25
WH Smith LTIP[h]	22.10.15	44,608[f]	–	35,329	9,279	**–**	1646.33	734	22.10.18 – 22.10.25
	20.10.16[h]	74,861	–	–	–	**74,861**	1551.00	1,161	20.10.19 – 20.10.26
	26.10.17[j]	57,009	–	–	–	**57,009**	2036.67	1,161	26.10.20 – 26.10.27
	01.11.18[j]	–	63,354	–	–	**63,354**	1832.67	1,161	01.11.23 – 01.11.28
Total		**205,473**	**63,354**	**44,317[g]**	**29,286**	**195,224**			
Carl Cowling									
WH Smith LTIP[h]	20.10.16[h]	46,422	–	–	–	**46,422**	1551.00	720	20.10.19 – 20.10.26
	26.10.17[j]	36,457	–	–	–	**36,457**	2036.67	743	26.10.20 – 26.10.27
	01.11.18[j]	40,515	–	–	–	**40,515**	1832.67	743	01.11.23 – 01.11.28
Total		**123,394**	**–**	**–**	**–**	**123,394**			

a) The CIP is a legacy plan under which no further grants will be made.

b) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met except that, in respect of awards granted from October 2016 onwards, consistent with market practice, any part of the awards which vest will benefit from the accrual of dividend roll-up.

c) In respect of the award granted on 22 October 2015 under the CIP held by Stephen Clarke, 16,570 shares vested and 36,882 shares lapsed. The value of the 16,570 shares on the date of vesting was £324,660.02 (1959.32p per ordinary share).

d) In respect of the award granted on 22 October 2015 under the CIP held by Robert Moorhead, 8,988 shares vested and 20,007 shares lapsed. The value of the 8,988 shares on the date of vesting was £176,104.06 (1959.32p per ordinary share).

e) In respect of the award granted on 22 October 2015 under the LTIP held by Stephen Clarke, 52,917 shares vested and 13,898 shares lapsed. The value of the 52,917 shares on the date of vesting was £1,036,815.59 (1959.32p per ordinary share).

f) In respect of the award granted on 22 October 2015 under the LTIP held by Robert Moorhead, 35,329 shares vested and 9,279 shares lapsed. The value of the 35,329 shares on the date of vesting was £692,209.65 (1959.32p per ordinary share).

g) The aggregate value of shares which vested and were received by Stephen Clarke and Robert Moorhead under the CIP and LTIP during the financial year ended 31 August 2019 was £2,229,789.32.

h) The performance conditions for awards granted in the financial year ended 31 August 2017 under the LTIP are:

(i) 40 per cent based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis: Below median – Nil; Median – 25%; Upper quartile – 100%; and on a straight-line basis between 25% and 100%; and

(ii) 60 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis: Below 5% – Nil; 5% – 25%; 10% or more – 100%; and on a straight-line basis between 25% and 100%. For these purposes, EPS will be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency.

The performance conditions were substantially met with 69 per cent of the shares subject to the awards vesting. As a result, the total number of shares vesting for Stephen Clarke will be 88,780 shares including 6,813 dividend accrual shares; for Carl Cowling 34,691 shares including 2,660 dividend accrual shares; and for Robert Moorhead 55,946 shares including 4,292 dividend accrual shares.

The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period. The award is subject to a holding period with 50 per cent of any vested shares becoming exercisable on the third anniversary of the date of grant and the remaining 50 per cent of any vested shares becoming exercisable on the fifth anniversary of the date of grant. As a result, the total number of shares which are exercisable from 20 October 2019 are as follows: Stephen Clarke 44,390 shares; Carl Cowling 17,346 shares; and Robert Moorhead 27,973 shares.

i) No awards have been granted to directors or have vested between 1 September 2019 and 17 October 2019.

j) The awards granted in the financial years ended 31 August 2018 and 31 August 2019 under the LTIP will only vest to the extent that the performance targets as set out on page 53 are satisfied.

k) Carl Cowling was appointed as a director of the Company on 26 February 2019.

l) Stephen Clarke will be treated as a good leaver under the rules of the WH Smith LTIP and will retain a reduced number of unvested awards as follows: 2016 Grant – 88,780 shares, 2017 Grant – 65,336 shares and 2018 Grant – 39,097 shares.

2.15 WH SMITH EMPLOYEE BENEFIT TRUST

The WH Smith Employee Benefit Trust (the 'Trust') is used to facilitate the acquisition of ordinary shares in the Company to satisfy awards granted under the Company's share plans. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Group and their close relations. The Trustee is Computershare Trustees (C.I.) Limited, an independent professional trustee company based in Jersey. The Company intends that the ordinary shares in the Trust will be used to satisfy all outstanding awards and options made under the Company's share plans. The Trustee may exercise all rights attached to the shares held in the Trust in accordance with their fiduciary duties and the relevant plan rules or other governing documents. The Trustee has agreed to waive its rights to all dividends payable on the ordinary shares held in the Trust.

Following share purchases of 380,548 shares in the financial year ended 31 August 2019, the number of WH Smith shares held in the Trust at 31 August 2019 was 315,306. The Group's accounting policy with respect to the Trust is detailed within Note 1 to the financial statements and movements are detailed in the Group statement of changes in equity on page 76.

2.16 DILUTION LIMITS

Awards under the LTIP are currently satisfied using market purchase shares which may be acquired by the Trust as described above. WH Smith's share plans comply with recommended guidelines on dilution limits, and the Company has always operated within these limits.

2.17 EXTERNAL APPOINTMENTS

Each executive director may accept up to two non-executive directorships provided they are not both appointments to companies in the FTSE 100 or include a chairmanship of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain fees from one of their external directorships. The fee received and retained by Robert Moorhead in respect of his non-executive directorship is shown in the table below:

		Received £'000s	Retained £'000s
Robert Moorhead	The Watches of Switzerland Group PLC	43	43

Robert Moorhead was appointed as a director of The Watches of Switzerland Group PLC on 11 January 2019.

2.18 DIRECTORS' INTERESTS IN SHARES (AUDITED)

The beneficial interests of the directors and their immediate families in the ordinary shares of the Company are set out below:

	Ordinary shares		Nil-Cost Options subject to performance conditions: LTIP		CIP	
	31 August 2019	31 August 2018	**31 August 2019**	31 August 2018	**31 August 2019**	31 August 2018
Suzanne Baxter	**1,000**	1,000	**–**	–	**–**	–
Stephen Clarke	**187,609**	235,408	**309,794**	276,075	**–**	53,452
Carl Cowling	**6,000**	–	**123,394**	–	**–**	–
Annemarie Durbin	**1,000**	1,000	**–**	–	**–**	–
Simon Emeny	**–**	–	**–**	–	**–**	–
Drummond Hall	**10,000**	10,000	**–**	–	**–**	–
Robert Moorhead	**177,676**	227,676	**195,224**	176,478	**–**	28,995
Henry Staunton	**30,000**	30,000	**–**	–	**–**	–
Maurice Thompson	**2,500**	–	**–**	–	**–**	–

a) Carl Cowling, Simon Emeny and Maurice Thompson were appointed as directors on 26 February 2019.

b) The LTIP amount above is the maximum potential award that may vest subject to the performance conditions described on page 53.

c) The performance conditions for the October 2016 LTIP were substantially met with 69 per cent of the shares subject to awards due to vest on 20 October 2019. See note (h) to the Table of Outstanding awards on page 54 for further information.

d) There has been no further change in the directors' interests shown above between 1 September 2019 and 17 October 2019.

e) The middle market price of an ordinary share at the close of business on 30 August 2019 was 1958p (31 August 2018: 2064p).

2.19 VOTING AT THE ANNUAL GENERAL MEETING

At the Annual General Meeting on 23 January 2019, two proposals were put to shareholders in relation to directors' remuneration: the advisory vote on the annual Directors' remuneration report and the binding vote on the Directors' remuneration policy. The results of the votes are shown in the table below:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration report	72,435,253	96.47	2,648,367	3.53	75,083,620	1,549,457
Approval of remuneration policy	75,623,654	98.78	935,638	1.22	76,559,292	73,785

A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

3. THE DIRECTORS' REMUNERATION POLICY: EXTRACT

The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 23 January 2019 and applies from that date. The Directors' remuneration policy table is set out below for information only. The full Directors' remuneration policy is set out on pages 44 to 58 of the 2018 Annual Report and Accounts which is available in the investor relations section of the Company's website www.whsmithplc.co.uk/investors.

3.1 EXECUTIVE DIRECTORS

The following table explains the different elements of remuneration we pay to our executive directors:

Element and purpose	Policy and opportunity	Operation and performance measures
Base salary		
This is the basic element of pay and reflects the individual's role and position within the Group, with some adjustment to reflect their capability and contribution. Base salary is used to attract and retain executives who can deliver our strategic objectives and create shareholder value.	• While base salaries are reviewed each year, the Company's policy is not automatically to award an inflationary increase. When reviewing salaries, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. • Base salaries are benchmarked against both FTSE 250 companies and other leading retailers. While the Committee applies judgement rather than setting salaries by reference to a fixed percentile position, its general approach is to constrain base salaries to a median or lower level. • While the Committee's general approach is to keep salaries to a relatively low level, and, in the normal course, would not expect salary increases to be higher than the average for other head office staff, given the need for a formal cap, the Committee had limited the maximum salary in the previous policy which it may award to 110 per cent of the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark. To comply with the latest GC100 guidance, the formal cap set out in the preceding sentence is replaced with a formal monetary amount of £680,000 (as increased by RPI) being the current 110 per cent median level.	• Base salary is paid monthly in cash. • Base salaries are reviewed annually with any changes normally taking effect from 1 April.

Element and purpose	Policy and opportunity	Operation and performance measures
Benefits		
To provide other benefits valued by the recipient which assist them in carrying out their duties effectively. Competitive benefits assist in attracting and retaining executives.	• Provide market competitive benefits in kind. • The Company may periodically amend the benefits available to staff. The executive directors would normally be eligible to receive such amended benefits on similar terms to all senior staff. • The value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £80,000. In addition, the Committee reserves the right to pay relocation costs in any year or any ongoing costs incurred as a result of such relocation to an executive director if considered appropriate to secure the better performance by an executive director of their duties. In the normal course, such benefits would be limited to two years following a relocation.	• Benefits received by executive directors comprise a car allowance, staff discount, private medical insurance and life assurance. • While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies.
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement.	• Provide a competitive employer-sponsored pension plan or equivalent cash allowance with a total value of up to 25 per cent of base salary. For new joiners to the Board, this will not be more than 20 per cent of salary.	• All executive directors are eligible to participate in the Company's defined contribution pension plan and/or receive a salary supplement in lieu (which is not taken into account as salary for calculation of bonus, LTIP or other benefits). • Although the mix may change, currently up to five per cent of salary is paid into a registered pension and 20 per cent by way of a salary supplement. If the individual elects to receive the five per cent direct (e.g. to avoid breaching HMRC limits), employers' NICs are deducted from that element.
Annual bonus		
To motivate employees and incentivise delivery of annual performance targets.	• During the policy period the bonus potential is 160 per cent of base salary for Stephen Clarke (or any replacement) and 130 per cent of base salary for Robert Moorhead (or any other executive director), with target levels at 48 per cent of their respective maxima and threshold bonus levels at 16 per cent of their respective maxima. • Clawback provisions apply to the annual bonus plan. • Bonuses are paid in cash and shares. Any bonus payable over target is deferred into shares for a period of up to three years. The shares are released one third on each anniversary of assessment. Transitional introduction with one third of bonus payable over target in 2019, two thirds of bonus payable in 2020 and full implementation in 2021.	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. • The appropriateness of performance measures is reviewed annually to ensure they continue to support the Company's strategy. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to ensure they operate as originally intended and to take account of events which were not foreseen when the performance targets were originally set.

Element and purpose	Policy and opportunity	Operation and performance measures
Long-term incentives		
To motivate and incentivise delivery of sustained performance over the long-term, the Group will operate the Long-Term Incentive Plan ('LTIP'). Awards delivered in shares to provide further alignment with shareholders.	• The policy is to award executive directors with shares with an initial face value of up to 350 per cent of base salary each year under the LTIP. • In practice, awards of 335 per cent are envisaged for the Group Chief Executive and 310 per cent for any other executive director. • The LTIP will credit participants with the benefit of accrual for dividends paid over the performance and any holding period. • Malus and clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP. • Awards are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant.	• The Committee may set such performance conditions as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) over a period of at least three financial years. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition. • Executive directors can earn a minimum of 25 per cent of the award for threshold performance. Although not currently envisaged, the Committee has the right to lengthen the performance period or to make similar additional changes, not to the benefit of participants. • The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards.
Shareholding guidelines		
To encourage share ownership by the executive directors and ensure interests are aligned with shareholders.	• Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares. • Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans. • To the extent that an executive director is not meeting the guidelines, he or she will be expected to achieve compliance within six years of joining the Board or any significant promotion.	• 300 per cent of base salary for Stephen Clarke (or any other Chief Executive) and 250 per cent of base salary for Robert Moorhead (or any other executive director). • Once the shareholding guidelines have been met, individuals are expected to maintain these levels as a minimum. The Committee will review shareholdings annually in the context of this policy. The Committee will review compliance with the policy as awards approach maturity. • The Committee reserves the right to alter the shareholding guidelines during the period of this policy but any such alterations will not make the guidelines less onerous.
All-employee share plans		
To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	• Executive directors are able to participate in all-employee share plans on the same terms as other Group employees.	• Sharesave – individuals may save up to such limit as permitted by the relevant legislation (currently £500 each month) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20 per cent of the market price set at the launch of each scheme. • In line with the governing legislation, no performance conditions are attached to options granted under the Sharesave Scheme. In addition, executive directors may participate in other comparable all-employee incentives on the same basis as other employees.

On behalf of the Board

ANNEMARIE DURBIN
CHAIR OF THE REMUNERATION COMMITTEE

17 October 2019

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2019. The Company is the ultimate parent company of the WH Smith group of companies (the 'Group'). WH Smith PLC is registered in England and Wales (Number 5202036) and domiciled in the United Kingdom.

The Company has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain information in the Strategic report that would otherwise be required to be disclosed in this Directors' report, as follows:

Information	Page number
Likely future developments in the business	8 to 17
Branches outside the UK	12
Disclosures concerning greenhouse gas emissions	26
Employment of disabled persons	28
Employee engagement	28 and 29

Other information, which forms part of this Directors' report, can be found in the following sections of the Annual report:

Section	Page number
Corporate governance report	31 to 41
Directors' biographies	42 and 43
Statement of directors' responsibilities	62
Information on use of financial instruments	102 to 105

This Directors' report (including information specified above as forming part of this report) fulfils the requirements of the Corporate governance statement for the purposes of DTR 7.2.

The information required by Listing Rule 9.8.4R is disclosed on the following pages of this Annual report:

Subject matter	Page number
Allotment of shares for cash pursuant to the WH Smith employee share incentive plans	58 Directors' remuneration report/ Note 25 on page 105 of the financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/future dividends	55 Directors' remuneration report

PROFIT AND DIVIDENDS

The Headline Group profit before taxation[1] for the financial year ended 31 August 2019 was £155m (2018: £145m). The directors recommend the payment of a final dividend for the year of 41.0p per ordinary share on 30 January 2020 to members on the Register at the close of business on 10 January 2020. This final dividend and the interim dividend of 17.2p per ordinary share paid on 1 August 2019 make a total dividend of 58.2p per ordinary share for the year ended 31 August 2019 (2018: 54.1p).

[1] Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 72. See Glossary on page 117 for an explanation of the Group's alternative performance measures.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 17 October 2019 the Company entered into an agreement to purchase the entire share capital of Marshall Retail Group Holding Company, Inc. ("MRG"), a fast growing independent travel retailer operating in high footfall airport, hotel resort and tourist locations in the United States, for a consideration of $400m. The acquisition is expected to accelerate the growth of WH Smith's International Travel business in the $3.2 billion US airport travel retail market. The combination of MRG with WH Smith's existing operations, including InMotion, will strengthen the Group's International Travel offering. The proposed acquisition will be financed through the net proceeds of a placing of 7,209,303 new ordinary shares in the Company raising approximately £155m, a new £200m term loan facility and an increase of £60m in the Company's existing revolving credit facility to £200m.

Due to its size, the proposed acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules and therefore it is necessary to convene a general meeting of shareholders. A circular convening a general meeting will be published as soon as reasonably practicable with the acquisition expected to complete by the first quarter of 2020, subject to customary closing conditions, including shareholder and regulatory approvals.

See Note 30 on page 110 of the financial statements.

SHARE CAPITAL

WH Smith PLC is a public company limited by shares. The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 25 to the financial statements on page 105.

The issued share capital of the Company as at 31 August 2019 was 107,848,361 ordinary shares of 22$\frac{6}{67}$p each. Following the placing on 17 October 2019, the issued share capital increased to 115,058,816 ordinary shares. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods), including the requirements of the EU Market Abuse Regulation and the Listing Rules, and also the Company's Share Dealing Code whereby directors and certain employees of the Company require Board approval to deal in the Company's securities.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained from the Company's website www.whsmithplc.co.uk. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights, and to receive a dividend, if declared, subject to the deduction of any sums due from the holder of ordinary shares to the Company on account of calls or otherwise. Changes to the Company's Articles of Association must be approved by special resolution of the Company.

The Trustee of the WH Smith Employee Benefit Trust holds ordinary shares in the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair.

PURCHASE OF OWN SHARES

At the 2019 AGM, authority was given for the Company to purchase, in the market, up to 10,878,949 ordinary shares of $22\frac{6}{67}$p each, renewing the authority granted at the 2018 AGM. The Company used this authority to facilitate its ongoing strategy of returning surplus cash to shareholders by way of dividends and share buybacks, thereby increasing total shareholder returns and the net asset value per share. The total return of cash to shareholders since 2009 is shown in the chart on page 9. The directors will only exercise the authority when satisfied that it is in the best interests of shareholders generally and that it would result in an increase in earnings per share. The Company purchased 1,545,738 of its own shares during the financial year, representing 1.4 per cent of the issued share capital as at 31 August 2019, at an average price of £19.94. The aggregate amount of consideration (including costs) paid by the Company for the purchases during the financial year was £31m. Shares purchased in the prior year totalling £1m were cash-settled in the current year. All shares purchased by the Company were cancelled. The Company intends to renew the authority to purchase its own shares at the AGM in 2020 as the directors believe that having the flexibility to buy back shares is in the best interests of the Company. The directors do not currently envisage utilising this authority in the financial year ending 31 August 2020.

ISSUE OF NEW ORDINARY SHARES

During the financial year ended 31 August 2019, 48,295 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 1147.20p and 1434.40p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries, WH Smith High Street Limited and WH Smith Travel Limited, is party, such as commercial trading contracts, banking arrangements, property leases, licence and concession agreements to take effect, alter or terminate. In addition, the service agreements of some senior executives and employee share plans would be similarly affected on a change of control, including, in the case of some employees, in relation to compensation for loss of office.

The Company has an unsecured £200m multicurrency revolving credit facility with Barclays Bank PLC, HSBC Bank PLC, Santander UK PLC and BNP Paribas for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties, any lender may cancel the commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.

DIRECTORS' CONFLICTS

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for directors to declare Situational Conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company, and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any Situational Conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed regularly by the Board.

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has provided and continues to provide an indemnity for its directors, which is a qualifying third-party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

COMPANY'S SHAREHOLDERS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2019, the following information had been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Holder	Number	% as at date of notification	Nature of holding
Aberdeen Asset Managers Limited	5,608,298	4.95	Indirect
Blackrock Inc.	5,852,977	5.41	Indirect
Marathon Asset Management LLP	5,448,186	4.95	Indirect
Prudential Plc Group	5,514,930	5.03	Indirect
Royal London Asset Management Ltd	5,515,381	5.11	Direct

On 7 October 2019 BlackRock Inc, notified the Company of a holding of 6,971,674 shares (6.46 per cent, broken down as follows: Indirect 5.00 per cent; Securities Lending 0.21 per cent; and CFD 1.25 per cent).

The Company received no other notifications in the period between 31 August 2019 and the date of this report.

POLITICAL DONATIONS

It is the Company's policy not to make political donations and no political donations, contributions or EU political expenditure were made in the year (2018: £nil).

GOING CONCERN

The Group's business activities, together with the factors that are likely to affect its future developments, performance and position, are set out in the Strategic report on pages 1 to 30. The Financial review on pages 14 to 17 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 21 to 24 of the financial statements on pages 101 to 103. In addition, Note 24 of the financial statements on page 102 includes the Group's objectives, 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 on pages 20 to 25 also highlights the principal risks and uncertainties facing the Group.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and share buybacks, and borrowing facilities. The directors have also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. After making enquiries, the directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments for a period of at least 12 months from the date of approval of the financial statements. For this reason, they have continued to adopt the going concern basis in preparing the financial statements. The directors have also assessed the prospects of the Company over a three-year period. The longer-term viability statement is in the Strategic report on pages 24 and 25.

INDEPENDENT AUDITORS

PwC has expressed its willingness to continue in office as auditors of the Company. A resolution to re-appoint PwC as auditors to the Company and a resolution to authorise the Audit Committee to determine its remuneration will be proposed at the AGM.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Having made the requisite enquiries, as far as each of the directors is aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each of the directors has taken all steps he or she should have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on 22 January 2020 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 17 October 2019.

By order of the Board

IAN HOUGHTON
COMPANY SECRETARY

17 October 2019

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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and 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 IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, 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 Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and 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 Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 42 and 43, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union - Dual IFRS (European Union and IASB), give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER AND CHIEF OPERATING OFFICER

17 October 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC

REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

OPINION

In our opinion:

- WH Smith PLC's group financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the company's affairs as at 31 August 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and Accounts (the 'Annual report'), which comprise: the Group and Company balance sheets as at 31 August 2019; the Group income statement and Group statement of comprehensive income; the Group cash flow statement, and the Group and Company statements 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.

Our opinion is consistent with our reporting to the Audit Committee.

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in Note 1 to the financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

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 group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in Note 3 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 September 2018 to 31 August 2019.

OUR AUDIT APPROACH

OVERVIEW

MATERIALITY

- Overall group materiality: £7.6m (2018: £7.2m), based on five per cent of adjusted profit before tax.
- Overall company materiality: £6.1m (2018: £5.2m), based on one per cent of total assets.

AUDIT SCOPE

- For the purposes of scoping we have assessed six areas of the business: High Street, Travel UK, InMotion, Travel International, Central and the Company.
- We performed a full scope audit on the High Street, Travel UK and InMotion components, whilst performing specified audit procedures over balances within the Central and Company ledgers based on their overall size and values of their specific financial statement line items.
- The audit of the InMotion component was performed in the USA. A site visit was undertaken by the Group engagement leader in July 2019.
- Our audit scoping gave us coverage of 90 per cent of profit before tax, with 89 per cent coverage of revenue.

KEY AUDIT MATTERS

- Acquisition of InMotion and resultant goodwill
- Presentation and Disclosure of IFRS 16
- Recognition of supplier income
- Inventory valuation
- Impairment review of store assets
- Property related provisions
- Pension scheme valuation

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law, health and safety regulation, GDPR, pensions regulation and general food law regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC CONTINUED

Rules and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to increase revenue or reduce expenditure, inappropriate capitalisation of assets, misappropriation of cash and stock, users that post fewer than one journal per month, and journals including the name of a director. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Requesting legal confirmations from external lawyers;
- Reviewing the financial statement disclosures and agreement to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
ACQUISITION OF INMOTION AND RESULTANT GOODWILL	
Refer to Note 1 (f) Accounting policies and page 35 for the views of the Audit Committee. The Group acquired the entire issued share capital of InMotion Entertainment Group LLC on 30 November 2018 for a total cash consideration of $209m. The Group performed a fair value exercise over the consolidated InMotion Group balance sheet as at the acquisition date, including a purchase price allocation exercise resulting in £14.2m being recognised as internally generated intangible assets relating to the InMotion Brand. The resultant goodwill balance was £125m which has been allocated to the Travel segment. In order to determine the value of the brand, management applied the relief from royalties' valuation approach. This calculation has been based on the forecast revenue stream of InMotion stores for the next ten years being the estimated useful life of the brand. Management also carried out an impairment exercise on the carrying value of Travel goodwill at the balance sheet date using a value in use model. This model showed a significant level of headroom.	We audited the opening balance sheet as at 30 November 2018. In addition, we also attended physical inventory counts to gain comfort over the existence of stock within the balance sheet. We confirmed the transaction price and the terms of the acquisition through our review of the share purchase agreement. We substantively tested the fair value adjustments to the balance sheet to supporting documentation where possible. Our work found no significant issues. We understood the basis for the adjustments and the value attributed to each of fixed assets, working capital, brand and deferred tax. The most judgemental adjustment was that attributed to the InMotion brand. We used our valuation specialists to test the assumptions underlying the calculation. All the assumptions lie within an acceptable range. Taking into account the headroom within the calculation and the fact that the transaction took place during the year, we have tested the goodwill in the Travel segment (which is predominantly made up of the InMotion goodwill) for impairment at the year end date. We have agreed the inputs to the model to the Board approved three year plan and the mathematical accuracy of the model. We have assessed management's assumptions within the value in use calculation and performed sensitivity testing over the future cash flows and WACC assumptions. Given the significant level of headroom, the sensitivities did not result in any impairments.

Key audit matter	How our audit addressed the key audit matter
PRESENTATION AND DISCLOSURE OF IFRS 16 Refer to Note 1 (a) Accounting policies and page 35 for the views of the Audit Committee. As at the 1 September 2019, the Group has adopted the new accounting standard IFRS 16 Leases; this supersedes the current lease guidance IAS 17. For the year ended 31 August 2019, the Group is required to disclose the expected financial impact within the financial statements. At the reporting date, a preliminary assessment indicates that the Group has right of use assets in respect of leases of between £445m and £465m and lease liabilities of between £450m to £470m. The Group expects that net profit after tax will decrease by approximately £3m for 2020 as a result of adopting the new standard. Operating cash flows will increase, and financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. There will be no impact on net cash flow. As part of the assessment, management engaged Grant Thornton to determine the discount rates used in the IFRS 16 calculation.	The main elements of our audit work in respect of the presentation and disclosure of IFRS 16 are set out below. We performed procedures over the completeness of the leases included within the calculation. We compared the prior period IAS 17 disclosure workings against the IFRS 16 lease listing to identify any leases which should have been included. Additionally, we performed inquiries across the business including the procurement, property and business development teams. No exceptions were noted. Further in our completeness testing, we analysed a sample of leases to determine whether they met the criteria of IFRS 16 and furthermore, whether a right of use asset and a lease liability should be recognised in respect of that lease. Management's discount rates were assessed by the PwC valuation specialists and were found to be within an acceptable range. A substantive test was undertaken to assess the accuracy of the inputs into the IFRS 16 calculation by verifying to a sample of original lease contracts. We used a PwC built model to recalculate the relevant IFRS 16 balances. No material exceptions were noted. Management's presentation and disclosure within the financial statements was reviewed for appropriateness. We found no omitted disclosures.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC CONTINUED

Key audit matter

RECOGNITION OF SUPPLIER INCOME

Refer to Note 1 (c) Accounting policies and page 35 for the views of the Audit Committee.

The group earns supplier income under numerous different arrangements with its suppliers. The arrangements vary in nature and size but include volume based retrospective discounts and payments for space given to marketing campaigns. Supplier income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers. The total income recognised is therefore based on the expected entitlement earned up to the balance sheet date under each supplier agreement.

The amount of supplier income recognised in the year resulted from mainly high volume, low value transactions for agreements such as volume based retrospective discounts and payments for guaranteed in store space dedicated to product. Therefore, limited judgement or estimation was required in determining the amount the Group is entitled to, as the majority of volume based agreements are based on historical sales as opposed to forecast volumes. Our focus for all types of supplier income was therefore whether an agreement for the income recognised existed, whether income was recognised in accordance with the agreement and whether it was recognised in the correct year.

How our audit addressed the key audit matter

Our audit work in respect of supplier income comprised substantive testing of a sample of income recognised in the income statement during the year and testing of accrued and deferred amounts in the balance sheet. The main elements of our work are considered in more detail below.

INCOME STATEMENT TESTING

We requested confirmations directly from a number of different suppliers, in respect of a sample of supplier income transactions. The confirmations allowed us to evaluate whether the income had been appropriately recognised accurately and in the year. Where responses were not received, we performed alternative procedures including agreement to contracts and cash receipts. We found accounting for these amounts did not require significant levels of judgement or estimation as income such as volume based discounts are calculated based on actual sales data rather than future forecasts. No significant issues were identified through the testing performed.

Furthermore, we analysed supplier income by type recognised each month and compared it to the previous year to identify any unusual trends in the amounts or timing of supplier income recognised in each year. No unusual trends were identified.

BALANCE SHEET TESTING

In the sample of confirmations detailed above, we included requests for the year end receivables to be confirmed. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of supplier income and the value of the accrued and deferred balances. Our cut-off work involved testing a sample of supplier income amounts by reference to documentation from suppliers to confirm the timing of recognition was appropriate.

Our credit note testing focused on credit notes raised after the year end in order to identify instances of supplier income being subsequently reversed. We did not identify any exceptions from this work.

In respect of the supplier income balances (set out in Note 16 to the financial statements) we tested the existence and appropriateness of recognition.

We assessed the ageing of both outstanding supplier income and promotional funding supplier income debtors, together with our understanding of details of any disputes.

Key audit matter	How our audit addressed the key audit matter
INVENTORY VALUATION Refer to Note 1 (i) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 35 for the views of the Audit Committee. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and digital. A large proportion of stock is supplied through sale or return arrangements, including the majority of books, newspapers and magazines and therefore these are considered to be lower risk than inventory acquired through outright purchases such as stationery. Inventory is initially valued using a weighted average cost (WAC) method and retail accounting method. Provisions are then recognised against both inventory types for estimated losses related to shrinkage and slow moving or obsolete inventory. We focused on the valuation of inventory (specifically the stock provision) due to the magnitude of the inventory balance, the range and age of the inventory considering the nature of the business and the judgements made by management when assessing the level of provision required. Inventory is counted by the group throughout the year. As such the shrinkage provision at 31 August 2019 is based on historical shrinkage rates and contains a degree of estimation.	We attended a number of stock counts across High Street and Travel stores and distribution centres. In addition to performing sample test counts, we validated the effectiveness of the count controls in operation at each site. We reviewed the shrink results from the counts performed in the year and compared them to historical shrink rate data to identify any significant unusual fluctuations which may indicate a different provision is required. A substantive test was performed to ensure stock was held at the lower of cost versus its net realisable value to ensure no further provision is required. The obsolescence provision is calculated by applying a judgemental percentage to the year end stock levels, based on historical obsolescence data, as well as management's view of the current stock profile and forecast sales by product line. We performed an analysis of the provision applied per stock category against the previous year, in the light of trading results and the stock ageing profile. We also tested the ageing of the inventory and validated the source inventory balances upon which the provision is based. Furthermore, we considered write-offs in the year as an indicator of a requirement for further or less provision. In performing the above assessment, we concluded the valuation of the inventory balance is appropriate as at 31 August 2019.
IMPAIRMENT REVIEW OF STORE ASSETS Refer to Note 1 (g) Accounting policies for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Notes 14 and 15 (other intangible assets and property, plant and equipment). As at 31 August 2019 management assessed the Group's store assets comprising leasehold improvements and fixtures and fittings for indication of impairment. The economic and sector trends facing the Group may adversely impact the recoverable value of assets used within the store portfolio which is considered to be a triggering event for impairment review. Management consider a store to be a cash generating unit ('CGU') and has performed a review of the trading results of the stores for the year. Where a store is loss making and is not expected to return to profitability in the near future, an impairment charge is recognised over the assets that cannot be recycled within the store portfolio as set out in Note 15 (property, plant and equipment). We focused on this area because of the sales and cost pressure that could mean further impairment of the store assets is needed.	Our audit work included obtaining management's impairment assessment and discussing the basis for their decision whether or not to impair store assets. We agreed individual store trading performance to underlying records including trading data and confirmed that those that were loss making were appropriately impaired where an improvement in results could not be expected, this testing did not highlight any significant issues; and We performed a review of the results for all impairment indicators of to ensure that management's identification of loss making stores was complete. This did not identify any further stores requiring an impairment to be recognised.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC CONTINUED

Key audit matter	How our audit addressed the key audit matter
PROPERTY RELATED PROVISIONS Refer to Note 1 (j) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 35 for the views of the Audit Committee. Given the long history of WHSmith, the Group has an extensive property portfolio of both existing and former WHSmith properties (now sublet or vacant) held under operating leases, which requires the directors to make significant judgements and estimates relating to the need to provide for dilapidation costs and onerous leases when the store is making losses or when stores are earmarked for closure. These judgements include assessing the duration of the lease, estimations of costs and future income potential and as such, property provisions remain a key audit matter for us.	We obtained management's assessment of properties requiring provisions and obtained an understanding of the rationale, including the basis for the calculation. We agreed a sample of the properties to underlying documents including lease agreements and written communications from third parties for onerous lease provisions. In doing so, we agreed the lease costs incurred by the Group and any amounts being received as income from lessees where the Group is sub-letting properties at a shortfall. For dilapidations provisions, we compared management's estimates to either: correspondence of amounts to be paid (where stores have been vacated); or in the case of stores yet to be vacated, historical amounts incurred by the Group for similar stores previously vacated. This confirmed management's estimates were in line with previous experience, or were supported by communication from landlords or property consultants. We performed an independent assessment of provisions required through review of the schedule of leases and comparing these to the individual store's current and previous year contribution. We also performed a sense check against loss making stores within our work over store impairment. The work we performed indicated that management have sufficient provisions held for property matters at 31 August 2019.
PENSION SCHEME VALUATION Refer to Note 1 (d) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 5 Retirement benefit obligations and page 35 for the views of the Audit Committee. The Group has two defined benefit pension plans which comprise total plan assets of £1,463k and total pension liabilities of £1,115k which are significant in the context of the overall balance sheet of the Group. The valuation of the schemes' liabilities requires significant level of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions can have a material impact on the position as disclosed in the Note 5 of the financial statements. We focused on this area because of the impact of the judgements inherent in the actual assumptions involved in the valuation of the schemes' liabilities.	We obtained the actuarial report for the WHSmith Pension Trust Retail Section for the scheme as at 31 August 2019. We reviewed the pension assumptions, including discount rates, salary increases, inflation and mortality, utilising our specialist knowledge of pensions. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used against our internally developed benchmark ranges, finding them to be within an acceptable range. Other assumptions were also assessed and considered to be reasonable. The most recent triennial valuation was completed in March 2017; the schemes' census data was last updated in 2018. We agreed a sample of the data used by the actuary to supporting payroll information.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

For the purposes of scoping we have assessed the six areas of the business; High Street, Travel UK, InMotion, Travel International, Central and Company.

There are three significant components. High Street and Travel UK were audited by the UK Group team and InMotion which was audited by PwC US as a component auditor operating under our instruction. Audit work was performed over the consolidation process, tax and going concern at a consolidated Group level. Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our planning procedures, the engagement leader performed a site visit. As part of our year end procedures, we held detailed discussions with the InMotion component audit team including evaluation of and review of the work performed, update calls on the progress of their fieldwork and attending by phone the clearance meeting with management.

The components where we performed full scope audit work accounted for 90 per cent of profit before tax and 89 per cent of revenue.

We performed a full scope audit over the Company ledger, providing us with 100% coverage over the Company accounts.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£7.6m (2018: £7.2m).	£6.1m (2018: £5.2m).
How we determined it	5 per cent of adjusted profit before tax.	1 per cent of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	As the parent entity, WH Smith PLC is essentially a holding Company for the Group and therefore the materiality benchmark has been determined to be based on total assets which is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2.8m and £7m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £380,000 (Group audit) (2018: £360,000) and £300,000 (Company audit) (2018: £260,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC CONTINUED

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, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 20 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 24 of the Annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

OTHER CODE PROVISIONS

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 34, that they consider the Annual report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual report on page 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

DIRECTORS' REMUNERATION

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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 set out on page 62, 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 Group's and 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 group or 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 Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the audit committee, we were appointed by the members on 21 January 2015 to audit the financial statements for the year ended 31 August 2015 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ended 31 August 2015 to 31 August 2019.

JOHN ELLIS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS

London

17 October 2019

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2019

£m		2019			2018		
	Note	Headline[1]	Non-underlying items[2]	Total	Headline[1]	Non-underlying items[2]	Total
Continuing operations							
Revenue	2	**1,397**	–	**1,397**	1,262	–	1,262
Group operating profit/(loss)	2, 3	**160**	**(20)**	**140**	147	(11)	136
Finance costs	9	**(5)**	**–**	**(5)**	(2)	–	(2)
Profit/(loss) before tax		**155**	**(20)**	**135**	145	(11)	134
Income tax (expense)/income	10	**(28)**	**1**	**(27)**	(26)	–	(26)
Profit/(loss) for the year		**127**	**(19)**	**108**	119	(11)	108
Attributable to equity holders of the parent		**125**	**(19)**	**106**	119	(11)	108
Attributable to non-controlling interests		**2**	**–**	**2**	–	–	–
		127	**(19)**	**108**	119	(11)	108
Earnings per share							
Basic	12			**98.1p**			99.1p
Diluted	12			**97.2p**			98.2p
Equity dividends per share[3]				**58.2p**			54.1p

1 The Group has defined and outlined the purpose of its alternative performance measures in the Glossary on page 117.

2 See Note 4 for an analysis of Non-underlying items. See Glossary on page 117 for definition of alternative performance measures.

3 Equity dividends per share is the final proposed dividend of 41.0p (2018: 38.1p) and the interim dividend of 17.2p (2018: 16.0p).

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2019

£m	Note	2019	2018
Profit for the year		**108**	108
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	5	**(3)**	(1)
		(3)	(1)
Items that may be reclassified subsequently to the income statement:			
Gains/(losses) on cash flow hedges			
– Net fair value gains		**2**	–
– Reclassified and recognised in inventories		**(1)**	–
– Reclassified and reported in the income statement		**–**	1
Exchange differences on translation of foreign operations		**10**	(4)
		11	(3)
Other comprehensive income/(loss) for the year, net of tax		**8**	(4)
Total comprehensive income for the year		**116**	104
Attributable to equity holders of the parent		**114**	104
Attributable to non-controlling interests		**2**	–
		116	104

GROUP BALANCE SHEET

AS AT 31 AUGUST 2019

£m	Note	2019	2018
Non-current assets			
Goodwill	13	**176**	41
Other intangible assets	14	**49**	31
Property, plant and equipment	15	**201**	179
Investments in joint ventures		**4**	3
Deferred tax assets	20	**8**	7
Trade and other receivables	16	**10**	7
		448	268
Current assets			
Inventories		**174**	154
Trade and other receivables	16	**73**	60
Derivative financial assets	24	**2**	1
Cash and cash equivalents	21	**49**	45
		298	260
Total assets		**746**	528
Current liabilities			
Trade and other payables	17	**(250)**	(238)
Bank overdrafts and other borrowings	21	**(15)**	(33)
Retirement benefit obligations	5	**(1)**	(1)
Obligations under finance leases	18	**(5)**	(5)
Current tax liabilities		**(7)**	(9)
Short-term provisions	19	**(1)**	(1)
		(279)	(287)
Non-current liabilities			
Retirement benefit obligations	5	**(3)**	(3)
Bank overdrafts and other borrowings	21	**(200)**	–
Long-term provisions	19	**(4)**	(5)
Obligations under finance leases	18	**(9)**	(9)
Deferred tax liabilities	20	**(3)**	–
Other non-current liabilities		**(11)**	(12)
		(230)	(29)
Total liabilities		**(509)**	(316)
Total net assets		**237**	212

£m	Note	2019	2018
Shareholders' equity			
Called up share capital	25	**24**	24
Share premium		**9**	8
Capital redemption reserve		**13**	13
Translation reserve		**8**	(2)
Other reserves	28	**(274)**	(268)
Retained earnings		**455**	437
Total equity attributable to the equity holders of the parent		**235**	212
Non-controlling interests		**2**	–
Total equity		**237**	212

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 72 to 113 were approved by the Board of Directors and authorised for issue on 17 October 2019 and were signed on its behalf by:

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER AND CHIEF OPERATING OFFICER

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2019

£m	Note	2019	2018
Operating activities			
Cash generated from operating activities	23	**153**	144
Interest paid		**(4)**	(1)
Net cash inflow from operating activities		**149**	143
Investing activities			
Purchase of property, plant and equipment		**(47)**	(43)
Purchase of intangible assets		**(12)**	(10)
Acquisition of subsidiaries, net of cash acquired	29	**(161)**	(3)
Acquisition of investments in joint ventures		**–**	(2)
Net cash outflow from investing activities		**(220)**	(58)
Financing activities			
Dividend paid	11	**(60)**	(54)
Distributions to non-controlling interests		**(2)**	–
Issue of new shares for employee share schemes	25	**1**	2
Purchase of own shares for cancellation	25	**(32)**	(26)
Purchase of own shares for employee share schemes		**(7)**	(5)
Proceeds from borrowings	21	**182**	11
Financing arrangement fees		**(1)**	–
Repayments of obligations under finance leases	21	**(6)**	(5)
Net cash inflow/(outflow) from financing activities		**75**	(77)
Net increase in cash and cash equivalents in year		**4**	8
Opening cash and cash equivalents		**45**	38
Effect of movements in foreign exchange rates		**–**	(1)
Closing cash and cash equivalents		**49**	45

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

£m	Note	2019	2018
Net (debt)/funds at beginning of the year		**(2)**	4
Increase in cash and cash equivalents		**4**	8
Decrease/(increase) in debt		**18**	(11)
Increase in long term borrowings		**(200)**	–
Net movement in finance leases		**–**	(2)
Effect of movements in foreign exchange rates		**–**	(1)
Net debt at end of the year	21	**(180)**	(2)

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2019

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserve	Other reserves[1]	Retained earnings	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2018	**32**	**13**	**(2)**	**(268)**	**437**	**212**	**–**	**212**
Profit for the year	**–**	**–**	**–**	**–**	**106**	**106**	**2**	**108**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(3)	(3)	–	(3)
Cash flow hedges	–	–	–	1	–	1	–	1
Exchange differences on translation of foreign operations	–	–	10	–	–	10	–	10
Total comprehensive income for the year	**–**	**–**	**10**	**1**	**103**	**114**	**2**	**116**
Recognition of share-based payments	–	–	–	–	6	6	–	6
Premium on issue of shares (Note 25)	1	–	–	–	–	1	–	1
Dividends paid (Note 11)	–	–	–	–	(60)	(60)	–	(60)
Distributions to non-controlling interests	–	–	–	–	–	–	(2)	(2)
Employee share schemes	–	–	–	(7)	–	(7)	–	(7)
Purchase of own shares for cancellation (Note 25)	–	–	–	–	(31)	(31)	–	(31)
Non-controlling interests arising on acquisition	–	–	–	–	–	–	2	2
Balance at 31 August 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserve	Other reserves[1]	Retained earnings	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2017	**30**	**13**	**2**	**(264)**	**406**	**187**	**–**	**187**
Profit for the year	**–**	**–**	**–**	**–**	**108**	**108**	**–**	**108**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1)	(1)	–	(1)
Cash flow hedges	–	–	–	1	–	1	–	1
Exchange differences on translation of foreign operations	–	–	(4)	–	–	(4)	–	(4)
Total comprehensive income for the year	–	–	(4)	1	107	104	–	104
Recognition of share-based payments	–	–	–	–	4	4	–	4
Current tax on share-based payments	–	–	–	–	1	1	–	1
Deferred tax on share-based payments	–	–	–	–	(1)	(1)	–	(1)
Premium on issue of shares (Note 25)	2	–	–	–	–	2	–	2
Dividends paid (Note 11)	–	–	–	–	(54)	(54)	–	(54)
Employee share schemes	–	–	–	(5)	–	(5)	–	(5)
Purchase of own shares for cancellation	–	–	–	–	(26)	(26)	–	(26)
Balance at 31 August 2018	**32**	**13**	**(2)**	**(268)**	**437**	**212**	**–**	**212**

[1] For further analysis of Other reserves, see Note 28

1. ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRS IC') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These are the standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union at the year end.

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have been prepared on a going concern basis as explained on page 61 of the Directors' report.

NEW STANDARDS

The Group has adopted the following standards and interpretations which became mandatory during the current financial year.

IFRS 9 (including amendments)	Financial Instruments
IFRS 15 (including amendments and clarifications)	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendment to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendment to IAS 40	Transfers of Investment Property
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures

The Group has considered the above new standards and amendments and has concluded that, except for IFRS 9 and IFRS 15, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group adopted IFRS 9 on 1 September 2018, applying the modified retrospective approach, which does not require restatement of prior year comparatives.

Upon adoption of IFRS 9, there has been no change to classification of the Group's financial assets or liabilities. The standard introduces a forward-looking expected credit loss model for recognising provisions in respect of financial assets and receivables. The Group has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9. The impact of using the expected credit loss model on the consolidated financial statements is immaterial.

The Group designates certain derivative financial instruments in hedge relationships. All hedge relationships were regarded as continuing hedge relationships at the date of transition, as all designated hedges under IAS 39 met the criteria for hedge accounting under IFRS 9. The Group's risk management strategy and hedge documentation were aligned to the new standard at the date of transition.

Following the assessment, the Group concluded that IFRS 9 has an immaterial impact on the consolidated financial statements. Accordingly, no transitional adjustments have been recognised. Certain accounting policies have been updated to incorporate the requirements of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The Group adopted IFRS 15 on 1 September 2018, applying the modified retrospective approach, which does not require restatement of the prior year comparatives.

The standard establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied and when control passes to the customer. The majority of Group sales are for standalone products made direct to customers at standard prices either in-store, online or through franchisees, where there is a single performance obligation and revenue is recognised at the point of sale or, where later, delivery to the end customer. It is the Group's policy to sell certain products to retail customers with a right to return, however based on historical rates of return, the total expected value of returns at any point in time is immaterial to the Group. Therefore, a separate right of return asset has not been shown on the consolidated balance sheet.

Following a detailed impact assessment of each of the Group's revenue streams, it was concluded that the adoption of IFRS 15 has an immaterial impact on the consolidated financial statements. Accordingly, no transitional adjustments have been recognised. The Group has updated its accounting policy for Revenue as detailed on page 79.

At the date of authorisation of these consolidated Group financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendment to IAS 12	Income Taxes
Amendment to IAS 19	Employee Benefits
Amendments to IFRS 3	Business Combinations
Amendment to IFRS 9	Financial Instruments
Amendment to IFRS 11	Joint Arrangements
Amendment to IAS 23	Borrowing Costs
Amendment to IAS 28	Investments in Associates and Joint Ventures
Amendment to IAS 1	Presentation of Financial Statements
Amendment to IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors

1. ACCOUNTING POLICIES (CONTINUED)

A) BASIS OF PREPARATION (CONTINUED)

NEW STANDARDS (CONTINUED)

Except as outlined below, the directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's financial statements.

IFRS 16 'Leases' is effective for accounting periods beginning on or after 1 January 2019 and will therefore be applied by the Group from 1 September 2019. IFRS 16 will supersede the current lease guidance including IAS 17 and the related interpretation.

NATURE OF CHANGE

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 will recognise 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 will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IMPACT ON THE GROUP

The standard will primarily affect the accounting for the Group's operating leases relating to properties.

The Group will apply the simplified transition approach (modified retrospective approach) and will recognise 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. The Group will not restate comparatives and the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to opening reserves at the date of transition.

The Group has elected to apply the following practical expedients as allowed under IFRS 16:

- Exclude short-term leases (leases with a remaining term of less than one-year) and low-value assets (defined as less than $5,000 at initial cost);
- Rely on its assessment of whether leases are onerous immediately before the date of transition as an alternative to performing an impairment review; and
- Exclude initial direct costs from the measurement of the right-of-use assets on transition

The Group estimates that the application of IFRS 16 will result in the recognition of a lease liability of around £470m to £490m and a right-of-use asset of around £465m to £485m, along with the derecognition of onerous lease provisions of approximately £2m and other working capital balances (including lease incentives) of approximately £6m, which results in an overall adjustment to opening reserves of approximately £5m to £8m. This excludes the amounts already recognised on the Balance sheet under finance leases.

Based on a constant portfolio of leases as at 31 August 2019 i.e. leases in place as at the current financial reporting date, the Group expects that profit before tax will be lower by approximately £3m to £5m. This is due to an increase in depreciation expense of around £95m to £100m on the right-of-use asset and an additional interest expense of approximately £8m to £10m on the lease liability, offset by the removal of the rental expense of around £100m to £105m.

There will be no impact on cash flows, although the presentation of the Cash flow statement will change, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities.

The application of IFRS 16 requires judgement particularly around the calculation of the incremental borrowing rate which has been determined on a lease-by-lease basis on transition and determining the lease term when there are options to extend or terminate early. In addition to this, judgement is also involved in determining whether leases contain substantive substitution rights and therefore whether they meet the definition of a lease under IFRS 16. There are number of such retail concession agreements that do not meet the definition of a lease under IFRS 16 and hence are a key reconciling difference between the IAS 17 lease commitment included in Note 7 and the IFRS 16 lease liability on transition. A complete reconciliation between the 31 August 2019 IAS 17 lease commitment and the IFRS 16 lease liability on the transition date (1 September 2019) will be included in our interim accounts for the period ended 29 February 2020.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

All accounting policies in respect of lease accounting will be updated to reflect the impact of IFRS 16 in the consolidated financial statements for the year ended 31 August 2020.

ALTERNATIVE PERFORMANCE MEASURES ('APMS')

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. These APMs are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures.

1. ACCOUNTING POLICIES (CONTINUED)

A) BASIS OF PREPARATION (CONTINUED)

The key APMs that the Group uses include: Headline profit before tax, Headline earnings per share, High Street and Travel trading profit, Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Net debt / funds, Return on capital employed and free cash flow. These APMs are set out in the Glossary on page 117 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

NON-UNDERLYING ITEMS

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items, that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, amortisation of acquired intangibles assets, costs relating to business combinations, impairment charges and onerous lease charges, and the related tax effect of these items. The Group believes that the separate disclosure of these costs provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

Further details of the non-underlying items are provided in Note 4.

ACCOUNTING CONVENTION

The financial statements are drawn up on the historical cost basis of accounting, except for certain financial instruments, share-based payments and pensions that have been measured at fair value. The financial information is rounded to the nearest million, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout both years except as noted above, are set out below.

BASIS OF CONSOLIDATION

The consolidated Group financial statements incorporate the financial statements of WH Smith PLC and all its subsidiaries.

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration transferred, after taking into account recognised goodwill, the excess is immediately recognised in the income statement. The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate. Non-controlling interests are stated at the non-controlling interests' proportion of the fair values of the assets and liabilities recognised.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

B) REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services to customers (which is the most significant revenue stream), sale of wholesale goods to franchisees, and commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Revenue is recognised when performance obligations have been met and control of the goods has transferred to the customer. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store, online or through franchisees, where there is a single performance obligation.

For in-store transactions, control of the goods is deemed to have transferred to the customer at the point of sale. For online transactions and wholesale sale of goods to franchisees, control is deemed to have transferred to the customer at the point of delivery of the goods.

Revenue on in-store transactions is recognised at the point of sale. Revenue in respect of online and wholesale (including sales directly to franchisees) transactions is recognised on the transfer of control, which is on delivery of the goods to the customers. Revenue in respect of gift cards sold by the Group is recognised on the redemption of the gift card either in-store at the point of sale or on delivery for online redemptions. Franchise and concession fees and commission are recognised on the accruals basis in accordance with the substance of the contracts in place, which is typically on the basis of fixed fees spread evenly over the contract period, and/or variable amounts earned based on turnover.

C) SUPPLIER INCOME

The Group receives income from its suppliers in the form of supplier incentives and discounts (collectively 'Supplier incomes'). These incomes are recognised as a deduction from cost of sales on an accruals basis as they are earned for each supplier contract. The level of complexity and judgement is low in relation to establishing the accounting entries and estimates, and the timing of recognition.

1. ACCOUNTING POLICIES (CONTINUED)

C) SUPPLIER INCOME (CONTINUED)

Supplier incomes that have been invoiced but not received at the period end are recognised in Trade Receivables, or in Trade Payables where we have the right of offset. Incomes that have been earned but not yet invoiced are accrued and are recorded in Prepayments and accrued income.

The types of supplier income recognised by the Group, and the recognition policies are:

RETROSPECTIVE DISCOUNTS

Income earned based on sales or purchase volume triggers set by the supplier for specific products over specific periods.

Income is calculated and invoiced based upon actual sales or purchases over the period set out in the supplier agreement, and is recognised in the income statement as it is earned. Where the period of an agreement spans accounting periods, income is recognised based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. The carrying value of inventories is adjusted to reflect unearned elements of supplier income as the product has not yet been sold. This income is subsequently recognised in cost of sales when the product has been sold.

PROMOTIONAL AND MARKETING ACTIVITY

Supplier income from promotional and marketing activity includes income in respect of in-store marketing and point of sale, supplying dedicated promotional space or receiving margin support for products on promotion.

Income for promotional and marketing activity is agreed with suppliers for specific periods and products. Income is recognised over the period of the agreement. Income is invoiced when the performance conditions in the supplier agreement have been achieved.

D) RETIREMENT BENEFIT COSTS

Payments to the WHSmith Group defined contribution pension schemes are recognised as an expense in the income statement as they fall due.

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the United News Shops Retirement Benefits Scheme 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 income statement in the Group statement of comprehensive income.

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 past service cost, plus the present value of available refunds and reductions in future contributions to the plan. Where the Group is considered to have a contractual obligation to fund the pension scheme above the accounting value of the liabilities, an onerous obligation is recognised.

E) LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

F) INTANGIBLE ASSETS

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree. Costs directly attributable to the business combination are recognised in the income statement in the period they are incurred. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and their fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

Where less than the entire equity interest of a subsidiary is acquired, the non-controlling interest is recognised at the non-controlling interest's share of the net assets of the subsidiary. Changes in the Group's ownership percentage of subsidiaries are accounted for within equity.

1. ACCOUNTING POLICIES (CONTINUED)

F) INTANGIBLE ASSETS (CONTINUED)

GOODWILL

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to the cash-generating units (CGUs) that have benefited from the acquisition. Each store is considered to be a CGU. Goodwill is allocated to either the group of CGUs making up the Travel or High Street operating segments, as this is the lowest level at which management monitor goodwill. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the group of cash-generating units is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the units and then to the other assets of the units on a pro-rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

OTHER INTANGIBLE ASSETS

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, and is recorded in Distribution costs. The estimated lives are usually a period of up to ten years. Software assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Other intangible assets are valued at cost and amortised over their useful life, and the amortisation is recorded in Administrative expenses, unless the asset can be demonstrated to have an indefinite life. Other intangible assets, such as brands, arising on business combinations are amortised over their useful lives (usually ten years). Amortisation of other intangible assets arising on business combinations is included in non-underlying costs. The useful life and residual value of all intangible assets are determined at the time of acquisition and reviewed annually for appropriateness.

All intangible assets are reviewed for impairment in accordance with IAS 36 Impairment of Assets, when there are indications that the carrying value may not be recoverable.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount. Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold properties	– over 20 years
Short-term leasehold	– shorter of the lease period and the estimated remaining economic life
Fixtures and fittings	– up to ten years
Equipment and vehicles	– up to ten years

The residual values of property, plant and equipment are re-assessed on an annual basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

H) INVESTMENTS IN JOINT VENTURES

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

Management has assessed whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. In assessing this joint control no significant judgements have been necessary.

The Group's share of results of joint ventures is included in the Group consolidated income statement using the equity method of accounting. The results of joint ventures in the current and prior year are not material to disclose. Investments in joint ventures are carried in the Group consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value.

If the Group's share of losses in the joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so, or made payments on behalf of the joint venture.

1. ACCOUNTING POLICIES (CONTINUED)

I) INVENTORIES

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Consignment stocks are not included within stocks held by the Group. Inventories are valued using a weighted average cost method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs (including a deduction for applicable supplier income) in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution. Cost of inventories includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Provisions are made for obsolescence, markdown and shrinkage.

J) PROVISIONS

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. 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.

ONEROUS CONTRACTS – PROPERTY PROVISIONS

The Group's property provisions represent the present value of unavoidable future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant, loss-making or currently not planned to be used for ongoing operations. The unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 9 as 'Unwinding of discount on provisions'.

K) FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling (GBP), which is WH Smith PLC'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 income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated into sterling at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

L) TAXATION

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

M) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

I) INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

I)(A) FINANCIAL ASSETS

TRADE AND OTHER 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. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement.

In accordance with IAS 39, allowances for doubtful debts were calculated based on the 'incurred loss' model up to 31 August 2018. From 1 September 2018 onwards, 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).

1. ACCOUNTING POLICIES (CONTINUED)

M) FINANCIAL INSTRUMENTS (CONTINUED)

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.

I) (B) FINANCIAL LIABILITIES AND EQUITY

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

BANK BORROWINGS

Interest-bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

TRADE AND OTHER PAYABLES

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

EQUITY INSTRUMENTS

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

II) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

FINANCIAL LIABILITIES

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

III) OFFSETTING

Financial assets and financial liabilities are offset and the net position presented in the Balance sheet when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

IV) IMPAIRMENT

The Group recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost. These are always measured at an amount equal to lifetime ECL. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both qualitative and quantitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

V) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange movements in accordance with its risk management policies. The Group primarily uses forward foreign currency contracts to manage its exposure to changes in foreign exchange rates. The Group does not hold or use derivative financial instruments for speculative purposes. Further details of the Group's risk management policies are provided in Note 24.

These instruments are initially recognised at fair value on the trade date and are subsequently measured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the items being hedged.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

1. ACCOUNTING POLICIES (CONTINUED)

If the cash flow hedge of a highly probable forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period as the hedged item.

For an effective hedge of an exposure to changes in the fair value of a recognised asset or liability, changes in fair value of the hedging instrument are recognised in profit or loss at the same time that the recognised asset or liability that is being hedged is adjusted for movements in the hedged risk and that adjustment is also recognised in profit or loss in the same period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

N) SHARE SCHEMES

WHSMITH EMPLOYEE BENEFIT TRUST

The shares held by the WHSmith Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve.

SHARE-BASED PAYMENTS

Employees of the Group 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 (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

For cash-settled share-based payments, a liability is recognised at the current fair value determined at each balance sheet date, taking into account performance conditions and the extent to which employees have rendered service to date, with any changes in fair value recognised in the profit or loss for the year.

O) DIVIDENDS

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.

P) SHARE CAPITAL, SHARE PREMIUM AND OTHER RESERVES

Ordinary shares are classified as equity. Share premium arises on the excess between the fair value of the shares issued and the par value of the shares issued. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, against share premium. The par value of shares repurchased and cancelled under the Group's share buyback programme is reclassified from Share capital to the Capital redemption reserve.

For a description of Other reserves, see Note 28.

Q) 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 assumptions and estimates include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; the liabilities for potential corporation tax; and valuation of retirement benefit obligations. 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 accounting judgements and sources of estimation uncertainty in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to non-underlying items, retirement benefit obligations, valuation of goodwill and other non-current assets, inventory valuation and provisions in respect of taxation, onerous lease costs and contingent consideration.

1. ACCOUNTING POLICIES (CONTINUED)

CRITICAL ACCOUNTING JUDGEMENTS

NON-UNDERLYING ITEMS

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, impairment charges and onerous lease charges, and the related tax effect of these items. The Group believes that they provide additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

The classification of items as non-underlying requires significant management judgement. The definition of non-underlying items has been applied consistently year on year. Further details of non-underlying items are provided in Note 4.

SOURCES OF ESTIMATION UNCERTAINTY

RETIREMENT BENEFIT OBLIGATION

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. 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, among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further information in respect of the Group's retirement benefit obligation is included in Note 5.

GOODWILL, INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT IMPAIRMENT REVIEWS

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates. Further information in respect of the Group's goodwill and other intangible assets is included in Notes 13 and 14 respectively.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. Further information in respect of the Group's property, plant and equipment is included in Note 15.

INVENTORY VALUATION

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made. A description of the Group's accounting policy in respect of inventories is included in Note 1(i).

PROVISIONS

Provisions have been estimated for taxation, onerous leases and contingent consideration. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made. Further information in respect of the Group's onerous lease provision is included in Note 19 and further information in respect of the Group's tax provisions is included in Note 10.

2. SEGMENTAL ANALYSIS OF RESULTS

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments – Travel and High Street. The Travel operating segment includes InMotion from the date of acquisition, as the InMotion operations share similar economic characteristics with Travel and are managed within the Travel segment. For further information in relation to the acquisition of InMotion, see Note 29.

The Group's operating segments are based on the reports reviewed by the Board of Directors (who are collectively considered to be the chief operating decision maker) to make strategic decisions and allocate resources.

IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources.

A) GROUP REVENUE

£m	2019	2018
Travel	**817**	672
High Street	**580**	590
Group revenue	**1,397**	1,262

B) GROUP RESULTS

£m	2019			2018		
	Headline	Non-underlying items	Total	Headline	Non-underlying items	Total
Travel trading profit	**117**	**–**	**117**	103	–	103
High Street trading profit	**60**	**–**	**60**	60	–	60
Group profit from trading operations	**177**	**–**	**177**	163	–	163
Unallocated costs	**(17)**	**–**	**(17)**	(16)	–	(16)
Non-underlying items (Note 4)	**–**	**(20)**	**(20)**	–	(11)	(11)
Group operating profit	**160**	**(20)**	**140**	147	(11)	136
Finance costs	**(5)**	**–**	**(5)**	(2)	–	(2)
Income tax expense	**(28)**	**1**	**(27)**	(26)	–	(26)
Profit for the year	**127**	**(19)**	**108**	119	(11)	108

Included within Travel revenue and trading profit is International revenue of £252m (2018: £132m) and International trading profit of £20m (2018: £11m). International revenue includes revenue from the USA of £94m (2018: £nil) and revenue from Australia of £57m (2018: £54m).

C) BALANCE SHEET

	2019		
£m	Travel	High Street	Group
Assets			
Segment assets	**410**	**282**	**692**
Unallocated assets	**–**	**–**	**54**
Consolidated total assets	**410**	**282**	**746**
Liabilities			
Segment liabilities	**(138)**	**(126)**	**(264)**
Unallocated liabilities	**–**	**–**	**(245)**
Consolidated total liabilities	**(138)**	**(126)**	**(509)**
Net assets	**272**	**156**	**237**

2. SEGMENTAL ANALYSIS OF RESULTS (CONTINUED)

£m	Travel (2018)	High Street (2018)	Group (2018)
Assets			
Segment assets	206	273	479
Unallocated assets	–	–	49
Consolidated total assets	206	273	528
Liabilities			
Segment liabilities	(114)	(138)	(252)
Unallocated liabilities	–	–	(64)
Consolidated total liabilities	(114)	(138)	(316)
Net assets	92	135	212

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. Included within Travel segment assets are International non-current assets of £196m (2018: £30m). International non-current assets include assets in the USA of £163m (2018: £nil) and assets in Australia of £19m (2018: £16m).

D) OTHER SEGMENTAL ITEMS

£m	Travel (2019)	High Street (2019)	Group (2019)
Capital additions	**35**	**30**	**65**
Depreciation and amortisation of non-current assets	**(25)**	**(25)**	**(50)**
Impairment losses	**(1)**	**–**	**(1)**

£m	Travel (2018)	High Street (2018)	Group (2018)
Capital additions	33	30	63
Depreciation and amortisation of non-current assets	(18)	(25)	(43)
Impairment losses	–	(2)	(2)

3. GROUP OPERATING PROFIT

£m	Headline (2019)	Non-underlying items (2019)	Total (2019)	Headline (2018)	Non-underlying items (2018)	Total (2018)
Revenue	**1,397**	**–**	**1,397**	1,262	–	1,262
Cost of sales	**(552)**	**–**	**(552)**	(501)	–	(501)
Gross profit	**845**	**–**	**845**	761	–	761
Distribution costs[1]	**(592)**	**–**	**(592)**	(532)	–	(532)
Administrative expenses	**(100)**	**–**	**(100)**	(88)	–	(88)
Other income[2]	**7**	**–**	**7**	6	–	6
Non-underlying items (Note 4)	**–**	**(20)**	**(20)**	–	(11)	(11)
Group operating profit	**160**	**(20)**	**140**	147	(11)	136

1 During the year there was a £1m (2018: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

2 Other income is profit attributable to property and the sale of property, plant and equipment, including the sale of a head office building.

3. GROUP OPERATING PROFIT (CONTINUED)

£m	2019	2018
Cost of inventories recognised as an expense	**552**	501
Write-down of inventories in the year	**4**	5
Depreciation and amounts written off property, plant and equipment	**42**	38
Amortisation and amounts written off intangible assets	**9**	7
Net operating lease charges		
– land and buildings	**236**	212
– equipment and vehicles	**–**	–
Other occupancy costs	**69**	66
Staff costs (Note 6)	**248**	216
Auditors' remuneration (see below)		
Audit services		
Fees payable to the Group's auditors, included in the income statement, relate to:		
Fees payable to the Group's auditors for the audit of the Group's financial statements	**0.5**	0.3
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.1**	0.1
Total audit and audit-related services	**0.6**	0.4
Non-audit services		
Fees payable to the Group's auditors for other services:		
Taxation compliance services	**–**	–
Taxation advisory services	**–**	–
Due diligence services	**0.3**	0.6
All other non-audit services	**–**	–
Non-audit fees including taxation and other services	**0.3**	0.6
Total auditors' remuneration	**0.9**	1.0

Included in Administrative expenses is the auditors' remuneration, including expenses, for audit and non-audit services, payable to the Group's auditors PricewaterhouseCoopers LLP and its associates as set out above.

A description of the work performed by the Audit Committee is set out in the corporate governance section of the Directors' report and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by auditors.

4. NON-UNDERLYING ITEMS

Items which are not considered part of the normal operating costs of the business are non-recurring and are considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Further details of non-underlying items are included in Note 1, Accounting policies and in the Strategic report on page 15.

£m	2019	2018
Costs relating to business combinations	**11**	–
Amortisation of acquired intangible assets	**2**	–
High Street business review	**7**	9
Costs relating to an uncompleted transaction	**–**	2
Non-underlying items, before tax	**20**	11
Tax credit on non-underlying items	**(1)**	–
Non-underlying item, after tax	**19**	11

During the period, we incurred transaction and integration costs of £11m in relation to the acquisition of InMotion, which completed on 30 November 2018, as well as the amortisation of intangible assets relating to the InMotion brand.

In October 2018 we reported that we had undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we made the following decisions: to increase the focus on our core categories; wind down non-core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around six High Street stores. We have completed this review and as a consequence have recorded a non-underlying charge of £7m (2018: £9m) in respect of restructuring of some operational activities and the managed wind-down of the WHSmith Local franchise business. This review has been completed.

Non-underlying items in 2018 relate to the High Street business review and costs related to an uncompleted transaction.

5. RETIREMENT BENEFIT OBLIGATIONS

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 5 a) i).

The retirement benefit obligations recognised in the balance sheet for the respective schemes at the relevant reporting dates were:

£m	2019	2018
WHSmith Pension Trust	**(3)**	(3)
United News Shops Retirement Benefits Scheme	**(1)**	(1)
Retirement benefit obligation recognised in the balance sheet	**(4)**	(4)
Recognised as:		
Current liabilities	**(1)**	(1)
Non-current liabilities	**(3)**	(3)

A) DEFINED BENEFIT PENSION SCHEMES

I) THE WHSMITH PENSION TRUST

The WHSmith Pension Trust Final Salary Section is a funded final salary defined benefit scheme; it was closed to defined benefit service accrual on 2 April 2007 and has been closed to new members since 1996. 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 WHSmith Pension Trust is independent of the Group and is administered by a Trustee. 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.

The WHSmith Pension Trust has assets valued at £1,461m, as at 31 August 2019, 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 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 2017 by independent actuaries using the projected unit credit method. At 31 March 2017 the deficit was £11m. The Group had agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs of just under £3m. During the year ending 31 August 2019, the Group made a contribution of £3m to the WHSmith Pension Trust (2018: £3m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2020 to be £3m. The weighted average duration of the defined benefit obligation is 18 years.

5. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

BALANCE SHEET

The amounts recognised in the balance sheet under IAS 19 in relation to this plan are as follows:

£m	2019	2018
Present value of the obligations	(1,107)	(983)
Fair value of plan assets	1,461	1,277
Surplus before consideration of asset ceiling	354	294
Amounts not recognised due to effect of asset ceiling	(354)	(294)
Additional liability recognised due to minimum funding requirements	(3)	(3)
Retirement benefit obligation recognised in the balance sheet	**(3)**	(3)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £3m (2018: £3m). The defined benefit pension schemes are closed to further accrual and the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £354m (2018: £294m) available on a reduction of future contributions is £nil (2018: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet. There is an ongoing actuarial deficit primarily due to the different assumptions and calculation methodologies used compared to those on interpretation of IAS 19.

INCOME STATEMENT

The amounts recognised in the income statement were as follows:

£m	2019	2018
Net interest cost on the defined benefit liability	–	–
	–	–

The net interest cost has been included in finance costs (Note 9). Actuarial gains and losses have been reported in the statement of comprehensive income.

STATEMENT OF COMPREHENSIVE INCOME

Total expense recognised in the statement of comprehensive income ('SOCI'):

£m	2019	2018
Actuarial gain/(loss) on defined benefit obligations arising from experience	2	(7)
Actuarial (loss)/gain on defined benefit obligations arising from changes in financial assumptions	(165)	70
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	22	6
Total actuarial (loss)/gain before consideration of asset ceiling	(141)	69
Return on plan assets excluding amounts included in net interest cost	190	(54)
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	(52)	(18)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	–	1
Total actuarial loss recognised in other comprehensive income	**(3)**	(2)

In addition, a credit of £nil (2018: £1m) was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

5. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Movements in the present value of the WHSmith Pension Trust defined benefit scheme assets, obligations and minimum funding requirement in the current year were as follows:

	2019				2018			
£m	**Assets**	**Liabilities**	**Effect of asset ceiling and recognition of minimum funding liability**	**Net retirement benefit obligation recognised**	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised
At 1 September	**1,277**	**(983)**	**(297)**	**(3)**	1,340	(1,071)	(273)	(4)
Current service cost	**–**	**–**	**–**	**–**	–	–	–	–
Interest income/(expense)	**35**	**(27)**	**(8)**	**–**	33	(26)	(7)	–
Actuarial gains/(losses)	**190**	**(141)**	**(52)**	**(3)**	(54)	69	(17)	(2)
Contributions from the sponsoring companies	**3**	**–**	**–**	**3**	3	–	–	3
Benefits paid	**(44)**	**44**	**–**	**–**	(45)	45	–	–
At 31 August	**1,461**	**(1,107)**	**(357)**	**(3)**	1,277	(983)	(297)	(3)

The actual return on scheme assets was a gain of £225m (2018: loss of £21m) due to an increase in the value of the bonds held to match the pension scheme liabilities. The increase in the value of scheme assets was greater than the increase in scheme liabilities, resulting in an increase in the IAS 19 surplus of £60m. Part of this increase in surplus arises due to changes in demographic assumptions that led to a £22m reduction in plan liabilities.

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

	2019				2018			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	**976**	**–**	**976**	**67**	795	–	795	62
– Corporate bonds								
UK	**223**	**–**	**223**	**15**	223	–	223	17
Non-UK	**211**	**–**	**211**	**14**	187	–	187	15
Investment funds[1]	**–**	**90**	**90**	**6**		47	47	4
Derivatives								
– Interest rate swaps	**–**	**(369)**	**(369)**	**(25)**	–	(294)	(294)	(23)
– Inflation swaps	**–**	**258**	**258**	**18**	–	199	199	16
– Other	**–**	**18**	**18**	**1**	–	2	2	–
Cash and cash equivalents	**54**	**–**	**54**	**4**	118	–	118	9
Total	**1,464**	**(3)**	**1,461**	**100**	1,323	(46)	1,277	100

[1] These actively managed pooled funds seek to provide long-term positive returns through diversified assets and strategies.

No amount is included in the market value of assets relating to either financial instruments or property occupied by the Group.

The principal long-term assumptions used in the IAS 19 valuation were:

%	**2019**	2018
Rate of increase in pension payments	**3.13**	3.17
Rate of increase in deferred pensions	**2.20**	2.15
Discount rate	**1.85**	2.80
RPI inflation assumption	**3.20**	3.25
CPI inflation assumption	**2.20**	2.15

5. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The mortality assumptions in years underlying the value of the accrued liabilities for 2019 and 2018 are:

	2019		2018	
Years	**Male**	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**22.6**	**24.0**	23.1	24.5
Member currently aged 45	**23.5**	**25.6**	24.1	26.1

SENSITIVITY TO CHANGES IN ASSUMPTIONS

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2019, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

£m	Effect on liabilities at 31 August 2019
Discount rate + / - 0.1% per annum	**-20/+20**
Inflation assumptions + / - 0.1% per annum	**+18/-18**
Life expectancy + / - 1 year	**+57/-57**

II) UNITED NEWS SHOPS RETIREMENT BENEFITS SCHEME

United News Shops Retirement Benefits Scheme ('UNSRBS') is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members based on salary at the date of closure, with increases based on inflation. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out at 5 April 2018 by independent actuaries. Following this valuation, the deficit was less than £1m.

The valuation of the UNSRBS used for the IAS 19 disclosures is based on consistent assumptions to those used for valuing the WHSmith Pension Trust. Scheme assets are stated at their market value at the relevant reporting date. The deficit funding contributions are immaterial in the context of these financial statements.

The present value of obligations and fair value of assets are stated below.

£m	2019	2018
Present value of the obligations	**(8)**	(7)
Fair value of plan assets	**7**	6
Retirement benefit obligation recognised in the balance sheet	**(1)**	(1)

There was a credit of £nil (2018: credit of £1m) recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

B) DEFINED CONTRIBUTION PENSION SCHEME

The pension cost charged to income for the Group's defined contribution schemes amounted to £5m for the year ended 31 August 2019 (2018: £4m).

6. STAFF COSTS AND EMPLOYEES

A) STAFF COSTS

The aggregate remuneration of employees was:

£m	2019	2018
Wages and salaries	**222**	194
Social security costs	**15**	14
Other pension costs	**5**	4
Share-based payments	**6**	4
Total Group	**248**	216

B) EMPLOYEE NUMBERS

The monthly average total number of employees (including executive directors) was:

	2019	2018
Total retailing	**14,286**	13,796
Support functions	**35**	32
Total Group	**14,321**	13,828

7. OPERATING LEASE COMMITMENTS

Amounts recognised in operating profit:

£m	2019	2018
Minimum lease payments	216	196
Contingent rent payments	21	17
Total rent paid	237	213
Sublease rentals received on operating leases	(1)	(1)
Net operating lease charges	236	212

Minimum lease payments under non-cancellable operating leases are payable as follows:

	2019			2018		
£m	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Within one year	211	1	212	183	1	184
Within two to five years	551	2	553	464	2	466
In more than five years	221	–	221	174	–	174
	983	3	986	821	3	824

The Group leases various properties under non-cancellable operating lease agreements. 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 turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £1m (2018: £2m). The average remaining lease length across the Group is 4.3 years.

Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are discussed in Note 22.

8. FIXED CHARGES COVER

£m	2019	2018
Net finance charges (Note 9)	5	2
Net operating lease rentals (Note 7)	236	212
Total fixed charges	241	214
Headline profit before tax	155	145
Headline profit before tax and fixed charges	396	359
Fixed charges cover – times	1.6x	1.7x

An explanation of alternative performance measures, including fixed charges cover is provided in the Glossary on page 117.

9. FINANCE COSTS

£m	2019	2018
Interest payable on bank loans and overdrafts	5	2
Net interest cost on defined benefit pension liabilities	–	–
	5	2

10. INCOME TAX EXPENSE

£m	2019	2018
Tax on profit	**32**	29
Standard rate of UK corporation tax 19.00% (2018: 19.00%)		
Adjustment in respect of prior year UK corporation tax	**(4)**	(3)
Total current tax charge	**28**	26
Deferred tax – current year (Note 20)	**(1)**	(1)
Deferred tax – prior year (Note 20)	**1**	1
Tax on headline profit	**28**	26
Tax on non-underlying items	**(1)**	–
Total tax on profit	**27**	26

RECONCILIATION OF THE TAXATION CHARGE

£m	2019	2018
Tax on profit at standard rate of UK corporation tax 19.00% (2018: 19.00%)	**26**	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	**5**	4
Adjustment in respect of prior years	**(4)**	(3)
Total income tax expense	**27**	26

The effective tax rate, before non-underlying items, was 18 per cent (2018: 18 per cent). The UK corporation tax rate has been 19 per cent with effect from 1 April 2017 and will reduce to 17 per cent from 1 April 2020.

The Group provides against known tax exposures, on a reasonable basis, until we have received formal agreement from the relevant tax authority that an inquiry into a particular tax return has been closed.

11. DIVIDENDS

Amounts paid and recognised as distributions to shareholders in the year are as follows:

£m	2019	2018
Dividends		
Interim dividend of 17.2p per ordinary share (2018: 16.0p per ordinary share)	**19**	17
Final dividend of 38.1p per ordinary share (2018: 33.6p per ordinary share)	**41**	37
	60	54

The proposed dividend of 41.0p per share, amounting to a final dividend of £44m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 30 January 2020 to shareholders on the register at the close of business on 10 January 2020. The final dividend will be paid gross.

12. EARNINGS PER SHARE

A) EARNINGS

£m	2019	2018
Profit for the year, attributable to equity holders of the parent	**106**	108
Non-underlying items (Note 4)	**19**	11
Headline Profit for the year, attributable to equity holders of the parent	**125**	119

B) WEIGHTED AVERAGE SHARE CAPITAL

Millions	2019	2018
Weighted average ordinary shares in issue	**108**	110
Less weighted average ordinary shares held in ESOP Trust	**–**	(1)
Weighted average shares in issue for earnings per share	**108**	109
Add weighted average number of ordinary shares under option	**1**	1
Weighted average ordinary shares for diluted earnings per share	**109**	110

C) BASIC AND DILUTED EARNINGS PER SHARE

Pence	2019	2018
Basic earnings per share	**98.1**	99.1
Adjustment for non-underlying items	**17.6**	10.1
Headline Basic earnings per share	**115.7**	109.2

Pence	2019	2018
Diluted earnings per share	**97.2**	98.2
Adjustment for non-underlying items	**17.5**	10.0
Headline Diluted earnings per share	**114.7**	108.2

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid.

13. GOODWILL

	£m
Cost	
At 1 September 2018	41
Additions (Note 29)	128
Exchange movements	7
At 31 August 2019	**176**
Accumulated impairment	
At 1 September 2018	–
Impairment charge	–
At 31 August 2019	–
Net book value at 31 August 2019	**176**

Cost	
At 1 September 2017	38
Additions (Note 29)	3
At 31 August 2018	**41**
Accumulated impairment	
At 1 September 2017	–
Impairment charge	–
At 31 August 2018	–
Net book value at 31 August 2018	**41**

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2019	2018
Travel	**161**	28
High Street	**15**	13
	176	41

Goodwill additions in the year relate to two acquisitions. On 30 November 2018, the Group acquired the entire issued share capital of InMotion Entertainment Group LLC, for a total cash consideration of USD $208m (£162m), resulting in the recognition of goodwill of £126m. On 4 July 2019, the Group acquired the entire issued share capital of The Card Gallery (UK) Limited, for cash consideration of £1m and contingent consideration of £1m, resulting in the recognition of goodwill of £2m. See Note 29 for further information.

Goodwill has been tested for impairment by comparing the carrying amount of each group of cash-generating unit ('CGUs'), including goodwill, with the recoverable amount determined from value-in-use calculations. In light of the material increase in the Goodwill balance in the year, management have reviewed the groups of CGUs to which Goodwill is allocated. CGUs are grouped in a manner that is consistent with our operating segments, as this reflects the lowest level at which goodwill is monitored. Management has determined that no impairment was necessary for the current financial year (2018: £nil). All goodwill has arisen on acquisitions of groups of retail stores. These acquisitions are then integrated into either the High Street or Travel operating segments as appropriate. The key assumptions on which forecast three-year cash flows of the CGUs are based include sales growth, product mix and operating costs.

The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the UK retail industry.

These cash flows are extrapolated based on estimated long-term growth rates of between 0 and 2.5 per cent. The rate used to discount the forecast cash flows was ten per cent pre-tax (2018: ten per cent).

A sensitivity analysis has been performed in assessing recoverable amounts of goodwill. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to one per cent and a decrease in the long-term growth rate of up to one per cent. The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

14. OTHER INTANGIBLE ASSETS

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment), acquired brands and certain tenancy rights.

The amortisation period for capitalised software costs is over a maximum period of five years. Other intangible assets are either considered to have an indefinite life, therefore no amortisation has been charged, or are amortised over their useful economic life. These assets are reviewed annually for indicators of impairment.

	£m
Cost	
At 1 September 2018	111
Additions	11
Acquisitions (Note 29)	16
At 31 August 2019	**138**
Accumulated amortisation	
At 1 September 2018	80
Amortisation charge	9
Impairment charge	–
At 31 August 2019	**89**
Net book value at 31 August 2019	**49**

Cost	
At 1 September 2017	102
Additions	9
At 31 August 2018	**111**
Accumulated amortisation	
At 1 September 2017	73
Amortisation charge	7
Impairment charge	–
At 31 August 2018	**80**
Net book value at 31 August 2018	**31**

On 30 November 2018, the Group acquired the entire issued share capital of InMotion Entertainment Group LLC resulting in the recognition of brands of £15m and software of £1m.

Included in the net book value of other intangible assets are software costs of £30m (2018: £26m), tenancy agreements of £4m (2018: £4m), and brands and franchise contracts of £15m (2018: £1m). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2018: £4m), representing certain rights under tenancy agreements, which include the right to renew leases. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period.

The net book value of software assets held under finance leases included within these balances as at 31 August 2019 was £nil (2018: £nil).

15. PROPERTY, PLANT AND EQUIPMENT

£m	Land and buildings: Freehold properties	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2018	22	207	149	110	488
Additions	–	26	18	10	54
Acquisitions (Note 29)	–	6	3	1	10
Disposals	(7)	(4)	(3)	(1)	(15)
Foreign exchange	–	1	1	–	2
At 31 August 2019	**15**	**236**	**168**	**120**	**539**
Accumulated depreciation:					
At 1 September 2018	15	134	93	67	309
Depreciation charge	1	16	12	12	41
Impairment charge	–	–	1	–	1
Disposals	(6)	(4)	(3)	(1)	(14)
Foreign exchange	–	1	–	–	1
At 31 August 2019	**10**	**147**	**103**	**78**	**338**
Net book value at 31 August 2019	**5**	**89**	**65**	**42**	**201**
Cost or valuation:					
At 1 September 2017	22	189	130	98	439
Additions	–	21	21	12	54
Disposals	–	(3)	(1)	–	(4)
Foreign exchange	–	–	(1)	–	(1)
At 31 August 2018	**22**	**207**	**149**	**110**	**488**
Accumulated depreciation:					
At 1 September 2017	14	122	85	54	275
Depreciation charge	1	14	9	12	36
Impairment charge	–	1	–	1	2
Disposals	–	(3)	(1)	–	(4)
Foreign exchange	–	–	–	–	–
At 31 August 2018	**15**	**134**	**93**	**67**	**309**
Net book value at 31 August 2018	**7**	**73**	**56**	**43**	**179**

The net book value of assets held under finance leases included within these balances as at 31 August 2019 was £15m (2018: £14m), being £2m short-term leasehold (2018: £2m), £3m fixtures and fittings (2018: £3m), and £10m equipment and vehicles (2018: £9m).

16. TRADE AND OTHER RECEIVABLES

£m	2019	2018
Current debtors		
Trade debtors	**34**	27
Other debtors	**12**	8
Prepayments and accrued income	**27**	25
	73	60
Non-current debtors		
Other debtors	**2**	–
Prepayments and accrued income	**8**	7
Total trade and other receivables	**83**	67

Included in prepayments and accrued income is £10m (2018: £9m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income that has been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against trade payables balances is included in trade payables where the Group has a right to offset.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing of the Group's current trade and other receivables is as follows:

£m	2019	2018
Trade and other receivables gross	**50**	38
Expected credit losses	**(2)**	(1)
Trade and other receivables net	**48**	37
Of which:		
Amounts neither impaired nor past due on the reporting date	**37**	28
Amounts past due but not impaired:		
Less than one month old	**6**	6
Between one and three months old	**3**	1
Between three and six months old	**1**	1
Between six months and one year old	**1**	1
Trade and other receivables net carrying amount	**48**	37

An allowance has been made for lifetime expected credit losses from sales at 31 August 2019 of £2m (31 August 2018: £1m). The ageing analysis of these receivables is given in the table below. This expected credit loss allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience.

Ageing analysis of bad and doubtful debt provisions:

£m	2019	2018
Less than one month old	**1**	–
Between one and three months old	**–**	–
Between three and six months old	**–**	–
Between six months and one year old	**1**	1
	2	1

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

17. TRADE AND OTHER PAYABLES – CURRENT

£m	2019	2018
Trade payables	**104**	96
Other tax and social security	**20**	19
Other creditors	**72**	76
Accruals and deferred income	**54**	47
	250	238

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2018: 62 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables is stated net of £9m (2018: £12m) amounts receivable from suppliers in relation to supplier income, that has been invoiced, for which the Group has the right to set off against amounts payable at the balance sheet date.

18. OBLIGATIONS UNDER FINANCE LEASES

£m	2019 Minimum lease payments	2019 Present value of minimum lease payments	2018 Minimum lease payments	2018 Present value of minimum lease payments
Amounts payable under finance leases:				
Within one year	**5**	**5**	6	5
Within two to five years	**10**	**9**	9	9
After five years	**–**	**–**	–	–
Total	**15**	**14**	15	14
Less: future finance charges	**(1)**	**–**	(1)	–
Present value of lease obligations	**14**	**14**	14	14
Less: amount due for settlement within 12 months (shown under current liabilities)	**(5)**		(5)	
Amount due for settlement after 12 months	**9**		9	

The Group leases certain fixtures and equipment under finance leases. All lease obligations are denominated in sterling. The weighted average remaining lease term is four years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

19. PROVISIONS

£m	Property provision	Contingent consideration provision	Total
At 1 September 2018	5	1	6
Charge in the year	–	1	1
Utilised in year	(2)	–	(2)
Unwinding of discount	–	–	–
At 31 August 2019	**3**	**2**	**5**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2017	5	–	5
Charge in the year	1	1	2
Utilised in year	(1)	–	(1)
Unwinding of discount	–	–	–
At 31 August 2018	**5**	**1**	**6**

Total provisions are split between current and non-current liabilities as follows:

£m	2019	2018
Included in current liabilities	**1**	1
Included in non-current liabilities	**4**	5
	5	6

The property provision relates to the estimated future unavoidable lease costs in respect of non-trading properties, stores earmarked for closure and loss-making stores. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls, and the provision is expected to be utilised over the length of each lease. These provisions have been discounted at two per cent, and this discount will be unwound over the life of the leases.

20. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years.

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Intangible assets	Total
At 1 September 2018	4	–	2	1	–	7
On acquisition	–	–	–	–	(2)	(2)
Credited/(charged) to income	1	–	–	–	(1)	–
Charged to equity	–	–	–	–	–	–
At 31 August 2019	**5**	**–**	**2**	**1**	**(3)**	**5**
At 1 September 2017	3	–	4	1	–	8
Credited/(charged) to income	1	–	(1)	–	–	–
Charged to equity	–	–	(1)	–	–	(1)
At 31 August 2018	**4**	**–**	**2**	**1**	**–**	**7**

Changes to UK corporation tax rates reduced the tax rate to 19 per cent from 1 April 2017 and will reduce the tax rate to 17 per cent from 1 April 2020. The effects of these changes are included in these financial statements.

Other gross deductible temporary differences of £84m (2018: £87m) in respect of capital losses carried forward have not been recognised on the basis that their future economic benefit is uncertain.

All deferred tax assets and liabilities are offset where there is considered to be a legally enforceable right to do so. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

£m	2019	2018
Deferred tax liabilities (non-current liabilities)	**(3)**	–
Deferred tax assets	**8**	7
	5	7

21. ANALYSIS OF NET DEBT

Movements in net debt / funds can be analysed as follows:

£m	2018	On acquisition of subsidiaries	Cash flow	Non cash	Currency translation	2019
Cash and cash equivalents	45	2	2	–	–	**49**
Borrowings						
– Borrowings – repayable after one year	–	(40)	(200)	40	–	**(200)**
– Revolving credit facility	(33)	–	18	–	–	**(15)**
– Obligations under finance leases	(14)	–	6	(6)	–	**(14)**
Net debt	**(2)**	**(38)**	**(174)**	**34**	**–**	**(180)**

£m	2017	Cash flow	Non cash	Currency translation	2018
Cash and cash equivalents	38	8	–	(1)	**45**
Borrowings					
– Revolving credit facility	(22)	(11)	–	–	**(33)**
– Obligations under finance leases	(12)	5	(7)	–	**(14)**
Net funds / (debt)	**4**	**2**	**(7)**	**(1)**	**(2)**

An explanation of alternative performance measures, including Net debt, is provided in the Glossary on page 117.

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

The Group had in place a five-year committed multi-currency revolving credit facility of £140m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2023. The utilisation is interest-bearing at LIBOR plus 85 basis points. As at 31 August 2019, the Group has drawn down £15m (2018: £33m) on this facility.

During the year, the Group agreed an additional syndicated £200m term loan with the above banks to fund the acquisition of InMotion. This loan is interest bearing at LIBOR plus 100 basis points and is due to mature on 29 October 2022.

22. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

£m	2019	2018
Bank guarantees and guarantees in respect of lease agreements	**27**	19

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Connect Group PLC (formerly Smiths News PLC), any such contingent liability which becomes an actual liability will be apportioned between the Group and Connect Group PLC in the ratio 65:35 (provided that the actual liability of Connect Group PLC in any 12-month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2019 of £1m (2018: £2m). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amount to £17m (2018: £8m).

£m	2019	2018
Commitments in respect of property, plant and equipment	**16**	6
Commitments in respect of other intangible assets	**1**	2
	17	8

23. CASH GENERATED FROM OPERATING ACTIVITIES

£m	2019	2018
Group operating profit	**140**	136
Depreciation of property, plant and equipment	**41**	36
Impairment of property, plant and equipment	**1**	2
Amortisation of intangible assets	**9**	7
Share-based payments	**6**	4
Profit on disposal of property, plant and equipment	**(2)**	–
Other non-cash items	**1**	–
Increase in inventories	**(2)**	(4)
Increase in receivables	**(6)**	(8)
(Decrease) / increase in payables	**(3)**	1
Pension funding	**(3)**	(3)
Income taxes paid	**(27)**	(27)
Movement on provisions	**(2)**	–
Cash generated from operating activities	**153**	144

24. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Carrying value	
£m	2019	2018
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**2**	1
Loans and receivables (including cash and cash equivalents)[2]	**117**	98
Financial liabilities		
Amortised cost[3]	**(490)**	(297)

1 All derivatives are categorised as Level 2 under the requirements of IFRS 13. The fair value measurements relating to the instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

2 Included within loans and receivables are trade and other receivables (excluding prepayments) and cash and cash equivalents.

3 Included within amortised cost are trade and other payables, borrowings, finance lease obligations and other non-current liabilities.

COMPARISON OF CARRYING VALUES AND FAIR VALUES

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

24. FINANCIAL INSTRUMENTS (CONTINUED)

RISK MANAGEMENT

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.

CAPITAL RISK

The Group's objectives with respect to managing capital (defined as net debt/funds plus equity) are to safeguard the Group's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding. Refer to Note 21 for the value of the Group's net debt/funds and refer to the Group statement of changes in equity for the value of the Group's equity.

In managing the Group's capital levels, the Board regularly monitors the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the Board determines the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives. The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

As at 17 October 2019, the Group has in place a £200m committed multi-currency revolving credit facility, and a syndicated £200m term loan carrying certain financial covenants which have been met throughout the period. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

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 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 facility is due to mature on 8 December 2023.

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.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2019 (£m)	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 5 years**	**Due over 5 years**	**Total**
Non-derivative financial liabilities					
Bank loans and overdrafts	**15**	**–**	**200**	**–**	**215**
Trade and other payables	**255**	**–**	**–**	**–**	**255**
Finance leases	**5**	**3**	**6**	**–**	**14**
Total cash flows	**275**	**3**	**206**	**–**	**484**

2018 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	33	–	–	–	33
Trade and other payables	246	–	–	–	246
Finance leases	5	4	5	–	14
Total cash flows	284	4	5	–	293

CREDIT RISK

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, hedging, settlement and other financial activities. The Group's principal financial assets are trade and other receivables, and bank balances and cash which are considered to have low credit risk on initial recognition.

The Group 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 allowances for expected credit losses. The Group has adopted the simplified approach to calculating expected credit losses allowed by IFRS 9. Historical credit loss rates are applied consistently to groups of financial assets with similar risk characteristics. These are then adjusted for known changes in, or any forward-looking impacts on creditworthiness.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that credit risk might have increased significantly include the failure of the debtor to engage in a payment plan and failure to make contractual payments within 180 days past due, which is in line with historical experience of increased credit risk. Indicators that an asset is credit-impaired would include observable data in relation to the financial health of the debtor or if the debtor breaches contract.

The Group has low retail credit risk due to the transactions being principally of a high volume, low-value and short maturity. 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 and derivative financial instruments 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 Group's maximum exposure to credit risk. The Group does not hold collateral over any of these financial assets.

INTEREST RATE RISK

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

At 31 August 2019, the Group had drawn down £15m (2018: £33m) from its committed revolving credit facility. The Group draws down on its facility, 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.

During the year, the Group agreed an additional syndicated £200m term loan to fund the acquisition of InMotion. This loan is interest bearing at LIBOR plus 100 basis points. The Group monitors the risk associated with the loan. At present, the Group has not entered into interest rate derivatives in respect of the loan.

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. 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 2019 the Group had no material un-hedged currency exposures.

The Group's euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in France, Ireland, Spain, Germany, Italy 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 France and 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.

The fair value of cash flow hedges recognised on the balance sheet within derivative assets/liabilities is shown below:

£m	2019	2018
Fair value of derivative assets	2	1

At 31 August 2019, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$30m (2018: US$37m) and £nil (2018: £3m). These instruments will be used to hedge cash flows occurring up to one year from the balance sheet date. Losses of £nil (2018: £nil) have been transferred to the income statement and gains of £1m (2018: £nil) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2019. In the year to 31 August 2019, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £2m (2018: £1m).

All the derivatives held by the Group at fair value are considered to have fair values determined by level 2 inputs as defined by the fair value hierarchy of IFRS 13 'Fair value measurement'. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

24. FINANCIAL INSTRUMENTS (CONTINUED)

SENSITIVITY ANALYSIS AS AT 31 AUGUST 2019

Financial instruments affected by market risks include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7 'Financial Instruments': Disclosures, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and USD/GBP, EUR/GBP and AUD/GBP exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- Exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the hedging reserve in equity and the fair value of the hedging derivatives.
- Year end exchange rates applied in the analysis are USD/GBP 1.2164/1 (2018: 1.2988/1), EUR/GBP 1.1066/1 (2018: 1.1157/1) and AUD/GBP 1.8056/1 (2018: 1.7982/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2019 and 31 August 2018 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the Group's income statement and equity given reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in GBP LIBOR/base rate to be one per cent, based on interest rate history. Similarly, sensitivity to movements in USD/GBP, EUR/GBP and AUD/GBP exchange rates of ten per cent are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over time.

Using these assumptions, the following table shows the illustrative effect on the Group income statement and equity.

	2019		2018	
£m	**Income gains/(loss)**	**Equity gains/(loss)**	Income gains/(loss)	Equity gains/(loss)
GBP LIBOR/base rate interest rates 1% increase	**(2)**	**–**	–	–
USD/GBP exchange rates 10% increase	**(1)**	**(18)**	–	(2)
EUR/GBP exchange rates 10% increase	**(1)**	**–**	(1)	1
AUD/GBP exchange rates 10% increase	**–**	**–**	–	–
GBP LIBOR/base rate interest rates 1% decrease	**2**	**–**	–	–
USD/GBP exchange rates 10% decrease	**1**	**23**	–	4
EUR/GBP exchange rates 10% decrease	**1**	**–**	1	–
AUD/GBP exchange rates 10% decrease	**–**	**–**	–	–

25. CALLED UP SHARE CAPITAL

Allotted and fully paid

	2019		2018	
£m	**Number of shares (millions)**	**Nominal value £m**	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of $22\frac{6}{67}$p	**108**	**24**	110	24
Total	**108**	**24**	110	24

During the year, the Company repurchased 1,545,738 of its own shares in the open market for an aggregate consideration of £31m. In addition, the outstanding amounts in respect of 40,000 shares repurchased during the prior year were settled for an aggregate consideration of £1m. In total, 1,585,738 shares were cancelled during the year.

During the year, 48,295 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2018: £2m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

The ESOP reserve of £6m (2018: £4m) represents the cost of shares in WH Smith PLC purchased in the market and held by the WH Smith Employee Benefit Trust to satisfy awards and options under the Group's executive share schemes. The total shareholding is 315,306 (2018: 265,062).

26. SHARE-BASED PAYMENTS

SUMMARY OF MOVEMENTS IN AWARDS AND OPTIONS

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2012 CIP	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2018	240,225	–	276,699	1,046,525	433,041	34,674	2,031,164
Options and awards granted	211,900	–	–	424,032	221,630	16,727	874,289
Options and awards exercised	(48,295)	–	(88,568)	(188,447)	(53,289)	(13,624)	(392,223)
Options and awards lapsed	(24,432)	–	(188,131)	(92,748)	(74,460)	(3,690)	(383,461)
Outstanding at 31 August 2019	**379,398**	**–**	**–**	**1,189,362**	**526,922**	**34,087**	**2,129,769**
Exercisable at 31 August 2019	**–**	**–**	**–**	**–**	**12,566**	**–**	**12,566**
Outstanding at 1 September 2017	415,930	14,686	662,971	996,117	395,292	42,759	2,527,755
Options and awards granted	–	–	–	376,715	170,831	4,898	552,444
Options and awards exercised	(144,575)	(14,686)	(265,481)	(293,122)	(100,014)	(12,983)	(830,861)
Options and awards lapsed	(31,130)	–	(120,791)	(33,185)	(33,068)	–	(218,174)
Outstanding at 31 August 2018	**240,225**	**–**	**276,699**	**1,046,525**	**433,041**	**34,674**	**2,031,164**
Exercisable at 31 August 2018	**48,219**	**–**	**4,079**	**–**	**20,160**	**–**	**72,458**

Pence	2019	2018
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**162.83**	216.26
– Granted in the year	**390.12**	–
– Exercised in the year	**142.87**	208.83
– Lapsed in the year	**90.90**	194.39
– Outstanding at the end of the year	**272.76**	162.83
– Exercisable at the end of the year	**–**	763.43

DETAIL OF MOVEMENTS IN OPTIONS AND AWARDS

2012 CO-INVESTMENT PLAN (CIP)

Under the terms of the 2012 Co-Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith PLC and have been granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they have invested. These awards will only vest and become exercisable to the extent that the related performance target is met.

Outstanding awards granted under the CIP are as follows:

Date of grant	Number of shares 2019	Number of shares 2018	Exercise price (pence)	Exercise period
23 October 2014	**–**	4,079	Nil	Oct 2017 – Oct 2024
22 October 2015	**–**	272,620	Nil	Oct 2018 – Oct 2025
	–	276,699		

LTIPs

Under the terms of the 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.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares 2019	Number of shares 2018	Exercise price (pence)	Exercise period
22 October 2015	**–**	237,945	Nil	Oct 2018 – 22.10.25
20 October 2016	**431,865**	431,865	Nil	Oct 2019 – 20.10.26
26 October 2017	**363,294**	376,715	Nil	Oct 2020 – 26.10.27
1 November 2018	**394,203**	–	Nil	Nov 2023 – 01.11.28
	1,189,362	1,046,525		

26. SHARE-BASED PAYMENTS (CONTINUED)

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, 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.

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.

Outstanding options granted under the Sharesave Scheme at 31 August 2019 are as follows:

	Number of shares			
Date of grant	**2019**	2018	Exercise price (pence)	Exercise period
3 June 2015 (3 year)	**–**	48,219	1147.20	01.08.18 – 31.01.19
7 June 2017 (3 year)	**169,905**	192,006	1434.40	01.08.20 – 31.01.21
5 June 2019 (3 year)	**209,493**	–	1609.60	01.08.22 – 31.01.23
	379,398	240,225		

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.

Outstanding awards granted under the PSP are as follows:

	Number of shares			
Date of grant	**2019**	2018	Exercise price (pence)	Exercise period
5 November 2012	**977**	3,841	Nil	Nov 2015 – 05.11.22
18 April 2013	**996**	1,980	Nil	Apr 2016 – 18.04.23
17 October 2013	**1,693**	3,939	Nil	Oct 2016 – 17.10.23
23 October 2014	**3,111**	10,400	Nil	Oct 2017 – 23.10.24
22 October 2015	**5,789**	73,262	Nil	Oct 2018 – 22.10.25
20 October 2016	**178,355**	183,207	Nil	Oct 2019 – 20.10.26
26 October 2017	**138,695**	156,412	Nil	Oct 2020 – 26.10.27
1 November 2018	**164,043**	–	Nil	Nov 2021 – 01.11.28
7 December 2018	**33,263**	–	Nil	Dec 2021 – 07.12.28
	526,922	433,041		

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 is deferred into shares. Two thirds of bonus payable over target will be deferred into shares in 2020, with full implementation in 2021.

26. SHARE-BASED PAYMENTS (CONTINUED)

CASH-SETTLED SCHEMES

Under the terms of the LTIP, PSP and CIP, the Board may grant cash-settled awards to executives. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. These awards will be settled in cash based on the share price at the date of exercise. As at 31 August 2019 there were 34,087 outstanding nil-cost cash-settled awards (2018: 34,674), which will be settled between 31 August 2019 and November 2028. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2018: £1m).

FAIR VALUE INFORMATION

	2019	2018
Weighted average share price at date of exercise of share options exercised during year – pence	**1953.67**	2027.75
Weighted average remaining contractual life at end of year – years	**7**	7

SHARE OPTIONS AND AWARDS GRANTED

The aggregate of the estimated fair value of the options and awards granted in the year is:

£m	2019	2018
	11	11

The fair values of the CIP, LTIP and PSP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2019	2018
Share price – pence	**1,929**	2,078
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**23**	22
Expected life – years	**2.8**	2.9
Risk free rate – per cent	**0.81**	0.56
Dividend yield – per cent	**Nil**	Nil
Weighted average fair value of options – pence	**1,698.34**	1,926.69

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

The fair values of the Sharesave options granted in the year ended 31 August 2019 were measured using a Black Scholes model. None were granted in the year ended 31 August 2018. The input range into the Black Scholes models was as follows:

	2019
Share price – pence	**2,012**
Exercise price – pence	**1,610**
Expected volatility – per cent	**22**
Expected life – years	**3.5**
Risk free rate – per cent	**0.71**
Dividend yield – per cent	**2.69**
Weighted average fair value of options – pence	**427.00**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

27. RELATED PARTY TRANSACTIONS

Transactions between businesses within this Group which are related parties have been eliminated on consolidation and are not disclosed in this note.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the executive and non-executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

Further information about the remuneration of individual directors is provided in the Directors' remuneration report on pages 44 to 58.

£'000	2019	2018
Short-term employee benefits	**3,646**	2,641
Post-employment benefits	**264**	225
Share-based payments	**2,095**	1,275
	6,005	4,141

There are no other transactions with directors.

28. OTHER RESERVES

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Total
Balance as at 1 September 2018	(267)	2	(4)	1	(268)
Employee share schemes	(5)	–	(2)	–	(7)
Cash flow hedges	–	–	–	1	1
Balance at 31 August 2019	**(272)**	**2**	**(6)**	**2**	**(274)**

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Total
Balance as at 1 September 2017	(257)	2	(9)	–	(264)
Employee share schemes	(10)	–	5	–	(5)
Cash flow hedges	–	–	–	1	1
Balance at 31 August 2018	**(267)**	**2**	**(4)**	**1**	**(268)**

The Other reserves include reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006.

29. ACQUISITIONS

On 30 November 2018, the Group acquired the entire issued share capital of InMotion Entertainment Group LLC, for a total cash consideration of USD $208m (£162m) comprising $197m enterprise value, $3m working capital, and $8m cash and restricted cash.

InMotion is a market leading retailer of digital accessories in US airports, and is a strongly performing business in a category with attractive growth prospects. The acquisition provides a platform from which to expand WHSmith's international travel business into the world's largest travel retail market, and presents additional opportunities to grow the digital accessories format in key markets outside of North America, complementing WHSmith's recent success internationally.

Included within the fair value of the net identifiable assets on acquisition is an intangible asset of £15m, representing the InMotion fascia name. The Board believes that the excess of consideration paid over the net assets on acquisition of £126m is best considered as goodwill on acquisition representing future operating synergies. The goodwill calculation is summarised below:

£m	Book value	Measurement adjustments	Total
Acquiree's net assets/(liabilities) at acquisition date:			
Intangible assets	5	11	**16**
Property, plant and equipment	11	(1)	**10**
Inventories	17	(1)	**16**
Cash and cash equivalents	2	–	**2**
Trade and other receivables	6	–	**6**
Deferred tax assets/liabilities	–	(2)	**(2)**
Trade and other payables – current	(6)	(4)	**(10)**
Interest-bearing loans	(40)	–	**(40)**
Net identifiable assets/(liabilities)	(5)	3	**(2)**
Non-controlling interest	(2)	–	**(2)**
Goodwill on acquisition			**126**
Total consideration – satisfied in cash			**122**

Revenue of £94m and profit of £8m is included in the results for the financial year in respect of InMotion. If the acquisition had taken place on 1 September 2018, total Group revenue would have been £1,429m and Group profit before tax would have been £137m.

Reconciliation of consideration

£m	
Cash consideration	**122**
Cash acquired	**(2)**
Repayment of interest-bearing loans	**40**
Net outflow of cash – investing activities	**160**

On 4 July 2019, the Group acquired the entire issued share capital of The Card Gallery (UK) Limited, for cash consideration of £1m and contingent consideration of £1m, payable over three years based on certain performance and profit target criteria. The business is a leading online supplier of stationery and event invitations, trading as www.dottyaboutpaper.co.uk and www.treeofhearts.co.uk. This acquisition complements our existing stationery ranges in both our High Street stores and online at www.whsmith.co.uk. The fair value of assets acquired was £nil, resulting in recognition of goodwill of £2m.

Costs related to acquisitions in the year are included in the income statement in non-underlying items.

In the prior year, the Group acquired the entire share capital of The SQL Workshop Limited, for a cash consideration of £2m and contingent consideration of £1m, payable over two years based on certain performance and profit target criteria. The fair value of assets acquired was £1m of stock and other working capital, resulting in the recognition of goodwill of £2m.

30. EVENTS AFTER THE BALANCE SHEET DATE

On 17 October 2019, the Group agreed the acquisition of Marshall Retail Group ('MRG') for consideration of $400m. MRG is a fast growing independent travel retailer operating in high footfall airport and tourist locations in the United States. The acquisition, which is subject to shareholder approval, is expected to complete in the first quarter of 2020.

The Transaction will be financed through a new £200m term loan facility provided by the Group's existing relationship banks, alongside a £155m fully underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility has been expanded to £200m (from the existing £140m).

31. SUBSIDIARY COMPANIES

The subsidiary companies included within the financial statements are disclosed below.

Name	Country of incorporation/ registration	Registered address	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
HELD DIRECTLY BY WH SMITH PLC:						
WH Smith Retail Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
HELD INDIRECTLY:						
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 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 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	17	Ordinary	50	50	Retailing
WH Smith France S.A.S	France	5	Ordinary	100	100	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 Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
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 Jersey Limited	Jersey	10	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 PLC	England & Wales	1	Ordinary	N/A	N/A	Parent
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 Singapore Pte. Limited	Singapore	15	Ordinary	100	100	Retailing
WH Smith Spain S.L.	Spain	16	Ordinary	100	100	Retailing
WH Smith Travel 2008 Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith Travel Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith Travel Limited	England & Wales	1	Ordinary & Preference	100	100	Retailing
Wild Retail Group Pty Limited	Australia	3	Ordinary	100	100	Retailing

31. SUBSIDIARY COMPANIES (CONTINUED)

Name	Country of incorporation/ registration	Registered address	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
WH Smith US Group Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith US Retail Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith USA Holdings Inc	USA	18	Ordinary	100	100	Holding Company
WH Smith Retail Inc	USA	18	Ordinary	100	100	Holding Company
WH Smith SFO, LLC	USA	18	Ordinary	80	100	Dormant
The Card Gallery (UK) Limited	England & Wales	1	Ordinary	100	100	Retailing
Dotty About Paper Limited	England & Wales	1	Ordinary	100	100	Dormant
Tree of Hearts Limited	England & Wales	1	Ordinary	100	100	Dormant
InMotion Entertainment Group, LLC	USA	18	Ordinary	100	100	Retailing
BTS – InMotion Atlanta, LLC	USA	18	Ordinary	100	100	Dormant
BTS – InMotion ATL FAB, LLC	USA	18	Ordinary	64	100	Dormant
InMotion FL ATL, LLC	USA	18	Ordinary	59	100	Dormant
InMotion AUS, LLC	USA	18	Ordinary	88	100	Retailing
InMotion BNA, LLC	USA	18	Ordinary	84	100	Retailing
Soundbalance BOS, LLC	USA	18	Ordinary	67	100	Dormant
InMotion BOS-A, LLC	USA	18	Ordinary	80	100	Dormant
InMotion BOS, LLC	USA	18	Ordinary	70	100	Dormant
InMotion BOS-BCE, LLC	USA	18	Ordinary	80	100	Retailing
InMotion BWI, LLC	USA	18	Ordinary	60	100	Retailing
InMotion CLE, LLC	USA	18	Ordinary	67	100	Retailing
Soundbalance CLT, LLC	USA	18	Ordinary	67	100	Retailing
InMotion – SB DC, LLA	USA	18	Ordinary	75	100	Retailing
InMotion DEN-B, LLC	USA	18	Ordinary	75	100	Retailing
DFW-A Retail Partners, LLC	USA	18	Ordinary	60	100	Retailing
DFW-E Retail Partners, LLC	USA	18	Ordinary	65	100	Retailing
DFW-D/E Retail Partners, LLC	USA	18	Ordinary	70	100	Retailing
Soundbalance DTW, LLC	USA	18	Ordinary	67	100	Retailing
InMotion DTW, LLC	USA	18	Ordinary	67	100	Retailing
InMotion EWR, LLC	USA	18	Ordinary	80	100	Retailing
InMotion EWR-B, LLC	USA	18	Ordinary	85	100	Retailing
InMotion FLL, LLC	USA	18	Ordinary	62	100	Dormant
InMotion FLL-T4, LLC	USA	18	Ordinary	62	100	Dormant
InMotion IAD, LLC	USA	18	Ordinary	75	100	Retailing
Soundbalance IAH, LLC	USA	18	Ordinary	67	100	Retailing
BR InMotion IAH, LLC	USA	18	Ordinary	65	100	Retailing
InMotion LAX, LLC	USA	18	Ordinary	75	100	Retailing
Soundbalance MCO, LLC	USA	18	Ordinary	67	100	Retailing
InMotion MCO, LLC	USA	18	Ordinary	73	100	Retailing
Soundbalance Miami, LLC	USA	18	Ordinary	67	100	Retailing
InMotion Bright, LLC	USA	18	Ordinary	75	100	Retailing
InMotion MKE, LLC	USA	18	Ordinary	79	100	Retailing
InMotion MSY, LLC	USA	18	Ordinary	64	100	Dormant
InMotion ORD, LLC	USA	18	Ordinary	70	100	Retailing
InMotion ORD T2, LLC	USA	18	Ordinary	70	100	Retailing
Soundbalance PDX, LLC	USA	18	Ordinary	67	100	Retailing
Soundbalance PHL, LLC	USA	18	Ordinary	67	100	Retailing
InMotion PHL, LLC	USA	18	Ordinary	65	100	Dormant
Soundbalance ATL-E, LLC	USA	18	Ordinary	67	100	Retailing

31. SUBSIDIARY COMPANIES (CONTINUED)

Name	Country of incorporation/ registration	Registered address	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
InMotion ATL-A, LLC	USA	18	Ordinary	64	100	Retailing
InMotion ATL, LLC	USA	18	Ordinary	80	100	Retailing
Soundbalance ATL-E, LLC	USA	18	Ordinary	67	100	Retailing
InMotion ATL-A, LLC	USA	18	Ordinary	64	100	Retailing
InMotion ATL, LLC	USA	18	Ordinary	80	100	Retailing
InMotion PHX, LLC	USA	18	Ordinary	80	100	Retailing
InMotion PHX T3, LLC	USA	18	Ordinary	90	100	Retailing
Soundbalance SAN, LLC	USA	18	Ordinary	55	100	Retailing
InMotion SAT, LLC	USA	18	Ordinary	75	100	Dormant
InMotion SEA, LLC	USA	18	Ordinary	88	100	Retailing
InMotion SFO-T3, LLC	USA	18	Ordinary	85	100	Dormant
InMotion SFO-IT, LLC	USA	18	Ordinary	90	100	Dormant
Soundbalance SJC, LLC	USA	18	Ordinary	67	100	Dormant
InMotion SLC,LLC	USA	18	Ordinary	80	100	Retailing
InMotion CLT, LLC	USA	18	Ordinary	74	100	Dormant
MSP Innovations, LLC	USA	18	Ordinary	33	100	Dormant
InMotion LGA, LLC	USA	18	Ordinary	75	100	Dormant

REGISTERED ADDRESSES

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	11 Keng Cheow Street #3-10 The Riverside Piazza, Singapore 059608
16	Paseo de Recoletos, 27, 7ª, 28004, Madrid, Spain
17	Avenida das Americas, No. 3434, Barra da Tijuca, CEP 22640-102, Rio de Janeiro, RJ, Brazil
18	4801 Executive Park Court, Suite 100, Jacksonville, FL 32216, USA

COMPANY BALANCE SHEET

AS AT 31 AUGUST 2019

£m	Note	2019	2018
Non-current assets			
Investments	3	**520**	357
		520	357
Current assets			
Cash and cash equivalents		**–**	–
Debtors: amounts falling due within one year	4	**88**	37
		88	37
Current liabilities			
Creditors: amounts falling due within one year	5	**(142)**	(144)
		(142)	(144)
Net current liabilities		**(54)**	(107)
Non-current liabilities			
Bank overdrafts and other borrowings		**(200)**	–
		(200)	–
Total net assets		**266**	250
Shareholders' equity			
Called up share capital	8	**24**	24
Share premium account	9	**9**	8
Capital redemption reserve	9	**13**	13
Profit and loss account	9	**220**	205
Total equity		**266**	250

The financial statements of WH Smith PLC, registered number 5202036, on pages 114 to 116 were approved by the Board of Directors and authorised for issue on 17 October 2019 and were signed on its behalf by:

STEPHEN CLARKE
GROUP CHIEF EXECUTIVE

ROBERT MOORHEAD
CHIEF FINANCIAL OFFICER AND CHIEF OPERATING OFFICER

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2019

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2018	**24**	**8**	**13**	**205**	**250**
Profit for the financial year	–	–	–	106	106
Purchase of own shares for cancellation	–	–	–	(31)	(31)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the year (Note 6)	–	–	–	(60)	(60)
Balance at 31 August 2019	**24**	**9**	**13**	**220**	**266**
Balance at 1 September 2017	24	6	13	160	203
Profit for the financial year	–	–	–	125	125
Purchase of own shares for cancellation	–	–	–	(26)	(26)
Premium on issue of new shares	–	2	–	–	2
Equity dividends paid during the year (Note 6)	–	–	–	(54)	(54)
Balance at 31 August 2018	**24**	**8**	**13**	**205**	**250**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The financial statements are prepared in compliance with the Companies Act 2006 as applicable to companies using FRS 101 'Reduced Disclosure Framework' and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

The Company meets the definition of a qualifying entity under FRS 100 (Application of Financial Reporting Requirements) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101.

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

Where required, equivalent disclosures are given in the consolidation financial statements of the Group.

As more fully detailed in the Directors' report on page 61, the Company's financial statements have been prepared on a going concern basis. The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries, joint ventures and associates are stated at cost less, where appropriate, provisions for impairment. Accounting judgements and assumptions are disclosed in the Notes to the Financial Statements, Note 1.

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 August 2019 have had a material impact on the Company.

B) INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Investment in equity and long-term loans in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

C) TAXATION

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

2. PROFIT FOR THE YEAR

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £106m (2018: £125m) comprising investment income relating to dividends received from Group companies of £109m (2018: £125m) and finance costs of £3m (2018: nil). There were no other recognised gains or losses.

The Company does not have any employees.

3. INVESTMENTS

The Company acquired the shares of WH Smith Retail Holdings Limited at a fair value of £357m on 31 August 2006. During the year, the Company purchased additional shares in WH Smith Retail Holdings Limited for consideration of £163m to fund the acquisition of InMotion. A full list of the Company's subsidiary undertakings is included in Note 31 of the Notes to the consolidated financial statements. The registered office of WH Smith Retail Holdings Limited is Greenbridge Road, Swindon, Wiltshire SN3 3RX.

4. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

£m	2019	2018
Amounts owed by subsidiary undertakings	**87**	37
Prepayments	**1**	–
	88	37

5. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

£m	2019	2018
Amounts owed to subsidiary undertakings	**141**	141
Bank overdrafts	**1**	2
Other creditors	**–**	1
	142	144

6. DIVIDENDS

Amounts paid and recognised as distributions to shareholders in the year are as follows:

£m	2019	2018
Dividends		
Interim dividend of 17.2p per ordinary share (2018: 16.0p per ordinary share)	**19**	17
Final dividend of 38.1p per ordinary share (2018: 33.6p per ordinary share)	**41**	37
	60	54

The proposed dividend of 41.0p per share, amounting to a final dividend of £44m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 30 January 2020 to shareholders on the register at the close of business on 10 January 2020.

7. CONTINGENT LIABILITIES

Contingent liabilities of £1m (2018: £1m) are in relation to insurance standby letters of credit.

8. CALLED UP SHARE CAPITAL

ALLOTTED AND FULLY PAID

	2019		2018	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22⁶⁄₆₇p	**108**	**24**	110	24
Total	**108**	**24**	110	24

During the year, the Company repurchased 1,545,738 of its own shares in the open market for an aggregate consideration of £31m. In addition, the outstanding amounts in respect of 40,000 shares repurchased during the prior year were settled for an aggregate consideration of £1m. In total, 1,585,738 shares were cancelled during the year.

Also during the year, 48,295 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2018: £2m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

9. RESERVES

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2018	24	8	13	205	250
Profit for the financial year	–	–	–	106	106
Purchase of own shares for cancellation	–	–	–	(31)	(31)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the year	–	–	–	(60)	(60)
Balance at 31 August 2019	**24**	**9**	**13**	**220**	**266**

GLOSSARY

ALTERNATIVE PERFORMANCE MEASURES

In reporting financial information, the Group presents alternative performance measures, 'APMs', which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures. The key APMs that the Group uses are outlined below.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement measures			
Headline Group profit before tax	Group profit before tax	Non-underlying items	Headline Group profit before tax excludes non-underlying items. A reconciliation from Headline Group profit before tax to Group profit before tax is provided on the Group income statement on page 72.
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	Refer to definition	Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 2 to the financial statements.
Non-underlying items	None	Refer to definition	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance. An explanation of the nature of the items identified as non-underlying is provided in Note 4 to the financial statements.
Headline earnings per share	Earnings per share	Non-underlying items and dilutive effect of shares under option	Profit for the year attributable to the equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of any potentially dilutive share options. See Note 12.
Effective Tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax. See Note 10.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 8.
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Annual report, gross margin is calculated as gross profit divided by revenue.

GLOSSARY CONTINUED

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement measures			
Like-for-like revenue	Movement in revenue per the income statement	- Revenue change from non like-for-like stores - Foreign exchange impact	Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below.
Balance Sheet measures			
Net debt	None	Reconciliation of net debt	Net debt is defined as cash and cash equivalents, less bank overdrafts and other borrowings and both current and non-current obligations under finance leases. A reconciliation of Net debt is provided in Note 21.
Other measures			
Free cash flow	Net cash inflow from operating activities	See Financial review	Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, and less net capital expenditure. The components of free cash flow are shown on page 16, as part of the Strategic report Financial review.
Return on capital employed (ROCE)	None	Not applicable	Return on capital employed is calculated as trading profit expressed as a percentage of operating capital employed. The calculation of ROCE is shown on page 17, as part of the Strategic report Financial review.

	Travel	High Street	Group
LFL revenue change	3%	2%	1%
Net new space impact	4%	-%	2%
Acquisitions	15%	-%	8%
Foreign exchange impact	-%	-%	-%
Total revenue change	22%	2%	11%

INFORMATION FOR SHAREHOLDERS

COMPANY SECRETARY AND REGISTERED OFFICE

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (number 5202036).

COMPANY WEBSITE

This Annual report and accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Wednesday 22 January 2020 at 11.30am. A separate notice convening the meeting is being sent to shareholders and includes explanatory notes on each of the resolutions being proposed.

SHAREHOLDER ENQUIRIES – THE REGISTRARS

All enquiries relating to shareholdings should be addressed to the registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline 0371 495 0100 or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005.

SHAREDEALING SERVICES

This can be done through a stockbroker, bank or building society.

Computershare, our registrars, also offer share dealing services for shareholders (in certain jurisdictions). For internet dealing, log on to www.computershare.com/dealing/uk and for telephone dealing call 0370 703 0084. You will need to have your Shareholder Reference Number (SRN) to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend confirmation.

Please note that dealing fees will apply and will vary between providers.

DIVIDEND MANDATES

If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers' Automated Clearing Services) system, you should contact Computershare for a Dividend Mandate Form or apply online at www.investorcentre.co.uk. Shareholders who receive their dividend payments in this way receive an annual dividend confirmation once a year, with the final dividend, detailing all payments made throughout the UK tax year.

FINANCIAL CALENDAR

The following dates are given for information purposes only. Please check the WH Smith PLC website at www.whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2019
Preliminary results announced	17 October 2019
Annual report posted	November 2019
Final dividend ex-dividend date	9 January 2020
Final dividend record date	10 January 2020
Christmas trading statement	22 January 2020
AGM	22 January 2020
Final dividend payment date	30 January 2020
Half-year end	29 February 2020
Interim results announced	22 April 2020
Trading statement	June 2020
Interim dividend ex-dividend date	July 2020
Interim dividend record date	July 2020
Interim dividend payment date	August 2020
Financial year end	31 August 2020

The dividend dates shown above are in respect of the Company's ordinary shares of $22\frac{6}{67}$p.

SHAREGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

INFORMATION FOR SHAREHOLDERS CONTINUED

WARNING TO SHAREHOLDERS – BOILER ROOM SCAMS

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. Information on how to avoid share fraud or report a scam can be found on our website at www.whsmithplc.co.uk. You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to www.fca.org.uk/scamsmart.

UK CAPITAL GAINS TAX

DEMERGER 31 AUGUST 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Connect Group PLC (formerly Smiths News PLC).

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22\frac{6}{67}$p per ordinary share.

CAPITAL REORGANISATION 27 SEPTEMBER 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2\frac{13}{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2\frac{13}{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

CAPITAL REORGANISATION 26 MAY 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55\frac{5}{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55\frac{5}{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

MARCH 1982 VALUES

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	'A' ordinary shares	Arising from an original shareholding of 'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.

Designed and produced by Radley Yeldar www.ry.com

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