WH Smith PLC

Annual Report and Accounts 2021

We are a leading global retailer

WH Smith PLC is a leading global **Travel** retailer for news, books, convenience and tech accessories with a smaller business on the UK **High Street**. At the heart of both our businesses are our people and our customers. We aim to deliver our goals through our strategic priorities and initiatives by: constantly innovating, expanding globally, improving our profitability and delivering sustainable returns.

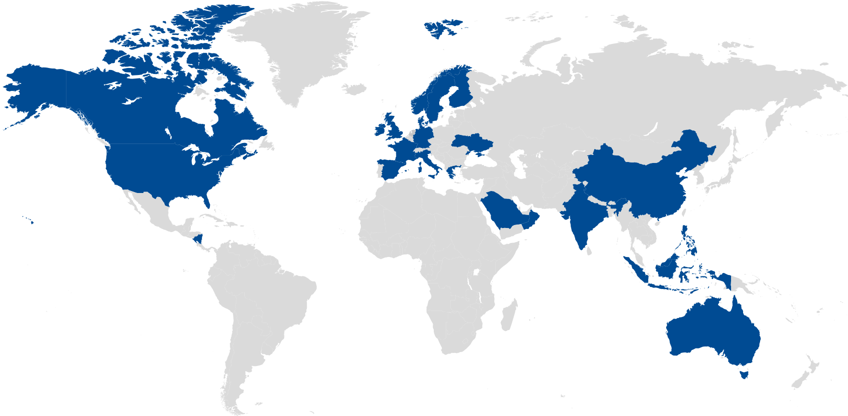
Find out more about WHSmith at **whsmithplc.co.uk**

@whsmithofficial

@whsmith

youtube.com/WHSmithDirect

linkedin.com/company/whsmith



WHSmith Travel is a world-leading travel retailer with a presence in over

30 countries

across the globe, mainly in airports

Travel is in a wide range of locations including

airports, hospitals, railway stations and motorway service areas

WHSmith High Street is present on most of the significant high streets and shopping centres in the UK, mainly in

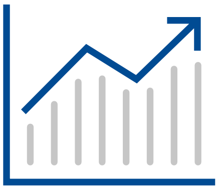
prime locations

As WHSmith continues on its journey to be a better business, we have a strong commitment to the principles of

sustainability

In this report

WHSmith employs approximately
11,000 colleagues



WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the
FTSE 250 Index

WHSmith has a growing
online presence
and reaches customers online via:
- whsmith.co.uk
- funkypigeon.com
- cultpens.com
- treeofhearts.co.uk
- dottyaboutpaper.co.uk

Strategic report

Corporate governance

Financial statements

Additional information

Group at a glance

WH Smith PLC is a leading travel retailer with a smaller high street business

Travel

WHSmith Travel is a global travel retailer with a strong presence in UK travel locations and an increasing portfolio of stores around the world, including our fast-growing North American businesses, Marshall Retail Group (MRG) for speciality retail, and InMotion, the market-leading global technology retailer in travel locations.

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

As at 31 August 2021, the business operated from 1,166 units (2020: 1,174 units), in airports, hospitals, railway stations and motorway service areas. 595 of these units (2020: 584 units) are outside the UK across 30 countries and mainly in airports.

During the year, the business has continued to be impacted by the Covid-19 pandemic with a significant number of stores temporarily closed across the globe. Further to the easing of government restrictions around the world, we have been encouraged by the improving trends in each of our channels, and we are well positioned to benefit from the opportunities that exist as our markets recover.

Our goal

to be the leading retailer in travel essentials for the world's travelling customer.

Highlights

Operating in

1,166 units

(2020: 1,174)

30 countries

Revenue

£401m

(2020: £553m)

High Street

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

As at 31 August 2021, the business operated from 544 WHSmith High Street stores[1] (2020: 568 stores[1]), located on most of the UK's significant high streets and shopping centres. We 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: **funkypigeon.com**, **whsmith.co.uk**, **cultpens.com**, **treeofhearts.co.uk** and **dottyaboutpaper.co.uk**.

During the year, High Street was impacted by reduced footfall as a result of the Covid-19 pandemic. In line with government guidance, we kept the vast majority of our High Street stores open throughout the lockdown periods in order to provide access to essential products and services, including Post Offices.

Our goal

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

Highlights

WHSmith Stores[1]

544

(2020: 568)

Revenue

£485m

(2020: £468m)

1 Excludes one Cardmarket store (2020: 3 Cardmarket stores).

Our business model and strategy to create value

WHSmith is a global travel retailer with a smaller business based on UK high streets. Our business model and strategy seeks to create value for all stakeholders through improving our profitability and cash flow to deliver sustainable returns.

Our business model

Travel

Our goal

To be the leading retailer of travel essentials for the travelling customer

Driving like-for-like sales in existing stores through increasing average transaction value and expanding the range and number of categories we sell

Investment in store environments and layouts

A forensic store by store focus on space and category management

Winning new space and retaining existing space

Developing new formats

Expanding profitability outside of the UK

- North America
- Building critical mass in our emerging hubs
- Utilising the same space management and operational disciplines as we have in the UK

Growing InMotion, now the leading global retailer of technology stores in travel locations

Investing in digital solutions to enhance the customer experience

High Street

Our goal

To be Britain's most popular stationer, bookseller and newsagent

Adopting a forensic store by store focus on space management to optimise the returns from our core categories, particularly Stationery

Driving margin growth through category mix management

Reducing our cost base to reflect our changing sales profile and productivity initiatives

Building online propositions complementary to our stores and categories: funkypigeon.com, cultpens.com and whsmith.co.uk

Focused use of cash

Our goal

Disciplined approach to cash generation and capital allocation

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 Environmental, Social and Corporate Governance (ESG) on pages 29 to 36.

Right people and skills

You can read more about our values, employees and diversity on pages 32 to 34.

Our customers

You can read more about our markets on pages 5 and 6.

Travel

Travel sells 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 and tech 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 with rents paid as a percentage of sales (often 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. Most passengers are travelling for leisure purposes.

Our main markets are in the UK (air, hospitals and rail) and in North America (air and resorts in Las Vegas). All our markets have been impacted by government actions following the outbreak of Covid-19. The rate at which passengers return to travel locations will have the biggest impact on our markets. As restrictions have eased, we have seen a return to travelling led first by domestic travel and then short-haul. Long-haul travel will be the last to recover. Most industry forecasts, for example, Airports Council International (ACI) expect passenger numbers to return to 2019 levels by 2024.

In the UK, air passenger numbers have been significantly impacted. However, as restrictions have eased, we have seen a recovery in passenger numbers. According to ACI, UK passenger numbers were down 49 per cent in October 2021 compared to 2019. This compares to down 80 per cent in October 2020 compared to October 2019. Rail passenger numbers have also been significantly impacted by government restrictions and have recovered as restrictions have eased. Concourse data from Network Rail suggests that rail passengers were down 34 per cent in October 2021 compared to October 2019. This has improved from down 65 to 70 per cent in October 2020. Hospitals are impacted by changes in the number of visitors and elective surgeries. The UK Government continues to invest in the National Health Service and in building new and extended hospitals.

In North America, due to the domestic nature of the market, airport passenger numbers have recovered quickly. Based on TSA data, passenger numbers had recovered to 84 per cent of 2019 by the end of October 2021. In Las Vegas, visitor numbers have also recovered with occupancy levels at 85 per cent of 2019 levels in September 2021.

The speed of the recovery in each market in which we operate will depend on the successful roll-out of vaccines around the world, the emergence of new variants and their response to vaccines, and the way governments choose to relax or impose restrictions in the face of these changes. Over the longer term, Travel will be impacted by macroeconomic trends and other factors which influence the number and nationality of travelling customers. These include levels of employment and investment, the cost of travelling, specific category trends such as the growth of consumable products and tech accessories, and policy intervention to tackle climate change.

Our markets continued

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'.

We also have a number of online businesses:

- funkypigeon.com – our personalised cards and gifts site.
- whsmith.co.uk – which sells a range of Stationery, Books, Magazines and Gifts.
- cultpens.com – our specialist pen site.
- treeofhearts.co.uk and dottyaboutpaper.co.uk – our specialist wedding stationery sites.

These websites complement our core in-store and stationery offers and have accelerated during the Covid-19 pandemic.

High Street's performance is dependent upon overall growth in consumer spending and the levels of footfall on the UK high street. Since Covid-19, we have seen further declines in the level of footfall on UK high streets. There is a wide discrepancy in store performance depending on the location, with smaller market towns and more affluent catchments performing better than city centre locations, reflecting the level of government restrictions imposed due to Covid-19. Going forward, further lockdowns or restrictions in the UK would impact the performance of our High Street stores.

Funkypigeon.com is our online personalised greeting card and gifting website. The market for greetings cards in the UK is substantial and estimated at £1.6bn[1] with online penetration estimated at c.15 per cent[1] with OC&C forecasting online growth of single cards over the next three years, taking penetration to c.20 per cent[1] of the card market by 2024. The UK greetings card market has been stable with a culture of sending greetings cards in the UK, with adults sending on average 20 greetings cards per person each year.

1 Company estimates/OC&C 2019

Chairman’s statement

“

We are now in a strong position to capitalise on the growth opportunities that exist in our markets.”

Henry Staunton
Chairman

Despite the ongoing uncertainty throughout the financial year, the Group has delivered a robust performance. We have taken decisive actions to secure the financial position of the Group and we are now in a strong position to capitalise on the growth opportunities that exist in our markets. Within Travel, despite the significant impact on passenger numbers in the year, we have won strategically important business in the UK, with 30 technology stores won[2] across UK airports.

This is a significant step forward for the Group as we introduce our market-leading technology business in travel locations in the US, InMotion, to the UK, making it the largest, global technology retailer in travel locations.

In addition, the growth opportunities in the North American travel market are substantial. During the year, we have won some significant new business at major US airports and we are in a strong position as the market recovers.

While the easing of government-imposed restrictions had a positive impact on the Group’s performance in the second half of the financial year, the Group has continued to be significantly impacted by the Covid-19 pandemic. Across our global travel business, passenger numbers have been significantly impacted. In our High Street business, we have seen a structural shift in consumer behaviour accelerated by the pandemic, resulting in reduced high street footfall. Despite these challenges, our teams have acted fast and responded to the evolving trading environment by focusing on initiatives within our control that support us in the short term and put us in a better position to emerge operationally stronger as our markets recover.

Once again, I feel immense pride for how our colleagues have responded to the pandemic and the resulting challenges. During the year, we committed to playing our part in the communities we serve to provide access to vital postal and banking services from our High Street stores with Post Offices. Similarly, we kept the majority of our stores open in hospitals in order to support frontline NHS workers. This would not have been possible without the extraordinary commitment of our store colleagues and I remain grateful for their outstanding contribution.

Looking ahead, value creation remains central to our plans and we will continue to invest for the longer term where we see attractive opportunities for profitable 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 41 to 88.

Sustainability

We are committed to adopting a market-leading position on responsible business practices, and seek to make a positive impact on the planet, the lives of our people and the communities in which we operate. This year, we met our target to reach carbon neutrality for our UK operations by 2021. We continued our work to reduce plastic packaging and ensure no deforestation from the manufacture of our stationery products. In addition, we extended our programme to provide books and reading support to disadvantaged children, continuing our work with the National Literacy Trust and others.

Further information on all aspects of our sustainability programmes can be found on pages 29 to 36.

People

It has been another challenging year for our colleagues across the Group and I am sincerely grateful for their ongoing contribution. We have a very strong team at WHSmith and this year has proven that despite the many challenges we have faced, we have outstanding talent to lead our business.

Outlook

While we remain cautious in our approach, we are a resilient and versatile business. We are financially strong and are well placed to benefit in due course from further opportunities as our markets recover. We remain very disciplined with our capital allocation and going forward remain committed to delivering value for our shareholders.

Henry Staunton
Chairman

11 November 2021

2 As at 10 November 2021

Chief Executive's review

"We are a financially strong Group in a robust position to emerge operationally stronger."

Carl Cowling
Group Chief Executive

Covid-19 continues to have a significant impact on the performance of the Group. Over the last year, we have worked hard throughout the world to navigate our way through the changing government restrictions in each country. The imposition and subsequent easing of lockdowns and restrictions has meant we have developed a flexible and dynamic approach to operating our stores, opening up when we had sufficient customer traffic to generate incremental cash or, in line with government guidelines, remaining open to provide essential products and services to our customers.

As at 31 October 2021, we had 1,540 stores open around the world out of a total portfolio of 1,711 stores.

Our overriding priority during the year has been the health and wellbeing of all our colleagues and customers. All stores, distribution centres and head offices had appropriate safety measures in place in line with the relevant government guidance at any one time, including social distancing measures, PPE for colleagues' use, protective screens and guidelines to limit the number of customers in store. In addition, all head office staff, having initially worked at home, are now operating a hybrid model, combining home and office working.

Group overview

Throughout the year, the trading environment remained impacted by Covid-19 with extensive restrictions in place. We focused on initiatives within our control that have supported us in the immediate term and put us in a good position to emerge operationally stronger as our markets continue to recover.

These key areas of focus are:

- Securing our financial position through the new banking arrangements and convertible bond issuance announced in April 2021. This gives us a strong balance sheet, extends maturity dates to 2025 and increases our revolving credit facility to £250m.
- Driving average transaction value and sales per passenger.
- Extending our categories and ranges to reflect the specific needs of our customers in each location where we operate. For example, health and beauty products across our Travel stores and working from home and electrical accessories ranges across our High Street stores.
- Working with landlords and building on our strong relationships to create opportunities for winning new business, extending key contracts and improving the quality and location of the space where we operate. The expansion of InMotion into the UK through the winning of every technology store in UK airports is a good example of this in practice, reflecting the combination of our core travel retail expertise, strong brand and landlord relationships, and builds on the learnings from operating InMotion in the US.
- Investing capex in strategically important projects which set us up well for the future, such as our refitted stores at London Heathrow Terminal 5 and our stores at the new terminal at Manchester Airport.
- Building our internet proposition by extending ranges, investing in the websites, marketing, fulfilment and distribution and building customer engagement through social media.
- Forensic focus on costs and cash, minimising discretionary spend and managing our cash burn resulting in cash on deposit of £107m and access to £357m of liquidity[1] as at the end of October 2021.

Total Group revenue as a percentage of 2019 total revenue has been:

Percentage of 2019 Revenue[2]

	FY 2021				FY 2022
	Q1	Q2	Q3	Q4	9 weeks to 30 October 2021
High Street	88%	83%	86%	87%	88%
Travel	39%	35%	45%	63%	79%
Group	59%	58%	61%	71%	82%

Covid-19 continued to have a significant impact on the Group. Total Group revenue at £886m (2020: £1,021m) was down 13 per cent compared to last year (which included six months pre-pandemic) and was 62 per cent of 2019[2]. Travel remained impacted by the government enforced travel restrictions throughout the year. However, we saw an improved performance

1 Liquidity is defined as cash on deposit plus undrawn facilities

2 Equivalent month in 2019

The Group adopted IFRS 16 'Leases' with effect from 1 September 2019. The Group continues to monitor performance and allocate resources based on pre-IFRS 16 (applying the principles of IAS 17) information, and therefore the results for the years ended 31 August 2021 and 31 August 2020 have been presented on both an IFRS 16 and a pre-IFRS 16 basis. Measures described as 'Headline' are presented pre-IFRS 16. For the purposes of narrative commentary on the Group's performance and financial position, both pre-IFRS 16 and IFRS 16 measures are provided. Reconciliations from pre-IFRS 16 measures to IFRS 16 measures are provided in the Glossary on page 154. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue, and like-for-like revenue are based on statutory measures.

across all channels in the second half as restrictions were eased in most countries where we operate and which has continued into Q1 of the current financial year. We saw a consistently robust performance in High Street throughout the year, despite footfall declines, with the important December trading period at 92 per cent of 2019. Our internet businesses have continued to perform strongly.

The Headline Group loss from trading operations[3] for the year was £20m (2020: loss of £43m) with Headline Group loss before tax and non-underlying items[3] at £55m (2020: loss of £69m). This includes a second half performance over £110m better than the prior year. Including non-underlying items, the Headline Group loss before tax[3] was £104m (2020: loss of £226m).

The Group loss before tax, after non-underlying items and including IFRS 16, was £116m (2020: loss of £280m).

On 28 April 2021, the Group announced new financing arrangements which included a £250m Revolving Credit Facility (RCF) (increased from £200m) with maturity extended to 2025. At the same time, the Group launched an offering of convertible bonds which mature in 2026. The bonds raised £327m, of which £50m was retained by the Group to fund new and existing growth opportunities, including the InMotion stores won in the UK and the further 100 stores won and yet to open in Travel. The remaining £267m was used to pay down a significant proportion of the Group's term debt with its commercial banks, which now stands at £133m with a maturity in 2025.

The Group had the following cash, committed facilities and drawn debt as at 31 August 2021:

	31 August 2021	Maturity
Cash and cash equivalents	£130m	
Revolving Credit Facility[4]	£250m	April 2025
Term Loan	£133m	April 2025
Convertible Bond	£327m	April 2026

As at 31 August 2021, Headline net debt[3] was £291m (2020: £301m). We continued to focus on cash. Group free cash flow[3] was an inflow of £14m (2020: outflow of £41m).

As at 30 October 2021, access to liquidity was £357m being cash on deposit of £107m and the undrawn RCF.

The Board has announced that it will not be paying a dividend in respect of the financial year ending 31 August 2021.

The Group's approach to capital allocation remains unchanged:

- investing in our existing business and in new opportunities where we see attractive rates of return ahead of the cost of capital;
- re-establishing a dividend for our shareholders;
- undertaking attractive value-creating acquisitions in strong and growing markets; and
- returning surplus capital to shareholders by way of share buybacks.

In normalised conditions, we have a leverage target of between 0.75x and 1.25x EBITDA.

3 Alternative Performance Measure defined and explained in the Glossary on page 154

4 Undrawn as at 10 November 2021

Travel performance

Covid-19 continued to significantly impact the business across our UK, North America and Rest of the World markets. This has resulted in a total Headline trading loss[3] of £39m (2020: loss of £33m) in the year, which is comprised of a loss of £32m in the UK (2020: loss of £1m), a profit of £6m (2020: loss of £18m) in North America and a loss of £13m (2020: loss of £14m) in the Rest of the World. Total revenue was £401m (2020: £553m), down 27 per cent compared to last year.

In Travel, we have focused on initiatives within our control, that have supported us in the immediate term, and positioned us well to emerge operationally stronger as our markets recover. As restrictions have eased, we have seen a return to travelling, led first by domestic travel and then short-haul. Long-haul travel will be the last to recover. Most industry forecasts including Airports Council International (ACI) expect passenger numbers to return to 2019 levels by 2024.

We continue to invest in the business where we see attractive opportunities for profitable growth.

High Street performance

We have managed this business very tightly throughout the year given the uncertain trading environment, with an ongoing focus on cost control and cash generation. High Street delivered a resilient performance with a full year Headline trading profit[3] of £19m (2020: loss of £10m). Total revenue was up four per cent. Cost savings of £30m were delivered in the year. An additional £45m of cost savings have been identified over the next three years, of which £35m are planned for 2021/22.

Environmental, Social and Corporate Governance ('ESG')

During the first half of the financial year, we launched our new sustainability strategy, 'Our journey to a better business', and we have continued to focus on our ESG performance.

During the year, we have met our target to reach carbon neutrality for our UK operations, reducing our energy consumption by over 60 per cent since 2007, switching to 100 per cent renewable electricity and investing in tree planting projects to neutralise residual emissions.

Over the next few years, we intend to extend this approach to our international operations and encourage our supply chain to join us on the pathway to net zero. We will be seeking independent assessment and approval of our carbon targets from the Science Based Target Initiative in the next year.

We continue to focus on more environmentally responsible sourcing practices and we have removed plastic glitter from all our own-brand ranges. This is in addition to our work to redesign and remove plastic packaging from our seasonal ranges wherever possible.

One of the greatest impacts of the pandemic has been the increasing gap in children's literacy levels. We are therefore proud to continue our partnership with the National Literacy Trust at such an important time.

We are committed to continuing to play our part to address some of the key challenges facing society and the environment over the years ahead.

Review of operations

Total Travel

Highlights

Revenue

£401m

(2020: £553m)

Headline trading loss[1]

£(39)m

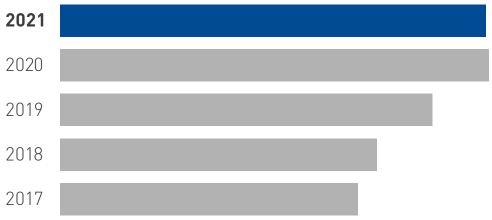
(2020: £(33)m)

Total revenue

(27)%

(2020: (32)%

Retail selling space (sq ft '000s) and Number of stores[2]



	Number of stores	Retail selling space
2021	**1,166**	**995**
2020	1,174	1,000
2019	1,019	744
2018	867	650
2017	815	613

> In Travel, we have focused on initiatives within our control that have supported us in the immediate term, and put us in a good position to emerge operationally stronger as our markets recover."

Performance review 2020/21

Our Travel business comprises three divisions: UK, North America (NA) and Rest of the World (ROW). Going forward we will split Travel into these three segments when reporting our results.

Covid-19 continued to significantly impact the business across all our markets. This has resulted in a total Headline trading loss[1] in the year of £39m (2020: loss of £33m). Total revenue was £401m (2020: £553m), down 27 per cent compared to the previous year.

£m	Trading (loss)/profit[1] IFRS 16		Headline trading (loss)/ profit[1] pre-IFRS 16		Revenue	
	2021	2020	2021	2020	2021	2020
Travel UK	(29)	(1)	(32)	(1)	195	344
North America	2	(14)	6	(18)	166	116
Rest of the World	(17)	(12)	(13)	(14)	40	93
Total Travel	**(44)**	**(27)**	**(39)**	**(33)**	**401**	**553**

In all our markets, we have focused on initiatives within our control which support us in the immediate term and put us in a good position to emerge operationally stronger as our markets recover:

i. **Business development and winning new business**
We do this through building and managing relationships with all our landlord partners to win new space, improve the quality and amount of space, develop new formats and extend contracts. As at 31 October 2021, we had over 100 stores won and yet to open across our global Travel business, including 22 InMotion stores in UK air.

ii. **ATV growth and spend per passenger**
We do this through our forensic attention to space, cross category promotions, merchandising, store layouts and store refits.

iii. **Category development**
We do this by developing adjacent product categories relevant for our customers, such as health and beauty and electrical accessories ranges; and expanding existing categories, e.g. premium food ranges.

iv. **Minimising costs**
We remain focused on cost control and minimising our cost base to reflect the level of sales in each channel and country whilst retaining our ability to trade as recovery occurs.

As restrictions have eased, we have seen a gradual improvement in passenger numbers, led first by domestic travel and then short-haul. We expect long-haul travel to return last. Consensus of industry forecasts including the Airports Council International (ACI) expect passenger numbers to return to 2019 levels by 2024, although the speed and shape of the recovery remains unclear and variable. We concur with this view of the recovery.

1 Alternative Performance Measure defined and explained in the Glossary on page 154

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

3 Equivalent month in 2019

As at 31 August 2021, our global Travel business, including MRG and InMotion, operated from 1,166 units (31 August 2020: 1,174 units). Of these, 996 were open as at 31 October 2021. Outside of the UK, as at 31 August 2021 we are present in over 100 airports and 30 countries with 291 stores in North America, 84 stores in Europe, 98 in the Middle East and India and 122 in Asia Pacific.

Excluding franchise units, Travel occupies 1.0m square feet.

Travel UK

Our Travel UK business continued to be impacted by a significant decline in passenger numbers as a result of government-imposed travel restrictions in place throughout the financial year. Total revenue in the year was £195m, (2020: £344m), down 43 per cent on the previous year. Compared to 2019[3], revenue in air was 17 per cent, our hospital channel was 76 per cent, and rail was 32 per cent. This resulted in a Headline trading loss[1] of £32m (2020: loss of £1m).

While first half trading in Travel UK was impacted by lockdown restrictions, quarantine measures, and resultant reduced passengers on public transport, we saw encouraging signs of recovery across all our channels in the second half as restrictions were progressively eased. This improved performance has continued into the new financial year. Revenue in September 2021 was 60 per cent. In October 2021, revenue was 71 per cent of 2019 revenue, with air at 59 per cent, hospitals at 92 per cent and rail at 74 per cent.

In air, we saw a significant improvement in passenger numbers in the second half as restrictions eased and more countries were added to the UK Government's green list. We saw an improvement in our hospital performance, with higher levels of visitors, as hospitals returned to more general medical care with more elective surgeries. Similarly, we saw an improved performance in our rail business as restrictions eased over the summer months and commuter traffic increased. Since the beginning of the new financial year, we have seen a notable shift in rail passenger numbers with strong performances particularly over the weekends and an improving weekday performance, albeit still below pre-pandemic levels.

We have worked hard across all our channels to deliver against our plan, focusing on key priorities within our control. All three channels saw a double digit increase in ATV during the year.

As at 31 August 2021, Travel UK operated from 571 stores of which 518 were open as at 31 October 2021. Over the next three years, we expect to open an additional ten to 15 stores each year.

Air

In Air, where leisure passengers have been the most important customer segment before and during the pandemic, we have continued to build on our strong position in this channel, including successfully winning all the technology stores across UK airports, including London Heathrow, London Gatwick and London Stansted airports. These business wins comprise 30 stores and will trade under the InMotion brand. Combining the learnings and expertise from our InMotion stores in the US, these stores will provide a first-class customer service experience and showcase a range of premium brands, such as Apple, Bose and Samsung, as well as an extensive range of tech accessories.

As at 31 October 2021, we have eight InMotion stores trading in UK airports. These include a combined WHSmith and InMotion store at London Stansted airport which forms part of a format trial, combining under one roof a news, books and convenience offer by WHSmith with a technology range from InMotion. Similar to our flagship store at London Heathrow Terminal 2, this store boasts a large digital fascia which complements further digital signage in store, creating an attractive look and feel while promoting key offers and products. While it is still early days, there is scope to further develop this new combined format across our existing large airport stores going forward. In addition, we will launch a new reserve and collect service later this year in our new InMotion stores to provide our customers with another quick and convenient way to shop.

Technology and accessories is a strong growth market and in a fully recovered travel market we would anticipate that these stores will deliver c.£80m of incremental sales per year. Investment in capex and working capital relating to these stores in the year will be c.£18m. We expect most of the remaining stores to open by the end of the first half of the current financial year.

We have also continued to invest in our stores, develop new formats and win new business in this channel. This has included: major refits across London Heathrow Terminal 5 to our 'store of the future' format, the opening of three stores in the new terminal at Manchester airport in October 2021, our first shared space store with M&S Food at Liverpool Airport, the opening of a new standalone Bookshop at London Heathrow Terminal 2, and, under a franchise agreement, new Costa Coffee stores in Aberdeen and Southampton airports.

Our ongoing investment in format development puts us in a stronger position to win more new business while benefiting from higher levels of customer penetration, delivering a greater return on our space. Going forward, we expect more space to become available.

Category development remains a key part of the strategy and we have made good progress in the year, extending our ranges into new categories such as health and beauty, tech accessories, premium souvenirs and premium food trials. The premium food trials include YO! Sushi and Crussh which have delivered a 25 per cent increase in ATV and have been rolled out to further stores.

As expected, we have seen a faster return of leisure passengers over the period. We saw another step change in sales over the half-term holiday in October, with sales at 70 per cent of the comparable period in 2019.

During the year, we have also successfully extended a number of key contracts.

Review of operations continued

Hospitals

The Hospitals channel is an important channel for us and it is our second largest channel by revenue in Travel UK. While sales were clearly impacted in the first half of the financial year, with no hospital visitors and elective surgeries cancelled, we saw an improvement in the second half as restrictions eased and these stores performed well. This strength in performance has extended to the new financial year with sales in October at 92 per cent of 2019 levels.

The hospital market continues to grow with additional government investment and we are well placed to service the increased demand for retail services in hospitals resulting from extended operating times to compensate for department backlogs. In addition, there are considerable space opportunities for us to improve the retail offer across UK hospitals.

As at 31 August 2021 we operated from 138 stores in 100 hospitals and we believe there is scope for around 300 hospitals in the UK that are able to support at least one of our three store formats (WHSmith, M&S Food and Costa Coffee).

This channel is a good example of how we continue to innovate with a strong proposition tailored to each location, and a broad suite of formats and brands; including most recently, our first WHSmith store with a Post Office in Travel.

As at 31 August 2021 we operated 49 M&S standalone or shared space stores across hospitals, including a recently opened M&S Café at St Thomas' hospital in London.

Looking ahead, we would expect to return to opening on average circa ten new stores each year in this channel over the medium term.

Rail

Rail remains an attractive channel. According to the Department for Transport, pre-pandemic, rail had approximately 1.7bn passenger journeys with leisure passengers accounting for around 40 per cent of these journeys.

During the year, we have seen a gradual improvement in sales as restrictions have eased. Concourse data for October suggested passenger numbers in October were 66 per cent of 2019 levels. Revenue in rail in October was at 74 per cent of 2019 levels.

As we have done across all our channels, we continue to focus on driving ATV and we have seen some good results with a c.25 per cent increase from expanding categories (such as premium food as we have in air) and changing store layouts.

We also continue to invest and develop new formats in this channel. We have recently opened our first shared space store in rail with M&S Food at Bristol Templemeads Station. While it is still early days, both customer and landlord feedback has been positive.

In addition, we will be launching a new 'blended essentials' store at Euston Station in London later this month. This store will combine our traditional news, books and convenience offer with electrical accessories, health and beauty products and a pharmacy.

North America

We saw a strong performance from North America, where there was a steady recovery in passenger numbers and also visitors to Las Vegas over the spring and summer months. Total revenue for the year in North America was £166m (2020: £116m), with a Headline trading profit[1] of £6m (2020: loss of £18m). The Headline trading profit[1] of £6m[2] reflects the recovery in passenger numbers and tight cost control including the benefits from merging the MRG and InMotion head offices into Las Vegas.

The growth opportunities in North America are substantial. The US is the largest travel retail market in the world with annual sales, pre-pandemic, at $3.2bn. Approximately 85 per cent of passengers are domestic, with leisure passengers the biggest segment. TSA (Transportation Security Administration) data continues to show the gradual recovery in passenger numbers week on week, with passenger numbers at the end of October 2021 at 84 per cent of 2019 levels.

MRG has a strong track record of winning new business and we have 58 new stores (including InMotion) won and due to open in North America over the next three years with 17 stores won this financial year, including significant wins at major US airports. During the year, MRG opened eight airport stores, including stores at La Guardia and San Francisco airports. InMotion has an excellent store portfolio with 117 stores located across 41 airports in North America and three stores in Resorts. During the year, InMotion opened seven stores, including three InMotion stores in Resort locations.

Differentiated from its competitors by its strategy of developing highly customised retail experiences tailored to local customers and landlords, which we also now use in tenders around the world, MRG has a highly successful and proven business model. The combination of WHSmith, MRG and InMotion now enables the Group to participate in the entire North American airport specialty retail market. We expect a substantial amount of retail space to be offered for tender over the next ten years.

Outside of the airport business, the Resorts channel continues to be resilient. MRG are a leading player in this channel in Las Vegas and other resorts with very longstanding relationships and a significant amount of expertise. The Resorts channel has similar dynamics to our Travel business with a high number of short-stay visitors who tend to stay around the Las Vegas Strip and Fremont Street areas, where most of our stores are located. This market has proven resilient as a leisure location over the summer with occupancy levels according to the Las Vegas Convention and Visitors Authority at 87 per cent of 2019 over July and August. Whilst many people drive to Las Vegas, we are also seeing an increase in passenger numbers at McCarran International Airport.

1 Alternative Performance Measure defined and explained in the Glossary on page 154

2 Excludes one-off integration costs. See Note 4

3 Includes proforma MRG for 2019

Our sales performance has reflected these trends with overall sales in North America at 90 per cent[3] of 2019 levels in October. We are currently trading from 264 stores (151 MRG and 113 InMotion).

We continue to invest in digital technology to enhance the customer experience in our stores, and we will be opening our first frictionless, check-out free store in the coming weeks. The WHSmith branded store will provide US customers with a quick and easy way to shop using Amazon's 'Just Walk Out' technology.

Rest of the World

Total revenue for the year in ROW was £40m (2020: £93m), down 57 per cent versus the previous year. The Headline trading loss[1] for the year was £13m (2020: loss of £14m).The ROW has seen broadly similar trends to the UK, with passenger numbers significantly down year on year. The pace of recovery has varied by geography, as expected, with Europe and the Middle East the best performing regions in the second half. As we have done in Travel UK, we remain focused on areas within our control, including increasing ATV.

As this market recovers, we expect to see more space become available. Our very low market share of the News Books and Convenience market outside of the UK and NA means there is significant opportunity to grow this business further. We also see good opportunities to win new business in the technology market under our InMotion brand. We are delighted to have been awarded preferred bidder status for two InMotion stores at Dublin Airport. This win in a significant European airport will bring the total number of InMotion stores in the Rest of the World to ten.

As at 31 October 2021, we had 214 stores trading (c.70 per cent of the total).

During the year we opened 17 new stores. In addition, we won 21 new stores, including significant tenders at Adelaide Airport, Australia, Melbourne Airport Terminal 1 and Bali.

In total, as at 31 August 2021, we operated 304 stores (2020: 307). 40 per cent are directly run, 52 per cent are franchised with the balance being joint ventures. We will continue to use these three economic models flexibly in order to create value and win new business.

Review of operations continued

High Street

Highlights

Revenue

£485m

(2020: £468m)

Headline trading profit / (loss)[1]

£19m

(2020: loss £(10)m)

Total revenue

+4%

(2020: (19)%)

Retail selling space (sq ft '000s) and Number of stores[2]

	Number of stores	Retail selling space
2021	**544**	**2,610**
2020	568	2,682
2019	576	2,740
2018	607	2,764
2017	611	2,799

“During the year, we have acted quickly and taken a number of actions which means the cashflow and profits of this business are robust and sustainable.”

1 Alternative Performance Measure defined and explained in the Glossary on page 154

2 Excluding 1 Cardmarket store that has not yet closed (2020: 3 Cardmarket stores) and including branches in Guernsey and the Isle of Man

Performance review 2020/21

Our High Street business comprises our store portfolio on UK high streets and includes our websites whsmith.co.uk, cultpens.com and our personalised greeting cards and gifts business, funkypigeon.com. During the year, High Street delivered a resilient performance with Headline trading profit[1] of £19m (2020: loss of £10m) on revenue of £485m, four per cent higher than 2020. Trading profit[1] (including IFRS 16) was £36m (2020: loss of £4m). We managed the business tightly in an uncertain trading environment, keeping focused on costs and cash generation.

The market has changed significantly during the pandemic, resulting in a shift in consumer behaviour over the past 18 months. High street footfall is down 25 per cent versus 2019 levels with internet retailing growing. The speed of this change has accelerated during the pandemic. As a consequence, we have acted quickly to this changing market in a number of ways:

- We have reviewed our categories and extended them where appropriate to ensure we have greater relevance in this market and where competitors have closed. New categories include working from home ranges and tech accessories, and we have increased our ranges of cards where competition has weakened.
- We have invested in our whsmith.co.uk, funkypigeon.com and cultpens.com websites where we are seeing significant growth.
- We restructured the cost base to reduce costs and also to increase the level of flexibility in our business model, for example labour costs in stores, head offices and the distribution centres, and in occupancy costs reducing rent and keeping leases short and flexible.
- We closed 24 stores over the last 12 months where leases had become uneconomic and now have a closure process where the costs of closure are largely cash neutral. While closing stores is not an easy decision to make for our colleagues or the communities we serve, it is vital we retain a strong and cash-generative high street portfolio going forward.

The strategy we have in place in our High Street business remains as relevant today as it has ever been, focusing on space and category management, increasing margins and reducing costs. Our stores are well located with 95 per cent in prime pitch locations.

We consider retail space as a strategic asset and we utilise our space to maximise return 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. This approach remains as appropriate today.

Driving efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. We achieved cost savings of £30m in the year. These savings come from right across the business, including rent savings at lease renewal (on average over 50 per cent), which continue to be a significant proportion, government business rates holiday, marketing efficiencies and productivity gains from our distribution centres.

An additional £45m of cost savings have been identified over the next three years of which £35m are planned for 2022.

Over the years, we have actively looked to put as much flexibility into our store leases as we can, and this leaves us well positioned in the current environment. The average lease length in our High Street business, including where we are currently holding over at lease end, is under two and a half years. We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.430 leases due for renewal over the next three years, including 150 where we are holding over and in negotiation with our landlord.

As at 31 August 2021, the High Street business operated from 544 WHSmith stores[2] (2020: 568) which occupy 2.6m square feet (2020: 2.7m square feet). 24 WHSmith stores were closed in the year (2020: eight).

Specialist websites

During the year, we have increased our investment and focus on whsmith.co.uk and have seen rapid growth through investing in the site. This has included improving customer conversion and product presentation; broadening our approach to marketing; and investing in fulfilment using our Swindon Distribution Centre. This enables us to have a credible multi-channel offer which is complementary for our customers.

Our specialist pen website, cultpens.com, has continued to perform well. During the year, we have invested further in the site, adding international functionality to build on our existing international sales, and we have extended our fulfilment centre to meet demand. In addition, we have continued to focus on our luxury pen ranges with increased marketing investment in ranges such as Montblanc.

Funkypigeon.com delivered a record performance in the year. Total revenue was £54m with EBITDA[1] of £14m for the year.

The market for greetings cards in the UK is substantial and estimated at £1.6bn[3] with online penetration estimated at c.15 per cent[3] with OC&C forecasting online growth of single cards over the next three years, taking penetration to c.20per cent[3] of the card market by 2024. The UK greetings card market has been stable with adults sending on average 20[3] greetings cards per person each year. We therefore see significant growth opportunities with funkypigeon.com.

We continue to invest in the site. During the year, we have developed the funkypigeon.com app to improve customer conversion, and invested in platform enhancements, including improving our customer relationship management capability. We have further extended the fulfilment capability to meet demand, supporting the significant increase in new customers over the past 18 months, with a new production facility in Swindon and leveraging the Group's existing assets. In addition, we have strengthened the management team with a new Managing Director.

We have also recently launched a new next-day delivery service, operational seven days a week, to further enhance our customer proposition. Orders placed before 9:30pm will be fulfilled the following day. This has received very positive customer feedback.

Whilst the current year will see a lower sales and EBITDA as we anniversary the lockdown periods, we believe there are substantial opportunities to grow the platform further and significantly grow sales and profits.

Outlook

The Group has responded quickly to the changing trading environment despite the challenges and uncertainties faced during the year. We have managed our cash position well, refinanced our debt, and have sufficient liquidity to capitalise on the significant growth opportunities that have become available as a result of the pandemic.

We continue to make good progress in winning new space in Travel both in the UK, North America and the Rest of the World. In UK air, we have now won 30 technology stores. These stores will trade under the brand InMotion, further strengthening our presence in this category in Travel. As well as the 117 stores in North America, these 30 InMotion stores in the UK, including at London Heathrow, London Gatwick and London Stansted airports, will make InMotion the leading technology retailer in travel locations. In addition, we are delighted to have been awarded preferred bidder status for a further two InMotion stores at Dublin Airport.

We have also made good progress investing in our existing stores, opening new formats and winning new business. We anticipate further growth opportunities across all our markets. All this puts us in a robust position to continue to recover and emerge operationally stronger from the pandemic.

We are financially strong and are an important retail partner for our travel landlords. As a result, we are well positioned to benefit from further opportunities, including extending our user clauses to drive spend per passenger.

Our High Street business has delivered a robust performance and is well placed to continue to generate cash from its portfolio of well-located stores and growing internet businesses. Across our digital channels over the medium-term, we expect to see strong growth, particularly from funkypigeon.com, and we are well positioned to grow this platform further.

Subject to uncertainties in our markets, which continue to be impacted by government actions, we are optimistic that we will be able to achieve 2019 sales levels in the current financial year[4].

Carl Cowling
Group Chief Executive

11 November 2021

3 Company estimates/OC&C 2019
4 Includes acquisitions and new wins

Financial review

“While we will continue to plan cautiously, we expect to continue to see improving trends across all our key channels.”

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group

The Group generated a Headline loss before tax and non-underlying items[1] of £55m (2020: £69m) and, after non-underlying items and IFRS 16, a Group loss before tax of £116m (2020: £280m). During the year, the Group received a total of £11m from the UK Government's Job Retention Scheme and similar schemes in other countries. The Group also benefited from the business rates holiday implemented by the UK Government which was worth £40m in the year.

	IFRS		Healdine[1] pre-IFRS 16	
£m	**2021**	2020	**2021**	2020
Travel trading loss[1]	(29)	(1)	(32)	(1)
North America trading profit/(loss)[1]	2	(14)	6	(18)
Rest of the World trading loss[1]	(17)	(12)	(13)	(14)
Total Travel trading loss[1]	(44)	(27)	(39)	(33)
High Street trading profit/(loss)[1]	36	(4)	19	(10)
Group loss from trading operations[1]	**(8)**	**(31)**	**(20)**	**(43)**
Unallocated costs[1]	(19)	(17)	(19)	(17)
Group operating loss	**(27)**	**(48)**	**(39)**	**(60)**
Net finance costs	(24)	(20)	(16)	(9)
Group loss before tax	**(51)**	**(68)**	**(55)**	**(69)**
Non-underlying items	(65)	(212)	(49)	(157)
Group loss before tax	**(116)**	**(280)**	**(104)**	**(226)**

Non-underlying items[1]

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 and incidence, are treated as non-underlying items and disclosed separately. As in 2020, most non-underlying items are directly attributable to Covid-19, and are detailed in the following table. Most do not impact cash.

The cash spend relating to non-underlying items in the 2021 financial year was £38m and mainly related to activity announced in 2020.

See reconciliation of Headline net debt[1] on page 18 for the cash spend in the year ended 31 August 2021 in relation to non-underlying items.

		IFRS	**Headline[1] pre-IFRS 16**	IFRS	Headline[1] pre-IFRS 16
		2021	**2021**	2020	2020
£m	Ref.	**Income statement**		Income statement	
Costs directly attributable to Covid-19					
Impairment	(1)	**42**	**18**	135	55
Onerous leases	(2)	**–**	**5**	n/a	13
Stock provisions, write-offs and other costs	(3)	**3**	**6**	15	15
Restructuring	(4)	**9**	**9**	25	25
Other property costs	(2)	**–**	**–**	n/a	12
Costs associated with refinancing activity	(5)	**6**	**6**	–	–
Other non-underlying costs					
Transaction costs		**–**	**–**	11	11
Integration costs	(6)	**2**	**2**	9	9
Amortisation	(7)	**3**	**3**	3	3
Pensions past service cost	(8)	**–**	**–**	14	14
		65	**49**	**212**	**157**

Items 1-5 in the above table have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of store closures, and downward revisions to budgeted revenues based on expectations of the rate of return to pre-pandemic levels of footfall and passenger numbers.

(1) Impairment of property, plant and equipment and right-of-use assets

The impact on the Group's operations of Covid-19 is expected to continue during the next year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on managements' assumptions regarding likely future trading performance taking into account the effect of Covid-19 to the carrying values at 31 August 2021. Following this review, a charge

1 Alternative Performance Measure defined and explained in the Glossary on page 154

of £18m (2020: £55m) was recorded for impairment of retail store assets on a pre-IFRS 16 basis, and £42m (2020: £135m) on an IFRS 16 basis which includes an impairment of right-of-use assets of £27m (2020: £95m).

(2) Onerous leases and other property costs

As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. This resulted in a charge for the year of £5m (2020: £13m). This concept relates to pre-IFRS 16 numbers only and does not exist under IFRS 16.

Other property costs of £12m in the prior year relate to reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19. Under IFRS 16 these costs are included in right-of-use assets and are therefore included within the impairment figure.

(3) Stock provisions, write-offs and other

During the year, non-underlying provisions of £5m have been recorded against inventory, in addition to underlying provisions of £13m, and relates to dated and perishable stock and stock subject to obsolescence where the sell through rate has significantly reduced due to store closures and lower footfall. Other costs relate to international franchisees, and under IFRS 16 only, the derecognition of lease liabilities relating to the disposal of WHSmith France.

(4) Restructuring costs

The charge of £9m (2020: £25m) is principally attributable to redundancies and restructuring costs following a review of store operations across our High Street business, as a result of the impact of Covid-19 on footfall on the UK high street. These costs are presented as a non-underlying item as they are part of a Board-agreed restructuring programme, and are considered material and one-off in nature.

(5) Costs associated with refinancing activity

Costs associated with refinancing include £1m of non-cash charges relating to unamortised fees connected with extinguished liabilities, £3m of fees incurred in relation to amendment and extension of the Group's previous financing arrangements incurred in March 2021 prior to the issuance of the convertible bond, and £2m of professional fees relating to refinancing and debt structuring activity required as a result of Covid-19. Other fees incurred relating to refinancing activity have been recognised in underlying finance costs or recognised as a deduction from the value of liabilities recognised, and will be amortised over the period of the arrangement through underlying finance costs.

(6) Integration costs

During the year, the Group incurred further costs of £2m in relation to the integration of MRG into the Group, and the merging of the InMotion and MRG corporate offices into Las Vegas, which has now been completed. In the prior year, transaction and integration costs of £20m were incurred in relation to the acquisition of MRG.

(7) Amortisation of acquired intangible assets

Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

(8) Pension past service cost

Past service cost of £14m was recognised in the prior year. This related to the equalisation of pension benefits between men and women for the period from 1 April 1992 to 29 July 1993 ('Barber equalisation').

A tax credit of £12m (2020: £25m) has been recognised in relation to the above items (£9m pre-IFRS 16 (2020: £18m)).

Net finance costs

	IFRS		Headline[1] pre-IFRS 16	
£m	**2021**	2020	**2021**	2020
Interest payable on bank loans and overdrafts	**10**	9	**10**	9
Interest on convertible bonds	**4**	–	**4**	–
Unwind of discount on onerous lease provisions	**–**	–	**2**	–
Interest on lease liabilities	**10**	11	**–**	–
Net finance costs	**24**	20	**16**	9

Net finance costs for the year were £16m (2020: £9m) with the year on year increase reflecting the refinancing activity during the year.

The interest on the convertible bonds includes the accrued coupon and c.£2m on the non-cash accretion charge. Looking forward, in the current financial year ending 31 August 2022, net finance costs will include the coupon on the convertible bonds and c.£8m of non-cash debt accretion charges.

The £2m non-cash unwind of discount on onerous lease provisions relates to onerous lease provisions recognised in the current and prior year as a result of Covid-19. This relates to pre-IFRS 16 only and does not exist under IFRS 16.

Lease interest of £10m arises on lease liabilities recognised under IFRS 16, bringing the total net finance costs under IFRS 16 to £24m (2020: £20m).

We expect finance costs on a pre-IFRS 16 basis to be approximately £25m in the current year, with cash finance costs approximately £10m lower than this. These costs are considerably lower than had the April refinancing not occurred.

Tax

The effective tax rate[1] was 47 per cent on the loss before non-underlying items made in the year (2020: 23 per cent). The effective tax rate is higher than the prior year rate due to the profile of losses incurred in the UK and overseas, and includes a credit of £8m arising on the substantive enactment of a change in UK tax rate from 19 to 25 per cent. This new law was substantively enacted on 24 May 2021.

The tax rate on the IFRS 16 Group statutory loss was 31 per cent (2020: 15 per cent).

Financial review continued

During the year, the Group received a corporation tax refund of £10m following the carry back of 2020 losses against prior year profits.

Fixed Charges Cover[1]

£m	pre-IFRS 16 2021	2020
Headline net finance charges[1]	**16**	9
Net operating lease rentals (pre-IFRS 16)	**151**	210
Total fixed charges	**167**	219
Headline loss before tax[1]	**(55)**	(69)
Headline profit before tax and fixed charges[1]	**112**	150
Fixed charges cover – times	**0.7x**	0.7x

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 0.7 times (2020: 0.7 times) by Headline profit before tax and fixed charges.

Loss per share

Headline loss per share, before non-underlying items[1] was 23.7p (2020:44.2p) reflecting the reduction in the loss year on year. Loss per share, after non-underlying items and including IFRS 16, was 62.6p (2020: 199.2p).

Cash flow

Free cash flow[1] reconciliation

£m	2021	2020
Headline Group operating loss before non-underlying items[1]	**(39)**	(60)
Depreciation, amortisation and impairment (pre-IFRS 16)[2]	**50**	60
Non-cash items	**8**	3
Operating cash flow[3]	**19**	3
Capital expenditure	**(44)**	(79)
Working capital (pre-IFRS 16)[2]	**37**	40
Net tax refunded	**10**	5
Net interest paid (pre-IFRS 16)	**(8)**	(7)
Other	**–**	(3)
Free cash flow	**14**	(41)

The free cash inflow[1] for the year was £14m. The operating cash inflow was £19m (2020: £3m) driven by a good trading performance from High Street. We continued to focus on managing our working capital, making appropriate buying decisions for stores we have open, and generated an inflow of £37m in the year, which also includes the working capital benefit from the improved trading over the summer.

Net corporation tax refunded in the year was £10m (2020: £5m) following the carry back of 2020 losses against prior year profits.

Capital expenditure was £44m (2020: £79m). We continue to invest in strategically important projects, such as London Heathrow Airport Terminal 5 and the new terminal at Manchester Airport, as well as opening stores around the world. We expect capex spend for the current financial year to be around £100m.

£m	2021	2020
New stores and store development	**17**	34
Refurbished stores	**17**	17
Systems	**9**	14
Other	**1**	14
Total capital expenditure	**44**	79

Reconciliation of Headline net debt[1]

Headline net debt[1] is presented on a pre-IFRS 16 basis. See Note 19 of the Financial statements for the impact of IFRS 16 on net debt[1].

As at 31 August 2021, the Group had Headline net debt[1] of £291m comprising convertible bonds of £283m, term loans of £132m (net of fees), £6m of finance lease liabilities (pre-IFRS 16) and net cash[3] of £130m (2020: net debt of £301m, comprising term loan of £400m relating to the acquisition of InMotion and MRG, £9m of finance lease liabilities and net cash of £108m).

£m	Headline[1] pre-IFRS 16 2021	2020
Opening net debt	**(301)**	(180)
Movement in year		
Free cash flow	**14**	(41)
Dividends	**–**	(47)
Pensions	**(3)**	(3)
Non-underlying items	**(38)**	(20)
Net purchase of own shares for employee share schemes	**(2)**	(2)
Acquisition of businesses, net of cash acquired – MRG/InMotion	**1**	(316)
Net proceeds from placings	**–**	312
Equity component of convertible bond	**41**	–
Other	**(3)**	(4)
Closing net debt	**(291)**	(301)
Cash	**130**	108
Term loans (net of fees)	**(132)**	(400)
Convertible bond	**(283)**	–
Finance leases	**(6)**	(9)
	(291)	(301)

1 Alternative Performance Measure defined and explained in the Glossary on page 154
2 Excludes cash flow impact of non-underlying items
3 Headline Group operating (loss)/profit before depreciation, amortisation and impairment (pre-IFRS 16) and other non-cash items

In addition to the free cash flow, the Group paid defined benefit pension funding of £3m (see Note 5 on pensions); and £38m of non-underlying items which mainly relate to restructuring costs following the review of store and head office operations, as previously reported and charged to the income statement in the prior year.

As part of the Group's refinancing in April 2021, the Group issued convertible bonds maturing in 2026. The convertible bonds raised £327m which was used to partially pay down the existing £400m of term loans from both the Marshall Retail Group ('MRG') and InMotion acquisitions. The convertible bond is a compound instrument, which includes an equity option. As a consequence, the debt is bifurcated into an equity component, reported in equity, and a debt component. The debt component accretes up to par over the life of the bond, so for each 12 month period we will have c.£8m non-cash debt accretion in finance costs. In addition, the Group increased the RCF from £200m to £250m and extended its tenor to April 2025.

On an IFRS 16 basis, net debt was £755m, which includes an additional £464m of lease liabilities.

Balance sheet

	IFRS		Headline[1] pre-IFRS 16	
£m	**2021**	2020	**2021**	2020
Goodwill and other intangible assets	**473**	493	**474**	495
Property, plant and equipment	**174**	192	**167**	190
Right-of-use assets	**328**	413	**–**	–
Investments in joint ventures	**2**	2	**2**	2
	977	1,100	**643**	687
Inventories	**135**	150	**135**	150
Payables less receivables	**(214)**	(183)	**(237)**	(226)
Working capital	**(79)**	(33)	**(102)**	(76)
Net current and deferred tax asset	**56**	28	**46**	17
Provisions	**(14)**	(14)	**(28)**	(27)
Operating assets employed	**940**	1,081	**559**	601
Net debt	**(755)**	(851)	**(291)**	(301)
Net assets excluding pension liability	**185**	230	**268**	300
Pension liability	**(3)**	(4)	**(3)**	(4)
Deferred tax asset on pension liability	**1**	1	**1**	1
Total net assets	**183**	227	**266**	297

The Group had Headline net assets of £268m before pension liabilities and associated deferred tax assets, £32m lower than last year end reflecting the lower level of capex and the impact of impairment reviews as a result of Covid-19. Headline net assets after the pension liability and associated deferred tax asset were £266m compared to £297m at 31 August 2020. Under IFRS 16 the Group had net assets of £183m.

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2020 at which point the deficit was £9m (31 March 2017 actuarial revaluation deficit of £11m). The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the next five years, which includes the deficit recovery contributions and other running costs, of just under £3m per annum. During the year ended 31 August 2021, 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 100 per cent of the inflation and interest rate risks hedged.

As at 31 August 2021, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £2m (2020: £3m) and an associated deferred tax asset of £1m (2020: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2021, the scheme had an IAS 19 surplus of £284m (2020: surplus of £268m) 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 (2020: £1m).

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

11 November 2021

Our performance

Key performance indicators

Revenue (£m)

Total revenue including retail sales, wholesale sales to franchisees, and commission and fee income on concession and franchise arrangements.

Total Travel

£401m

(2020: £553m)

High Street

£485m

(2020: £468m)

Group

£886m

(2020: £1,021m)

Headline (loss)/profit[1] (£m)

The below profit/(loss) measures are stated on a pre-IFRS 16 basis.

Travel Headline trading loss[1]

£(39)m

(2020: £(33)m)

High Street Headline trading profit/(loss)[1]

£19m

(2020: £(10)m)

Headline Group (loss)/profit before tax and non-underlying items[1]

£(55)m

(2020: £(69)m)

Headline Group loss per share before non-underlying items[1] (p)

Diluted and stated on a pre-IFRS 16 basis.

(23.7)p

(2020: (44.2)p)

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 18.

£14m

(2020: £(41)m)

Dividend per share (p)

Total dividend per share.

Nil

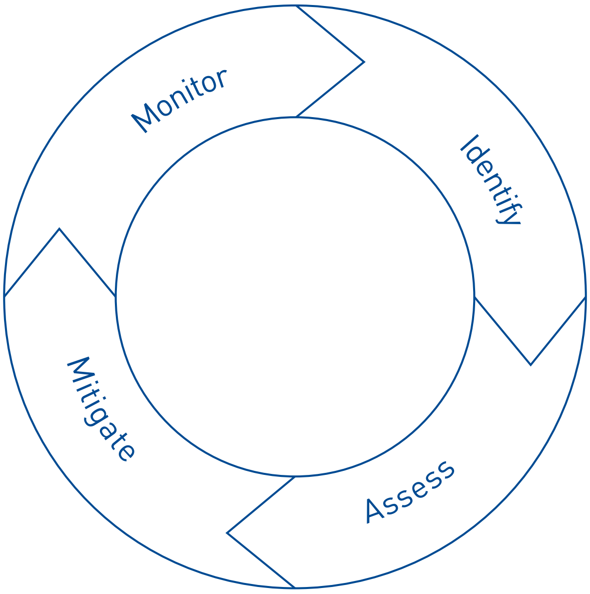
(2020: Nil)

1 Alternative Performance Measure defined and explained in the Glossary on page 154

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 mapping to identify emerging issues:
– Risk registers are compiled by each business function;

Assess – Evaluating the potential impact and determining the likelihood of risk occurrence;

Mitigate – Agreeing actions to manage the identified risks and ensuring appropriate controls are in place;

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

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 the impact and actions taken in relation to Covid-19, cyber risk, international expansion, 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 emerging and principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those emerging and 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 following section summarises the principal risks and uncertainties agreed by the Board. These incorporate 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 the Covid-19 pandemic may impact the business, we have incorporated these considerations into our assessment in relation to each of these principal risk headings, in addition to the specific commentary provided overleaf.

Principal risks and uncertainties continued

Overriding risk impact from Covid-19

Impact on Principal risks and uncertainties	How the Group has responded
Covid-19 is the most significant pre-eminent risk currently facing the Group, impacting all aspects of the business; our customers, colleagues, stores, supply chain and offices, and across all of the markets in which we operate. Areas of uncertainty include: the extent and timing of lifting of International and local travel restrictions and hence the reopening of our stores; the speed and extent of recovery in the travel industry more widely and the resulting impact on passenger numbers and sales; and the speed and confidence of customers in restoring previous shopping habits across all of the channels in which we operate. To the extent that the pandemic may have a longer and more prolonged impact on global economic conditions, this may have a further negative impact on consumer spending, customer footfall and sales, the efficient working of our supply chain, and therefore create further potential disruption to all of our areas of operation. During the course of the pandemic, the safety of our customers and colleagues has been at the forefront of our response and has shaped all of the measures we have taken across the business.	In order to limit the impact of the pandemic on the Group we have continued to pursue a series of mitigating actions to protect our customers, colleagues, and our financial position. These have included: • Maintaining regular communications across the Executive team to monitor all aspects of our response; • Operating some of our stores continuously through the lockdowns serving those communities which most need our services, including stores in hospitals supporting NHS key workers, and Post Offices providing vital postal and banking services in the communities where we operate; • We have undertaken a phased reopening across the rest of our global store estate, ensuring that appropriate safety measures are in place, including hand sanitiser stations, providing PPE for colleagues, protective screens at till points, and enhanced cleaning regimes; • Working with our suppliers to adjust our sourcing and supply chains to mitigate any disruption; • Ensuring our offices and distribution centres are Covid safe with reduced capacity reflecting controlled access and exit, freely available hand sanitiser and a rigorously maintained cleaning regime; • Reducing the Group's cost base, capex and discretionary expenditure and managing our cash flow and ongoing commitments wherever possible; • Restructuring our corporate offices and stores to increase efficiency, speed of decision-making and reflecting lower levels of sales; • Engaging with landlords to manage rental obligations and property costs, and agree amended lease terms where possible; • Successfully implementing our existing business continuity plans, to facilitate a transition to more agile working, with remote access to core systems and use of technology to manage ongoing communications; • Re-financing to provide medium-term funding through a convertible bond and term loans, and increasing our access to liquidity; and • Continuing to adapt our Covid response measures to comply with developing government and regulatory guidance in each of the territories in which we operate, as this continues to be updated.

Changes to the risk profile due to Covid-19

The grid below explains where the potential risk implications of the pandemic link with, and impact upon, our other principal risks that are further summarised on the pages that follow.

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

Principal risks and uncertainties continued

The table below summarises our other continuing Principal risks and uncertainties.

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, seasonality of sales, changing demographics, customer shopping patterns and raw material costs could impact on profit performance. The Group may also be impacted by political developments both in the UK and Internationally such as from the UK's exit from the European Union, regulatory and tax changes, increasing scrutiny by competition authorities and other changes in the general condition of retail and travel markets.	The Group's performance is dependent on the levels of consumer confidence and 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 and store formats. The Group continues to monitor the implications arising from the UK's exit from the European Union and is a member of a number of key industry bodies which provide insight and updates on this process.	↑ Uncertainties relating to ongoing effects of Covid-19 on store trading, footfall, travel restrictions and consumer confidence and shopping habits.
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 and 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 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.	↔
Key suppliers and supply chain management		
The Group has agreements with key suppliers in the UK, Europe and the Far East 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.	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 that covers areas such as production methods, employee working conditions and quality control. 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.	↑ Uncertainties relating to sourcing from Far East locations and distribution into our key markets.

Risk/description	Mitigation	Change in risk level
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. 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 all our key landlords. 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 from three distribution centres 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. 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 tested regularly to ensure that data is protected from corruption or unauthorised use.	↑ Interruptions occurring due to the ongoing effect of Covid-19, causing temporary closure of offices and stores.
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.	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. 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 our operations in overseas territories and to conduct reputational due diligence on potential new business partners. Our geographical spread of activity mitigates against the material concentration of risk in any one area.	↑ Continued growth of international operations.

Principal risks and uncertainties continued

Risk/description	Mitigation	Change in risk level
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, or non-compliance with data protection legislation, could result in fines and reputational damage to the business that could negatively impact 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.	↑ Continuing increase in number of externally reported cyber attacks.
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 22 on page 137 of the financial statements. The Group also has credit risk in relation to its trade and 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 and, in accordance with the Group's treasury policy, it is limited to a maximum of £75m for each approved counterparty. 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 announced a refinancing in April, where the Group issued £327m of convertible bonds. The proceeds were used to pay £267m of term debt, (leaving £133m of term debt remaining), £10m was used to pay the costs associated with the refinancing and the residual £50m was retained by the Group to fund the opening of over 100 new Travel stores won and yet to open over the next three years and new growth opportunities. As part of the refinancing, the Group also increased its committed multi-currency revolving credit facility to £250m (previously £200m), provided by an expanded syndicate of lending banks, which is due to mature in April 2025. This facility is currently undrawn.	↔
Environment and sustainability		
Our investors, customers and colleagues expect us to conduct our business in a responsible and sustainable way. Climate change is now recognised as a global emergency. Failure to deliver our stated sustainability commitments could damage our reputation, introduce higher costs and impact our ability to meet strategic objectives.	Our sustainability strategy, a Journey to a Better Business, sets out policies, objectives and action plans to address our key issues. It is overseen by Board and Executive level committees. We are taking action across the business to increase our climate resilience, have reduced carbon emissions for our UK estate to zero and have targets in place to decarbonise our international estate and supply chain. We continue to focus on more environmentally sourcing practices, reducing and redesigning packaging where possible and ensuring traceability for forestry products.	New risk.

Assessing the impact of our principal risks on our strategic priorities

The table below maps our strategic priorities with our principal risks, to demonstrate where these risks may impact the ongoing achievement of these strategic priorities.

	Covid-19 pandemic	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	Environment and sustainability
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. Driving like-for-like sales; increasing average transaction value and expanding the range and number of categories we sell	✓	✓	✓	✓	✓			✓		✓	✓
iv. Expanding profitability outside of the UK	✓	✓	✓	✓	✓			✓		✓	✓
v. Growing InMotion	✓	✓	✓	✓	✓					✓	✓
2. High Street i. Optimise returns on space	✓	✓	✓	✓	✓					✓	✓
ii. Margin growth from mix management	✓	✓	✓	✓	✓					✓	✓
iii. Cost efficiency	✓	✓	✓	✓	✓					✓	✓
iv. Building online propositions and third party partnerships complementary to our stores and categories	✓	✓	✓	✓	✓					✓	✓
3. Focused use of cash	✓	✓	✓	✓	✓			✓	✓	✓	✓

Principal risks and uncertainties continued

Viability statement

In accordance with the UK Corporate Governance Code 2018, 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 4. The key factors are

In Travel:

- driving like-for-like sales in existing stores through increasing average transaction value, expanding the range, and number of categories we sell;
- investing in store environments and layouts;
- a forensic store by store focus on space and category management;
- winning new space and retaining existing space;
- developing new formats;
- expanding profitably outside of the UK;
- growing InMotion, the leading global technology retailer in travel locations, and
- investing in digital solutions to enhance the customer experience.

In High Street:

- adopting a forensic store by store focus on space management to optimise the returns from our core categories, particularly stationery;
- driving margin growth through category mix management;
- reducing our cost base to reflect our changing sales profile and productivity initiatives, and
- building online propositions complementary to our stores and categories: funkypigeon.com, cultpens.com and whsmith.co.uk.

The Strategic report 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.

A three-year period is considered the appropriate timeframe to assess the Group's prospects as it will cover the impact of the current Covid-19 pandemic and it is consistent with the Group's strategic planning and review period.

Following the Group's refinancing, announced on 28 April 2021, the balance sheet has been significantly strengthened. The refinancing arrangements included a £250m multi-currency revolving credit facility ('RCF') (increased from £200m) with an extended maturity from December 2023 to April 2025. As at 31 October 2021, the Group had not drawn down on the RCF and has £107m cash on deposit.

As part of the refinancing, the Group also raised £327m from the issue of convertible bonds, of which £50m was retained by the Group to fund the opening of over 100 new Travel stores won and yet to open over the next three years, including thirty new InMotion stores in Travel UK. The remainder of the proceeds, net of costs, was used to partially pay down the term loans from both the MRG and InMotion acquisitions, leaving the Group with a term loan of £133m. The maturity of the term loan has been extended from 2023 to 2025, in line with the RCF.

The directors have assessed the prospects of the Group over the three year period, taking into account its recent historical performance, forecasts, a robust assessment of the emerging and principal risks facing the Group and mitigating factors, all of which consider the impact of Covid-19 given its impact on the Group's trading. In assessing viability, the directors considered the position presented in the budget and three year plan recently approved by the Board (the 'base case'). These plans include management's forecast of the financial impact of the current pandemic over the next three years.

In the context of the current challenging environment, we also used the same severe but plausible assumptions modelled as part of the going concern assessment (refer to page 103) with a return to the base case in the three year viability assessment period. Under both these scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities and would meet its covenant tests.

In order to understand the impact of an extreme stress test we modelled the impact of an additional ten per cent sales decline across the strategic growth areas of our business; Travel UK and North America, following the lockdown modelled within the severe but plausible scenario and without further mitigating actions. Under these extreme circumstances, whilst liquidity headroom on the existing facility exists, mitigating action would be required in order to meet the covenant tests. We consider this scenario to be highly unlikely and are confident in the Group's ability to apply mitigating actions some of which would include a reduction in capital expenditure, further restructuring and a reduction in other discretionary spend.

As disclosed in the Strategic report on pages 21 to 28, the Board has undertaken a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The process of mitigating and managing these risks is described on pages 21 to 28 of the Strategic report.

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 2024.

Our journey to a better business

Our strategy

Our customers and wider stakeholders expect us to be a responsible, sustainable business. We believe we can make a meaningful contribution to a better society and a cleaner environment. We have been serving customers for nearly 230 years and, to maintain their trust, we need to adapt to shifting patterns in sustainable production and consumption and to changes in the global environment in which we operate.

WHSmith has a long-standing commitment to high standards of environmental, social and corporate governance. Our approach has played an important role in risk management, business development and delivering the expectations of our stakeholders.

Our sustainability strategy concentrates on those areas that our stakeholders have told us are important and where we believe we can make a meaningful difference. The three areas of planet, people and communities provide the framework for our activities and reporting, underpinned by a strong foundation of responsible business principles and practices. We have defined a series of objectives for each of these areas that will drive our activities at least until 2025.

This year, the Board has taken the decision to set up a sub-committee to monitor our ESG activities and performance. It will oversee the work of our Environmental, Social and Corporate Governance (ESG) Steering Group, chaired by our Group Chief Executive, which meets monthly to monitor progress of our sustainability activities. More detailed information, including governance, performance data and future targets, is available on our website and in our full Sustainability Report at **whsmithplc.co.uk/sustainability/**.

Planet

Urgent and sustained action is needed to address the threat to the health of our planet. The impacts of climate change are being felt around the world and long-term business success is dependent on a healthy and sustainable environment. Our Environmental Policy, available on our website at **whsmithplc.co.uk/sustainability**, sets out our commitments to minimise our business impacts on the planet, including those relating to climate change, waste management and resource use. We regularly review progress against our objectives and targets and aim for continual improvement year on year.

Climate change

Climate change remains one of the most pressing, challenging issues facing our world and we acknowledge we need to play our part. We have a long-standing commitment to reduce carbon emissions from our operations and have been improving energy efficiency and minimising fuel use for over a decade.

We are committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and continue to integrate them into our reporting. The following section also fulfils our reporting obligations in relation to Streamlined Energy and Carbon Reporting (SECR).

Strategy and risk management

The Group will be required to report under the TCFD framework for the year ending 31 August 2022. In line with the TCFD's recommendations, as part of our progress towards adoption of the framework we have performed a qualitative scenario analysis of the risks and opportunities that our business may face in 2030, using two climate scenarios: a scenario where the world introduces the changes that are needed to limit global warming to below two degrees; and a scenario where policy and regulatory interventions are limited, and global warming exceeds four degrees. Our quantitative assessment is ongoing, and based on our qualitative assessment do not anticipate the impact of climate change in the short-term to be material.

Under the below two-degree scenario, there would be widespread interventions to limit global warming, including the implementation of a global carbon price at a level which results in universal change, a rapid shift in energy sector mix from fossil fuels to renewables and a reversal of global deforestation. Afforestation and a rapid growth in biofuels may lead to pressure on land for other uses. In the transport sector, electric vehicles would be widely adopted, there would be systemic improvements in operations and logistics and international fiscal and regulatory support would be increased for the use of alternative fuels for road freight and aviation.

Our journey to a better business continued

Our initial qualitative assessment of the main potential risks to WHSmith under a below two-degree scenario include increased operational costs from higher electricity and fuel prices caused by a higher carbon price. There could be higher trading costs for certain products because of more expensive raw materials caused by land use pressures, together with policy disincentives for carbon-intensive or unsustainable materials such as single-use plastics. Changes in consumer behaviour such as reductions in business travel could lead to lower footfall in some of our stores. A switch to lower-carbon products could lead to reduced sales of some of our current lines.

Under the four-degree scenario, the world fails to address climate change, leading to global temperatures continuing to rise to four degrees or more by the end of the century. There would be no new policy or regulatory interventions and the physical impacts of climate change would be much greater under this scenario. Winters would generally be warmer and wetter in the Northern Hemisphere and there would be more frequent extreme weather events such as heavy rainfall and heatwaves. Water scarcity would be exacerbated in many regions and many coastal cities would be inundated because of rising sea levels.

Under a qualitative assessment of a four-degree scenario, incidences of major flooding or extreme heat could have a significant impact on our warehouses, stores or distribution networks. Changes in precipitation patterns could exacerbate water scarcity, leading to shortages in key raw materials for products such as bottled drinks or paper, causing supply disruption and the potential for higher costs. There could also be higher costs to pay for renewable energy if demand outstrips supply. The pressure from customers and other stakeholders for businesses to do more are also likely to be greater.

Our initial qualitative assesment shows that both scenarios present potential financial and operational risks to WHSmith by 2030, predominantly due to increased costs. However, while these risks would need to be managed, we would not have to materially change our business model. We are taking action to manage climate-related risk by:

- investing in energy efficiency to reduce consumption, and switching to renewable sources of electricity;
- optimising route planning and logistics operations to minimise fuel consumption;
- reviewing our risk management processes to ensure they include the climate-risks identified in our scenario analysis;
- ensuring business continuity plans include any disruption from major weather events, such as flooding and extreme heat;
- factoring the impact of higher carbon prices into decision-making for long-term projects; and
- continuing to diversify products and packaging away from carbon-intensive single-use and hard to recycle plastic materials.

Energy management

We have taken a number of measures to improve energy efficiency in our buildings. We continue to upgrade building management systems across our estate to monitor energy consumption and to optimise energy settings for lighting, heating and air conditioning to reduce consumption, whilst maintaining a welcoming and comfortable environment for all. We are replacing our current LED lights which are coming to the end of their life with new equipment, investing in newer more efficient refrigerators and introducing aerofoils to the front of our refrigeration units to minimise additional energy consumption to deal with cold air losses. This year, we have switched our electricity consumption in the UK to 100 per cent renewable electricity.

Climate change governance

Climate change is an important component of WHSmith's sustainability programme which includes carbon emission reduction targets for our own operations and our wider value chain. Our ESG Steering Group is responsible for climate change related issues and for monitoring performance against objectives and targets. Climate change forms part of a bi-annual update report to the Board on our sustainability activities. In addition, climate-related risks and opportunities are integrated into the management processes and reporting frameworks which feed into the Group Risk report to the Audit Committee as described on page 52. This year, the Board introduced a new ESG sub-committee, and oversight of climate change strategy will be part of its remit.

Management of climate-related risks

Identification, assessment and management of the risks from climate change follow our established risk management process, as described on page 21. Emerging climate change risks are part of the Brand and reputation principal risk on page 24 and the Business interruption principal risk on page 25. These principal risks are monitored by the Audit Committee to ensure effective management and risk mitigation through appropriate policies, processes and performance improvements.

Metrics and targets

WHSmith has a long history of reducing Scope 1 and 2 emissions in line with the trajectory needed to limit global warming to 1.5 degrees. Since 2007, we have reduced location-based Scope 1 and 2 emissions by over 60 per cent.

Last year we set a target to reduce Scope 1 and 2 emissions from our UK buildings to net zero by the end of 2021 and from our international buildings by the end of 2025. Our target included emissions reductions from energy efficiency, investment in energy saving equipment and a switch to renewable electricity. Only once all these measures had been taken, would we use investment in third party carbon removal schemes, such as afforestation, to neutralise any residual emissions. We achieved the target for our UK operations for this year (see overleaf).

Going forwards, we are amending our use of terminology to reflect the latest guidance from international standards organisations such as the Science Based Target Initiative (SBTI). Our approach is in line with a 1.5 degree reduction pathway and we will be seeking SBTI approval for our targets during the next financial year.

Our Scope 1 and 2 market-based carbon emissions decreased this year to 6,684 tonnes (2020: 29,695 tonnes) of CO_2e as a result of:

- a reduction in energy consumption because of store closures due to Covid-19;
- energy reduction measures such as investment in more efficient lighting and cooling systems;
- a switch to 100 per cent renewable electricity contracts for all sites where we purchase the power; and
- investment in renewable electricity certificates to negate any emissions from sites where landlords control the power supply. All certificates were provided under the Renewable Guarantees of Origin scheme, which is a UK and European regulated initiative to provide transparency to consumers about the proportion of electricity that suppliers source from renewable generation. The certificates were retired on our behalf to avoid double-counting.

Emissions from our UK operations were 2,688 tonnes (2020: 24,382 tonnes) of CO_2e. These residual emissions arise from the combustion of natural gas and to date, we have been unable to remove them completely as alternative technologies appropriate for our buildings do not yet exist. In order to neutralise these residual emissions and reduce net emissions from our UK buildings to zero, we purchased carbon reduction certificates from a Verified Carbon Standard afforestation scheme which is acting as a carbon sink for an equivalent amount of emissions to the residual emissions from our gas supply.

The largest proportion of our overall carbon footprint lies within our Scope 3 emissions and principally from the production of goods and services which we procure from our suppliers. We undertook analysis to estimate these emissions in 2019, when sales were at pre-pandemic levels and emissions were therefore higher than they have been this year. These Scope 3 emissions are more than 15 times greater than our Scope 1 and 2 emissions across our worldwide Group and a major part of our overall carbon footprint. We have set a target that by 2025, we will engage with suppliers covering 50 per cent of our carbon footprint from purchased goods and services to encourage them to have plans in place to decarbonise in line with a 1.5 degree pathway and ultimately reach net zero by 2040.

In addition to emissions from purchased goods and services, we also measure and track Scope 3 emissions from other material sources, including from the combustion of fuel for the transport of products from distribution centres to stores and from business travel.

Further information on climate change metrics and our approach is available in our Sustainability Report 2021 available on our website **whsmithplc.co.uk/sustainability**.

Global greenhouse gas emissions (tonnes of CO_2e)

	2021	2020	2019
Scope 1 emissions			
Combustion of gas to heat and cool WHSmith stores, offices and distribution centres.	**2,688**	6,025	2,653
Percentage of emissions from UK-based operations.	**100%**	100%	100%
Scope 2 emissions (market-based)			
From electricity purchased to power WHSmith stores, offices and distribution centres.	**3,996**	23,670	28,098
Percentage of emissions from UK-based operations.	**0%**	78%	73%
Total Scope 1 and 2 emissions (market-based)	**6,684**	29,695	30,751
Percentage of emissions from UK-based operations.	**40%**	82%	76%
Carbon intensity metric (tonnes CO_2e per £m revenue)	**7.5**	29.1	22.0
Total Scope 1 and 2 emissions (market-based) after neutralisation via carbon removal certificates	**3,996**	29,695	30,751
Scope 2 emissions (location-based)	**14,481**	17,629	22,192
Scope 3 emissions (selected)			
Indirect emissions from the combustion of fuel for the transport of products from distribution centres to stores and from business travel (UK only).	**3,351**	4,687	6,940
Percentage of emissions from UK-based operations (UK only).	**100%**	100%	100%
Total	**10,035**	34,382	37,691

We engaged Corporate Citizenship to provide independent limited assurance of the greenhouse gas emissions data in the table above in accordance with assurance standards ISAE 3000 and 3410.Corporate Citizenship's full assurance standard is available in our Sustainability Report 2021. Emissions have been calculated using the methodology defined in the GHG Protocol Corporate Standard. We use the market-based method for calculating Scope 2 emissions for our total emissions to account for our purchasing of low-carbon energy. In previous years, we have reported Scope 2 location-based emissions and they are provided here for disclosure only. 2020 Scope 2 emissions have been restated to remove US stores which are run as franchises or joint ventures in line with the rest of our reporting. Our reporting boundary includes our operations in the UK and our directly-run international businesses where we have operational control, consistent with those included in our consolidated financial statements. Selected Scope 3 emissions are for UK only and have been calculated in accordance with the Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Further data and full details of the scope and methodology for reporting carbon emissions are available in our Sustainability Report 2021.

Energy consumption (MWh)

	2021	2020[1]	2019
UK	**64,737**	86,782	77,619
Non-UK	**7,855**	9,849	12,695
Total	**72,592**	96,631	90,314

1 Figures for 2020 have been restated to remove US stores which are run as franchises or joint ventures in line with the rest of our reporting

Our journey to a better business continued

Waste management

Waste is not only damaging to the environment but adds additional cost to 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 us to recycle most forms of waste, including cardboard, paper, plastics and metals. Waste is also segregated in our distribution centres and offices. Overall, 93 per cent of our waste was diverted from landfill during this financial year (2020: 88 per cent).

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 stock control systems to improve forecasting of chilled food sales, so that we only stock food that we expect to sell, reducing waste volumes. We operate 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.

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-sustainable solutions such as cardboard for products, and re-usable skips for internal transfer of stock.

This year, we have redesigned the packaging for our seasonal ranges, including Christmas and Back to School, removing unnecessary packaging where possible, and switching from mixed plastics to paper, card or easier-to-recycle plastic where packaging is needed. In our own-brand products, we have also moved away from the use of loose plastic glitter that could make its way into the water or land environments. We are continuing discussions with our suppliers to look for further opportunities to reduce the quantity of materials we use.

All plain, bottled water ranges are now contained in 100 per cent recycled plastic and we have introduced a much wider range of refillable water bottles into our stores. A number of our London Heathrow Airport Terminal stores now host water refilling stations, where customers can refill their re-usable water bottles free of charge.

Sustainable forestry

Paper-based products are a core part of WHSmith's business and we are committed to minimising the environmental impacts from paper sourcing for our own-brand products. We will only use recycled material or virgin (i.e. non-recycled) material from known, legal, well-managed and credibly-certified forests.

As part of our work towards this objective, and in line with the requirements of national and international timber regulations, we carry out an in-depth and rigorous assessment of supplier timber-sourcing systems. We have set recycled or certified timber materials as a minimum standard, which gives additional assurance that materials originate from low risk sources. A copy of our **Sustainable Forests Policy** is available on our website at **whsmithplc.co.uk/sustainability**.

Our sourcing teams work with our suppliers to help them understand our requirements and how the data they provide is needed to demonstrate that any paper, card or wood used in a WHSmith product is sourced from a certified or recycled source. We can now demonstrate through certification that 99.3 per cent of our stationery products contain materials originating from certified and recycled material, and we are aiming for 100 per cent by next year.

People

Our employees and those who work for us in our supply chain and for our business partners are vital to our success. They make our business and are critical to our customers' experiences and perceptions of WHSmith. We want to attract, motivate and retain the best people to deliver great customer service and help our business to grow.

The Group employs approximately 11,000 people, primarily in the UK, and is proud of its long history of being regarded as a responsible and respected employer. We have a full suite of employee policies and further information is produced below and in our **Code of Business Conduct** available on our website at **whsmithplc.co.uk/sustainability**.

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, 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 have developed a new diversity and inclusion action plan to deliver our goal of creating an environment where everybody is welcome, can thrive, and is valued for their contribution. It is focused on data and systems, communication and engagement, and partnership and collaboration. We have improved the quality of data and information that we hold in relation to employee diversity and developed our internal communication processes with greater use of relatable, personal stories to cultivate a shared understanding of different perspectives.

We have signed several industry charters, committing to making progress on improving diversity and inclusion in our business. This year we became one of eight founding members of a collaboration community called Diversity in Retail, which is dedicated to increasing diversity and inclusion at all levels within organisations in the retail sector. We are also signatories to the British Retail Consortium's Diversity and Inclusion Charter.

We have a range of activities designed to promote more women into senior positions, including a balanced succession planning process. 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.

We are continuing to build our understanding of diversity and inclusion and to look at ways to increase ethnic diversity at senior levels in our organisation. We have signed the Race at Work Charter and have established a Diversity Forum, chaired by our Group Chief Executive, where employees are encouraged to provide feedback, commentary and suggestions for improving diversity and inclusion in WHSmith.

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. Our latest **gender pay gap report** can be found on our website.

In terms of equal opportunities, the Company gives full and fair consideration to applications for employment when these are received from disabled people. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if appropriate so that they may continue their employment. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

Learning 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 online courses, workshops, 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.

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.

To ensure the safety of employees and customers during the Covid-19 outbreak, we rolled out online training for all store colleagues to ensure they were fully aware of the operational changes and health and safety precautions introduced in response to the pandemic. All employees in store-based roles were required to complete and pass the training course prior to returning to work.

Employee share ownership

The Company operates an HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 660 employees participate in the scheme.

Our employees: key information

The tables below show a breakdown of the composition of the Board as at year end, and gender diversity statistics for different cohorts including all employees, both UK and non-UK based.

Gender diversity for the Board (year end headcount)

Tenure		Male/Female		
0–1 year	1	Male	5	63%
1–3 years	4	Female	3	37%
3–6 years	0			
6–9 years	1	**Executive/non-executive**		
10+ years	2	Executive	2	25%
		Non-executive	6	75%

		Male		Female
Group Executive Committee Members[1]	7	78%	2	22%
Senior managers[2]	46	68%	22	32%
Managers[3]	315	48%	345	52%
All employees	4,052	35%	7,688	65%

1 Group Executive Committee Members are those who have responsibility for planning, directing or controlling the activities of the Company

2 Includes Group Executive Committee Members and colleagues graded at levels one and two below

3 Includes head office colleagues graded at the level below 1 plus Store Managers, Cluster Managers and Post Office Managers

Our journey to a better business continued

Safety and wellbeing
We are committed to maintaining high standards of health and safety. The management team monitors key safety performance indicators; and an Annual report detailing trends, performance and recommendations is presented to the Board. The business has a Health and Safety Committee that comprises employee representatives and professional health and safety advisers. We provide an ongoing programme for staff in stores, consisting of safety training tailored to specific roles within store that focus on key issues such as fire safety, manual handling and slips, trips and falls. A copy of our Health and Safety at Work Policy is available on our website at **whsmithplc.co.uk/sustainability** and is the basis for our health and safety management system which sets out our procedures and processes.

We believe that supporting the mental wellbeing of our employees is just as important as looking after their physical health and safety. Our strategy to promote mental wellbeing has three main objectives: to improve awareness and reduce stigma; to raise the level of mental health support across the business; and develop a culture which promotes good mental health.

We work in partnership 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 worked closely with Mental Health First Aid (MHFA) England to create a tailored approach to training and over 1,100 line managers have received a half-day MHFA awareness course. We have an equal number of mental and physical health first aiders.

This year, we also launched a new scheme in association with Salary Finance, through which employees can access free financial education and loans at lower interest rates than those offered by traditional lenders. Employees pay down their existing debts by replacing them with a single, low-interest employee loan which enables them to build a positive credit history.

Human rights
We are committed to ensuring full respect for the human rights of anyone working for us in any capacity and we are committed to ensuring there is fair and safe work for all employees throughout our supply chain. 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. Our approach to human rights is laid out in our Human Rights Policy (available at **whsmithplc.co.uk/sustainability**) which provides further information on our due diligence processes and the minimum requirements that everyone working for and on behalf of WHSmith must meet.

We have identified six priority areas for protecting human rights in our supply chain: health and safety; freedom of association and collective bargaining; access to grievance mechanisms; working hours and overtime; preventing modern slavery and gender equality. We work with suppliers and other third parties to develop and progress targets and action plans for improvements across these areas.

We take a zero-tolerance approach to modern slavery. Our Modern Slavery Statement (available at **whsmithplc.co.uk/sustainability**) sets out the steps we have taken to prevent modern slavery in our own operations and supply chain.

Sourcing responsibly
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 **Responsible Sourcing Standards** are based on the ETI Base Code and underpin our strategy and sustainable sourcing activities. We will only place orders with suppliers who are committed to working towards compliance with these standards, and we endeavour to bring about continual improvement through a programme of factory audits and ongoing engagement.

Our in-house audit and engagement team 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 responsible sourcing strategy annually, looking 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 ongoing basis to build stronger and more transparent relationships. The team's engagement focuses on resolving specific issues identified during audits and on delivering wider projects to help suppliers deliver on key areas such as worker representation or health and safety. We have an independent hotline for workers to report issues they are concerned about, which we then investigate and follow up with suppliers to ensure they are addressed.

Communities
WHSmith is at the heart of communities across the UK and we are committed to making a positive impact wherever we operate. As a major retailer of books and stationery, we are particularly passionate about literacy and life-long learning. We are a long-term advocate for the development of reading and writing skills and we have provided help over many years to children and young people who need additional support.

We have a long-term partnership with the National Literacy Trust, and this year we continued our support for their Young Readers' Programme, providing books and other materials for schools in socio-economically disadvantaged areas of the country. In addition, the WHSmith Group Charitable Trust provided financial support for the programme, supported by donations from WHSmith customers and employees.

This year we joined forces with the National Literacy Trust, Macmillan Children's Books and Marcus Rashford, MBE, to donate books and provide financial support to help those children most in need to develop their reading and writing skills. For every copy of Marcus's book, 'You Are a Champion: How to Be the Best You Can Be', that we sold, we agreed to gift a copy for distribution to those most unlikely to own a book of their own. We also provided an opportunity for customers to donate to help the work of the National Literacy Trust through our till points and website. The campaign has raised over 30,000 books and £40,000 in the space of a few months. We also gifted a further 1,500 books to school libraries as part of the campaign.

WHSmith continues to take a leading role in the delivery of the World Book Day initiative, which is the biggest annual celebration of books and reading in the UK. World Book Day took place this year under the continuing impact of Covid-19. Normally our stores run special events such as competitions, fancy dress and author signing sessions, but many of these had to be curtailed this year. We were still able to redeem 244,000 book vouchers enabling children to choose one of the special World Book Day books or offset the cost against any of our children's ranges of books. We also partnered with the WHSmith Trust to donate WHSmith vouchers to schools across the UK for them to choose books to increase their school library resources. Over 250 schools were helped in this way with £25,000 of vouchers being donated.

This year, through our charity partnerships, colleague and customer fundraising and in-kind donations we have donated nearly £1millon to charities and other good causes. The full extent of our community investment activity, measured in alignment with the B4SI (formerly the London Benchmarking Group) reporting model, is outlined in our Sustainability Report 2021.

Full details of how we engage with charities and other good causes are set out in our Code of Business Conduct (available at **whsmithplc.co.uk/sustainability**).

Principles and responsible practice

We aim to always act with integrity, making the right decisions and demonstrating the appropriate behaviours to earn the respect of our customers and all those with whom we do business. Our Code of Business Conduct available on our website sets out how our business operates, and what is expected of every person who works for and on behalf of WHSmith. Our Code includes our policies relating to individual conduct, including anti-bribery and anti-corruption measures, conflicts of interest and data protection, as well as those relating to how we work together, including diversity and inclusion, anti-harassment and bullying and health and safety. It also sets out our business standards in relation to fair trading practices, such as pricing and marketing, quality and product safety, trade controls, competition and supply chain practices.

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, corruption or extortion in any form, either within our own operations or in those businesses working on our behalf. Our Code of Business Conduct sets out in detail how those working for us should behave and what they should do if they are confronted with bribery or corruption. We require all employees and anyone working for us in any capacity to comply with the UK Bribery Act, in addition to any local anti-bribery and anti-corruption laws. Our Code 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-bribery and corruption measures in place.

All employees are required to confirm that they have read and accept our Code of Business Conduct on an annual basis and are encouraged to report any suspected breaches using our confidential Speak Up helpline.

Non-financial reporting statement

The Journey to a Better Business section of the Annual report on pages 29 to 35 and the WHSmith Sustainability Report contain a wide range of information about the environment, employees and social matters. The table below sets out where information on non-financial reporting matters can be found within our Annual report. Our full Sustainability Report is available on our website at **whsmithplc.co.uk/sustainability**. The due diligence arrangements for each topic are included in the respective policy documentation on our website.

Non-financial matter	Policies and standards which govern our approach	Pages
Business model	Business model and KPIs Principal risks and uncertainties	4 and 20 21 to 28
Environmental matters	Journey to a Better Business – Planet Section 172 statement Principal risks and uncertainties	29 to 32 37 to 40 26
Employees	Journey to a Better Business – People Section 172 statement Principal risks and uncertainties Director's report	32 to 34 37 to 40 25 85
Social matters	Journey to a Better Business – Communities Section 172 statement Principal risks and uncertainties	34 to 35 37 to 40 24 and 25
Respect for human rights	Journey to a Better Business – People Principal risks and uncertainties	34 24 and 25
Anti-corruption and anti-bribery matters	Journey to a Better Business – Principles and Responsible Practice Principal risks and uncertainties	35 24 to 26
Non-financial KPIs	Our journey to a better business Remuneration Committee report	29 to 35 58 to 84
Principal risks and uncertainties	Our approach to risk management Principal risks	21 22 to 28

Section 172(1) statement

This statement describes how the directors have had regard to the matters set out in Section 172 of the Companies Act 2006 (the 'Act') in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Section 172 of the Act requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard amongst other matters to the:

a) likely consequences of any decisions in the long-term;
b) interests of the company's employees;
c) need to foster the company's business relationships with suppliers, customers and others;
d) impact of the company's operations on the community and environment;
e) desirability of the company maintaining a reputation for high standards on business conduct; and
f) need to act fairly as between members of the company.

Information on how the Board operates can be found in the Corporate governance report on pages 41 to 48.

Examples of how the directors have had regard to the matters set out in Section 172 when discharging their duties are set out in the following pages.

Key stakeholder groups can be impacted in different ways by decisions which are taken by the Board. The directors consider that the groups listed below are the Company's key stakeholders. They are identified as those most likely to be affected by the principal decisions of the Board:

- Employees: the people at WHSmith are its greatest resource and the strength of the business depends on committed colleagues who feel engaged, motivated and appreciated. Our employees expect to feel valued, be rewarded fairly, treated with respect and dignity and have opportunities for personal growth and career development.
- Customers: customers are why we exist – maintaining their loyalty and enthusiasm for our brands is critical to our success. Our customers expect that the Company offers a wide range of products at an accessible price, is responsive to their needs and trades fairly and responsibly.
- Investors: our investors include individual and institutional shareholders and providers of debt and financial capital, such as banks and bondholders. Access to liquidity is vital to the long-term performance of the business and the Board works to ensure that the Company's investors and banks have a strong understanding of our strategy and performance. Investors want a return on their investment, delivered in a responsible and sustainable way.
- Suppliers and landlords: mutually trusted partnerships with suppliers and landlords are vital in enabling the Company to offer a wide range of quality products at affordable prices from optimal store locations. Our delivery partners look to the Company for a productive business relationship, allowing them to further their own businesses.
- Communities and the environment: community acceptance and respect for the environment provide us with a licence to operate. The Company is committed to operating responsibly, helping local communities and good causes where it can add the most value and minimising its impact on the environment.
- Pensioners: the Company is committed to ensuring that it meets its obligations to current and past employees who rely upon it to fund their pensions.

The Company engages with these stakeholder groups regularly to ensure that the Board is aware of their views and interests. These stakeholder views and concerns are integral to ensuring a considered and balanced approach to the Board's decision-making processes.

The Board accesses information from stakeholders through a number of methods including direct engagement by Board members, for example, through store visits and meetings with stakeholder groups such as employees, investors and suppliers, and indirectly through the review of reports and updates from senior executives who meet regularly with stakeholder groups.

Employees

The Board engages with employees through a number of different methods:

- the Group Chief Executive and other senior executives hold regular face-to-face updates with employees on matters including the Group's strategy and business performance;
- senior executives attend business meetings throughout the year, including business executive meetings, trading meetings and risk committee meetings;
- employee engagement surveys are held regularly to gather staff views on working for WHSmith. In the Company's head offices, the businesses run quarterly employee forums where team representatives are encouraged to raise any issues or concerns. A number of the senior executives also have direct mailboxes for employees to raise any issues, questions or concerns and these are reported to the Board by those senior executives;
- Simon Emeny is the designated non-executive director for workforce engagement and leads on ensuring effective engagement with the workforce. Simon Emeny has, during the year, joined senior executives on calls with their teams; for example, he joined Heidi Reynolds, Retail Director, High Street, on her regular 'Ask Heidi' call with her team and has also attended the High Street and Travel employee forums;
- during the financial year, the Group Chief Executive and other senior executives held weekly briefings via webinars for all employees. At the briefings, employees were given the opportunity to ask questions on any issues relating to the operation of the Company, including on remuneration, working conditions and performance;

Section 172(1) statement continued

- employees are given regular written updates and reminders on operational issues. This year, this included regular communications on the Company's wide-ranging support programmes, such as our Employee Assistance Programme to support with counselling services, the WHSmith Benevolent Fund to support employees and their families with financial hardship and ways to access trained Mental Health First Aiders if needed; and
- the Group HR Director provides regular updates to the Board on employee-related matters, including staff retention rates, learning and development, gender pay gap, diversity and inclusion, staff surveys and workforce remuneration.

The Audit Committee has oversight of the Company's whistleblowing policy on behalf of the Board. The Company's whistleblowing helpline allows employees to raise concerns regarding misconduct and breach of the Company's policies. The Audit Committee receives reports on any matters of concern raised by employees, reviews the whistleblowing arrangements which are then discussed by the Board.

The key topics and feedback that the Board obtained from our engagement with our employees this year included:

Restructuring: as a result of the ongoing impact of Covid-19 and the impact on footfall on the high street, the Board reviewed the operating structure of the High Street stores and agreed the implementation of a change programme to introduce greater in-store employee flexibility. The High Street business consulted with employees and unions/employee representative groups on the new operating structure. Following the implementation of the changes the High Street business has increased the number of sales assistants enabling the business to trade more effectively across the week.

Return to the office: after a prolonged period of home-working for many employees, some raised questions and concerns about the return to office working, and a desire for flexible working arrangements. The Board received an update from the HR Director on the Company's new approach to agile working for head office employees in advance of the Company asking employees to return to the office. The Board believes that it is important to retain a balance for employees to work flexibly but at the same time maintaining the high performing culture which is important to the long term success of the Company. In advance of a return to the office, employees were provided with information and guidance on these matters in order to help provide clarity in an uncertain and worrying time.

Providing a safe working environment: the safety and wellbeing of our staff continues to be a priority for the Board. The Board is very proud of our store colleagues who have done an outstanding job in serving customers. The Board oversaw the ongoing application of safety measures for all employees in line with government guidelines and advice, which include social distancing measures, PPE for colleague use, hygiene stations, protective screens at till points, enhanced cleaning and encouraged use of self-checkout or contactless payment. The Company's distribution centres continued to be operational with effective social distancing measures in place and head office staff continued to work from home, where possible. The Board was updated on the Company's programmes to promote employee wellbeing, for example, through our mental health first aider programme and annual Wellbeing at Work week.

Diversity and inclusion: our Diversity and Inclusion (D&I) Committee continued to receive feedback from employees on the Company's approach to equality and inclusion. The Board recognises the importance of a diverse workforce and an inclusive culture. The Board was updated on the Company D&I activities which took place this year and is supportive of plans for further activity in the forthcoming months.

Customers

The Company regularly listens to its customers and responds to their feedback. The Company's store teams and dedicated customer service team are in constant dialogue with customers, and ensure that customer feedback is communicated to the relevant parts of the business and taken into account as the business develops and implements its policies, operational activities and product ranges.

The Board receives regular updates on customer feedback and service standards across the stores and has put systems in place to ensure that it complies with all relevant product safety legislation. During the year, the Board took all necessary steps to help ensure the safety of customers whilst visiting the stores by ensuring that the Company complied with all relevant social distancing measures. The Board took the decision to keep the stores open to support the communities they serve.

Other key feedback that the Board obtained from engagement with customers related to the nature of store environments, the availability of products, value for money, online offerings, customer service and ethical trading. As a result of this feedback, we have extended our categories and ranges to reflect the specific needs of our customers. The Company aims to offer customers a choice of products at competitive prices across all store formats. The Board also approved new targets to reduce the environmental impact from packaging by removing it, switching to more eco-friendly options and minimising waste. The Board also recognises that we will need to work with our suppliers in order to achieve our targets. You can read more about our environmental and responsible sourcing activities in the Non-financial information statement on pages 29 to 36.

Investors

The Board recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. The Group Chief Executive and CFO/COO update the Board following meetings with major shareholders, and when requested to do so, the Chairman and non-executive directors also attend those meetings.

During the year, the Company provided updates on developments in trading in the form of stock market announcements to ensure that all shareholders were informed about the impact of Covid-19 on the business.

The Company engages with investors in one-to-one meetings to discuss specific elements of the business. We communicate with shareholders through our results presentation, AGM, investor roadshows, and our investor relations department. As a result of Covid-19 restrictions we were not able to hold a physical AGM in January 2021. Notwithstanding the restrictions, the Board considered it important that all shareholders were provided with the opportunity to raise questions. To enable this, shareholders were invited to submit questions ahead of the meeting and the Directors' responses were made available on the Company's website. The next AGM will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG at 11.30 am on Wednesday 19 January 2022. The Notice of AGM 2022 is now available to view and download from our website at whsmithplc.co.uk.

The Board receives reports and updates on shareholder relations at each meeting to ensure that the Board and its Committees are kept informed of investors' and advisers' views on strategy and corporate governance.

During the year, the Chairman spoke to some of Company's largest shareholders to discuss the Board's succession plan and composition of the Board. The Remuneration Committee also consulted with the Company's largest shareholders and shareholder representatives on its proposed new remuneration policy in anticipation of presenting the new policy to shareholders at the 2022 AGM. For more information, please see the Remuneration report on page 58.

A key issue for the Board during the year was the approach that it took to improve the Company's liquidity position as a result of the impact of Covid-19 on its trading and financial position, and when taking decisions, carefully considered the interests of its employees, customers, shareholders and suppliers. In April 2021, the Board consulted with shareholders, investors and banks in order to secure new financing arrangements to strengthen its balance sheet, working capital and liquidity position. The new financing arrangements include a new £250m revolving credit facility (previously £200m) with an extended maturity until April 2025 and provided by an expanded syndicate of lending banks.

In addition, the issue of a £327m convertible bond provided £50m of new capacity for the Company to fund the opening of over100 new Travel stores won and yet to open over the next three years and new growth opportunities. The remainder of the proceeds was used to partially pay down the £400m term loans from both the Marshall Retail Group and InMotion acquisitions. The maturity of the new £133m term loan is also April 2025. You can read more about the Company's finances on pages 98 to 162.

The Board also considered the Group's capital allocation policy. The Board reviewed the trading performance and liquidity position of the Company in order to progress the Company's long-term strategy and manage any ongoing Covid-19 disruption. The Board looked at the increased need for capital expenditure in respect of new store wins and the likely recovery of travel in the UK, North America and the other markets in which we operate during the year. The Board recognises the importance of providing our shareholders with consistent and reliable dividend returns but, with so much uncertainty around the course of the pandemic and its economic effects, the Board believed it was sensible and appropriate to suspend the payment of dividends to shareholders for the duration of the financial year ended 31 August 2021 to protect the Company's balance sheet. The Board will continue to keep its capital allocation policy under review.

More information on how the Board engages with its shareholders can be found in the Corporate governance report on pages 47 and 48.

Suppliers/landlords

The Board is provided with information about key suppliers as and when relevant to Board discussions, including when approval of material contracts/leases is required. The Company aims to be a trusted partner for suppliers and landlords, with established policies covering the way in which we transact with them. The Company engages with its suppliers and landlords in a number of ways including:

- direct engagement via individual supplier and landlord meetings;
- supplier conferences for major groups of suppliers such as trade suppliers for individual businesses or geographies, or suppliers of Goods Not for Resale; and
- supplier feedback surveys.

The Company has a well-established ethical trade programme aimed at improving labour standards for workers in our supply chain and to ensure that our products are sourced responsibly. The Board receives an annual update from the Company's Head of Sustainability on how the Company is meeting its obligations and to ensure the Board is kept informed of developing best practice.

Section 172(1) statement continued

The Board has ensured that the Company has maintained a dialogue with suppliers and landlords to mitigate disruption and understand their concerns as a result of Covid-19. The Company continued to pay most of its suppliers and landlords during the year in accordance with agreed contractual terms or negotiated rent deals. The Board will also ensure that the Company will continue to work closely with our suppliers to manage any changes in the supply chain as a result of Brexit.

This year, the Board approved a target to reduce our Scope 3 emissions by engaging with suppliers representing approximately 50 per cent of our emissions to ensure they have plans in place to decarbonise in line with a science-based target to maintain global warming to 1.5°C. The Company also continues to work with suppliers to reduce waste from packaging and from single-use plastics. This year, we worked with suppliers of packaging for our online business to ensure materials were plastic free and fully recyclable.

The Board also continued to explore new business opportunities during the year. We worked with our UK Airport landlords to win 30 technology stores across all UK airports. These stores will trade under the InMotion brand, the Company's market-leading US technology business in travel locations which was acquired in November 2018. Combining our learnings and expertise from North America, these stores will provide Airport passengers with a superior customer service experience and a combination of premium products from brands such as Apple, Bose and Samsung, as well as an extensive range of tech accessories. The Board believes that in a fully recovered travel environment these stores will deliver significant shareholder returns.

Community and environment

The Board places great importance on ensuring that the Company helps community groups and good causes that are closely aligned with the business, and that it operates in a way which minimises the impact on the environment. Engagement with community groups and others includes:

- regular meetings with key charity partners, including the National Literacy Trust, mental health charity partners and other charity community organisations located close to our stores;
- engagement through meetings, correspondence and survey responses with non-governmental organisations, trade bodies and others with an interest in community and environmental activities, including the Ethical Trade Initiative, WWF and CDP; and
- questions, views and concerns through the corporate.responsibility@whsmith.co.uk inbox which is available for anyone to make contact with the Company on any issues relating to community or the environment.

The Board received regular updates on the Company's key community and environment activities from the Head of Sustainability. This year, the Board reviewed progress against the objectives defined in the Company's sustainability strategy approved by the Board last year, which relate to the most important environmental and social issues for the business. These include a science-based target for carbon emissions in line with reductions required to limit global warming to 1.5°C, and reaching net zero for Scope 1 and 2 emissions by 2025. The Board also took the decision to create a new Committee which will help us manage our sustainability strategy, our Journey to a Better Business across the three themes of Planet, People and Communities. You can read more about the work of the ESG Committee on page 29. Further details are provided in our 2021 Sustainability Report available at **whsmithplc.co.uk/investors/results-reports-and-presentations/corporate-responsibility-reports**.

The Board also decided to continue with the long-term focus on children's literacy and to work in partnership with others to tackle inequalities in the ability of children to read and write. It endorsed the launch of a partnership between the Company, the National Literacy Trust and Macmillan Children's Books, supported by Marcus Rashford MBE, to ensure every child in the United Kingdom has access to a book of their own.

Further details are provided in the Strategic report on pages 34 to 35.

Defined benefit pension fund

During the year, the Board engaged with the Trustees of the WHSmith Pension Trust, who have a fiduciary duty to the members and beneficiaries of the Company's defined benefit pension scheme, to ensure that the scheme is sufficiently funded. The CFO/COO and the Finance Director – Group regularly meet with the Chair of the Trustees and attend the Trustee meetings to report on annual and interim results. The Board agreed with the Trustees, the latest triennial valuation, and funding plan to ensure that the Company's defined benefit pension scheme remains well-positioned to meet its liabilities.

This Strategic report was approved by the Board on 11 November 2021.

On behalf of the Board

Carl Cowling
Group Chief Executive

11 November 2021

Corporate governance report

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

Henry Staunton
Chairman

Board role and effectiveness

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 works collaboratively and 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 2018 (the 'Code'). A copy of the Code is available publicly from frc.org.uk.

Culture

We have been serving customers through our presence in town centres, travel hubs and hospitals for over 225 years, providing a retail destination of choice and a sense of community for thousands of customers every day. We have a presence in 30 countries, employ 11,000 employees, source products from thousands of suppliers and play an important part in creating vibrant and sustainable local economies.

We recognise we have an obligation to grow our business sustainably, providing financial returns for our shareholders, whilst maintaining high standards of environmental stewardship and social equity. In delivering these obligations, it is important that our employees, business partners and suppliers are able to make the right decisions. We support them with a strong values-based culture, ongoing training and development, and a solid foundation of responsible business governance, policies and programmes. You can read more about our culture on page 46.

Stakeholder engagement

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 pages 47 and 48, our commitments to customers, workforce and community matters on pages 29 to 40 and our approach to rewarding our workforce in the Remuneration report on page 67.

There are already a number of effective employee engagement processes in place across the Group, including the employee satisfaction survey and employee forums. Simon Emeny is the designated non-executive director for workforce engagement and leads on ensuring effective engagement with the workforce. Simon Emeny attended a number of employee forums throughout the year to gain a better understanding of their views and concerns. Simon Emeny met the Group HR director to review the outcomes from the satisfaction survey. Feedback relating to workforce engagement has been reported to the Board and Committees. Section 172 of the Companies Act 2006 (the 'Act') sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the Company. You can read how the Board has had regard to Section 172 of the Act on pages 37 to 40.

Creation of an ESG Committee

In order to help us manage our sustainability strategy, our Journey to a Better Business across the three themes of Planet, People and Communities and ensure that it is central to what we do, we took the decision to create a new Committee which will assist the Board in providing oversight of the implementation of the strategy. You can read more about the ESG Committee on page 48.

Board changes

The Board has continued to give extensive thought to the rotation of long-serving directors given the ongoing impact of Covid-19 on the Company. As part of the succession plan, Suzanne Baxter, who was the Chair of the Audit Committee, stepped down from the Board at the Company's Annual General Meeting ('AGM') in January 2021. Annemarie Durbin, Chair of the Remuneration Committee, who will have served on the Board for nine years will step down from the Board at the Company's AGM in January 2022. During the year, the Board appointed Nicky Dulieu and Kal Atwal as non-executive directors. Nicky Dulieu replaced Suzanne Baxter as Chair of the Audit Committee. On 28 October 2021, the Company announced the appointment of Marion Sears who will join the Board as a non-executive director and Chair of the Remuneration Committee on 1 February 2022.

Corporate governance report continued

The Company has commenced a search for my replacement and, at the request of the Board, I have agreed to stay on until my successor is appointed in 2022. The Board believes that this staggered approach to replacing long-standing directors is in the best interests of the Company and its shareholders as it will allow the Board to refresh itself whilst at the same time retaining valuable expertise and knowledge as the Company looks to recover from the impact of Covid-19.

I would like to thank Annemarie for her valuable contribution and strong commitment to the Company.

Covid-19 response

Unfortunately, as with the wider economy and society more generally, the Company and its stakeholders have continued to be impacted by Covid-19. The Board has, throughout this crisis, taken decisive action in order to mitigate the impact of Covid-19 on the Company and its stakeholders. You can read more about the action the Board took as a result of Covid-19 on page 45 and the impact that Covid-19 has had on the Company in the Strategic report on pages 2 to 40.

Henry Staunton
Chairman

11 November 2021

Corporate governance statement

This report, which forms part of the Directors' report, together with the Strategic report and Directors' remuneration report provides details of how the Company has applied the principles of the Code.

Throughout the year ended 31 August 2021 and up to the date of this report, the Board considers that it has complied with the provisions of the Code except as follows:

1. Chairman's tenure (Provision 19): Henry Staunton's tenure as Chairman of the Company. Henry Staunton was appointed to the Board in September 2010 and became Chairman in September 2013. The Board believes that it is important to the ongoing success of the Company that Henry Staunton remains as Chairman as the Company looks to recover from the impact of Covid-19. Henry Staunton continues to provide invaluable help and support to Carl Cowling, Group Chief Executive. He is continuing to help lead the recovery of the Company following the impact of Covid-19. The Board believes that Henry Staunton continues to act and perform effectively as Chairman. For these reasons, while mindful of Provision 19 of the Code that requires that the Chairman should not remain in post beyond nine years from the date of their first appointment to the Board, the Board believes that it is in the best interests of the Company and its shareholders that Henry remains as Chairman of the Board for an extended period. The Board has commenced a search for Henry Staunton's replacement and, at the request of the Board, Henry Staunton has agreed to stay on until his successor is appointed in 2022. The Board believes that this staggered approach to replacing long-standing directors is in the best interests of the Company and its shareholders as it will allow the Board to refresh itself whilst at the same time retaining valuable expertise and knowledge as the Company looks to recover from the impact of Covid-19.
2. Pension Alignment (Provision 38): The pension contributions for Carl Cowling and Robert Moorhead reflect the historical retirement benefits available to employees that joined the Company at similar times. The Board recognises that the contribution rates under these arrangements are higher than the majority of the current workforce and, as such, the pension contribution for any new executive director is now aligned with the majority of the workforce which is approximately three per cent. The pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate from 1 January 2023.
3. Workforce engagement on executive remuneration (Provision 41): The Remuneration Committee has a clear and transparent approach to remuneration which is set out on pages 58 to 84 in the Directors' remuneration report. Whilst the Company undertakes extensive engagement with employees on a wide range of issues, including remuneration, working conditions and performance of the Company, the Remuneration Committee did not directly consult with the wider workforce on executive remuneration. Details of how executive director pay is considered in the context of the wider workforce is set out on page 67 of the Directors' remuneration report.

The Company's disclosures on its application of the principles of the Code can be found on the following pages:

Board leadership and Company purpose	
Chairman's letter	See pages 41 and 42
Purpose, values and culture	See pages 41 and 46
Strategy	See pages 2 to 40
Shareholder and stakeholder engagement	See pages 37 to 40
Division of responsibilities	
Leadership, commitment and Board support	See page 43
Composition, succession and evaluation	
Board evaluation	See pages 45 and 46
Nominations Committee report	See pages 54 and 55
Audit, risk and internal control	
Risks, viability and going concern	See pages 50 and 52
Audit Committee report	See pages 49 to 53
Remuneration	
Directors' remuneration report	See pages 58 to 84

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 58 to 84 and in the Directors' report on pages 85 to 87.

Operation of the Board

As at the date of this report, the Board comprised the Chairman, two 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 56 and 57. There is a clear division of responsibility at the head of the Company: Henry Staunton (Chairman) being responsible for running the Board and Carl Cowling (Group Chief Executive) being responsible for implementing strategy, leadership of the Company and managing it within the authorities delegated by the Board. Simon Emeny is the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All the directors, whose biographies are on pages 56 and 57, served throughout the financial year ended 31 August 2021 and up to the date of this report with the exception of:

1. Nicky Dulieu who was appointed as a non-executive director on 9 September 2020.
2. Kal Atwal who was appointed as a non-executive director on 1 February 2021.

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.

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. The need for director training is regularly assessed by the Board.

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 58 to 84.

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.

Attendance at Board meetings

The Board met 14 times during the year. The number of Board meetings was comparable to the previous financial year as a result of the ongoing impact of Covid-19 on the Company. It is expected that all directors attend Board meetings and Committee meetings 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 and Committee meetings held during the year ended 31 August 2021 and the attendance record of individual directors:

		Number of meetings attended			
Directors and role	**Board skills and competencies**	**Board 14**	**Audit 4**	**Nominations 2**	**Remuneration 8**
Henry Staunton Chairman	Finance and retail expertise; strong board leadership and considerable governance experience.	14 of 14	–	2 of 2	8 of 8
Kal Atwal Non-executive director	Marketing and digital expertise; entrepreneurial approach to business.	9 of 14	2 of 4	1 of 2	3 of 8
Carl Cowling Group Chief Executive	Strategic and retail expertise; strong leadership of the Group and creation of shareholder value.	14 of 14	–	2 of 2	–
Nicki Dulieu Non-executive director	Finance and retail expertise; extensive knowledge of retail and customer service.	14 of 14	4 of 4	2 of 2	8 of 8
Annemarie Durbin Non-executive director	Legal experience and knowledge of regulatory and compliance matters; extensive board experience.	14 of 14	4 of 4	2 of 2	8 of 8
Simon Emeny Non-executive director	Commercial expertise and a wealth of consumer facing experience.	14 of 14	4 of 4	2 of 2	8 of 8
Robert Moorhead CFO/COO	Retail and financial expertise; deep understanding of the Group and strategy, and creation of shareholder value.	14 of 14	–	–	–
Maurice Thompson Non-executive director	Board and financial expertise; extensive strategic knowledge and experience.	14 of 14	4 of 4	2 of 2	8 of 8

a) Nicky Dulieu was appointed as a director of the Company on 9 September 2020.

b) Kal Atwal was appointed as a director of the Company on 1 February 2021.

c) Kal Atwal was unable to attend one meeting of the Remuneration Committee due to a prior commitment which had been arranged before the meeting was convened. She received the papers in advance of the meeting and gave her comments to the Chair.

d) Henry Staunton, Carl Cowling and Robert Moorhead were invited to and attended all four meetings of the Audit Committee.

e) Robert Moorhead was invited to and attended two meetings of the Nominations Committee.

f) Carl Cowling was invited to and attended all eight meetings of the Remuneration Committee. Robert Moorhead was invited to and attended two meetings of the Remuneration Committee.

g) Suzanne Baxter stepped down from the Board on 20 January 2021. Prior to leaving the Company she attended five meetings of the Board.

h) The Board and the Remuneration Committee have met twice and the Audit Committee and the Nominations Committee have met once since 31 August 2021. All the directors attended the meetings.

Corporate governance report continued

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 environmental, social and Corporate governance matters.

The Board has a forward timetable to ensure that it allocates sufficient time to key areas of the business. The timetable is flexible enough for items to be added to any agenda as necessary.

The Board's annual business includes 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.

During the year, the Board assessed the basis on which the Company generates and preserves value over the long-term and considered the opportunities and risks to the ongoing future success of the business, the sustainability of the Company's business model and how its governance contributes to the delivery of its strategy. Further information on the risks and opportunities to the future success of the Company can be found in the Strategic report on pages 21 to 28.

Board Activities in the financial year ended 31 August 2021

Strategy		
	• Approval of new banking facility arrangements and issue of convertible bond • Oversight of Group performance against strategy and budget • Updates on the management of the impacts of Brexit • Approval of corporate responsibility strategy and report • Expansion of technology and accessories stores in UK airports	• Review the strategic plans for each of the businesses • Three-Year Plan • Project approvals • Corporate strategy updates
Covid-19		
	• Updates on Group response to Covid-19 • Updates on ensuring the safety of customers and colleagues	• Re-consideration of strategic priorities as a result of Covid-19
Financial and Operational performance		
	• The Company's preliminary and interim results, trading statements and the Annual report • Going Concern and Viability Statements • Fair, balanced and understandable assessment	• Dividend, treasury and tax strategies • Approval of the budget • Approval of capital expenditure
Other Stakeholder Engagement		
Customers	• Customer initiatives and experience updates	• Updates on ensuring the safety of customers in line with government advice
Shareholders	• Annual General Meeting documents; inviting shareholder questions ahead of meeting and publication of responses • Consultation on new remuneration policy • Consultation on Board composition	• Investor Relations updates • Issue of convertible bond
Employees	• Annual health and safety review • Company values and culture • Inclusion and diversity update • People operations proposal • Mental health wellbeing plan • Approval of sharesave invitation	• Modern slavery update and statement • Talent, succession planning and leadership • Employee engagement insights • Gender pay gap reporting • Consideration of workforce pay including the annual pay review • Introduction of agile working
Governance and Risk		
	• Risk framework and internal control review • Regulatory compliance updates • Litigation and disputes updates • Group Delegation of Authority Policy review • Board evaluation process	• Principal risks and uncertainties review • Conflicts of Interest and new appointments • Terms of Reference review • Formation of ESG Committee and associated updates

Covid-19

This year's results have again been severely impacted by Covid-19 and, as a result of which, the Company made a Headline loss before tax and non-underlying items[1] of £55m in the financial year ended 31 August 2021. You can read more about the actions the Company has undertaken on pages 8 to 19. The Company will also not pay any dividends in respect of the financial year ended 31 August 2021.

The Board took the following steps during the year in response to Covid-19:

Board actions: The Board was provided with regular updates from senior executives on all aspects of the impact of Covid-19, including the safety and wellbeing of our employees and customers, government advice, lockdowns, financing, supplier and landlord impacts, consumer behaviour and scenario planning.

The Board also received regular information on the Company's liquidity position, trading and financial data. In April 2021 the Company consulted with shareholders and banks in order to secure new financing arrangements to strengthen its balance sheet, working capital and liquidity position. The new financing arrangements include a new £250m revolving credit facility (previously £200m) with an extended maturity until April 2025 which is provided by an expanded syndicate of lending banks. In addition, the issue of a £327m convertible bond provided £50m of new capacity for the Company to fund the opening of approximately 100 new Travel stores won and yet to open over the next three years and new growth opportunities. The remainder of the proceeds was used to partially pay down the £400m term loans from both the Marshall Retail Group and InMotion acquisitions. The maturity of the new £133m term loan is also April 2025. You can read more about the Company's finances on pages 16 to 19.

Community support: During the further lockdowns during the year, the Board took the decision to keep most of the Company's High Street and hospital stores open so that we could continue as an essential retailer to serve the communities in which we operate. The Board also took all necessary steps to help ensure the safety of customers whilst visiting our stores by ensuring that we complied with all relevant social distancing measures.

Protecting our employees: The safety and wellbeing of our staff has been a priority throughout the year. We are very proud of our store colleagues who have done an outstanding job in serving our customers. Safety measures were put in place across all our stores in line with government guidelines and advice, and included social distancing measures, PPE for colleague use, hygiene stations, protective screens at till points, enhanced cleaning and encouraged use of self-checkout or contactless payment. Our distribution centres remained operational with effective social distancing measures in place and head office staff worked from home, where possible. Carl Cowling and other senior management continued to hold regular online briefings for all employees. At the briefings, employees were given the opportunity to ask questions on any issues relating to the operation of the Company. Additionally, we have provided regular reminders to staff on our wide-ranging support plan, which includes access to trained Mental Health First Aiders and our Employee Assistance Programme which 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 work. Employees also have access to the Company's Benevolent Fund charity, which can provide financial assistance in cases of significant hardship and provide recuperative holidays and care breaks.

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 and carried out a formal evaluation in June 2021. The Board, in accordance with the Code, appointed an external evaluator, EquityCulture Limited, to carry out the Board evaluation this year. EquityCulture provides board evaluation services and has no other connection with the Company or any individual directors. EquityCulture have reviewed and agree with this disclosure on the Board evaluation undertaken by them. The main areas considered during the evaluation were strategy, operations and risk; succession planning; and Board and Committee meetings. The Board evaluation process was as follows: (i) EquityCulture and the Chair agreed a set of questions specifically drafted for the Company's Board Evaluation. The questions were designed to focus the evaluation by Board members in a number of key areas and to cover the performance of the Board and its Committees; (ii) EquityCulture used the agreed questions as the basis for interviews with each of the directors and then produced a report which compiled the results of the evaluation exercise; (iii) the Chairman reviewed the results of the evaluation exercise and shared them with Board members in September 2021; and (iv) in November 2021, the Board reviewed the results and agreed actions for 2022.

The results of the assessment 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 2022 and will include continued focus on executive and non-executive succession planning and the overall composition of the Board; keeping the strategy under review and focusing on the priorities of each business to deliver shareholder value; increasing focus on people issues and retention of key senior executives; and steps to improve the Board's procedures and effectiveness, including the effectiveness of the annual strategy session. The Board reviewed the agreed actions following the internally facilitated evaluation carried out in 2020 and agreed that good progress had been made in respect of these actions, including in respect of the Company's Board succession plan (most notably, the appointment of two new non-executive directors and the ongoing search for a successor to the Chairman) and improvements in the Board's procedures; for example, how the Board is updated on the key strategic

Corporate governance report continued

initiatives which were identified at the Board strategy session. 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. 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 dedicates 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 undertake a rigorous assessment of Henry Staunton's performance given that he has served as Chairman for eight years and has been on the Board for eleven years. The non-executive directors confirmed that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement or independence. The non-executive directors, taking into account the views of the executive directors, concluded that Henry Staunton continues to act and perform effectively as Chairman and demonstrates his commitment to the role.

Succession planning and culture

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 forthcoming AGM. At the last AGM on 20 January 2021, all the directors at that time (aside from Suzanne Baxter) stood for election or re-election and were duly elected with a range of 91.01 per cent to 99.12 per cent of votes cast by shareholders.

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.

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 page 4 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 monitors the culture of the business in a number of ways, including: through interaction with executives, members of the senior management team, and other employees in Board meetings and on visits to stores and other Company locations; through regular Board agenda items and supporting papers, covering risk management, internal audit reports and follow-up actions, customer engagement, health and safety, employee engagement and retention, whistleblowing and regulatory breaches; reviewing the results of staff surveys, looking at a range of employee indicators, including engagement, retention, absence, learning and development, gender pay, diversity, workforce composition and demographics; and engaging with other stakeholders, as described in the Corporate governance report. During the year, the Board was satisfied that the policy, practices and behaviour of the Board and employees were aligned with the Company's purpose, values and strategy.

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. When joining the Board, a new non-executive director typically meets individually with each Board member and senior management to give them insight into all aspects of the business, including our strategy, culture, values, sustainability, governance, and the opportunities and challenges facing the business. The Company Secretary briefs them on policies, Board and Committee procedures, and core governance practice. They visit a number of business locations and meet key advisers. They also receive induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, Matters Reserved for the Board and the Board Committees' Terms of Reference.

During the year, Nicky Dulieu and Kal Atwal participated in an induction programme, details of which are set out below:

- access to Board papers and minutes; briefing paper on the duties of directors; Terms of Reference for Committees; Group policies and procedures including the Code of Dealing;
- meetings with senior management, including the managing directors of the Group's businesses, Group HR Director, Group Risk Director, Investor Relations and Legal Director/ Company Secretary;
- meetings with advisers; and
- store visits.

The Board considered and approved that Kal Atwal could be appointed as a non-executive director of Whitbread PLC, with effect from 1 March 2021. The Board concluded that there was no conflict in Kal Atwal being appointed to the board of Whitbread PLC and that the demands associated with a non-executive director role would not affect her commitment to the Company.

Diversity policy

The Board values diversity in all its forms, both within its own membership and at all levels of the Group. The Board is 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 a third of women at Board and senior levels. The Board also supports the recommendations of the Parker Review on ethnic diversity and has met the '1 by 24' target. The Board recognises that there is more to do to increase the ethnic representation across the Company. For additional information on diversity and inclusion, see pages 54 and 55. In order to improve the diversity of the Company's senior management team, the Company introduced a new recruitment policy requiring that there is a shortlist of a minimum of six candidates for each vacancy of which 50 per cent must be female and at least one must be from a black or minority ethnic background. The Remuneration Committee included the Company's compliance with this policy as a personal objective for the Group Chief Executive for the annual bonus plan in the financial year ended 31 August 2021. The Company also has a Diversity and Inclusion Committee consisting of employees from across the Group together with the Group Chief Executive and the Group HR Director. The Committee met three times during the financial year ended 31 August 2021 and made recommendations on how the Company can improve its diversity.

Further information on diversity can be found in the Nominations Committee section on pages 54 and 55 and is set out in the Employees section of the Strategic report on pages 32 to 34.

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, the ongoing impact of Covid-19, supply chain, risks arising from Brexit and increasing the Company's food offer. 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 undertakes a robust assessment of the emerging and principal risks. 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 Financial Reporting Council ('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 together with the procedures and processes for identifying, managing and the steps taken to mitigate principal and emerging risks can be found in the Strategic report on pages 21 to 28.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 49 to 53.

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 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 normally 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. As a result of Covid-19, the Company did not hold a physical AGM in January 2021 but gave shareholders the opportunity to ask questions in advance of the meeting. The questions and answers were published on the Company's website (**whsmithplc.co.uk/response-shareholder-questions-2021-agm**). At the time of writing, UK public health regulations and guidance allow us to return to an in-person meeting this year, with shareholders physically able to attend the AGM should they wish to do so. We will continue to review our AGM arrangements in light of the latest government Covid-19 guidance, and therefore shareholders are encouraged to monitor the AGM page of the Company's website **www.whsmithplc.co.uk/investors/shareholder-centre/agm** for any updates.

Corporate governance report continued

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. The Chairman spoke to some of the Company's largest shareholders to discuss the Board's succession plan and composition of the Board. Following the 2021 AGM, at which a significant minority of shareholders voted against the Directors' remuneration report, the Chair of the Remuneration Committee sought the views of the Company's largest shareholders and representatives in respect of the Company's new remuneration policy and Carl Cowling's salary. The feedback from those shareholders who engaged in the consultation process was supportive of the proposed changes to the Company's remuneration policy. The feedback was informative for both the Board and the Remuneration Committee when finalising the Company's remuneration policy, which will be considered by shareholders at the forthcoming AGM, and Carl Cowling's salary.

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 policy on anti-bribery and corruption is included in the Company's Code of Business Conduct at whsmithplc.co.uk/sustainability.

Fair, balanced and understandable

The Board confirms that it considers the 2021 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 pages 51 and 52.

Board Committees

The Board delegates specific responsibilities to the Board Committees, being the Audit, ESG, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 49 to 53, the Nominations Committee on pages 54 and 55 and the Remuneration Committee on pages 58 to 84. The role and responsibilities of each Committee are set out in formal terms of reference which are available on the Company's website whsmithplc.co.uk.

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.

ESG Committee

The ESG Committee is responsible for reviewing and approving Company strategies, policies and performance in relation to environmental, social and governance matters and ensuring those strategies are integrated with the core business strategy of the Group. The Committee is also responsible for approving key performance indicators, short-, medium- and long-term ESG targets and monitoring progress towards achievement of those targets on a regular basis. The Committee comprises a majority of independent non-executive directors. The members of the Committee are Kal Atwal (Chair), Carl Cowling, Nicky Dulieu, Annemarie Durbin, Simon Emeny, Henry Staunton and Maurice Thompson. As the first meeting of this Committee will be in November 2021, the work of this Committee will be more fully described in next year's Annual report.

Remuneration Committee

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 58 to 84.

> "I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2021."

Nicky Dulieu
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 2021. 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 auditors, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Kal Atwal, Annemarie Durbin, Simon Emeny 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 Director of Audit and Risk, representatives of the Group's senior management team and of the external auditors attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

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

- considering the impact of Covid-19 on the Company and its financial results, including the asset impairment charges that have been recognised at the year end;
- considering papers from management on the significant financial reporting judgements made in the preparation of the Interim report and the Annual report and accounts;
- considering the Company's going concern statement and papers from management which consider the liquidity of the Group;
- considering the Company's viability statement and papers from management, which considers the long-term viability of the Group;
- reviewing the effectiveness 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;
- reviewing the Interim report and the Annual report and accounts, including, where relevant, compliance with the Listing Rules, Disclosure Guidance and Transparency Rules, 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 the reports from Internal Audit in respect of calls to the Company's confidential Speak Up helpline;
- 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;
- receiving and reviewing reports from the Internal Audit and Risk teams and reviewing and agreeing their annual plans;
- holding private meetings with the external and internal auditors;
- considering the 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 PwC that flowed from their work;
- reviewing external 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 auditors;
- reviewing the Company's treasury policy;
- approval of the Group Tax Strategy;
- 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; and
- reviewing the Committee's terms of reference.

Corporate governance report continued

FRC Audit Quality Review

The Company received a letter on 27 July 2021 from the Financial Reporting Council (FRC) noting that it had carried out a review of PwC's audit of the Company's financial statements for the year ended 31 August 2020. We were pleased with the outcome of the FRC's Audit Quality Review (AQR) which reported no key findings and a number of good practice matters and the Committee concluded that it had no concerns about the quality of the 2020 audit.

Significant financial reporting issues and areas of judgement

In preparing the financial statements, 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:

Going concern

The Committee reviewed and challenged management's assessment of forecast cash flows for the period to 28 February 2023 including sensitivity to trading and expenditure plans, and for the potential impact of uncertainties including Covid-19 and a macroeconomic downturn. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, with no material uncertainties.

The Committee received a report from PwC on the work undertaken to assess going concern and specifically discussed the content of the disclosures made in the going concern statement in the Annual report and the basis of preparation within Note 1 of the financial statements on page 103.

The going concern statement is set out in the Directors' report on page 87. For further information see Note 1 of the financial statements on page 103.

Impairment review of store assets

The Committee received and considered a paper from management covering the judgements made in respect of the impairment testing of the Group's property, plant and equipment and right-of-use store assets. The paper recognised that there was an increased risk of asset impairment at 31 August 2021 given that sales and cost pressures and the resultant forecast reduction of future profitability in some stores caused by Covid-19 or otherwise 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 and their value recovered through the generation of future trading profits within the store portfolio. Given that management has continued to report on the performance of the business on a pre-IFRS 16 basis within its Alternative Performance Measures alongside the statutory measures derived under IFRS 16, the paper and discussions considered impairment assessment of store assets on both bases.

The Committee challenged management on the assumptions used within the impairment models and received and discussed a paper from PwC on their work in this area, which specifically considered and reported on their challenge and assessment of the key assumptions used and that the resultant charges were allocated appropriately. 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 and how it should be assessed and reported.

Goodwill and determination of operating segments

The Committee considered a paper from management on goodwill. This set out the determination of the cash-generating units ('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 discussed the Company's approach to allocating goodwill between the revised operating segments of Travel UK, North America and Rest of the World. The disclosures in respect of goodwill were also reviewed.

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

Convertible bond

The Committee considered a paper from management on the accounting treatment of the convertible bond. It discussed the judgements taken in respect of the accounting treatment of the conversion option on initial recognition of the bond and the valuation methodology applied. The Committee was satisfied that the judgements taken, and the resulting accounting treatment applied, are appropriate. The Committee also considered the disclosure included by management in the Annual report and accounts.

Inventory valuation

The Committee received a paper from management on accounting for and valuation of inventory, noting in particular the impact of Covid-19 on trading. It discussed the judgements made by management, with specific consideration given to inventory provisioning (both on an underlying and non-underlying basis), including provision for out-of-date, slow moving or obsolete stock and the classification and disclosure of related charges in the income statement and financial statements. The Committee also received a paper from PwC regarding the audit work they performed over the valuation of inventory and the presentation of inventory provision charges in the income statement split between underlying and non-underlying. The Committee is satisfied that the process and judgement 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 and presentation of inventory provisions.

One-off transactions

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 or are 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 arising as a result of the ongoing impact of Covid-19 on the Group including restructuring costs, asset impairment charges, the cost of writing down slow moving or obsolete inventory and costs of refinancing. 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 financial statements to understand the nature and reason for the costs. The Committee challenged management on the nature of costs classified as non-underlying, particularly discussing the factors underpinning the Covid-19 related costs and seeking specific input from PwC. PwC 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 and the appropriateness of the cost classifications adopted.

Pensions

The Committee assessed the accounting treatment adopted by management and the application of IAS 19 in relation to the WHSmith 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. A detailed report on pensions accounting and related disclosures was provided by the auditor which set out the work performed including their challenge and assessment of key scheme valuation assumptions compared to their independently observed ranges.

Viability statement

The Committee reviewed the process and assessment of the Company's prospects made by management in support of its longer-term viability statement, including:

- the review period and alignment with the Company's internal plans and forecasts and with its work to support the going concern basis of presentation for the financial statements;
- 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 potential financial impact of certain of the Company's principal risks materialising using severe but plausible scenarios, including the impact of Covid-19, on the Company's financial performance.

The Committee considered the viability statement and related analyses alongside its work on going concern, as set out in this report on page 50. It also discussed the clarity and appropriateness of the disclosures made within the viability statement and discussed these with PwC.

The viability statement is set out in the Strategic report on page 28.

Fair, balanced and understandable assessment

At the request of the Board, the Committee has considered whether, in its opinion, the 2021 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.

Corporate governance report continued

In the current year, the Committee specifically considered the disclosures made in respect of the impact on the business of the Covid-19 pandemic and the presentation and explanation of the statutory and alternative performance measures. This included consideration of the use of measures derived consistently with IFRS 16 (Leases) and APMs derived on a pre-IFRS 16 basis (IAS 17). These pre-IFRS 16 APMs have been adopted to help to demonstrate the underlying, year on year performance of the business following the introduction of IFRS 16 during the prior year and its material impact on the Group's results.

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 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 PwC through regular meetings;
- the Company has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these systems are that management regularly monitors and considers developments in accounting regulations and best practice in financial reporting and, where appropriate, reflects developments in the consolidated financial statements. PwC also keeps the Committee appraised of these developments; the Committee and the Board review the draft consolidated financial statements. The Committee receives reports from management and PwC on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements, and provides robust and independent challenge to management where appropriate; and the full year financial statements are subject to external audit and the half-year financial statements are reviewed by the external auditor;
- 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; 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 **whsmithplc.co.uk/sustainability**. 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 PwC 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 Auditors for the 2022 financial year and the directors will be proposing the re-appointment of PwC at the forthcoming AGM.

PwC were first appointed as external auditors at the 2015 AGM, following a competitive tender process completed in 2014, Jonathan Lambert was appointed as the PwC audit partner and Senior Statutory Auditor at the conclusion of the 31 August 2019 year end.

In accordance with applicable law and regulation, the Company is required to conduct a competitive audit tender by December 2024. 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 is likely to be held in 2023. The Committee considers that a competitive tender is in the best interests of our shareholders as it will allow the Company to appoint the audit firm that will provide the highest quality, most effective and efficient audit.

The Committee will continue to monitor the appointment, effectiveness and independence of PwC as external auditors, 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 2020 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. Input was sought from Committee members and from members of the management team on areas including the auditor's expertise, professionalism, independence and challenge; their planning and audit approach; the quality and content of reporting and the outputs from the audit; and governance of the audit including assessment of team members' performance and independence. The findings of the survey were considered by the Committee and concluded that PwC continued to perform effectively and remains independent. As a result, PwC's re-appointment as external auditors at the forthcoming AGM is recommended to shareholders.

The Committee has a formal policy on the Company's relationship with its external auditors 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 following the introduction of the FRC Revised Ethical Standard 2019. The only significant non-audit work undertaken by PwC in the financial year ended 31 August 2021 related to the interim review. The auditors may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. The Committee made enquiries of PwC and management and were satisfied that no such conflict existed.

On behalf of the Audit Committee, my approval is required before the Company uses PwC for 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 2021 the non-audit fees paid to PwC were £136,100, of which £135,000 related to the interim review, and the audit fees payable to PwC were £1,450,000.

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.

Nicky Dulieu
Chair of the Audit Committee

11 November 2021

Corporate governance report continued

Nominations Committee report

> The Committee will continue to focus on succession planning and talent management for key roles in the business."

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 2021. 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 Kal Atwal, Carl Cowling, Nicky Dulieu, Annemarie Durbin, Simon Emeny 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 twice during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, the appointment of two new non-executive directors, career planning and identifying talent across the businesses and reviewing the work that has been undertaken in respect of improving diversity in the Company's senior executive group.

In accordance with the Board's succession plan which aims to broaden the diversity of candidates to join the Board, the Committee appointed an external recruitment consultant, Annabel Richards Limited, to assist in the process of identification of potential candidates to join the Board generally and as a replacement for Annemarie Durbin who will, after nine years, step down from the Board at the forthcoming AGM. For each search, Annabel Richards initiated a search which produced a longlist of candidates, which was then reduced to a shortlist of candidates. These shortlisted candidates were interviewed by members of the Committee and the CFO/COO, and feedback on each candidate was compiled. As a result of these searches, Kal Atwal was appointed as a non-executive director on 1 February 2021 and Marion Sears will join the Board as a non-executive director on 1 February 2022. I confirm that Annabel Richards has no other relationship with the Company or individual directors.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity and inclusion. 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 32 to 34. 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 believes that the benefits of a diverse workforce will help the Company achieve its strategic objectives.

The Committee is fully committed to supporting diversity and inclusion at Boardroom and senior executive level in compliance with the Code and recognises the importance of diversity in effective decision-making. The long-term aim is to increase the diversity of our Board in all forms. The importance of diversity extends beyond the Board to senior management and throughout the Company. The Committee monitors the progress made to increase diversity at Board and senior management levels and compliance with targets and best practice recommendations set for gender diversity by the Hampton-Alexander Review and for ethnic diversity by the Parker Review.

The Hampton-Alexander Review recommended that by 2020 there would be at least 33 per cent female representation at the Board, Executive Committee positions and direct reports of the Executive Committee ('Senior Management Team'). We are pleased to report that as at 31 August 2021, three women and five men served on the Board, which meant that 37.5 per cent of our Board were female. Our Group Executive Team has two out of nine positions held by women (22 per cent). Of their direct reports, 22 out of 46 positions (32 per cent) are held by women. The Committee is mindful of the recommendation of the Parker Review Report to have at least one Director from a non-white ethnic minority by 2024 and is satisfied that our Board currently meets this recommendation.

During the year under review, the Company had 37 per cent women on the Board, 22 per cent in the Group Executive Team and their direct reports and 32 per cent in the management team. The Board is committed to strengthening the pipeline of women in senior roles across the business and an action plan has been agreed to take further steps to improve workplace diversity. Actions include the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company. The Company has a Diversity and Inclusion Committee consisting of employees from across the Group together with the Group Chief Executive and the Group HR Director. The committee has met three times during the financial year ended 31 August 2021 and has made recommendations on recruitment, and engaged with our customers and employees to mark cultural and diversity related events during the year. These recommendations have been acted upon and adopted by the Company.

The Company requires gender balanced shortlists for all internal and external recruitment at a senior executive level to ensure that we attract more women at senior level. Further information on the gender balance of those in senior management and their direct reports is set out in the Strategic report on page 33. 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 recognises 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. The Company's recruitment policy requires that for all senior management roles there must be a shortlist which includes at least one candidate from a non-white minority ethnic background. 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 32 to 34.

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. Simon Emeny, the Senior Independent Director, has, on behalf of the Board, commenced a search for my replacement as Chairman. The Company has appointed an external recruitment consultant, Lygon Group, to assist in the process of identification of potential candidates.

The latest Board evaluation report 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. The report also confirmed that the Board is well led and has responded effectively to the issues arising from Covid-19.

Henry Staunton
Chair of the Nominations Committee

11 November 2021

Directors' biographies

Henry Staunton
Chairman

Date of appointment: 1 September 2010. Henry was appointed as Chairman on 1 September 2013. Henry will step down as Chairman in 2022.

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

Carl Cowling
Group Chief Executive

Date of appointment: 26 February 2019. Carl was appointed as Group Chief Executive on 1 November 2019.

Committee membership: Nominations Committee and ESG Committee.

Skills and experience: Carl has considerable retail experience and has been instrumental in the development and execution of the Company's strategy. His strong leadership and strategic expertise enable him to lead the Group and create shareholder value. He joined WHSmith as Managing Director, Travel in November 2014. In 2017, he was appointed Managing Director, High Street. Prior to joining WHSmith, 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.

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 WHSmith 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.

Kal Atwal
Non-executive director

Date of appointment: 1 February 2021.

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

Skills and experience: Kal has substantial marketing and digital expertise. She spent 16 years at BGL Group and held several roles, including Founding Managing Director of comparethemarket.com and Group Director responsible for brand-led businesses, group strategy and corporate communications. Kal was also Chair of Simply Cook prior to its sale to Nestlé. Kal is a non-executive director at Royal London Group, Admiral Financial Services, a subsidiary of Admiral Group Plc, Whitbread PLC and a board advisor for Simply Cook Limited.

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, ESG Committee and Nominations Committee. Annemarie will step down as a non-executive director following the Company's forthcoming AGM.

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 WHSmith. She is a non-executive director and Chair of the Remuneration Committee of Santander UK PLC, Persimmon PLC and Petershill Partners PLC and Chair of Cater Allen 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 and a conflict mediator.

Simon Emeny
Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Senior Independent Director and a member of the Audit Committee, ESG Committee, Remuneration Committee and Nominations Committee.

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.

Maurice Thompson
Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Member of the Audit Committee, ESG 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 previously held the position of Chief Executive of Citibank in the UK.

Nicky Dulieu
Non-executive director

Date of appointment: 9 September 2020.

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

Skills and experience: Nicky has substantial financial and retail expertise. She trained as an accountant and held various strategic and financial roles within Marks & Spencer Group PLC over a 23-year period. In 2006, Nicky joined the Board of Hobbs Limited as Chief Operating Officer and Finance Director and was Chief Executive from 2008 until 2014. With her finance and retail expertise, she is a valuable member of the Board and Chair of the Audit Committee. She is a non-executive director at Redrow PLC, Marshall Motor Holdings PLC and Adnams PLC.

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

Previous directors who served during the financial year ended 31 August 2021:
Suzanne Baxter stepped down as a director of the Company on 20 January 2021.

Directors' remuneration report

"The Company believes that its approach to total compensation has served the Company well. The proposed changes to the Directors' remuneration policy are fully aligned to the Company's strategic plan. They are also in keeping with the Company's culture that promotes superior value creation in a responsible and sustainable way."

Annemarie Durbin
Chair of the Remuneration Committee

Annual statement from the Remuneration Committee Chair

Dear Shareholder

On behalf of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2021. This report covers three areas:

- the forward-looking Directors' remuneration policy which is subject to a binding shareholder vote at our 2022 AGM as set out on pages 61 to 72;
- the annual Directors' remuneration report ('report') setting out details of the implementation of our Directors' remuneration policy in the financial year ended 31 August 2021 as set out on pages 72 to 84. This report is subject to an advisory vote at our 2022 AGM; and
- an explanation of how the proposed Directors' remuneration policy will be implemented in the financial year ending 31 August 2022 as set out on page 75 also forms part of the Report.

The Remuneration Committee believes that the management team has performed to a truly exceptional level this year. In addition to steering the business through an extraordinarily difficult period, their actions have been fundamental in establishing a commanding position from which the Company can build back stronger going forward. More details of the actions taken are set out below. Of particular note has been the winning of all 30 technology stores in UK airports and the circa 100 stores won and yet to open in Travel over the next three years. The Board believe that this management team is pivotal to the future success of the business. When balancing the interests of all stakeholders in our decision-making, retaining and motivating the management team for the future success of the business has been one of our primary objectives.

Directors' remuneration policy

Our Directors' remuneration policy focuses on an approach to pay which, we believe, is in our shareholders' best interests and promotes the long-term success of the Company. Whilst it provides executive remuneration packages which are competitive, there is a very clear bias to variable pay with stretching and rigorous performance measures and conditions designed to deliver superior returns for shareholders over the long term. Our existing remuneration policy was supported by 98.78 per cent of shareholders at the 2019 AGM. The future policy (subject to shareholder approval) incorporates the following changes to further bring the policy in line with governance best practices:

- introduction of forward-looking post-cessation share ownership guidelines;
- inclusion of appropriate ESG metrics into the LTIP from September 2022;
- aligning the bonus opportunity for the two executive directors at 160 per cent of salary i.e. to increase Robert Moorhead's bonus opportunity from 130 per cent to 160 per cent in order to recognise his importance to the recovery and future success of the Group;
- inclusion of ability in exceptional circumstances only to pay a bonus of up to 20 per cent of maximum for strong personal performance when financial thresholds have not been met, noting that this gives less flexibility than many other companies; and
- re-confirmation that executive director pensions will be aligned with the wider workforce from 1 January 2023.

Our Directors' remuneration policy has worked well supporting the Company's long-term strategy to create shareholder value. You can see how the Company has, over the past ten years, generated shareholder value over this period in the TSR graph on page 77.

The Company's remuneration philosophy can be summarised as providing at or below the median of market levels of fixed pay but with the opportunity to earn upper quartile levels of remuneration for exemplary performance aimed at delivering superior returns for shareholders in a responsible and sustainable way over the long term. Further details of the proposed changes to the Company's remuneration policy are set out on pages 61 to 72.

Business Context: "Building Back Stronger as a result of management actions"

Although inevitably Covid-19 has continued to impact the Company during the financial year ended 31 August 2021, management has exerted considerable effort to strengthen and reshape the Company during the year focusing on initiatives within its control. These have supported the Company in the short term and will put the Company in a strong position to emerge stronger as all our markets recover. As global travel restrictions have eased, the Company has seen a return to travelling, led first by domestic travel and then short-haul. Long-haul travel will be the last to recover. Most industry forecasts, including the Airports Council International ("ACI"), do not expect passenger numbers to return to 2019 levels until 2024. In order to "build back stronger", management has:

- worked with Travel landlords and building on the Company's strong relationships to create opportunities for winning new business, extending key contracts and improving the quality and location of the space where the Travel business operates. The expansion of InMotion into the UK through the winning of all technology stores in UK airports is a good example of this in practice. As at the end of October 2021, the Travel business had won approximately 100 stores which have yet to open, including the 30 InMotion stores in UK airports;
- invested capex in strategically important projects which set up the Group well for the future, such as our refitted stores at London Heathrow Terminal 5 and our stores at the new terminal at Manchester Airport;
- focused on growing average transaction values across the Group;
- extended categories and ranges to reflect the specific needs of our customers in each location where we operate. Management have done this through a forensic attention to space, cross category promotions, merchandising, store layouts and store refits;
- grown the Company's internet proposition by extending product ranges, investing in our websites, marketing, fulfilment and distribution and building customer engagement through social media;
- actively taken steps to improve the Company's environmental footprint and was recognised as a leader in ESG through inclusion in the Dow Jones Sustainability World Index;
- maintained a sharp focus on costs, minimising discretionary spend and managing the Company's cash burn; and
- secured the Company's financial position through the agreement of new bank financing arrangements and the issue of the convertible bond. The Company is not, and has not, participated in any government-backed loan arrangements.

Whist the financial position has clearly been impacted by Covid-19, the Committee considers that these changes (and particularly the expansion of InMotion in UK airports) have enhanced this potentially high growth part of our business giving an optimal platform to benefit shareholders as this market returns.

As a result of management actions undertaken during the financial year the Company reduced the Headline loss before tax and non-underlying items[1] of £149m made in the second half of the financial year ended 31 August 2020 to a Headline loss before tax and non-underlying items[1] of approximately £36m in the same period this year. In this context, the Committee decided that both executive directors have performed at an exceptional level.

Nevertheless, we recognise that the Company has continued to be significantly affected by Covid-19 and continued to access government support in the form of rates relief and furlough support during the financial year ended 31 August 2021. The Company aims to be a responsible partner to its other stakeholders. You can read more about the Company's stakeholders in the Company's S.172 statement on pages 37 to 40.

1 Alternative performance measure defined and explained in the Glossary on page 154

During the year, the Company maintained a regular dialogue with employee representative groups, unions, shareholders, suppliers and landlords to ensure that all stakeholders have a common understanding of the impact of Covid-19 on the Company. We have recognised the performance of employees across the Company with approximately 1,750 colleagues receiving a bonus under the annual bonus plan for the financial year ended 31 August 2021.

For the financial year ended 31 August 2021 the Company delivered a positive Headline EBITDA[1] of £19m. Whilst Headline EBITDA[1] was positive, no dividends have been declared for the financial year ended 31 August 2021. However, the Committee noted that shareholders had seen an increase of approximately 39 per cent in the Company's share price as a result of the Company's overall financial improvement during the financial year ended 31 August 2021.

The Committee took all of the above factors into account when reaching its decisions on executive director remuneration for the financial year ended 31 August 2021 and these decisions are set out below.

Recap on 2019/2020 remuneration decisions and rationale for 2020/21 outcomes

Bonus

Shareholders will recall that the Committee made no bonus award to the executive directors for the financial year ended 31 August 2020. This was despite the Company performing very strongly for the first six months of the financial year and performing strongly against their personal objectives.

For the financial year ended 31 August 2021, the bonus target was set using Headline EBITDA[1] as the primary metric rather than Headline profit before tax[1]. This was because the Company was expected to deliver a PBT loss for the financial year albeit at a much reduced level than the previous financial year.

For the bonus plan, the Company slightly exceeded the target Headline EBITDA[1] level and the Committee determined that both executive directors performed to an exemplary level. You can read about the actions that the executive directors took to build back stronger on pages 58 and 59. The executive directors' personal objectives are set out on pages 80 and 81. However, recognising the experience of shareholders and other stakeholders during the financial year ended 31 August 2021, the Committee believed that it was appropriate to exercise downward discretion to reduce the formulaic annual bonus out-turn to one-times salary for Carl Cowling (a 22 per cent reduction) and by the same percentage for Robert Moorhead.

The Committee took this decision in order to balance the experience of shareholders and other stakeholders during the financial year and to recognise the proactive steps taken by management which, we believe, will create significant shareholder value in the future. The level of discount is a matter of judgement but was arrived at in the round looking at the out-turn for other senior employees and noting that the executive directors did not receive a bonus for the previous financial year and that the 2018 LTIP has not vested as a result of the ongoing impact of Covid-19 and lapsed on 1 November 2021. Overall, this reduced bonus was felt appropriate. This resulted in Carl Cowling

Directors' remuneration report continued

receiving a bonus of £550,000 and Robert Moorhead receiving a bonus of £357,500. The Committee agreed that 23 per cent of the bonus should be deferred in accordance with the rules of the Company's Deferred Bonus Plan.

The Committee believes that the senior management team, and in particular the executive directors, have provided outstanding, inspiring and resourceful leadership during another year of uncertainty and disruption. Accordingly, the Committee believes that the remuneration of the executive directors is proportionate and appropriate when taking into account the experience of the Company's stakeholders and the government support received by the Company.

For the financial year ending 31 August 2022, the Committee has reverted to the normal pre-Covid-19 practice of setting Headline PBT as the financial metric for the annual bonus plan.

Salary

Shareholders will also recall that when Carl Cowling was appointed CEO in November 2019, his base pay was set at a lower level than his predecessor and lower than the market median for FTSE250 CEOs. At the time, we explained to shareholders that, subject to personal performance, the intention was to increase Carl Cowling's base salary in £25,000 increments in April 2020, 2021 and 2022.

The Committee had previously assessed Carl Cowling's personal performance for the financial year ended 31 August 2020 and determined that this was exemplary, particularly in the context of Covid-19 and therefore announced an intention to make the scheduled increase with effect from April 2021. At the 2021 AGM a significant minority of shareholders did not support this approach. As a result, the Company announced that it would defer making this award until at least the end of the financial year ended 31 August 2021. The Committee also confirmed that it would engage with shareholders and advisory bodies and that it would consider the feedback received in developing the 2022 Directors' remuneration policy, which is being put to a vote at the 2022 AGM.

Having done that, and in the context of Carl Cowling's continued exemplary performance, when consulting with our largest shareholders on the new Directors' remuneration policy, we advised that the deferred £25,000 increment had been made with effect from 1 September 2021 and that there is an intention (subject to continued personal performance) for the final increment to be awarded with effect from 1 April 2022 in accordance with the original intention shared with shareholders in 2019. This will take Carl Cowling's base salary to £600,000 from 1 April 2022.

The current market median for CEOs in the top half, by market cap, of the FTSE250 is £628,000 so, even after the previously announced increments, Carl Cowling will continue to receive a base salary below market median.

The Committee is mindful that the decision to increase the CEO's salary was a judgement and some shareholders may have preferred a further deferment. Carl Cowling became CEO on 1 November 2019 so, consistent with best practice, his transition to the agreed higher salary (which remains below the market median) consistent with our general philosophy, will have taken two and a half years. It was felt that further delaying the increase was not appropriate given the current demand for experienced retail executives from PE-backed companies and demonstrates our commitment to the remuneration package agreed on his appointment. It should also be noted that the Company has not defaulted to regular annual increases to its executive directors and that Robert Moorhead has not received any pay increase since May 2019. Honouring our commitment to an executive who is now fully experienced in role and has performed at an exceptional level is considered both right and fair.

LTIP

The 2018 LTIP vesting percentage is determined by the growth in the Company's Headline EPS and TSR over the three-year performance period which ended on 31 August 2021.
The Company did not meet the performance targets for the 2018 LTIP and the awards lapsed. The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment.

In terms of long-term incentives, in last year's Annual report we advised shareholders that, for the financial year ended 31 August 2021, the LTIP award would have only one metric, TSR, rather than the usual two metrics (EPS and TSR). The Committee is proposing that, as done pre-Covid-19, the LTIP performance targets for the financial year ending 31 August 2022 will be based on Headline EPS (which as consulted on with shareholders during 2020 will be assessed on a pre-tax basis from this grant onwards) and on relative TSR.

The Committee agreed that the LTIP performance targets for the financial year commencing 1 September 2022 will include ESG targets which will be based on the Company's Corporate Responsibility Strategy, namely Planet, People and Communities. Further details of this will be developed and disclosed in the 2022 Directors' remuneration report.

Finally, as you may be aware, this is my last letter to you as Chair of the Committee. Having served nine years on the board, I will be stepping down as Chair of the Committee at the AGM and handing over to Marion Sears, who will take up the position when she joins the Board on 1 February 2022. Marion Sears has a wealth of experience of remuneration issues. 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

11 November 2021

This Remuneration Report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013, 2018 and 2019 (the 'Regulations'), LR 9.8 of the UKLA Listing Rules and the UK Corporate Governance Code 2018 (the 'Code').

1. Information subject to audit

The following information has been audited by PwC:

- Section 4.4 – Summary of non-executive directors' remuneration 2021;
- Section 4.5 – Summary of executive directors' remuneration 2021;
- Section 4.6 – Payments made to former directors;
- Section 4.7 – Payments for loss of office;
- Section 4.12 – Annual bonus targets;
- Section 4.13 – Share plans; and
- Section 4.17 – Directors' interests in shares.

2. Background to Directors' remuneration policy

The Company's Directors' remuneration policy can be summarised as providing at or below the median of market levels of fixed pay but with the opportunity to earn upper quartile levels of remuneration if the executive directors deliver superior returns for shareholders.

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 if the pay-out was based on misstated financial results, an error or incorrect information, if the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned or 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 key changes to the Company's Directors' remuneration policy are:

- The introduction of post-cessation share ownership guidelines requiring executive directors to retain the policy level (300 per cent of salary for the CEO and 250 per cent for other executive directors) for two years post-cessation. This will apply to both new awards from the adoption of the policy and all unvested awards.
- Annual bonus plan: this currently operates as a matrix of financial targets and personal performance, where failure to achieve the threshold financial level results in no bonus payment. While this is felt appropriate in most cases, Covid-19 has clearly demonstrated that it can unfairly penalise executive directors where they meet their personal objectives but the financial threshold is not achieved and, therefore, no bonus is paid. Consistent with other companies operating similar plans, we propose introducing the ability to pay a bonus of up to 20 per cent of maximum if the Committee considers in exceptional circumstances that the personal or other non-financial performance warrant payment of a bonus against pre-set targets noting that this actually constrains discretion compared with some companies' response to Covid-19. It is envisaged that this would only be invoked in exceptional circumstances. The Committee also believes that it is appropriate to align the bonus opportunity for the two executive directors at 160 per cent of salary (i.e. to increase Robert Moorhead's bonus opportunity from 130 per cent to 160 per cent) in order to recognise his importance to the recovery and future success of the Group. The Committee believes that increasing Robert Moorhead's variable pay rather than his fixed pay is in line with the Company's remuneration policy which has served the Company and shareholders well in the past.
- Introduction of ESG metrics to the LTIP: no changes to the LTIP plan are proposed. The Committee has agreed that the Long-Term Incentive Plan for 2022 will include ESG targets which are relevant to the Company. The targets will be selected from ESG targets associated with the Company's sustainability strategy, a Journey to a Better Business (for more information on the Company's sustainability strategy see pages 29 to 35). The sustainability strategy has been developed following detailed consideration of the views of different stakeholders, to ensure that the areas of focus are material and directly linked to the Company's business strategy. Material and measurable ESG targets will be selected by the Committee for inclusion in the LTIP for the grant in 2022. Typically, the performance measures have been linked to EPS and relative TSR. It is proposed that, from the grant in 2022, the performance measures will be 40 per cent pre-tax EPS, 40 per cent relative TSR and 20 per cent ESG.
- Pensions: the Company has already committed to align executive director pension contributions to the all-employee level, approximately three per cent, from 1 January 2023.

Directors' remuneration report continued

3. The Directors' remuneration policy

The Committee presents the Directors' remuneration policy, which will be put to a binding vote at the forthcoming Annual General Meeting and, subject to shareholder approval, will take immediate effect.

As part of its review of the remuneration policy, the Committee has considered the factors set out in Provision 40 of the Code. In our view, the proposed Policy addresses those factors as set out below:

Simplicity	• the Directors' remuneration policy and our approach to its implementation are **simple**, appropriately designed and well understood, reinforcing the Group's **culture** as well as strategy; • the Committee reviews performance metrics and targets each year to ensure that they continue to be clear and aligned to delivery of the strategy;
Predictability	• the performance measures used in the incentive plans are well aligned to the Group's strategy and goals, with stretching and achievable targets: the maximum awards under any award are clearly stated and, therefore, **predictable**;
Proportionality	• the balanced approach is **proportionate** and drives behaviours that promote high performance and sustainable growth to drive the long-term success of the Company for the benefit of all stakeholders, without encouraging or rewarding excessive **risk**-taking; • the Committee retains sufficient discretion to adjust formulaic incentive outcomes or require the repayment of previous awards to ensure that poor performance is not rewarded;
Risk	• the Committee reviews and sets performance targets each year to ensure that they drive the right behaviours and are appropriately stretching without encouraging unnecessary **risks**; • **risk** management is operated through annual bonus deferral, LTIP holding periods and, if approved, our new policy will introduce post-employment shareholding; • malus and clawback provisions apply to the annual bonus, DBP and LTIP;
Clarity	• the Committee maintains a continual dialogue with shareholders and proxy agencies to understand their views. We consulted with shareholders on remuneration arrangements, listening to and taking into account the feedback we received when developing the new remuneration policy; • our approach to disclosure is transparent with **clear** rationale provided on its maintenance and any changes to policy; • when considering remuneration for executive directors and senior management, the Committee takes into account the pay and conditions of employees across the Group and, where appropriate, exercises oversight of remuneration throughout the Company;
Alignment to Culture	• the Committee assesses performance under the annual bonus plan against a range of objectives, including those related to our values and strategy; • the introduction of ESG targets to the LTIP from the grant in 2022 will further help to ensure incentive schemes drive behaviours consistent with Company purpose, values and strategy.

The Committee has the discretion to amend the Directors' remuneration policy with regard to minor or administrative matters where it would, in the opinion of the Committee, be inappropriate to seek or await shareholder approval.

Future policy table

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 executive directors 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 at or below median, 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 £680,000 (as increased by RPI from January 2019, approximately £739,000 at the year end). No changes to this cap are proposed.	• Base salary is paid monthly in cash. • Base salaries are reviewed typically annually with any changes normally taking effect from 1 April.
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 executive directors.	• 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.

Directors' remuneration report continued

Element and purpose	Policy and opportunity	Operation and performance measures
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement.	• Provide an employer-sponsored pension plan or equivalent cash allowance. Pension contributions (or cash in lieu) for new executive directors will be aligned with the average rate available to UK-based colleagues more generally, approximately 3 per cent of salary but subject to periodic review. The pension contribution for Carl Cowling is 12.5 per cent and Robert Moorhead is 25 per cent of base salary until 31 December 2022. It will reduce to align with the wider workforce rate, approximately 3 per cent of salary, from 1 January 2023.	• 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 up to 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 with target levels at 48 per cent of maximum and threshold bonus levels at 16 per cent of maximum. • 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 under the Company's Deferred Bonus Plan ('DBP'). The shares are released one third on each anniversary of assessment.	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. As set out on page 79, currently, under the annual bonus plan, participants can earn a bonus based on the achievement of a financial 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 financial target and the highest personal performance rating. • In exceptional circumstances, up to 20 per cent of the maximum bonus opportunity may be payable independent of the financial out-turn. • 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 normal 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 for the Group Chief Executive and 310 per cent for any other executive director are made annually. • 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 a combined vesting and holding period of at least five years preventing the delivery and sale of shares until the end of the holding period.	• 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 up to 25 per cent of the award for threshold performance. • The Company will honour the vesting of all outstanding awards granted prior to this remuneration policy coming into force in accordance with the terms of such awards.
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.

Notes to the policy table

1 Stating maximum amounts for each element of remuneration
Where the table refers to the maximum amount that may be paid in respect of any element of the policy, these will operate simply as caps and are not indicative of any aspiration. In particular, the salary cap is not aspirational and the Committee envisages maintaining its approach to salary increases

2 Payments from existing awards
Carl Cowling and Robert Moorhead are eligible to receive payment from awards made before the approval and implementation of the previous remuneration policies or payments envisaged under those policies. Details of these awards can be found in the annual Directors' remuneration report on page 82. The Company will similarly honour pre-existing commitments made to any other new Board members

Directors' remuneration report continued

3.2 Performance measure selection and approach to target setting

Annual bonus plan

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 typically 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. The Committee agreed that the performance targets for the annual bonus plan for the financial year ended 31 August 2021 should be based on Headline EBITDA[1] in order to focus the management team on the Group's free cash flow as a result of the ongoing impact of Covid-19. The Committee, in setting the bonus targets for the financial year ended 31 August 2021, was mindful of the impact of Covid-19 on the Company and the markets in which we operate and took into consideration market consensus for the financial year ended 31 August 2021. The Committee agreed that the range used to determine the level of pay-out under the bonus plan in respect of the financial targets should be widened given that the Committee agreed that the proposed target pay-out under the bonus plan was stretching, given the uncertainty created by Covid-19.

Participants can earn a bonus based on the achievement of a financial target, for example, Headline EBITDA[1] and a personal rating measured against one or more specific financial and/or non-financial objectives, including ESG targets. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum target for the financial 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.

In exceptional circumstances, up to 20 per cent of the maximum bonus opportunity may be payable independent of the financial out-turn. For on-target achievement of the financial target and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus available under the plan. Any bonus in excess of the on-target level is deferred into shares under the DBP. One third of the shares are released on each anniversary of the date of grant.

Different bonus measures and targets may apply in subsequent years within the overall constraints of the plan.

Long-term incentives

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, market-based conditions and corporate responsibility 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. However, the performance targets for awards made under the LTIP in the financial year ended 31 August 2021 were solely based on relative TSR given the difficulty in putting in place meaningful EPS targets as a result of the impact of Covid-19 on the Company and the wider global economy.

The Committee is proposing that any awards made in the financial year commencing 1 September 2021 will be 50 per cent based on Headline pre-tax Earnings per Share and 50 per cent based on relative TSR over three financial years ending 31 August 2024 compared with the FTSE All Share Retailers and that any awards made in the financial year commencing 1 September 2022 will be based on the following targets each measured over the three financial years to 31 August 2025:

- 40 per cent based on Headline pre-tax Earnings per Share (calculated on a pre-IFRS 16 basis). 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 definition of EPS remains unchanged except that, as consulted with shareholders in 2020, it will be assessed on a pre-tax basis;
- 40 per cent based on relative TSR over three financial years compared with the FTSE All Share Retailers index. Threshold vesting will occur for TSR in line with median and maximum vesting will occur for TSR in line with the upper quartile of the comparator group; and
- 20 per cent based on ESG measures which will be developed over the course of the next year based on the Company's Sustainability Strategy, namely Planet, People and Communities. Further details of this will be developed and disclosed in the 2022 Directors' remuneration report.

1 Alternative performance measure defined and explained in the Glossary on page 154

Malus/Clawback

The bonus plan, DBP 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 (a) the Company materially misstated its financial results and as a result the bonus or award was made, paid or vested to a greater extent than it should have been; (b) the extent to which any performance target or other condition was met was based on an error or inaccurate or misleading information or assumptions and as a result any bonus or award was made, paid or vested to a greater extent than it should have been; (c) the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned; or (d) there is an insolvency having regard to the Committee's assessment of the involvement of the individual to such event.

Exercise of discretion

In line with market practice, the Committee retains discretion in relation to the operation and administration of the annual bonus plan, DBP and LTIP. This discretion includes, but is not limited to:

- the timing of awards and payments;
- the size of awards, within the overall limits disclosed in the policy table;
- the determination of vesting, including the discretion to override formulaic outcomes, where appropriate, ensuring that the outcome reflects the Company's and the executive's performance as well as the experience of shareholders and stakeholders, including employees, more generally;
- the treatment of awards in the case of a change of control (the DBP excepted) or a restructuring of the Company;
- the treatment of leavers within the rules of the plan and the termination policy summary shown on page 70; and
- adjustments needed in certain circumstances (for example, a rights issue, a corporate restructuring or a special interim dividend).

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures and targets in exceptional circumstances (such as a major transaction) where the unamended conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual Directors' remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the annual bonus plan and the LTIP rules also provide that any such amendment must not make the amended condition materially less difficult to satisfy than the original condition was intended to be prior to the occurrence of such event.

3.3 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 in-depth data regarding employee remuneration from the HR director on wider workforce pay and conditions and, where appropriate, exercises oversight of remuneration throughout the Group. The employee remuneration data submitted to the Committee was prepared in respect of head office and store employees and was based on data provided by Willis Towers Watson and Alan Jones Retail surveys. Following discussion, the Committee accepted a number of recommendations to adjust the pay of some head office and store based employees.

Although the Committee did not formally consult with the wider workforce on executive remuneration, each business has an employee forum at which all aspects of the business are discussed. Employees are also 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.

Our approach to reward for our employees is based on the following principles:

- competitive: setting pay with reference to internal relativity and external market practices;
- simple: helping all employees to understand how they are rewarded;
- fair: achieving consistent outcomes through flexible and transparent policies; and
- sustainable: aligning reward to business strategy and performance.

All employees are entitled to base salary and benefits, including pension and staff discount. Eligible employees receive private medical cover and 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 and provide recuperative holidays and care breaks.

Participation in a pension plan is offered to all employees on a contributory basis and we have approximately 5,520 employees in our pension plans.

Directors' remuneration report continued

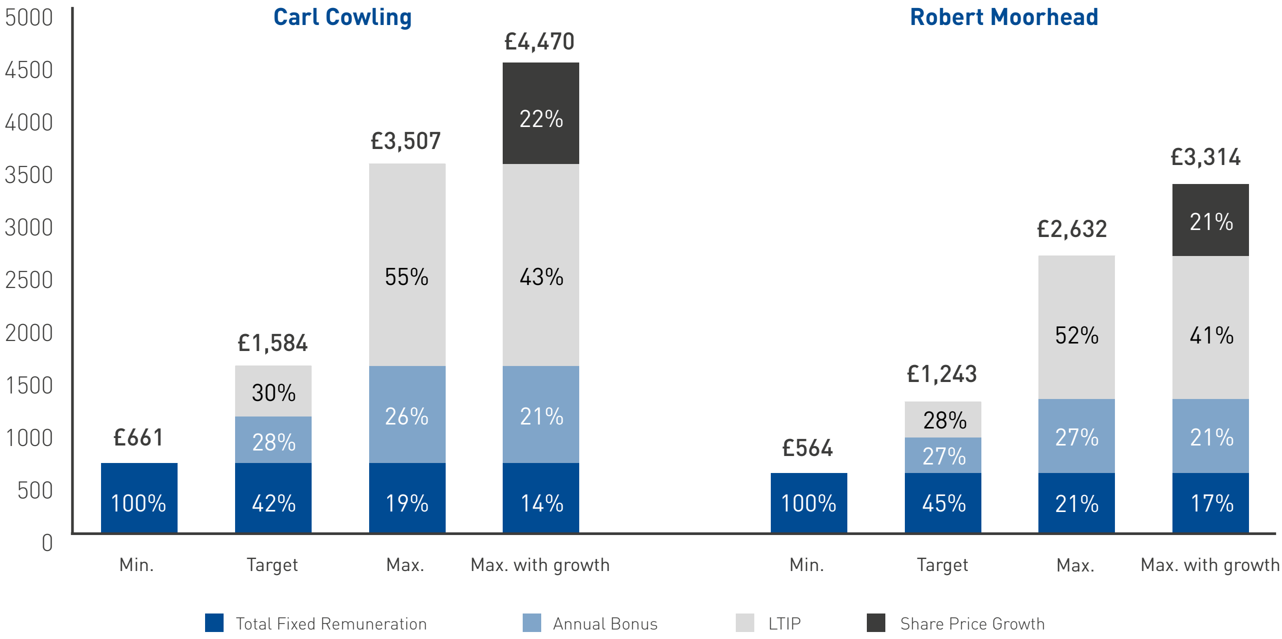
3.4 Managing conflicts of interest
In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. In particular, the remuneration of all executive directors is set and approved by the Committee; none of the executive directors are involved in the determination of their own remuneration arrangements. The Committee also receives support from external advisors and evaluates the support provided by those advisors annually to ensure that advice is independent, appropriate and cost-effective.

3.5 Statement of consideration of shareholder views
The Committee maintains a continual dialogue with our major shareholders and proxy agencies to understand their views. Any major changes to the policy or its operation would be subject to prior consultation as necessary.

As part of the current policy review process, the Committee consulted with approximately 60 per cent of the shareholder register. The Chair of the Remuneration Committee wrote to the Company's largest investors and shareholder representatives setting out the proposed changes to the existing remuneration policy and made herself available for meetings as requested by investors. The views expressed by investors were supportive of the proposed changes given the introduction of post-cessation share ownership guidelines and ESG performance targets for the LTIP. The views of shareholders were considered by the Committee and formed part of the final policy as set out in Section 2 on page 61.

3.6 Total Remuneration opportunity
The graphs below indicate the level of remuneration that could be received by each executive director in accordance with the Directors' remuneration policy in the first financial year to which the new policy applies (i.e. financial year ending 31 August 2022) at different levels of performance. The potential total rewards are based on the Company's Directors' remuneration policy.

Statutory charts – valuation assumptions



Fixed – The minimum scenario reflects base salary, pension and benefits, being the only elements of the remuneration package not linked to performance. No salary increase has been assumed in respect of the April 2022 salary review for Robert Moorhead, although the charts do include the salary increase for Carl Cowling in April 2022 as set out on page 73.

Annual bonus – The on-target scenario reflects fixed remuneration as above, plus the target level of performance for the annual bonus plan which is 48 per cent of maximum annual bonus; and for the LTIP awards, threshold vesting levels have been assumed.

LTIP – The maximum scenario reflects fixed remuneration as above, plus the maximum level of performance for the annual bonus plan of 160 per cent of base salary; and for the LTIP awards, maximum vesting levels have been assumed.

Additional LTIP 50 per cent increase in share price – as for the maximum scenario above, plus an increase in the value of the LTIP of 50 per cent across the relevant performance period to reflect possible share price appreciation. Consistent with the reporting regulations, this does not separately include the impact of dividend accrual.

3.7 Recruitment remuneration policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executive directors to strengthen the management team and secure the skill sets to deliver the Company's strategic objectives.

The starting point for the Committee will be to look at the general policy for executive directors as set out above, and structure a package in accordance with that policy. Although the Regulations provide that, technically, the caps on fixed pay within the general policy will not apply on the recruitment of an executive, the Committee would seek not to exceed those caps in practice. In addition, ignoring any special buy-out arrangements which may prove to be necessary, the annual bonus and long-term incentive compensation arrangements will operate (including the maximum award levels) within the limits as set out in the Future policy table in Section 3.1 for executive directors on pages 63 to 65.

When an internal appointment is made, any pre-existing obligations will be honoured and payment will be permitted under the policy. However, the Committee may adjust any pre-existing obligations to reflect the new appointment where it is considered appropriate to do so.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses and legal fees as it considers to be appropriate.

Where it is necessary to make a recruitment-related pay award to an external candidate to buy out entitlements under a previous employers' plan, the Company will not pay more than the Committee considers necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such buy-out awards on terms that are more bespoke than the existing annual and equity-based pay structures at the Company in order to secure a candidate.

Any buy-out awards for external appointments, whether under the bonus plan, LTIP or otherwise, will be capped at the commercial value of the amount forfeited and will take account of the nature, time-horizons and performance requirements of those awards. In particular, the Committee will seek to ensure that any awards being forfeited which were subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement performance requirements and any awards with service requirements are, again, bought out with similar terms. However, exceptionally the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the view of the Committee, equally reflected in some other way, for example, through a significant discount to the face value of the awards forfeited.

3.8 Contracts of service and policy on payment for loss of office

Executive directors are on rolling service contracts with no fixed expiry date. The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Carl Cowling	26 February 2019	12 months	12 months
Robert Moorhead	8 October 2008	12 months	9 months

Carl Cowling's service contract provides for notice of 12 months from either party, permits summary dismissal with no compensation in specified cases, has no special provisions in the event of a change of control and limits the maximum sum due on termination to base salary only for the notice period. Robert Moorhead's service contract provides for notice of 12 months from the Company and nine months from Robert Moorhead and has no special provisions in the event of a change of control and limits the maximum sum due on termination to base salary only for the notice period. Copies of the service contracts may be inspected at the registered office of the Company.

It is envisaged that any new executive director would join with a contract which is no more favourable than that summarised in respect of Carl Cowling. In practice, the facts surrounding a termination may be complex and do not always fit neatly into defined categories for 'good' or 'bad' leavers. Therefore, it is appropriate for the Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Committee may choose to apply under the discretions available to it under the terms of the annual bonus plan, DBP and LTIP. The potential treatments on termination under these plans (which are governed by the relevant plan rules) are summarised in the table below.

Directors' remuneration report continued

Reason for leaving	Timing of vesting/payment	Calculation of vesting/payment
Annual bonus		
• 'Bad leaver' (all cases other than those specified below)	• Not applicable	• No bonus to be paid for the financial year
• Redundancy, retirement or otherwise at the Committee's discretion	• At the end of the financial year	• Bonuses will only be paid to the extent that the performance measures have been met. Any bonus will be paid on a time pro-rata basis
• Change of control	• Continuation of plan or acceleration due to change of control	• The Committee may decide that the end of any bonus year should be accelerated to the date of the event with appropriate pro-rating of any payment
Deferred Bonus Plan		
• Dismissal for misconduct	• Not applicable	• Vested and unvested awards lapse
• All other cases	• Vesting: at the end of the relevant vesting period (save in the case of death where vesting occurs immediately) unless the Committee decides otherwise in exceptional circumstances	• Awards vest over the original number of shares
• Change of control	• On change of control	• Awards will vest over the original number of shares. Awards may be exchanged for awards over shares in the acquiring company in the event of an internal reorganisation
LTIP		
• 'Bad leaver' (all cases other than those specified below)	• Not applicable	• Vested and unvested awards lapse
• Ill health, injury, permanent disability, retirement with the agreement of the Company, redundancy, sale of a division or subsidiary or if the circumstances, in the opinion of the Committee, are exceptional	• Vesting: at the end of the relevant performance period • Exercise: at the end of any relevant holding period	• For prescribed 'good leavers', generally, awards vest over the original timescales, subject to the original performance conditions. Awards are pro-rated for time unless the circumstances, in the opinion of the Committee, are exceptional • Where the Committee determines that the circumstances are exceptional such that a participant is not a 'bad leaver', awards vest over the original timescales, subject to performance measurement and time pro-rating
• Death	• Vesting: at the discretion of the Committee	• The Committee has discretion to disapply performance conditions and may allow immediate vesting. Awards may be pro-rated for time (as noted above)
• Change of control	• On change of control	• Awards will vest to the extent that any performance conditions have been satisfied and will be reduced pro-rata to take account of the performance period not completed (as noted above), unless the Committee decides otherwise. Awards may be exchanged for awards over shares in the acquiring company in the event of an internal reorganisation

In respect of all-employee plans, including Sharesave, the executive directors are subject to the same leaver provisions as all other participants.

If additional compensation is required to be considered, such as on a settlement agreement, the Committee will consider all relevant commercial factors affecting the specific case. If the Committee deems it necessary, the Company may enter into agreements with an executive director, which may include the settlement of liabilities in return for payment(s), including reimbursement of legal fees and outplacement services.

3.9 Chairman and non-executive director fees

The following table explains the different elements of the remuneration that is paid to the Chairman and non-executive directors.

All payments made to the Chairman are determined by the Committee. The Chairman does not participate in any bonus or share plans. The fees paid to non-executive directors are determined by the Chairman and the executive directors (being the Board excluding the non-executive directors themselves) and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. Non-executive directors do not participate in any bonus or share plans. The current fees payable to the Chairman and the non-executive directors are set out on page 74.

Non-executive directors' letters of appointment

The Chairman, who has a letter of appointment, is appointed for an initial term of three years. The appointment may be terminated at any time by either the Company or the Chairman without notice. The non-executive directors, who have letters of appointment, are also appointed for an initial term of three years. The Chairman and non-executive directors may be invited to serve for up to a further two terms (nine years in total). Any term renewal is subject to Board review and re-election at the Company's AGM. There is no right to re-nomination by the Board, either annually or after any three-year period. These appointments can be terminated at any time by either the Company or the non-executive director without notice. Copies of the letters of appointment may be inspected at the registered office of the Company.

In light of the Covid-19 pandemic, we announced that Henry Staunton, Chairman, would remain as a director of the Company until 2022. Information on the Company's succession planning is set out in the Nominations Committee report on pages 54 and 55.

Chairman and non-executive directors	Original appointment date	Term end date
Henry Staunton	1 September 2010	31 December 2022
Kal Atwal	1 February 2021	31 January 2024
Nicky Dulieu	9 September 2020	8 September 2023
Annemarie Durbin	3 December 2012	19 January 2022
Simon Emeny	26 February 2019	25 February 2022
Maurice Thompson	26 February 2019	25 February 2022

Under the Company's Articles of Association, all directors are required to retire and submit themselves for re-election every three years. However, in accordance with the Code, the Board has agreed that all directors will stand for re-election at the forthcoming AGM.

Element and purpose	Policy and opportunity	Operation and performance measures
Annual fees	• The fees paid to the Chairman and the fees of the other non-executive directors aim to be competitive with other fully listed companies of equivalent size and complexity. Fee levels are periodically reviewed by the Board (for non-executive directors) and the Committee (for the Chairman). In both cases, the Company does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum. • Additional fees are paid to non-executive directors who chair a Board Committee (excluding the Nominations Committee) and to the Senior Independent Director ('SID') and additional fees may be introduced from time to time for other responsibilities. • All fees are subject to the aggregate fee cap for directors in the Articles of Association (currently £750,000 per annum). • Non-executive directors do not participate in incentive arrangements.	• Fees are paid monthly in cash. • Fee levels for the Chairman and the non-executive directors are reviewed periodically (the last review being in March 2018) with the next review due in March 2022. • The Company reserves the right to change how the elements and weightings within the overall fees are paid and to pay a proportion of the fees in shares within this limit if it is considered appropriate to do so.

Directors' remuneration report continued

Element and purpose	Policy and opportunity	Operation and performance measures
Benefits	• In line with other employees, the Chairman and the non-executive directors receive an employee staff discount.	• It is not the current practice of the Company to provide benefits to the Chairman or the non-executive directors (other than the employee staff discount). However, 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 and within the overall limits. • Neither the Chairman nor any non-executive directors will participate in any variable pay arrangements. • Any other benefits would count towards the overall fee cap.

4. Annual Directors' remuneration report

The Committee presents the Annual report on remuneration which, together with the introductory letter by the Chair of the Committee on pages 58 to 60, will be put to shareholders as an advisory vote at the forthcoming Annual General Meeting.

4.1 Remuneration Committee

The Committee Chair is Annemarie Durbin. The other members of the Committee are Kal Atwal, Nicky Dulieu, Simon Emeny, 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 eight times during the year. All Committee members are expected to attend meetings. The table on page 43 in the Corporate governance report shows the number of meetings held during the year ended 31 August 2021 and the attendance record of individual directors.

In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. In particular, the remuneration of all executive directors is set and approved by the Committee; none of the executive directors are involved in the determination of their own remuneration arrangements. The Committee also receives support from external advisors and evaluates the support provided by those advisors annually to ensure that advice is independent, appropriate and cost-effective.

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 or with any individual directors. The Committee is satisfied that FIT continues to provide objective and independent advice. FIT's fees in respect of the year under review were £72,092 (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.

The Committee maintains an ongoing dialogue with our major shareholders and proxy agencies to understand their views. Any major changes to the policy or its operation would be subject to prior consultation as necessary.

Key Committee activities during the year

Alignment to strategy and wider workforce	Assessed the ongoing alignment of remuneration structures, measures and targets to the strategy. Reviewed wider workforce remuneration. Reviewed the gender pay gap report and recommended to the Board that the gender pay gap report be published.
Shareholder Engagement	Considered investor feedback, particularly on the remuneration policy.
Pay for performance	Assessed performance against targets set for the financial year ended 31 August 2021 annual bonus and 2018 LTIP and considered whether any discretion should be used to adjust formulaic outcomes if necessary. Reviewed and approved targets for annual bonus and LTIP. Reviewed the performance of the executive directors against personal objectives. Considered remuneration to ensure that it retains and motivates the excellent management team.
Governance	Reviewed and considered consequences of the changing investor, governance and reporting requirements. Reviewed progress of the executive directors against shareholding requirements. Approved the 2020 Directors' remuneration report.
Pay	Postponed the proposed increase to Carl Cowling's salary in April 2021 and agreed that Robert Moorhead would not receive a pay increase in the financial year ended 31 August 2021. Reduced the pay-out under the annual bonus plan for the financial year ended 31 August 2021.

4.2 Implementation of Directors' remuneration policy in the financial year ended 31 August 2021

This section sets out how the Directors' remuneration policy has been implemented in the financial year ended 31 August 2021.

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling was appointed as Group Chief Executive on 1 November 2019 on a lower salary than his predecessor. The Committee, in accordance with best practice, indicated in the 2019 Directors' remuneration report that it would, subject to performance, increase Carl Cowling's salary in £25,000 increments in April 2020, 2021 and 2022. Given the impact of Covid-19, the April 2020 increase was deferred to 1 July 2020 and Carl Cowling donated his increase to charity until October 2020. Following the shareholder vote at the 2021 AGM, the April 2021 increase was deferred to September 2021. Accordingly, Carl Cowling's salary increased to £575,000 with effect from 1 September 2021. The current salaries are: Carl Cowling – £575,000; and Robert Moorhead – £440,000.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2021 (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 2021.
Pension	Carl Cowling received a total benefit equivalent to 12.5 per cent of base salary and Robert Moorhead received a total benefit equivalent to 25 per cent of base salary. During the financial year ended 31 August 2021, 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 reduced bonus payable for the financial year ended 31 August 2021 was: Carl Cowling - £550,000 and Robert Moorhead - £357,500. Any bonus paid in excess of the on-target level is normally deferred into shares. The formulaic out-turn was reduced by 22 per cent to reflect that, despite the exceptional achievements of management, the out-turn was still a Headline loss and that no dividends were payable. The bonus is assessed against a sliding scale financial target and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives. Further information on the bonus payments to Carl Cowling and Robert Moorhead and their achievement of their personal objectives is set out on pages 80 and 81.

Directors' remuneration report continued

Element of pay	Implementation of policy
Long-term incentives	Annual LTIP awards were set at the policy level being 335 per cent for Carl Cowling and 310 per cent for Robert Moorhead. The terms of and the performance measures applicable to the LTIP awards made in the financial year ended 31 August 2021 are described on page 81. Vesting of LTIP awards is determined based on the following measure: 100 per cent is based on relative TSR. The performance period is three years. There is a subsequent two-year holding period. The Committee approved this performance measure as it is 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. As disclosed in last year's report, consistent with the Code provisions, the Committee retains a broad discretion to reduce vesting levels, including if it considers that there would otherwise be a windfall gain or if management fail to deliver on the Company's ESG expectations. The Committee took the decision at its meeting in October 2020 not to adjust the financial targets for the outstanding LTIP awards. The Company partially met the performance targets for the 2017 LTIP with 13 per cent of the award vesting notwithstanding the significant impact of Covid-19 on the Company in the second half of the financial year ended 31 August 2020. The award granted in November 2018 has lapsed and it is likely that the award granted in November 2019 will also lapse.
Shareholding guidelines	Carl Cowling is required to hold 300 per cent of salary in shares. Robert Moorhead is required to hold 250 per cent of salary in shares. In accordance with the Directors' 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 2021 Carl Cowling held 23,051 shares with a value of £376,192 (approximately 68 per cent of salary) and Robert Moorhead held 197,973 shares with a value of £3,230,919 (approximately 735 per cent of salary).
Malus/clawback	The annual bonus plan, DBP and LTIP rules included a provision for clawback (before or within a period of three years in the case of the LTIP and DBP following payment or vesting or earlier change of control) of a bonus or award if (a) the Company materially misstated its financial results and as a result the bonus or award was made, paid or vested to a greater extent than it should have been (b) the extent to which any performance target or other condition was met was based on an error or inaccurate or misleading information or assumptions and as a result the bonus or award was made, paid or vested to a greater extent than it should have been (c) the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned or (d) there is an event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.
Non-executive directors	
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

4.3 Implementation of Directors' remuneration policy in the financial year ending 31 August 2022

The Committee envisages that there will be no changes to the implementation of the Directors' remuneration policy, beyond the proposed changes to the policy set out on page 61, during the financial year ending 31 August 2022. The policy in respect of the executive directors will be applied as follows:

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling's salary will increase to £600,000, subject to his personal performance, with effect from 1 April 2022. Robert Moorhead will be eligible, in line with other head office staff, for any increase in salary following the March 2022 review. It is proposed that Carl Cowling will be eligible, in line with other head office staff, for any increase in salary following the March 2023 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2022.
Pension	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2022. Any new executive director would have their allowance aligned to that available to the majority of UK-based employees. The pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate of approximately 3 per cent from 1 January 2023.
Annual bonus	The bonus opportunity for Carl Cowling and Robert Moorhead will be 160 per cent of annual salary. It is envisaged that the bonus metrics will be based on a matrix of financial and personal performance. 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 measures: 50 per cent is based on EPS growth and 50 per cent is based on relative TSR. The number of shares vesting for threshold performance is 25 per cent. The EPS performance targets will be based on the growth in Headline pre-tax Earnings per Share. The TSR condition remains a median to upper quartile scale relative to the FTSE All Share General Retailers Index constituents.
Shareholding guidelines	Carl Cowling is required to hold 300 per cent of salary in shares and Robert Moorhead is required to hold 250 per cent of salary in shares. As set out in the proposed Directors' remuneration policy, the Committee is introducing formal post-employment shareholding requirements which will apply if shareholders approve the Directors' remuneration policy at the AGM in January 2022. The post-cessation share ownership guidelines require Carl Cowling to retain 300 per cent of salary and Robert Moorhead (other executive directors) to retain 250 per cent of salary for two years post-cessation of employment. This requirement will apply to both new awards from the adoption of the policy and all unvested awards.
Malus/clawback	The rules of the annual bonus plan, the LTIP and the DBP include a provision for clawback before or within a period of three years following payment of a bonus if (a) the Company materially misstates its financial results and as a result the bonus is made or paid to a greater extent than it should have been (b) the extent to which any performance target or other condition is met is based on an error or inaccurate or misleading information or assumptions and as a result the bonus is paid to a greater extent than it should be (c) the Committee concludes that circumstances arose during the bonus year which would have warranted summary dismissal of the individual concerned or (d) there is an event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.

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

Element of pay	Implementation of policy
Non-executive directors	
Annual fees	The fees of the Chairman and non-executive directors will be subject to a review in March 2022.

Directors' remuneration report continued

4.4 Summary of non-executive directors' remuneration 2021 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2021. Non-executive directors are not paid a pension and do not participate in any of the Company's variable incentive schemes:

	Base fee[e] £'000		Committee/SID fee £'000		Benefits[a] £'000		Total £'000	
	2021	2020	2021	2020	2021	2020	2021	2020
Henry Staunton	235	223	–	–	–	–	235	223
Kal Atwal[b]	32	–	–	–	–	–	32	–
Nicky Dulieu[d]	54	-	7	-	1	-	62	-
Annemarie Durbin	55	52	12	11	–	–	67	63
Simon Emeny	55	52	12	7	–	–	67	59
Maurice Thompson	55	52	–	–	-	1	55	53
Directors who resigned during the year								
Suzanne Baxter[c]	21	52	5	11	–	–	26	63

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) Kal Atwal was appointed as a non-executive director on 1 February 2021.

c) Suzanne Baxter stepped down as a director of the Company on 20 January 2021.

d) Nicky Dulieu was appointed as a non-executive director on 9 September 2020.

e) The directors took a 20 per cent voluntary reduction in salary/fees during the lockdown period between April to June 2020.

4.5 Summary of Executive directors' remuneration 2021 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2021:

	Salary[a] £'000		Benefits[b] £'000		Pension[e] £'000		Total fixed remuneration £'000		Annual bonus[c] £'000		LTI[d] £'000		Total variable remuneration £'000		Total remuneration £'000	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Carl Cowling	550	482	14	14	69	60	633	556	550	–	–	52	550	52	1,183	608
Robert Moorhead	440	418	14	14	107	102	561	534	358	–	-	81	358	81	919	615
Total £'000s	990	900	28	28	176	162	1,194	1,090	908	–	–	133	908	133	2,102	1,223

a) Carl Cowling and Robert Moorhead took a 20 per cent reduction in salary during the lockdown period, March to June 2020. Carl Cowling's salary increased to £550,000 with effect from 1 July 2020 and to £575,000 with effect from 1 September 2021.

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

c) The performance measures for the annual bonus, and achievement against them, are set out on pages 80 and 81. For the year under review, Carl Cowling had the opportunity to receive an annual bonus up to a maximum of 160 per cent of his base salary 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 EBITDA[1] was £19m. After the exercise of negative discretion, Carl Cowling received a reduced annual bonus of £550,000, of which 23 per cent will be deferred into shares and Robert Moorhead received a reduced annual bonus of £357,500, of which 23 per cent will be deferred into shares. Both the cash and deferred share elements are subject to malus and clawback provisions.

d) The performance measures for the LTIP, and achievement against them, are set out on page 83. The performance conditions for the awards granted in the financial year ended 31 August 2019 were not met and the awards lapsed. The 2020 figures in the table above have been updated to the actual values of the LTIP that vested in respect of the performance period ending in that financial year, using the share price of 1021p, being the closing price on the vesting date, 26 October 2020. The LTI figures in the table for 2020 do not include any share price appreciation as the share price as at the date of grant on 26 October 2017 was 2036.67p.

e) 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 (excluding LTI) paid to the Board in the financial year ended 31 August 2021 was £2,646,000 and in the financial year ended 31 August 2020 was £1,703,000.

4.6 Payments made to former directors (audited)

Stephen Clarke stepped down as Group Chief Executive on 31 October 2019. Under the rules of the LTIP, Stephen Clarke was treated as a good leaver and retained a reduced number of unvested awards. These awards vested in respect of 4,574 shares in the financial year ended 31 August 2021.

Stephen Clarke also retained awards under the DBP. These awards vested in respect of 2,360 shares in the financial year ended 31 August 2021.

No other payments were made in the financial year ended 31 August 2021 to former directors of the Company.

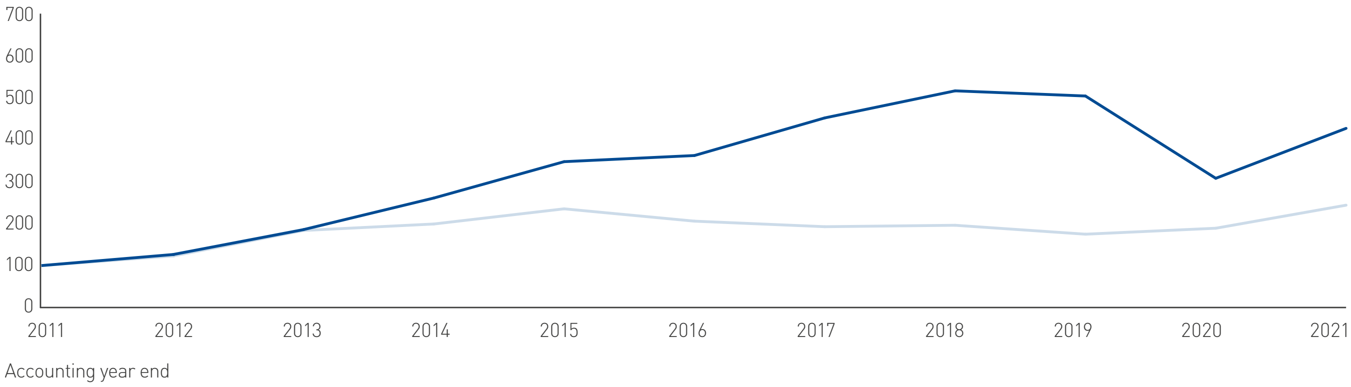
4.7 Payments for loss of office (audited)

No payments were made in respect of any director's loss of office in the financial year ended 31 August 2021.

4.8 Assessing pay and performance

You can see how the Company has generated shareholder value since 2011 in the TSR graph below. As can be seen from the graph, the Company generated a return of 39 per cent over the financial year ended 31 August 2021 compared to the FTSE All Share General Retailers Index which generated a return of 29 per cent over the same period.

Total shareholder return performance since 31 August 2011



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.

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) %
2021	Carl Cowling	1,183	63	-
2020 – from 1 November 2019	Carl Cowling	531	–	13
2020 – until 31 October 2019	Stephen Clarke	221	–	13
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

The 2020 single figure of total remuneration has been updated to reflect the actual value of the LTIP award that vested in respect of the performance period ending in that financial year.

Directors' remuneration report continued

4.9 Annual change in remuneration of each director compared to employees

The table below shows the percentage changes in the remuneration of each director (salary/fees, annual bonus and taxable benefits) from financial year to subsequent financial year over the financial years ended 31 August 2020 and 31 August 2021 compared with the percentage changes in the average of those components of pay for UK employees employed by WH Smith Retail Holdings Limited over that period. The Company has chosen to voluntarily disclose this information, given that WH Smith PLC is not an employing company.

	Salary/fee increase/decrease %		Annual bonus increase/decrease %		Taxable benefits increase/decrease %	
Financial year ended 31 August	2021	2020	2021	2020	2021	2020
Carl Cowling	**14**	140	**100**	(100)	**–**	100
Robert Moorhead	**5**	5	**100**	(100)	**–**	–
Henry Staunton	**5**	(5)	**n/a**	n/a	**-**	–
Kal Atwal	**–**	–	**n/a**	n/a	**–**	–
Nicky Dulieu	**–**	–	**n/a**	n/a	**–**	–
Annemarie Durbin	**6**	2	**n/a**	n/a	**–**	–
Simon Emeny	**14**	111	**n/a**	n/a	**–**	–
Maurice Thompson	**4**	86	**n/a**	n/a	**(100)**	–
UK employees	**5**	7	**100**	(100)	**3**	18

a) Kal Atwal was appointed as a non-executive director on 1 February 2021.

b) Nicky Dulieu was appointed as a non-executive director on 9 September 2020 and became Chair of the Audit Committee on 20 January 2021.

c) The directors took a 20 per cent voluntary reduction in salary/fees during the lockdown period between April to June 2020 and the 2021 figures reported above reflect the reversal of those salary waivers.

d) Carl Cowling was appointed to the Board on 26 February 2019 and became Group Chief Executive on 1 November 2019.

e) Simon Emeny was appointed as the Company's Senior Independent Director on 22 January 2020.

4.10 Group Chief Executive pay compared to pay of UK employees

The ratios comparing the total remuneration of the Group Chief Executive (as included in the single total figure of remuneration table on page 77) to the remuneration of the 25th, 50th and 75th percentile of our UK employees are set out below. The disclosure will build up over time to cover a rolling ten-year period.

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 WHSmith.

Group Chief Executive pay ratios

Financial year ended 31 August	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	**Option A**	**70:1**	**70:1**	**52:1**
2020	**Option A**	**43:1**	**41:1**	**33:1**
2019	**Option A**	**239:1**	**207:1**	**201:1**

WHSmith 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 2021 has been calculated in line with the single figure methodology and reflects their actual earnings received in the financial year ended 31 August 2021 (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 pay ratio	Median pay ratio	75th percentile pay ratio
Salary	**16,795**	**16,795**	**22,881**
Total pay and benefits	**16,795**	**16,795**	**22,950**

The Company believes the median pay ratio for the year ended 31 August 2021 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 85 per cent of all WHSmith employees are based in the UK. The increase in the pay ratios in 2021 as compared to 2020 is attributable to the increase in the amount of variable remuneration received by the Group Chief Executive as he did not receive a bonus payment in 2020 as a result of the impact of Covid-19. As explained in the Chair's annual statement on pages 58 to 60 and the summary of executive remuneration on page 76, the Group Chief Executive and approximately 1,750 employees received a bonus under the annual bonus plan for the financial year ended 31 August 2021.

4.11 Relative importance of 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 2021. 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		
2020 £m	**2021 £m**	**% change**	2020 £m	**2021 £m**	**% change**
217	**232**	**7**	–	**–**	**–**

4.12 Annual bonus targets (audited)

The performance targets used under the annual bonus plan are normally 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. The Committee agreed that the performance targets for the annual bonus plan for the financial year ended 31 August 2021 should be based on Headline EBITDA[1] in order to focus the management team on the Group's free cash flow as a result of the ongoing impact of Covid-19.

The Committee, in setting the bonus targets for the financial year ended 31 August 2021, was mindful of the impact of Covid-19 on the Company and the markets in which we operate and took into consideration market consensus for the financial year ended 31 August 2021. The Committee agreed that the range used to determine the level of pay-out under the bonus plan in respect of the financial targets should be widened given that the Committee agreed that the proposed target pay-out under the bonus plan was stretching given the uncertainty created by Covid-19.

Under the annual bonus plan, participants can earn a bonus based on the achievement of a financial 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 financial 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.

For the financial year ended 31 August 2021, no bonus was payable unless both the threshold financial target and at least an acceptable personal rating (i.e. 'Developing') were achieved. Subject to approval of the Directors' remuneration policy at the 2022 AGM, in exceptional circumstances, up to 20 per cent of the maximum bonus opportunity may be payable independent of the financial out-turn, subject to the Committee's assessment of whether personal performance or other non-financial performance warrants payment of a bonus against pre-set targets. No bonus will be payable unless the personal rating is at least acceptable (i.e. 'Developing'). For on-target achievement of the profit target and a good personal rating (i.e. 'Strong'), an executive would earn approximately 48 per cent of the maximum bonus available under the plan. Any bonus payable will be paid in cash and shares.

Bonuses for the financial year ended 31 August 2021 could be earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against Headline Group profit before tax[1] target	Role model	Outstanding	Strong	Developing	Underachiever
Max: £36m	100%	80%	60%	40%	0%
Target: £18m	80%	64%	48%	32%	0%
Threshold: £1m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The Company's Headline EBITDA[1] for the financial year ended 31 August 2021 was £19m. This performance resulted in approximately 1,750 employees also receiving an on-target bonus under the annual bonus plan for the financial year ended 31 August 2021. The Committee believes that the senior management team, and in particular the executive directors, have provided outstanding, inspiring and resourceful leadership during another year of uncertainty and disruption. You can read about the actions that the executive directors took to build back stronger on pages 58 and 59.

The Committee considered the experience of the Company's stakeholders and the government support received by the Company in deciding whether it was in the Company's best long-term interests to pay Carl Cowling and Robert Moorhead a bonus. The Committee determined that the formulaic out-turn under the annual bonus plan should be adjusted and that it should reduce the bonus payment to one-times salary for Carl Cowling (and by the same percentage for Robert Moorhead). This resulted in a 22 per cent reduction. It also confirmed that 23 per cent of the bonus should be deferred in accordance with the rules of the Company's Deferred Bonus Plan. In reaching this decision, the Committee took into consideration the fact that the Company was not paying a dividend for the financial year ended 31 August 2021 but noted that the shareholders had seen an increase of approximately 39 per cent in the Company's share price as a result of the Company's overall financial improvement during the financial year.

1 Alternative performance measure defined and explained in the Glossary on page 154

Directors' remuneration report continued

The Committee believes that the management team has performed to a truly exceptional level this year. In addition to steering the business through an extraordinarily difficult period, their actions have been fundamental in establishing a commanding position from which the Company can build back stronger going forward. More details of the actions taken are set out below. Of particular note has been the winning of all 30 technology stores in UK airports and the circa 100 stores won and yet to open in Travel over the next three years. The Board believe that this management team is pivotal to the future success of the business. When balancing the interests of all stakeholders in our decision-making, retaining and motivating the management team for the future success of the business has been one of our primary objectives.

The executive directors' personal ratings are based on a range of objectives. Carl Cowling's personal objectives included:

Objective	Achievement
1. To successfully deliver the integration of InMotion and MRG.	The InMotion business now operates on the same systems as MRG from its head office in Las Vegas. The integration of the businesses has generated significant cost savings.
2. To develop the talent and succession pipeline of the senior team and recruit a new MD for Travel UK.	The Company's senior executive succession plan was presented to the Nominations Committee in July 2021. A new MD for Travel UK was appointed on 1 May 2021.
3. To ensure that there is a shortlist of a minimum of six candidates for each senior executive vacancy of which 50 per cent must be female and at least one must be from a BAME background.	Appointments: 4 men (57 per cent) including one male person of colour and three women (43 per cent) appointed. Shortlisting: 5 out of 7 (71 per cent) roles met target of at least 50 per cent female shortlisted (2020: 38 per cent). 6 out of 7 (86 per cent) roles met target of at least one person of colour shortlisted (2020: 15 per cent).
4. To be carbon neutral for UK operations by the end of the financial year ended 31 August 2021. To get the Company accepted into the Dow Jones Sustainability Index.	Carbon emissions from electricity used to power UK buildings have been reduced to net zero through the procurement of renewable electricity. Carbon emissions from gas used to power UK buildings have been neutralised through the purchase of credible, certified carbon reduction certificates in line with the Company's published carbon reduction strategy. UK operations for the financial year ended 31 August 2021 were carbon neutral. WHSmith is a member of the Dow Jones Sustainability Index.
5. To accelerate the growth of WHSmith Online.	WHSmith Online sales increased above the target in the financial year ended 31 August 2021.
6. To ensure the successful re-opening of UK Travel stores.	All main Airport and Rail stores were successfully re-opened during the financial year ended 31 August 2021.
7. To improve relationships with key stakeholder groups.	Carl Cowling undertook a series of meetings with key stakeholders during the financial year ended 31 August 2021.

The Committee determined that, notwithstanding the successful achievement of all of his key personal objectives, it was appropriate to exercise downward discretion to reduce the formulaic annual bonus out-turn to one-times salary for Carl Cowling (a 22 per cent reduction) and, therefore, Carl Cowling should receive a reduced bonus payment of £550,000 for the financial year ended 31 August 2021 of which £127,600 will be deferred into shares.

Robert Moorhead's personal objectives included:

Objective	Achievement
1. To successfully deliver the integration of InMotion and MRG.	The InMotion business now operates on the same systems as MRG from its head office in Las Vegas. The integration of the businesses has generated significant c ost savings.
2. To lead the refinancing of the Group's existing facilities.	The Group successfully refinanced its bank facilities twice in the year and issued a £327m convertible bond in May 2021 and increased liquidity by £100m.
3. To manage the Group's cash to ensure its ongoing viability.	The Group had net cash and cash equivalents of £130m as at 31 August 2021.
4. To be carbon neutral for UK operations by the end of the financial year ended 31 August 2021. To get the Company accepted into the Dow Jones Sustainability Index.	Carbon emissions from electricity used to power UK buildings have been reduced to net zero through the procurement of renewable electricity. Carbon emissions from gas used to power UK buildings have been neutralised through the purchase of credible, certified carbon reduction certificates in line with the Company's published carbon reduction strategy. UK operations for the financial year ended 31 August 2021 were carbon neutral. WHSmith is a member of the Dow Jones Sustainability Index.
5. To create value from Funkypigeon.	Funkypigeon's sales increased above the target set in the financial year ended 31 August 2021.
6. To improve relationships with key stakeholder groups.	Robert Moorhead undertook a series of meetings with key stakeholders during the financial year ended 31 August 2021.

The Committee determined that, notwithstanding the successful achievement of all of his key personal objectives, it was appropriate to exercise downward discretion to reduce the formulaic annual bonus out-turn by 22 per cent reduction and, therefore, Robert Moorhead will receive a reduced bonus payment of £357,500 for the financial year ended 31 August 2021 of which £82,940 will be deferred into shares.

For the annual bonus plan for the financial year ending 31 August 2022, the bonus metrics will also be based on a similar matrix of financial and personal performance with the financial performance measure reverting to Headline Group profit before tax[1]. The financial bonus metrics will apply across the Group's bonus plans, so that the whole organisation is focused on delivering financial performance via the metrics that are applicable to each business. 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 2022 will be paid in cash and shares. Any bonus payable over target will be deferred into shares for a period of up to three years under the DBP. The shares will be released one third on each anniversary of assessment irrespective of whether the recipient is an employee of the Company.

4.13 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. For awards granted in the financial year ended 31 August 2021, the Committee determined that a market-based condition as the basis for the performance targets for the LTIP was 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 Committee agreed that, given the challenge of setting robust performance targets three years in advance in light of Covid-19 uncertainty, the performance targets should only be based on TSR.

Annual LTIP awards in the financial year ended 31 August 2021 were set at the policy level being 335 per cent of salary for Carl Cowling and 310 per cent of salary for Robert Moorhead using the share price calculated over the three days preceding the grant date to determine the number of awards granted. The grant share price of 1459.33p was 37 per cent higher than the average share price of 1064.89p for the last quarter of the financial year ended 31 August 2020. The performance target for awards was based on relative TSR 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%

1 Alternative performance measure defined and explained in the Glossary on page 154

Directors' remuneration report continued

As disclosed in last year's report, consistent with the requirements of the Code, the Committee retains a broad discretion to reduce vesting levels, including if it considers that there would otherwise be a windfall gain or if management fail to deliver on the Company's ESG expectations.

The performance condition for awards granted under the LTIP in the financial year ending 31 August 2022 will be based, as in prior years, on the following Headline EPS and relative TSR targets each measured over the three financial years to 31 August 2024:

- 50 per cent based on Headline pre-tax Earnings per Share (calculated on a pre-IFRS 16 basis) of 75p to 110p with 25 percent of this component vesting at threshold increasing on a straight-line basis to 100 percent at maximum. 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 definition of EPS remains except that, as consulted with shareholders in 2020, it will be assessed on a pre-tax basis; and
- 50 per cent based on relative TSR over three financial years compared with the FTSE All Share Retailers. Threshold vesting will occur for TSR in line with median and maximum vesting will occur for TSR in line with the upper quartile of the comparator group consistent with prior awards.

The performance condition for awards granted under the LTIP in the financial year ending 31 August 2023 will also include ESG performance measures and will be based on the following targets each measured over the three financial years to 31 August 2025: 40 per cent based on Headline pre-tax Earnings per Share; 40 per cent based on relative TSR; and 20 per cent based on the Company's Corporate Responsibility Strategy, namely Planet, People and Communities.

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

Outstanding awards

The Company did not meet the performance targets for the 2018 LTIP and the awards lapsed on 1 November 2021. The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment.

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:

	Number of shares subject to awards at 31 August 2020 [a]	Number of shares subject to awards granted during the year	Number of dividend accrual shares awarded 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 2021[f]	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Carl Cowling									
LTIP 2016[b]	17,345	–	–	–	–	**17,345**	1551.00	720	20.10.19 – 20.10.26
LTIP 2017[c]	36,457	–	336	–	31,689	**5,104**	2036.67	743	26.10.20 – 26.10.27
LTIP 2018[e]	40,515	–	–	–	–	**40,515**	1832.67	743	01.11.23 – 01.11.28
LTIP 2019[g]	79,557	–	–	–	–	**79,557**	2210.67	1,759	05.11.24 – 05.11.29
DBP 2019[h]	3,990	–	64	1,351	–	**2,703**	2258.67	90	24.10.20 – 24.10.29
LTIP 2020[g]	–	126,257	–	–	–	**126,257**	1459.33	1,843	19.11.25 – 19.11.30
Total	**177,864**	**126,257**	**400**	**1,351**	**31,689**	**271,481**			
Robert Moorhead									
LTIP 2016[b]	27,973	–	–	–	–	**27,973**	1551.00	1,161	20.10.19 – 20.10.26
LTIP 2017[d]	57,009	–	526	–	49,553	**7,982**	2036.67	1,161	26.10.20 – 26.10.27
LTIP 2018[e]	63,354	–	–	–	–	**63,354**	1832.67	1,161	01.11.23 – 01.11.28
LTIP 2019[g]	61,701	–	–	–	–	**61,701**	2210.67	1,364	05.11.24 – 05.11.29
DBP 2019[h]	3,962	–	64	1,341	–	**2,685**	2258.67	90	24.10.20 – 24.10.29
LTIP 2020[g]	–	93,468	–	–	–	**93,468**	1459.33	1,364	19.11.25 – 19.11.30
Total	**213,999**	**93,468**	**590**	**1,341**	**49,553**	**257,163**			

a) 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.

b) In respect of the awards granted on 20 October 2016 under the LTIP, the remaining 50 per cent of the vested shares will become exercisable on the fifth anniversary of the date of grant. As a result, the total number of shares which are exercisable from 20 October 2021 are as follows: Carl Cowling 17,626 shares including 281 dividend accrual shares; and Robert Moorhead 28,426 shares including 453 dividend accrual shares.

c) In respect of the award granted on 26 October 2017 under the LTIP held by Carl Cowling, 5,104 shares vested, including 336 dividend shares, and 31,689 shares lapsed. 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. It was agreed that 100 per cent of the vested shares would be subject to a holding period becoming exercisable on the fifth anniversary of the date of grant.

d) In respect of the award granted on 26 October 2017 under the LTIP held by Robert Moorhead, 7,982 shares vested, including 526 dividend accrual shares, and 49,553 shares lapsed. 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. It was agreed that 100 per cent of the vested shares would be subject to a holding period becoming exercisable on the fifth anniversary of the date of grant.

e) The performance conditions for awards granted in the financial year ended 31 August 2019 under the LTIP were:

(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 per cent; upper quartile – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent; 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 per cent – Nil; 5 per cent – 25 per cent; 10 per cent or more – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent. 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 Company did not meet the performance conditions and the awards lapsed on 1 November 2021.

f) No awards have been granted to directors between 1 September 2021 and 11 November 2021.

g) The awards granted in the financial years ended 31 August 2020 and 31 August 2021 under the LTIP will only vest to the extent that the performance targets as set out on pages 81 and 83 are satisfied.

h) The awards granted in the financial year ended 31 August 2020 under the DBP will be released one third on each anniversary of the date of grant. Details of the awards are set out on page 81. The awards accrue the benefit of any dividends paid by the Company and are not subject to performance targets. In respect of the award granted on 24 October 2019 held by Carl Cowling, 1,351 shares vested with a total value of £20,677.58 (1530.5388p per ordinary share). In respect of the award granted on 24 October 2019 held by Robert Moorhead, 1,341 shares vested with a total value of £20,524.53 (1530.5388p per ordinary share).

4.14 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 122,813 shares in the financial year ended 31 August 2021, the number of WH Smith PLC shares held in the Trust at 31 August 2021 was 304,641. 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 102.

4.15 Dilution limits

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

4.16 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	68	68

1 Alternative performance measure defined and explained in the Glossary on page 154

Directors' remuneration report continued

4.17 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		Number of shares subject to holding periods				Number of shares subject to performance conditions	
			DBP		LTIP		LTIP	
	31 August 2021 (or date of leaving)	31 August 2020 (or date of appointment)	31 August 2021	31 August 2020	31 August 2021	31 August 2020	31 August 2021	31 August 2020
Kal Atwal	**3,608**	4,127	**–**	–	**–**	–	**–**	–
Carl Cowling	**23,051**	22,335	**2,703**	3,990	**22,449**	17,345	**246,329**	156,529
Nicky Dulieu	**–**	–	**–**	–	**–**	–	**–**	–
Annemarie Durbin	**1,952**	1,952	**–**	–	**–**	–	**–**	–
Simon Emeny	**4,427**	2,952	**–**	–	**–**	–	**–**	–
Robert Moorhead	**197,973**	197,263	**2,685**	3,962	**35,955**	27,973	**218,523**	182,064
Henry Staunton	**39,523**	39,523	**–**	–	**–**	–	**–**	–
Maurice Thompson	**3,452**	3,452	**–**	–	**–**	–	**–**	–
Directors who resigned during the year								
Suzanne Baxter	**1,952**	1,952	**–**	–	**–**	–	**–**	–

a) Nicky Dulieu was appointed as a non-executive director on 9 September 2020.

b) Kal Atwal was appointed as a non-executive director on 1 February 2021.

c) The LTIP amount above is the maximum potential award that may vest subject to the performance conditions described on pages 81 and 83.

d) The performance conditions for the October 2018 LTIP were not met and the awards lapsed.

e) There has been no further change in the directors' interests shown above between 1 September 2021 and 11 November 2021.

f) The middle market price of an ordinary share at the close of business on 31 August 2021 was 1632p (28 August 2020: 1177p).

g) See Table of Outstanding awards on page 82 for details of awards exercised during the financial year ended 31 August 2021.

h) Suzanne Baxter stepped down as a director of the Company on 20 January 2021.

4.18 Voting at the Annual General Meeting

Statement of voting at 2019 AGM

The table below shows the voting outcome at the Annual General Meeting on 23 January 2019 for approval of the remuneration policy:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Directors' remuneration policy	75,623,654	98.78	935,638	1.22	76,559,292	73,785

Statement of voting at 2021 AGM

The table below shows the voting outcome at the Annual General Meeting on 20 January 2021 for approval of the annual Directors' remuneration report:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Directors' remuneration report	66,038,774	67.43	31,894,173	32.57	97,932,947	9,959,963

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.

As explained in the announcement of the voting outcome at the Annual General Meeting on 20 January 2021, the Company understands that the primary reason for the significant percentage of votes against the resolution to approve the Directors' remuneration report was the salary increase of £25,000 which Carl Cowling received on 1 July 2020. As a result, the previously announced increase to Carl Cowling's salary in April 2021 was postponed until 1 September 2021.

On behalf of the Board

Annemarie Durbin
Chair of the Remuneration Committee

11 November 2021

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2021. The Company is the ultimate parent company of the WHSmith 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 19
Branches outside the UK	14
Disclosures concerning greenhouse gas emissions and energy consumption	29 to 32
Employment of disabled persons	33
Employee engagement	32 to 40
Engagement with external stakeholders	41

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	41 to 48
Directors' biographies	56 and 57
Statement of directors' responsibilities	88
Information on use of financial instruments	137 to 140

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	65 Directors' remuneration report/ Note 23 on page 140 of the financial statements
Arrangement under which the directors waived salary or fees	76 and 78 Directors' remuneration report
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/future dividends	83 Directors' remuneration report

Dividends

In light of the ongoing uncertainty and the impact of Covid-19 on the Group which has resulted in the Group making a Headline loss before tax and non-underlying items[1] of £55m, no interim dividend was declared at the half-year and the Board will not propose a final dividend in relation to the financial year ended 31 August 2021. The Board believes that the decision not to pay a dividend is in the best long-term interests of shareholders but understands the importance of dividends to shareholders and will consider the quantum and timing of possible future dividend payments when appropriate to do so.

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 23 to the financial statements on page 140.

The issued share capital of the Company as at 31 August 2021 was 130,908,801 ordinary shares of $22\frac{6}{67}$p each. 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 UK 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 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.

New Financing Arrangements and Convertible Bond

On 9 March 2021, the Company extended its bank financing arrangements with its existing banks. The Company extended the maturity of its two existing £200m Term Loans to October 2023 and agreed a new minimum liquidity covenant for both the August 2021 and February 2022 covenant tests. The previously agreed covenant waiver for February 2021 remained unchanged. These changes enabled the Company to cancel its existing £120m liquidity loan which was undrawn and due to expire in November 2021. The Group's £200m revolving credit facility remained unchanged with the arrangement due for renewal in December 2023.

1 Alternative performance measure defined and explained in the Glossary on page 154

Directors' report continued

On 28 April 2021, the Company announced it had agreed new bank financing arrangements and also launched a potential offering of guaranteed senior unsecured Convertible Bonds (the "Bonds"). The new financing arrangements included a £250m revolving credit facility (increased from £200m) maturing in April 2025 from an expanded syndicate of lending banks and a new £133m term loan also maturing in April 2025.

On 29 April 2021 the Company announced the successful pricing and final terms of its offering of £327m of Bonds. The Bonds were issued in principal amounts of £100,000 each and carry a coupon of 1.625 per cent per annum payable semi-annually in arrear in equal instalments on 7 May and 7 November each year, with the first interest payment date being 7 November 2021. The Bonds are convertible into new and/or existing ordinary shares of the Company. The initial conversion price was set at £24.99, representing a premium of 40 per cent above the reference share price of £17.85. Settlement and delivery of the Bonds took place on 7 May 2021. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026. The Bonds were admitted to trading on the unregulated open market (Freiverkehr) of the Frankfurt Stock Exchange. The issue of the Bonds was equivalent to circa ten per cent of the Company's existing issued ordinary share capital.

The new bank financing arrangements and the issue of the Bonds provide balance sheet capacity and flexibility whilst diversifying the Company's sources of debt funding. The Company also expects to benefit from an ongoing lower cost of funding from the Bonds.

Purchase of own shares

At the 2021 AGM, authority was given for the Company to purchase, in the market, up to 13,086,666 ordinary shares of $22\frac{6}{67}$p each, renewing the authority granted at the 2020 AGM. The Company did not purchase any of its own shares during the financial year. The Company intends to renew the authority to purchase its own shares at the forthcoming AGM 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 2022.

Issue of new ordinary shares

During the financial year ended 31 August 2021, 43,345 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 1434.40p and 1609.60p. 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/financing 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 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 £250m multi-currency revolving credit facility with Barclays Bank PLC, HSBC Bank PLC, J.P. Morgan Securities, 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.

The Company issued a £327m convertible bond on 7 May 2021. The Bond holders have the right to early redemption in the event of a change of control of the Company.

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 maintained directors' and officers' liability insurance in the financial year ended 31 August 2021 and up to the date of this report 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 2021, 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.

Holder	Number	% as at date of notification	Nature of holding
BlackRock Inc.	7,698,670	5.87	Indirect
Causeway Capital Management LLC	7,882,568	6.02	Direct
M&G PLC	7,971,971	6.92	Indirect
Marathon Asset Management LLP	6,539,399	4.99	Indirect
Royal London Asset Management Ltd	6,539,691	4.99	Direct

a) On 1 September 2021 BlackRock Inc. notified the Company of a holding of 7,736,608 shares (5.90 per cent Indirect holding). Subsequently, on 2 September 2021 BlackRock Inc. notified the Company of a decrease in its holding to 7,657,823 shares (5.83 per cent Indirect holding). On 15 September 2021 BlackRock Inc. notified the Company of an increase in its holding to 8,057,476 shares (6.14 per cent Indirect holding). On 16 September 2021 BlackRock Inc. notified the Company of a change in its holding to 8,057,403 shares (6.14 per cent Indirect holding). On 17 September 2021 BlackRock Inc. notified the Company of a change in its holding to 8,052,490 shares (6.14 per cent Indirect holding).

b) On 3 September 2021 Causeway Capital Management LLC notified the Company of a holding of 9,280,753 shares (7.09 per cent Direct holding).

The Company received no other notifications in the period between 31 August 2021 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 political expenditure were made in the year (2020: £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 2 to 40. The Financial review on pages 16 to 19 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 19 to 22 of the financial statements on pages 134 to 140. At 31 August 2021, the Group is in a net current liability position. In addition, Note 22 of the financial statements on page 137 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 21 to 28 also highlights the principal risks and uncertainties facing the Group.

The directors are required to assess whether the Group can continue to operate for a minimum of 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis. The directors consider that the Group Company has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The basis of preparation of the financial statements and a more detailed explanation of the work undertaken in respect of going concern are set out in Note 1 of the financial statements on page 103.

The longer-term viability statement is in the Strategic report on page 28.

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 19 January 2022 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report. At the time of writing, UK public health regulations and guidance allow us to return to an in-person meeting this year, with shareholders physically able to attend the AGM should they wish to do so. We will continue to review our AGM arrangements in light of the latest government Covid-19 guidance, and therefore shareholders are encouraged to monitor the AGM page of the Company's website **www.whsmithplc.co.uk/investors/shareholder-centre/agm** for any updates.

This report was approved by the Board on 11 November 2021.

On behalf of the Board

Ian Houghton
Company Secretary

11 November 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006 and the 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). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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.

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

Each of the directors, whose names and functions are listed in the Directors' biographies, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the Company; 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.

In the case of each director in office at the date the directors' report is approved:

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

On behalf of the Board

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

11 November 2021

Independent auditors' report to the members of WH Smith PLC

Report on the audit of the 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 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the 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.

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 2021; 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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in Note 1 to the financial statements, the Group and Company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group and Company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in Note 3, we have provided no non-audit services to the Company in the period under audit.

Our audit approach

Overview

Audit scope

- For the purposes of scoping the Group audit we have assessed the seven components of the business; High Street, Travel UK, InMotion, MRG, Travel International, Company and Central.
- For the purposes of the Group audit, we performed a full scope audit on the High Street, Travel UK, MRG and InMotion components, whilst performing specified audit procedures over balances within the Central and Company components based on their overall size and values of their specific financial statement line items. Travel International was not included in the scope of our Group work.
- The audits of the InMotion and MRG components were performed by PwC USA.
- Our audit scoping gave us coverage of approximately 91% of absolute Group loss before tax, with approximately 96% coverage of revenue.
- We performed a full scope audit over the Company for the Company audit.

Key audit matters

- Going concern (Group and Company)
- Convertible bond and refinancing (Group and Company)
- Impairment of store property, plant & equipment and right-of-use assets (Group) and impairment of investments (Company)
- Inventory valuation (Group)
- One off transactions and equal prominence of Alternative Performance Measures 'APMs' (Group)
- Pension scheme valuation (Group)

Materiality

- Overall Group materiality: £5.7 million (2020: £6.1 million) based on approximately 5% of the five year average of loss/profit before tax before non-underlying items.
- Overall Company materiality: £8.4 million (2020: £11.2 million) based on 1% of total assets.
- Performance materiality: £4.3 million (Group) and £6.3 million (Company).

Independent auditors' report to the members of WH Smith PLC continued

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.

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.

The convertible bond and refinancing is a new key audit matter this year. IFRS 16 Right-of-use asset and lease liability valuation, Acquisition of Marshall Retail Group ('MRG') and Covid-19, which were key audit matters last year, are no longer included. MRG was a specific transaction in the prior year, IFRS 16 was an area of focus in the year of transition and there have been lower levels of new and modified leases in the year which required less judgement. Covid-19 has significantly impacted the Group in the year (including store closures and restricted travel) the specific impact of Covid-19 on key audit matters has been set out within separate key audit matters below. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Going concern (Group and Company) Refer to Note 1 (a) Accounting policies basis of preparation, Going concern. In undertaking their assessment of going concern for the Company and Group, the directors modelled future business performance and cash flow forecasts, by means of a 'base case' and a 'severe but plausible' cash flow model. In both models, the directors considered the financing available to the Group to assess liquidity and associated debt covenants. As part of strengthening the balance sheet, and in response to the impact Covid-19, management refinanced the Group's debt in the year, issuing a £327 million bond, (refer to separate key audit matter) . The base case model is consistent with the Group's budget and three year plan. The severe but plausible model sensitises the base case and assumes a three-month lockdown from December 2021, with a gradual recovery thereafter. This scenario mirrors actual performance in the lockdown of early 2021 and subsequent recovery. Taking into account both the base case and severe but plausible scenario, and considering both liquidity and covenant headroom, the directors concluded that the Group has sufficient resources available to meet its liabilities as they fall due and is therefore a going concern. Further details of the directors' assessment are included within the Directors' report on page 85. Due to the ongoing pandemic, and associated changes to lockdown restrictions, there is significant judgement in developing the future cash flow forecasts, in particular, the assumptions relating to revenue. We therefore focused audit effort on the going concern risk.	We agree with the Directors' conclusion to prepare the financial statements on a going concern basis. The procedures performed in respect of going concern and our findings are set out in the "Conclusions relating to going concern" section below. We consider the disclosure within the Basis of Preparation to appropriately highlight the process the directors have undertaken and the judgements, estimates and uncertainty involved.

Key audit matter	How our audit addressed the key audit matter
Convertible bond and refinancing (Group and Company) Refer to Note 1 (m) and Note 1 (q) for the financial instrument accounting policy and the directors' disclosure of the critical accounting judgements and key sources of estimation uncertainty. As a direct result of Covid-19, the Group has refinanced its borrowings in the year which has resulted in the derecognition of the old debt facilities and recognition of the new term loan and convertible bond. Initial recognition of the convertible bond requires complex accounting treatment and judgement regarding the bifurcation of the instrument into a liability component and an equity component. Transaction fees have been allocated between underlying and non-underlying expenses in accordance with the Group's policy. Given the complexity of the accounting and judgements applied when accounting for these instruments, we have focused on this as part of our audit.	We have audited management's technical assessment and consider the conclusions reached to be appropriate. We are satisfied that the initial recognition of the bond and the bifurcation between a liability and equity component is appropriate and that the conclusions and related accounting are reasonable based on our review of the underlying terms of the bonds. We have confirmed the existence of the bond with the relevant counterparty. We considered whether the allocation and disclosure of the non-underlying transaction fees as 'directly attributable to Covid-19' was appropriate and were satisfied that there was evidence that supports this treatment. Based on the procedures performed, we noted no material issues arising from our work.
Impairment of store property, plant & equipment and right-of-use assets (Group) and impairment of investments (Company) Refer to Note 1 (a), Basis of preparation, Non-underlying items and 1 (q) Critical accounting judgements and key sources of estimation uncertainty and Notes 12 and 13 (Property, plant & equipment and Right-of-use assets) and Note 3 in the Company Financial statements. The Group has a material operational retail asset base which may be vulnerable to impairment in the event of trading performance being below expectations. For the purposes of impairment testing, each retail store is considered to be a separate cash generating unit (CGU). In the year, an impairment trigger was identified for the entire portfolio of stores as a result of continued challenging trading conditions as a result of Covid-19. The value-in-use models used to determine the amount of any impairment charge are based on store specific assumptions. Management's assessment resulted in the recognition of an impairment charge of £44 million. We focused on this area because of the inherent judgement and estimation uncertainty involved in determining key assumptions such as the future sales profile and discount rates, particularly given the uncertainty associated with Covid-19, and the magnitude of the assets under consideration.	We obtained an understanding of how management had developed its forecast for the future trading of the Group, including obtaining a detailed understanding of the key assumptions made in developing these forecasts. We satisfied ourselves that the forecasts were reasonable and had been prepared with appropriate Board involvement. In forming this conclusion, we benchmarked the projections of trading and recovery against forecasts of credible third parties, as well as the current sales trajectory of the business versus pre-pandemic levels. With the assistance of our valuation experts we tested the value-in-use models, including challenging management forecasts at a store level, as well other assumptions such as the sales profile, assumptions under-pinning the timing of recovery and discount rate, and found that these assumptions were reasonable. We assessed the mathematical accuracy and integrity of the impairment models and determined that the impairment charge had been appropriately calculated. Given the estimation uncertainty inherent in the impairment calculations, the financial statements include a sensitivity analysis (refer to Note 12). Having re-performed the sensitivity calculations and considered whether any other sensitivities might be more appropriate, we are satisfied that the financial statements adequately disclose the potential risk of future impairment or requirement for reversal of impairment if the performance of the stores differs from that forecast. We considered whether the disclosure of the non-underlying impairment charge as 'directly attributable to Covid-19' was appropriate and were satisfied that there was evidence that supports this statement. We considered the carrying value of the Company investments in light of the impact of Covid-19, and noted no impairment.

Independent auditors' report to the members of WH Smith PLC continued

Key audit matter	How our audit addressed the key audit matter
Inventory valuation (Group) Refer to Note 1 (h) Inventories and Note 1 (q) Critical accounting judgements and key sources of estimation uncertainty. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and digital. As at 31 August 2021, inventory was £135 million. A number of inventory lines are perishable and items such as firm sale books, digital, fashion and journey solutions are at greater risk of obsolescence in a reduced trading environment. Categories including books, newspapers and magazines are on a sale or return basis and therefore have historically been considered to be lower risk; however, due to the impact of Covid-19, there has been an increase in the levels of firm sale stock as the returns allowances were reduced due to lower intake, thereby creating additional risk. The Group's 'underlying' inventory provision is primarily based on ageing profile and obsolescence risk based on historic sales performance. The assumptions in the calculation are consistent with the prior year. For a second year, the Group has calculated a 'non-underlying' provision as a direct result of Covid-19. In the current year, the provision has been calculated due to a slower than anticipated recovery from the pandemic. Judgement is required to estimate future sales to clear this inventory and with respect to alternative exit routes for inventory which attract different provisioning rates. We focused on the valuation of the inventory provisions due to the size of the balance and the estimates involved in determining the future sales forecasts and the complexity of the calculation.	For the underlying provision, we developed an independent expectation of the provision required using a combination of ageing analysis and historic inventory turn data. We performed testing over the ageing data to ensure its accuracy. For the non-underlying provision we focused on the book category, where the provision pertains to items that can no longer be classified as sale or return. We tested how the returns allowance was calculated. The provisions are consistent with the Group's accounting policy and also reflect changes in the ageing profile and estimated future sales forecasts resulting from Covid-19. We satisfied ourselves that the inventory provisions were materially accurate. Given the estimations involved we reviewed a sensitivity analysis to satisfy ourselves that a reasonable possible change would not result in a material adjustment to the carrying value of the inventory.
One off transactions and equal prominence of Alternative Performance Measures 'APMs' (Group) Refer to Note 1 (a) Non-underlying items, 1 (q) Critical accounting judgements and key sources of estimation uncertainty and Note 4 (Non-underlying items). The Group has included 'Non-underlying items' on the face of the Group income statement and discusses these items in the Annual Report. Given the quantum and number of non-underlying items in the year, we focused on the presentation of these items to ensure they were treated consistently with the Group's accounting policy. Management runs the business on a pre-IFRS 16 basis and presents a number of pre-IFRS 16 APMs in the front half of the Annual Report and Accounts.	We substantiated a sample of non-underlying items to corroborating evidence. We considered whether the designation of items as 'non-underlying' was consistent with the Group's accounting policy as disclosed in Note 1 (a) and treatment in prior years. We considered the evidence to support the segregation of 'costs attributable to Covid-19' and did not identify any arbitrary splitting of items between Covid-19 and non Covid-19. Based on our procedures, we are satisfied that the treatment and classification of non-underlying items is consistent with the Group's policy. As part of our work we ensured there was equal prominence between pre-IFRS 16 and IFRS 16 measures.

Key audit matter	How our audit addressed the key audit matter
Pension scheme valuation (Group) Refer to Note 1 (q) Critical accounting judgements and key sources of estimation uncertainty and Note 5 (Retirement benefit obligations). The Group has two defined benefit pension plans which comprise total gross plan assets of £1,463 million and total pension liabilities of £1,180 million which are significant in the context of the overall balance sheet of the Group. The Group does not recognise the pension surplus due to the fact there is not an unconditional right to a refund of the surplus. The valuation of the schemes' liabilities requires judgement and technical expertise in choosing appropriate assumptions. The Group uses third party actuaries to calculate the schemes' liabilities. Changes to a number of the key assumptions can have a material impact on the pension balance (refer Note 5). The most recent triennial valuation was completed in November 2020. We focused on this area because of the potential financial impact of changes in the assumptions.	We obtained the actuarial report for the WH Smith Pension Trust Retail Section for the scheme as at 31 August 2021. We reviewed the pension liability assumptions, including discount rates, inflation and mortality rates. We compared the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range. Other assumptions were also assessed and considered to be reasonable. We obtained the latest census data information from both the actuary and payroll and agreed a sample of the data used by the actuary to the supporting payroll information without exception. We obtained independent confirmations from investment managers to confirm the valuation of the scheme assets at the balance sheet date. Based on the procedures performed, we noted no material issues arising from our work.

Independent auditors' report to the members of WH Smith PLC continued

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 the Group audit we have assessed the seven components of the business; High Street, Travel UK, InMotion, MRG, Travel International, Central and Company. There are four significant components. High Street and Travel UK were audited by the UK Group team, and InMotion and MRG were audited by PwC US as component auditors operating under our instruction. Audit work was performed over the consolidation process, tax, impairment and going concern at a UK 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. We held detailed discussions with the InMotion and MRG component audit team, including evaluation of and remote review of the work performed, update calls on the progress of their fieldwork and by attending the clearance meetings with management via video call.
The components where we performed audit work accounted for approximately 91% of absolute Group loss before tax and approximately 96% of revenue. We performed specified audit procedures over balances within the Central and Company components based on their overall size and values of their specific financial statement line items. Travel International was not included in the scope of our Group work. For the Company financial statements, we performed a full scope audit, providing us with 100% coverage.

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	£5.7 million (2020: £6.1 million).	£8.4 million (2020: £11.2 million).
How we determined it	Approximately 5% of the five year average of loss/profit before tax before non-underlying items.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, loss/profit before tax before non-underlying items 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 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 £4.0 million and £5.0 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £4.3 million for the Group financial statements and £6.3 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £305,000 (Group audit) (2020: £305,000) and £420,000 (Company audit) (2020: £563,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- critically assessed the assumptions within the models including; assessing the historical accuracy of management's forecasts and obtained corroborating evidence for the assumptions used such as air travel information on passenger numbers;
- obtained and reviewed the Group's financing agreements, including the convertible bond;
- assessed the reasonableness of estimates made regarding the inclusion of a three-month lockdown in the severe but plausible case;
- agreed the assumptions regarding the timing and extent of recovery from Covid-19 in the severe but plausible case to historical actuals;
- performed independent sensitivity analyses to the severe but plausible case to assess the impact on liquidity and covenant headroom; and
- confirmed that consistent approaches to going concern, viability, impairment and other key areas of estimation assumptions have been used.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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.

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.

Independent auditors' report to the members of WH Smith PLC continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

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

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety, GDPR, employment law, general food law, pensions, tax legislation, the UK Listing Rules, 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 financial statements such as the Companies Act 2006. 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 manipulation of revenue and or costs, and management bias in accounting estimates. 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:

- Reviewing legal confirmations from external lawyers;
- Reviewing the financial statement disclosures and agreement to underlying supporting documentation;
- Challenging assumptions made by management in determining their significant judgements and accounting estimates (refer key audit matters); and
- Identifying and testing unusual journals posted to revenue, journals posted after period close and journals posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 7 years, covering the years ended 31 August 2015 to 31 August 2021.

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

11 November 2021

Group income statement

For the year ended 31 August 2021

£m	Note	2021 Before non-underlying items[1]	2021 Non- underlying items[2]	2021 Total	2020 Before non-underlying items[1]	2020 Non-underlying items[2]	2020 Total
Revenue	2	**886**	**–**	**886**	1,021	–	1,021
Group operating loss	2, 3	**(27)**	**(65)**	**(92)**	(48)	(212)	(260)
Finance costs	7	**(24)**	**–**	**(24)**	(20)	–	(20)
Loss before tax		**(51)**	**(65)**	**(116)**	(68)	(212)	(280)
Income tax credit	8	**24**	**12**	**36**	16	25	41
Loss for the year		**(27)**	**(53)**	**(80)**	(52)	(187)	(239)
Attributable to equity holders of the parent		**(29)**	**(53)**	**(82)**	(52)	(187)	(239)
Attributable to non-controlling interests		**2**	**–**	**2**	–	–	–
		(27)	**(53)**	**(80)**	(52)	(187)	(239)
Loss per share							
Basic	10			**(62.6)p**			(199.2)p
Diluted	10			**(62.6)p**			(199.2)p

All results relate to continuing operations of the Group.

1 Alternative performance measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 154

2 See Note 4 for an analysis of non-underlying items. See Glossary on page 154 for a definition of Alternative Performance Measures

Group statement of comprehensive income

For the year ended 31 August 2021

£m	Note	2021	2020
Loss for the year		**(80)**	(239)
Other comprehensive loss:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial (losses)/gains on defined benefit pension schemes	5	**(1)**	11
		(1)	11
Items that may be reclassified subsequently to the income statement:			
(Losses)/gains on cash flow hedges			
– Net fair value (losses)/gains		**–**	(8)
– Reclassified and recognised in inventories		**–**	(1)
– Reclassified and recognised in goodwill		**–**	8
– Reclassified and reported in the income statement		**–**	(1)
Exchange differences on translation of foreign operations		**(13)**	(22)
		(13)	(24)
Other comprehensive loss for the year, net of tax		**(14)**	(13)
Total comprehensive loss for the year		**(94)**	(252)
Attributable to equity holders of the parent		**(96)**	(252)
Attributable to non-controlling interests		**2**	–
		(94)	(252)

Group balance sheet

As at 31 August 2021

£m	Note	2021	2020
Non-current assets			
Goodwill	11	**406**	418
Other intangible assets	11	**67**	75
Property, plant and equipment	12	**174**	192
Right-of-use assets	13	**328**	413
Investments in joint ventures		**2**	2
Deferred tax assets	18	**57**	23
Trade and other receivables	14	**6**	9
		1,040	1,132
Current assets			
Inventories		**135**	150
Trade and other receivables	14	**45**	49
Derivative financial assets	22	**–**	–
Current tax receivable		**–**	8
Cash and cash equivalents	19	**130**	108
		310	315
Total assets		**1,350**	1,447
Current liabilities			
Trade and other payables	15	**(265)**	(241)
Bank overdrafts and other borrowings	19	**–**	–
Retirement benefit obligations	5	**(1)**	(1)
Lease liabilities	16	**(108)**	(130)
Short-term provisions	17	**(2)**	(5)
		(376)	(377)
Non-current liabilities			
Retirement benefit obligations	5	**(2)**	(3)
Bank loans and other borrowings	19	**(415)**	(400)
Long-term provisions	17	**(12)**	(9)
Lease liabilities	16	**(362)**	(429)
Deferred tax liabilities	18	**–**	(2)
		(791)	(843)
Total liabilities		**(1,167)**	(1,220)
Total net assets		**183**	227
Shareholders' equity			
Called up share capital	23	**29**	29
Share premium		**316**	315
Capital redemption reserve		**13**	13
Translation reserve		**(27)**	(14)
Other reserves	26	**(240)**	(279)
Retained earnings		**82**	158
Total equity attributable to the equity holders of the parent		**173**	222
Non-controlling interests		**10**	5
Total equity		**183**	227

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 98 to 149 were approved by the Board of Directors and authorised for issue on 11 November 2021 and were signed on its behalf by:

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group cash flow statement

For the year ended 31 August 2021

£m	Note	2021	2020
Operating activities			
Cash generated from operating activities	21	**113**	94
Interest paid[1]		**(13)**	(13)
Net cash inflow from operating activities		**100**	81
Investing activities			
Purchase of property, plant and equipment		**(37)**	(67)
Purchase of intangible assets		**(7)**	(12)
Acquisition of subsidiaries, net of cash acquired	27	**1**	(316)
Net cash outflow from investing activities		**(43)**	(395)
Financing activities			
Dividend paid	9	**–**	(47)
Distributions to non-controlling interests		**–**	1
Proceeds from share placings	23	**–**	312
Issue of new shares for employee share schemes	23	**1**	–
Purchase of own shares for employee share schemes		**(2)**	(2)
Proceeds from issuance of convertible bonds	19	**327**	–
Proceeds from borrowings	19	**–**	200
Repayments of borrowings	19	**(267)**	(15)
Financing arrangement fees		**(8)**	(3)
Repayments of obligations under leases	19	**(86)**	(72)
Net cash (outflow)/inflow from financing activities		**(35)**	374
Net increase in cash and cash equivalents in the year		**22**	60
Opening cash and cash equivalents		**108**	49
Effect of movements in foreign exchange rates		**–**	(1)
Closing cash and cash equivalents		**130**	108

Reconciliation of net cash flow to movement in net debt[2]

£m	Note	2021	2020
Net debt at beginning of the year		**(851)**	(180)
Net increase in cash and cash equivalents		**22**	60
Impact of adoption of IFRS 16		**–**	(479)
Lease liability acquired through business combinations		**–**	(106)
Increase in borrowings		**(15)**	(185)
Net decrease in lease liability		**84**	32
Effect of movements in foreign exchange rates		**5**	7
Net debt at end of the year	19	**(755)**	(851)

1 Includes interest payments of £5m on lease liabilities (2020: £6m)

2 Net debt is an Alternative Performance Measure defined and explained in the Glossary on page 154. Further information on the items in the above reconciliation are provided in Note 19

Group statement of changes in equity

For the year ended 31 August 2021

£m	Called up share capital and share premium	Capital redemption reserve[1]	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 2020	**344**	**13**	**(14)**	**(279)**	**158**	**222**	**5**	**227**
Loss for the year	**–**	**–**	**–**	**–**	**(82)**	**(82)**	**2**	**(80)**
Other comprehensive loss:								
Actuarial (losses) on defined benefit pension schemes (Note 5)	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Exchange differences on translation of foreign operations	**–**	**–**	**(13)**	**–**	**–**	**(13)**	**–**	**(13)**
Total comprehensive loss for the year	**–**	**–**	**(13)**	**–**	**(83)**	**(96)**	**2**	**(94)**
Issue of new shares (Note 23)	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Issue of convertible bonds – value of conversion rights (Note 26)	**–**	**–**	**–**	**40**	**–**	**40**	**–**	**40**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Employee share schemes	**–**	**–**	**–**	**(1)**	**6**	**5**	**–**	**5**
Non-cash movement on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Balance at 31 August 2021	**345**	**13**	**(27)**	**(240)**	**82**	**173**	**10**	**183**

£m	Called up share capital and share premium	Capital redemption reserve[1]	Translation reserve	Other reserves[1]	Retained earnings	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 31 August 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**
Impact of adoption of IFRS 16	–	–	–	–	(22)	(22)	–	(22)
Adjusted balance at 1 September 2019	**33**	**13**	**8**	**(274)**	**433**	**213**	**2**	**215**
Loss for the year	**–**	**–**	**–**	**–**	**(239)**	**(239)**	**–**	**(239)**
Other comprehensive income/(loss):								
Actuarial gains on defined benefit pension schemes (Note 5)	–	–	–	–	11	11	–	11
Cash flow hedges	–	–	–	(2)	–	(2)	–	(2)
Exchange differences on translation of foreign operations	–	–	(22)	–	–	(22)	–	(22)
Total comprehensive loss for the year	**–**	**–**	**(22)**	**(2)**	**(228)**	**(252)**	**–**	**(252)**
Issue of new shares (Note 23)	311	–	–	–	–	311	–	311
Dividends paid (Note 9)	–	–	–	–	(47)	(47)	–	(47)
Net cash flows from non-controlling interests	–	–	–	–	–	–	1	1
Employee share schemes	–	–	–	(3)	–	(3)	–	(3)
Non-controlling interests arising on acquisition (Note 27)	–	–	–	–	–	–	2	2
Balance at 31 August 2020	**344**	**13**	**(14)**	**(279)**	**158**	**222**	**5**	**227**

[1] For further explanation and analysis of Capital redemption reserve and Other reserves, see Note 26.

Notes to the financial statements

1. Accounting policies

a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The directors are required to assess whether the Group can continue to operate for the 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis.

The directors report that they have undertaken a rigorous assessment of current performance and forecasts, including expenditure commitments, capital expenditure and borrowing facilities, and have concluded that the Group is able to adequately manage its financing and principal risks, and that the Group will be able to operate within the level of its facilities and meet the required covenants for the period to February 2023. Based on this assessment, which is outlined below, it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

The Strategic report describes the Group's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Group. As a result of the Group's refinancing, announced on 28 April 2021, the balance sheet has been significantly strengthened.

The refinancing arrangements included a £250m multi-currency revolving credit facility ('RCF'), increased from £200m with an extended maturity from December 2023 to April 2025 and provided by an expanded syndicate of lending banks. As at 31 October 2021, the Group has not drawn down on the RCF and has £107m cash on deposit.

As part of the refinancing, the Group also raised £327m from the issue of convertible bonds, of which £50m was retained by the Group to fund the opening of c.100 new Travel stores won and yet to open over the next three years, including thirty new InMotion stores in UK Travel. The remainder of the proceeds, net of costs, were used to partially pay down the term loans from both the Marshall Retail Group ('MRG') and InMotion acquisitions, leaving the Group with £133m of term loans. The maturity of the remaining term loan has also been extended from 2023 to 2025 in line with the RCF.

In making the going concern assessment, the directors have modelled a number of scenarios for the period to February 2023. The base case scenario is consistent with the Board approved 2022 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2023.

A severe but plausible scenario has also been modelled which assumes a further three-month lockdown over the period December 2021 to February 2022 across the Group, with High Street store sales down over 40 per cent across December to February versus the equivalent months in the year ending August 2019. Sales under this scenario are assumed to recover gradually from March 2022 at around 35 per cent below the equivalent month in the year ending August 2019 to down 30 per cent at February 2023. In Travel UK we have also assumed a lockdown over the December 2021 to February 2022 period, with sales down 76 per cent versus the equivalent months in the year ending August 2019. We then assume a gradual recovery, reflecting our experience of the post-lockdown recovery period from 2020 and earlier in the year, to a position in February 2023 where Travel UK sales are forecast to be down between zero and 12 per cent versus February 2019. In the US we have assumed a lockdown over the December 2021 to February 2022 period followed by a gradual recovery, reflecting our experience of the post-lockdown period from earlier in the year. The severe but plausible scenario does not assume any further government financial support despite the continuation of lockdowns. However, the severe but plausible scenario includes a number of mitigating actions including savings in store and head office payrolls and rent relief in Travel UK, to mitigate the impact of lockdown with lower sales.

In both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities, as described above.

The covenants on the above facilities are tested half-yearly. The covenant tests at 31 August 2021, 28 February 2022 and 31 August 2022 are based on minimum liquidity and under the base case and severe but plausible scenarios the Group would meet these covenant tests. The covenant test as at 28 February 2023 is based on fixed charges cover and net borrowings. Under both the base case and the severe but plausible scenarios, the Group would meet these covenant tests. In addition, we have received excellent support from our banks who have granted covenant waivers throughout the pandemic. The Strategic report also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position. Note 22 outlines 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.

As a result of the above analysis, the directors believe that the Group has sufficient financial resources to continue in operation and meet its obligations as they fall due for the 12 months from the date of approval of these financial statements.

Notes to the financial statements continued

1. Accounting policies (continued)

a) Basis of preparation (continued)

New standards

The Group has adopted the following standards and interpretations which became mandatory for the year ended 31 August 2021:

Amendments to references to Conceptual Framework in IFRS standards

Amendments to IFRS 16	Covid-19 related rent concessions
Amendment to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform - Phase 1
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material

The Group has considered the above new standards and amendments and has concluded that, with the exception of the amendments to IFRS 16, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

The revised accounting policy in respect of the amendment to IFRS 16 is described in Note 1(g).

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:

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2
Amendments to IAS 1	Presentation of financial statements on classification of liabilities
Amendments to IAS 16	Proceeds before intended use
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract
Amendment to IAS 12 and IFRS 1	Deferred tax related to assets and liabilities arising from a single transaction
Narrow scope amendments to IFRS 3, IAS 16 and IAS 37	
Annual improvements to IFRS Standards 2018-2020	
Amendments to IAS 1	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimate

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.

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' APMs.

The key APMs that the Group uses include: measures before non-underlying items, Headline profit before tax, Headline earnings per share, trading profit, Headline trading profit, Headline Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, EBITDA, Net debt/funds and Headline net debt/funds and free cash flow.
These APMs are set out in the Glossary on page 154 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 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 operations of the Group. These measures may exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. In addition, non-underlying measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

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.

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 on the following pages.

1. Accounting policies (continued)

a) Basis of preparation (continued)

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.

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.

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. Revenue generated from different store formats are considered to be a single revenue stream and are subject to the same underlying economic risks.

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 revenue.

c) Supplier arrangements

The Group receives income from its suppliers in the form of supplier incentives and discounts (collectively 'Supplier arrangements'). 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.

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 Accrued income.

The types of supplier arrangements recognised by the Group, and the recognition policies are detailed overleaf.

Notes to the financial statements continued

1. Accounting policies (continued)

c) Supplier arrangements (continued)

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 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) 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.

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 the group of CGUs making up the Group's operating segments, as this is the lowest level at which management monitor goodwill. Where the Group's operating segments have changed, goodwill is allocated to the new operating segments identified on a relative value basis.

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 amortisation period for capitalised software costs is over a maximum period of five years.

1. Accounting policies (continued)

e) Intangible assets (continued)

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. 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. Assets with indefinite useful lives are tested for impairment annually.

f) 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
Leasehold improvements	– 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 reassessed on an annual basis.

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.

g) Leasing

The Group as a lessee

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

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

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

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

The lease liability is presented as a separate line in the consolidated balance sheet.

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Notes to the financial statements continued

1. Accounting policies (continued)

g) Leasing (continued)

Right-of-use assets are depreciated over the lease term. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated balance sheet.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the accounting policies in Note 1f) Property, plant and equipment.

The lease contracts that include variable rents based on sales, which is the case with many of our retail concession contracts, are not included in the measurement of the lease liability and the right-of-use asset. The related rents payable are recognised as an expense in the period in which the event or condition that triggers those payables occurs and are included in profit or loss (see Note 3).

The Group has applied the Amendment to IFRS 16 issued in June 2020 and further extension granted in March 2021. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, to be recognised in the income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset.

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

The Group as a lessor

The Group enters into lease agreements as an intermediate lessor with respect to some of its property leases. It accounts for the head lease and the sublease as two separate contracts. The sublease is classified as finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

h) 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 below cost and shrinkage.

i) Government grants and government assistance

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

Government grants are recognised in the income statement over the same period as the costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grant income is disclosed in Note 3.

In addition, the Group has benefited from government assistance in the form of business rates relief of £40m in the year (2020: £20m).

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.

k) Foreign currencies

The consolidated financial statements are presented in pounds sterling (GBP), which is WH Smith PLC's functional and presentation currency. 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').

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.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions.

1. Accounting policies (continued)

k) Foreign currencies(continued)

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).

l) Taxation

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

Current tax is the expected tax payable or receivable based on the taxable profit or loss 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

(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.

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).

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.

(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.

Borrowings

Borrowings comprise interest-bearing bank loans and overdrafts and compound financial instruments (convertible bonds).

Bank loans 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. Transaction fees such as arrangement fees associated with the securing of financing are capitalised and amortised through the income statement over the term of the relevant facility. 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.

Compound financial instruments issued by the Group comprise convertible bonds. The convertible bonds are bifurcated into a liability component and an equity component on initial recognition. The carrying value of the liability at initial recognition is measured using a market interest rate for an equivalent non-convertible bond at the issue date. The remainder of the proceeds is allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. Any directly attributable transaction costs are allocated to each component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. Any transaction costs apportioned to the liability is included in the carrying amount and recognised over the contractual life of the liability using the effective interest rate method.

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.

Notes to the financial statements continued

1. Accounting policies (continued)

m) Financial instruments (continued)

i) Initial recognition and subsequent measurement (continued)

(b) Financial liabilities and equity (continued)

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 22.

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.

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.

1. Accounting policies (continued)

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 26.

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 judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. 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 the classification of items as non-underlying, assessment of lease substitution rights, determination of the lease term, determination of the incremental borrowing rate, valuation of retirement benefit obligations, determination of operating segments and allocation of goodwill, valuation of other non-current assets and inventory valuation.

Critical accounting judgements

Non-underlying items
The Group has chosen to present a 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 operations of the Group. These measures may exclude 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 other property costs, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, 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.

IFRS 16 Lease accounting

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

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

Notes to the financial statements continued

1. Accounting policies (continued)

q) Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical accounting judgements (continued)

Initial recognition of convertible bond

On initial recognition of the convertible bond, judgement is required in respect of the accounting treatment of embedded derivatives. The fixed principal amount of each bond is convertible into a fixed number of shares and as a result management has determined that the conversion feature meets the fixed-for-fixed criterion for equity classification. The bonds include anti-dilution provisions to ensure that the holder's potential interest in the equity of the Company is not diluted in specified circumstances. If these provisions are triggered, the number of shares that will be delivered to the holder is adjusted. Management considers that the provisions are anti-dilutive and exist to ensure that the holder's potential interest in the equity of the Company is not diluted under each of these circumstances. These provisions are not deemed to breach the fixed-for-fixed criterion, therefore the conversion feature is accounted for as equity.

Determination of operating segments

During the year the Group has reviewed its assessment of its operating segments, as a result of internal reorganisation and changes to the composition of information used by the Board to monitor the performance of the Group. This review has resulted in a change to the reportable segments identified, and prior year comparatives have been restated. There is no change to the total revenue or Group profit from trading operations.

Further information in respect of the Group's operating segments is included in Note 2.

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 and sensitivity analysis in respect of the Group's retirement benefit obligation is included in Note 5.

Valuation of goodwill

As a result of the change to the Group's identified operating segments described above, the goodwill previously allocated to the Travel operating segment has been allocated to the new operating segments using a relative value approach. This method of allocation requires the determination of value-in-use of each of the new segments. The key assumptions in the value-in-use calculations include growth rates of revenue and expenses, and discount rates.

A sensitivity analysis of the goodwill impairment calculation has shown that no reasonably possible change in assumptions would lead to an impairment of goodwill in the next financial year. Further to this sensitivity analysis, an assessment of the goodwill allocation was performed which showed that an impairment assessment under the previous allocation of goodwill to the Travel operating segment, or under any other reasonable split of the goodwill balance, would not have resulted in an impairment of goodwill.

Intangible assets, property, plant and equipment and right-of-use asset impairment reviews

Property, plant and equipment, right-of-use assets 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.

The key assumptions in the value-in-use calculations include growth rates of revenue and the pre-tax discount rate. Due to the ongoing Covid-19 global pandemic, there is an increased level of uncertainty in all of the above assumptions such that a reasonably possible change in these assumptions could lead to a material change in the carrying value of assets.

Further information in respect of the Group's property, plant and equipment and right-of-use assets is included in Notes 12 and 13 respectively.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of sell through rates, and 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(h). A sensitivity analysis has been carried out on the calculation of inventory provisions, including consideration of the uncertainties arising from Covid-19. The key assumption driving the stock provision calculation is forecast revenue. A 10 per cent change in the revenue assumptions applied in the provision calculation, representing a reasonably possible outcome, would reduce the net realisable value of inventories by £2m.

2. Segmental analysis of results

IFRS 8 requires segment information to be presented on the same basis as that used by the Chief Operating Decision Maker for assessing performance and allocating resources. 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.

During the year the Group has reviewed its assessment of its operating segments, as a result of internal reorganisation and changes to the composition of information used by the Board to monitor the performance of the Group. This review has resulted in a change to the reportable segments identified, and prior year comparatives have been restated. There is no change to the total revenue or Group profit from trading operations.

For management and financial reporting purposes, the Group is organised into two operating divisions which comprise four reportable segments – Travel UK, North America, Rest of the World within the Travel division, and High Street. The North America operating segment includes both MRG and InMotion from the dates of acquisition. For further information in relation to the acquisition of MRG in the prior year, see Note 27.

The information presented to the Board is prepared in accordance with the Group's IFRS accounting policies, with the exception of IFRS 16, and is shown below as Headline information in Section b). A reconciliation to statutory measures is provided below in accordance with IFRS 8, and in the Glossary on page 154 (Note A2).

a) Revenue

£m	2021	2020
Travel UK	**195**	344
North America	**166**	116
Rest of the World	**40**	93
Total Travel	**401**	553
High Street	**485**	468
Revenue	**886**	1,021

Rest of the World revenue includes revenue from Australia of £20m (2020: £38m). No other country has individually material revenue.

b) Group results

	2021				2020			
£m	**Headline[1] (pre-IFRS 16)**	**Headline non-underlying items[1] (pre-IFRS 16)**	**IFRS 16**	**Total**	Headline[1] (pre-IFRS 16)	Headline non-underlying items[1] (pre-IFRS 16)	IFRS 16	Total
Travel UK trading (loss)/profit	**(32)**	**–**	**3**	**(29)**	(1)	–	–	(1)
North America trading profit/(loss)	**6**	**–**	**(4)**	**2**	(18)	–	4	(14)
Rest of the World trading (loss)/profit	**(13)**	**–**	**(4)**	**(17)**	(14)	–	2	(12)
Total Travel trading (loss)/profit	**(39)**	**–**	**(5)**	**(44)**	(33)	–	6	(27)
High Street trading profit/(loss)	**19**		**17**	**36**	(10)	-	6	(4)
Group (loss)/profit from trading operations	**(20)**	**–**	**12**	**(8)**	(43)	–	12	(31)
Unallocated central costs	**(19)**	**–**	**–**	**(19)**	(17)	–	–	(17)
Group operating (loss)/profit before non-underlying items	**(39)**	**–**	**12**	**(27)**	(60)	–	12	(48)
Non-underlying items (Note 4)	**–**	**(49)**	**(16)**	**(65)**	–	(157)	(55)	(212)
Group operating loss	**(39)**	**(49)**	**(4)**	**(92)**	(60)	(157)	(43)	(260)
Finance costs	**(16)**	**–**	**(8)**	**(24)**	(9)	–	(11)	(20)
Loss before tax	**(55)**	**(49)**	**(12)**	**(116)**	(69)	(157)	(54)	(280)
Income tax credit	**26**	**9**	**1**	**36**	16	18	7	41
Loss for the year	**(29)**	**(40)**	**(11)**	**(80)**	(53)	(139)	(47)	(239)

1 Presented on a pre-IFRS 16 basis. Alternative Performance Measures are defined and explained in the Glossary on page 154

Financial statements

Notes to the financial statements continued

2. Segmental analysis of results (continued)

c) Other segmental items

	2021				
	Non-current assets[1]			Right of use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	11	(14)	–	–	–
North America	15	(10)	–	–	–
Rest of the World	2	(3)	–	–	–
Total Travel	28	(27)	–	–	–
High Street	16	(17)	(2)	–	–
Unallocated	–	(4)	–	–	–
Headline, before non-underlying items	44	(48)	(2)	–	–
Headline non-underlying items (pre-IFRS 16)	–	(3)	(18)	–	–
Headline, after non-underlying items	44	(51)	(20)	–	–
Impact of IFRS 16	–	1	–	(84)	–
Non-underlying items (IFRS 16)	–	–	4	–	(28)
Group	44	(50)	(16)	(84)	(28)

	2020				
	Non-current assets[1]			Right of use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	18	(16)	–	–	–
North America	26	(10)	–	–	–
Rest of the World	4	(6)	–	–	–
Total Travel	48	(32)	–	–	–
High Street	24	(23)	–	–	–
Unallocated	–	(5)	–	–	–
Headline, before non-underlying items	72	(60)	–	–	–
Headline non-underlying items (pre-IFRS 16)	–	(3)	(55)	–	–
Headline, after non-underlying items	72	(63)	(55)	–	–
Impact of IFRS 16	–	8	–	(110)	–
Non-underlying items (IFRS 16)	–	–	15	–	(95)
Group	72	(55)	(40)	(110)	(95)

1 Non-current assets including property, plant and equipment and intangible assets, but excluding right-of-use assets.

d) Non-current assets by geographical location

Non-current assets include plant, property and equipment, intangible assets and right-of-use assets.

£m	2021	2020
UK	397	487
USA	553	584
Australia	14	16
Other international	11	11
Total	975	1,098

3. Group operating profit

£m	2021 Before non-underlying items	2021 Non-underlying items	2021 Total	2020 Before non-underlying items	2020 Non-underlying items	2020 Total
Revenue	**886**	**–**	**886**	1,021	–	1,021
Cost of sales	**(358)**	**–**	**(358)**	(441)	–	(441)
Gross profit	**528**	**–**	**528**	580	–	580
Distribution costs[1]	**(419)**	**–**	**(419)**	(538)	–	(538)
Administrative expenses	**(140)**	**–**	**(140)**	(92)	–	(92)
Other income[2]	**4**	**–**	**4**	2	–	2
Non-underlying items (Note 4)	**–**	**(65)**	**(65)**	–	(212)	(212)
Group operating loss	**(27)**	**(65)**	**(92)**	(48)	(212)	(260)

1 During the year there was an impairment charge of £2m (2020: £nil) for property, plant and equipment and other intangible assets included in distribution costs. Other impairment charges related to Covid-19 are included in non-underlying items. See Note 4.

2 Other income relates to profit on disposal and remeasurement of right-of-use assets, and profit attributable to property.

£m	2021	2020
Cost of inventories recognised as an expense	**358**	441
Write-down of inventories in the year[3]	**7**	14
Depreciation of property, plant and equipment	**36**	43
Depreciation of right-of-use assets		
– land and buildings	**80**	105
– other	**4**	5
Amortisation of intangible assets	**14**	12
Impairment of property, plant and equipment	**16**	39
Impairment of right-of-use assets	**28**	95
Impairment of intangibles	**–**	1
(Income)/expenses relating to leasing:		
– expense relating to short-term leases	**14**	22
– expense relating to variable lease payments not included in the measurement of the lease liability	**27**	12
– income relating to Covid-19 rent reductions	**(23)**	(15)
Other occupancy costs	**27**	49
Staff costs (Note 6)	**232**	217
Government grant income	**(11)**	(22)
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	**1.2**	0.8
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.3**	0.4
Total audit and audit-related services	**1.5**	1.2
Non-audit services		
Fees payable to the Group's auditors for other services:		
Reporting accountant services	**–**	0.4
All other non-audit services	**0.1**	0.1
Non-audit fees including taxation and other services	**0.1**	0.5
Total auditors' remuneration	**1.6**	1.7

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.

3 Write-down of inventories in the year are included within the amounts disclosed as Cost of inventories recognised as an expense, and recognised in Cost of sales.

Notes to the financial statements continued

4. Non-underlying items

Items which are not considered part of the normal operations of the business, are non-recurring or 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 16.

£m	2021	2020
Costs relating to business combinations		
– Transaction costs	–	11
– Integration costs	2	9
Amortisation of acquired intangible assets	3	3
Pension past service cost	–	14
Costs directly attributable to Covid-19		
– Impairment of property, plant and equipment	14	39
– Impairment of intangible assets	–	1
– Impairment of right-of-use assets	28	95
– Write-down of inventories	5	14
– Restructuring costs	9	25
– Costs associated with refinancing	6	–
– Other	(2)	1
Non-underlying items, before tax	**65**	212
Tax credit on non-underlying items	(12)	(25)
Non-underlying items, after tax	**53**	187

Non-underlying items recognised in the year are as follows:

Costs relating to business combinations
During the year, the Group incurred further integration costs of £2m in relation to the acquisition of Marshall Retail Group ('MRG'), which completed on 20 December 2019. In the prior year transaction and integration costs of £20m were incurred in relation to the acquisition of MRG.

Amortisation of acquired intangible assets
Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands (see Note 11).

Costs directly attributable to Covid-19
As described in the Strategic report the Covid-19 pandemic continues to have a substantial impact on the Group's operations. As a result, the Group continues to incur significant costs which have been separately recognised in non-underlying items, in accordance with the Group's accounting policy. The charges have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of ongoing store closures and travel restrictions, and downward revisions to budgeted revenues based on expectations of the rate of return to pre-pandemic levels of footfall and passenger numbers.

Impairment of property, plant and equipment and right-of-use assets
The impact on the Group's operations of Covid-19 is expected to continue during the next year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on management's assumptions regarding likely future trading performance (taking into account the effect of Covid-19) to the carrying values at 31 August 2021. Following this review, a charge of £42m (2020: £135m) was recorded within non-underlying items for impairment of retail store assets, of which £14m (2020: £39m) relates to property, plant and equipment, £nil (2020: £1m) relates to intangible assets and £28m (2020: £95m) relates to right-of-use assets. Refer to Note 12 for details of impairment of store cash-generating units. The impairment recognised on a pre-IFRS 16 basis is provided in the Glossary on page 154.

Write-down of inventories
The Group assesses the recoverability of the carrying value of inventories at every reporting period and, where the expected recoverable amount is lower than the carrying value, a provision is recorded. During the year non-underlying provisions of £5m have been recorded against inventory, in addition to underlying provisions held of £13m, which relate to dated and perishable stock and stock subject to obsolescence where the sell through rate has significantly reduced due to store closures and lower footfall. The Group has recognised these charges as non-underlying as they meet the Group's definition of non-underlying.

Restructuring costs
The charge of £9m (2020: £21m) is principally attributable to redundancies and restructuring costs following a review of store operations across our High Street business, as a result of the impact of Covid-19 on footfall on the UK high street. These costs are presented as a non-underlying item as they are part of a Board-agreed restructuring programme, and are considered material and

one-off in nature. In addition, in the prior year the Group incurred costs of £4m relating to exiting the Paris bookshop and the Brazil joint venture.

4. Non-underlying items (continued)

Costs associated with refinancing

Costs associated with refinancing include £1m of non-cash charges relating to unamortised fees connected with extinguished liabilities, £3m of fees incurred in relation to amendment and extension of the Group's previous financing arrangements incurred in March 2021 prior to the issuance of the convertible bond, and £2m of professional fees relating to refinancing and debt structuring activity required as a result of Covid-19. Other fees incurred relating to refinancing activity have been recognised in underlying finance costs or recognised as a deduction from the value of liabilities recognised, and will be amortised over the period of the arrangement through underlying finance costs.

Other prior year non-underlying items

Pension past service cost

Past service cost of £14m was recognised in the year ended 31 August 2020. This relates to equalisation of pension benefits between men and women over the period from 1 April 1992 to 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a Barber equalisation window of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993. See Note 5.

A tax credit of £12m (2020: £25m) has been recognised in relation to the above items.

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	2021	2020
WHSmith Pension Trust	**(2)**	(3)
United News Shops Retirement Benefits Scheme	**(1)**	(1)
Retirement benefit obligation recognised in the balance sheet	**(3)**	(4)
Recognised as:		
Current liabilities	**(1)**	(1)
Non-current liabilities	**(2)**	(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 Articles of Association of WH Smith Pension Trustees Limited (the corporate trustee) there are four directors nominated by the sponsor, two independent directors and four member-nominated directors. Under the member-nominated director arrangements, the term of office of a member-nominated director is four years.

The WHSmith Pension Trust has assets valued at £1,456m, as at 31 August 2021 (2020: £1,412m) 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:

Notes to the financial statements continued

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

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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 Group 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 Group 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 2020 by independent actuaries using the projected unit credit method and has been completed. At 31 March 2020 the deficit was £9m. The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the following 5 years, which includes the deficit recovery contributions and other running costs of just under £3m. During the year ending 31 August 2021, the Group made a contribution of £3m to the WHSmith Pension Trust (2020: £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 2022 to be £3m. The weighted average duration of the defined benefit obligation is 18 years.

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	2021	2020
Present value of the obligations	**(1,172)**	(1,144)
Fair value of plan assets	**1,456**	1,412
Surplus before consideration of asset ceiling	**284**	268
Amounts not recognised due to effect of asset ceiling	**(284)**	(268)
Additional liability recognised due to minimum funding requirements	**(2)**	(3)
Retirement benefit obligation recognised in the balance sheet	**(2)**	(3)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £2m (2020: £3m). The defined benefit pension schemes are closed to further accrual. The Group does not have an unconditional right to derive economic benefit from any surplus, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £284m (2020: £268m) available on a reduction of future contributions is £nil (2020: £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	2021	2020
Net interest cost on the defined benefit liability	**–**	–
Past service cost	**–**	(14)
	–	(14)

The net interest cost has been included in finance costs (Note 7). Actuarial gains and losses have been reported in the statement of comprehensive income.

In the prior year, past service costs of £14m were recognised in relation to equalisation of pension benefits relating to a period between 1 April 1992 and 29 July 1993 ('Barber equalisation'). This past service cost was disclosed within non-underlying items, in accordance with the accounting policy in Note 1.

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

Statement of comprehensive income

Total expense recognised in the statement of comprehensive income ('SOCI'):

£m	2021	2020
Actuarial gain/(loss) on defined benefit obligations arising from experience	5	(53)
Actuarial loss on defined benefit obligations arising from changes in financial assumptions	(56)	(12)
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	1	22
Total actuarial loss before consideration of asset ceiling	**(50)**	(43)
Return on plan assets excluding amounts included in net interest cost	58	(38)
(Loss)/gain resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	(11)	92
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	1	–
Total actuarial (loss)/gain recognised in other comprehensive income	**(2)**	11

A credit of £1m (2020: £nil) was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

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:

	2021				2020			
£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	1,412	(1,144)	(271)	(3)	1,461	(1,107)	(357)	(3)
Current service cost	–	–	–	–	–	–	–	–
Past service cost	–	–	–	–	–	(14)	–	(14)
Interest income/(expense)	24	(19)	(5)	–	26	(20)	(6)	–
Actuarial gains/(losses)	58	(50)	(10)	(2)	(38)	(43)	92	11
Contributions from the sponsoring companies	3	–	–	3	3	–	–	3
Benefits paid	(41)	41	–	–	(40)	40	–	–
At 31 August	**1,456**	**(1,172)**	**(286)**	**(2)**	1,412	(1,144)	(271)	(3)

The actual return on scheme assets was a gain of £82m (2020: loss of £12m). During the year, asset returns outperformed the discount rate, leading to an asset remeasurement gain of £58m. Actuarial losses on scheme liabilities have arisen due to: experience gains of £5m, as a result of the triennial valuation at 31 March 2020, which applied membership and other demographic movements over the last 3 years; the lower discount rate and RPI assumptions, offset by higher CPI inflation assumptions resulting in a loss of £56m; and changes in demographic assumptions that led to a £1m reduction in plan liabilities.

The decrease in scheme liabilities combined with a increase in the scheme assets, resulted in a increase of £16m in the unrecognised IAS 19 surplus, to £284m.

Notes to the financial statements continued

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

	2021				2020			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	**1,211**	**–**	**1,211**	**83**	1,157	–	1,157	82
– Corporate bonds								
UK	**264**	**–**	**264**	**18**	286	–	286	20
Non-UK	**342**	**–**	**342**	**24**	342	–	342	24
Investment funds[1]	**43**	**186**	**229**	**16**	324	188	512	36
Derivatives								
– Interest rate swaps	**–**	**(85)**	**(85)**	**(6)**	–	28	28	2
– Inflation swaps	**–**	**(157)**	**(157)**	**(11)**	–	(143)	(143)	(10)
– Other[2]	**–**	**(503)**	**(503)**	**(35)**	–	(530)	(530)	(37)
Cash and cash equivalents[3]	**155**	**–**	**155**	**11**	(240)	–	(240)	(17)
Total	**2,015**	**(559)**	**1,456**	**100**	1,869	(457)	1,412	100

1 These actively managed pooled funds seek to provide long-term positive returns through diversified assets and strategies.

2 Other derivatives include asset swap contracts and open repurchase agreements.

3 In the prior year, the negative cash and cash equivalents balance relates to our obligation to return cash collateral.

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:

%	**2021**	2020
Rate of increase in pension payments	**3.35**	3.04
Rate of increase in deferred pensions	**2.55**	2.30
Discount rate	**1.75**	1.75
RPI inflation assumption	**3.45**	3.10
CPI inflation assumption	**2.55**	2.30

The mortality assumptions in years underlying the value of the accrued liabilities for 2021 and 2020 are:

	2021		2020	
Years	**Male**	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**22.7**	**23.9**	22.7	23.8
Member currently aged 45	**23.3**	**25.3**	23.3	25.2

Sensitivity to changes in assumptions

The valuation of the retirement benefit obligation is considered a significant source of estimation uncertainty, see Note 1(q), and therefore changes in assumptions can have a significant effect on the amounts recognised in the financial statements. Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2021, while keeping all other assumptions consistent; in practice, changes in some of the assumptions may be correlated.

£m	**Effect on liabilities at 31 August 2021**
Discount rate +/- 0.1% per annum	**-19/+19**
Inflation assumptions +/- 0.1% per annum	**+18/-18**
Life expectancy +/- 1 year	**+66/-66**

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

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	2021	2020
Present value of the obligations	(8)	(8)
Fair value of plan assets	7	7
Retirement benefit obligation recognised in the balance sheet	**(1)**	(1)

All of the assets of the UNSRBS scheme have a quoted market price in an active market. There was a credit of £1m (2020: £nil) 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 £4m for the year ended 31 August 2021 (2020: £4m).

6. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2021	2020
Wages and salaries	208	200
Social security costs	14	13
Other pension costs	4	4
Share-based payments	6	–
Total Group	**232**	217

b) Employee numbers

The monthly average total number of employees (including executive directors) was:

£m	2021	2020
Total retailing	11,194	14,475
Support functions	41	39
Total Group	**11,235**	14,514

7. Finance costs

£m	2021	2020
Interest payable on bank loans and overdrafts	10	9
Interest on convertible bonds	4	–
Interest on lease liabilities	10	11
Net interest cost on defined benefit pension liabilities	–	–
	24	20

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Notes to the financial statements continued

8. Income tax

£m	2021	2020
Tax on loss	–	(5)
Standard rate of UK corporation tax 19.00% (2020: 19.00%)		
Adjustment in respect of prior years	**(1)**	(6)
Total current tax credit	**(1)**	(11)
Deferred tax – current year (Note 18)	**(11)**	(7)
Deferred tax – prior year (Note 18)	**(4)**	2
Deferred tax – adjustment in respect of change in tax rates	**(8)**	–
Tax on loss before non-underlying items	**(24)**	(16)
Tax on non-underlying items – current tax	–	(9)
Tax on non-underlying items – deferred tax (Note 18)	**(12)**	(16)
Total tax on loss	**(36)**	(41)

Reconciliation of the taxation credit

£m	2021	2020
Tax on loss at standard rate of UK corporation tax 19.00% (2020: 19.00%)	**(22)**	(53)
Tax effect of items that are not deductible or not taxable in determining taxable loss	**1**	15
Unrecognised tax losses	**(1)**	4
Differences in overseas tax rates	**(1)**	(3)
Adjustment in respect of prior years	**(5)**	(4)
Adjustment in respect of change in tax rates	**(8)**	–
Total income tax credit	**(36)**	(41)

The effective tax rate, before non-underlying items, is 47 per cent (2020: 23 per cent).

The UK corporation tax rate is 19 per cent effective from 1 April 2017. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25 per cent . This new law was substantively enacted on 24 May 2021, and the main impact of this change is an increase to the deferred tax assets and an increase in the current year tax income statement credit of £8m.

9. Dividends

Amounts paid and recognised as distributions to shareholders in the year are as follows:

£m	2021	2020
Dividends		
Final dividend for the year ended 31 August 2019 of 41.0p per ordinary share	–	47
	–	47

The directors have not declared an interim dividend during the year and do not propose a final dividend in respect of the year ended 31 August 2021.

10. Loss per share

a) Loss/earnings

£m	2021	2020
Loss for the year, attributable to equity holders of the parent	**(82)**	(239)
Non-underlying items (Note 4)	**53**	187
Loss for the year before non-underlying items, attributable to equity holders of the parent	**(29)**	(52)

b) Weighted average share capital

Millions	2021	2020
Weighted average ordinary shares in issue	**131**	120
Less weighted average ordinary shares held in ESOP Trust	**–**	–
Weighted average shares in issue for loss per share	**131**	120
Add weighted average number of ordinary shares under option	**–**	–
Weighted average ordinary shares for diluted loss per share	**131**	120

c) Basic and diluted loss per share

Pence	2021	2020
Basic loss per share	**(62.6)**	(199.2)
Adjustment for non-underlying items	**40.5**	155.9
Basic loss per share before non-underlying items	**(22.1)**	(43.3)

Pence	2021	2020
Diluted loss per share	**(62.6)**	(199.2)
Adjustment for non-underlying items	**40.5**	155.9
Diluted loss per share before non-underlying items	**(22.1)**	(43.3)

Diluted loss 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. As the Group has incurred a loss in the years ending 31 August 2021 and 31 August 2020, the impact of its potential dilutive ordinary shares have been excluded as they would be anti-dilutive.

At 31 August 2021 the convertible bond has no dilutive effect as the inclusion of these potentially dilutive shares would improve loss per share.

The calculation of loss per share on a pre-IFRS 16 basis is provided in the Glossary on page 154.

Notes to the financial statements continued

11. Intangible assets

£m	Goodwill	Brands and franchise contracts	Tenancy rights	Software	Total
Cost					
At 1 September 2020	418	43	13	96	570
Acquisitions (Note 27)	(1)	–	–	–	(1)
Additions	–	–	–	7	7
Disposals	–	–	–	(1)	(1)
Foreign exchange	(11)	(1)	–	–	(12)
At 31 August 2021	**406**	**42**	**13**	**102**	**563**
Accumulated amortisation					
At 1 September 2020	–	4	8	65	77
Amortisation charge	–	3	–	11	14
Impairment charge	–	–	–	–	–
Disposals	–	–	–	(1)	(1)
Foreign exchange	–	–	–	–	–
At 31 August 2021	**–**	**7**	**8**	**75**	**90**
Net book value at 31 August 2021	**406**	**35**	**5**	**27**	**473**
Cost					
At 1 September 2019	176	16	13	109	314
Additions	–	–	–	11	11
Acquisitions (Note 27)	258	29	–	1	288
Disposals	–	–	–	(25)	(25)
Foreign exchange	(16)	(2)	–	–	(18)
At 31 August 2020	**418**	**43**	**13**	**96**	**570**
Accumulated amortisation					
At 1 September 2019	–	1	8	80	89
Amortisation charge	–	3	–	9	12
Impairment charge	–	–	–	1	1
Disposals	–	–	–	(25)	(25)
Foreign exchange	–	–	–	–	–
At 31 August 2020	**–**	**4**	**8**	**65**	**77**
Net book value at 31 August 2020	**418**	**39**	**5**	**31**	**493**

Adjustments to goodwill include an adjustment of £1m to the consideration paid in relation to the acquisition of Marshall Retail Group (MRG). Additions to goodwill in the prior year relate to the acquisition of MRG. See Note 27 for further information. Goodwill of USD $77m (£56m) relating to the acquisition of InMotion in 2018 is expected to be deductible for tax purposes in the future.

As a result of changes to the Group's reportable segments (as discussed in Note 2), goodwill previously attributable to the Travel operating segment has been reallocated to the new operating segments using a relative value approach.

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2021	2020
Travel UK	**253**	
North America	**113**	
Rest of the World	**25**	
Total Travel	**391**	403
High Street	**15**	15
	406	418

11. Intangible assets (continued)

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2020: £4m), representing certain rights under tenancy agreements, which include the right to renew leases, therefore no amortisation has been charged. 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. These assets are reviewed annually for indicators of impairment.

Impairment of goodwill and intangible assets

The Group tests goodwill for impairment annually or where there is an indication that goodwill might be impaired. For impairment testing purposes, the Group has determined that each store is a separate CGU, and goodwill is allocated to groups of CGUs in a manner that is consistent with our operating segments, as this reflects the lowest level at which goodwill is monitored. All goodwill has arisen on acquisitions of groups of retail stores. These acquisitions are then integrated into the Group's operating segments as appropriate. Acquired brands are considered together with goodwill for impairment testing purposes, and are therefore considered annually for impairment.

Goodwill and acquired brands have been tested for impairment by comparing the carrying amount of each group of CGUs, including goodwill and acquired brands, with the recoverable amount determined from value-in-use calculations. The value-in-use of each group of CGUs has been calculated using cash flows derived from the Group's latest Board-approved budget and three year plan, initially extrapolated to five years and taking into account the projected impact of Covid-19. The forecasts reflect knowledge of the current market, together with the Group's expectations on the future achievable growth and committed store openings. Cash flows beyond the initial forecast period are extrapolated using estimated long-term growth rates. Forecasts have taken into account the immediately quantifiable impacts of climate change, with no material impact on cash flows. Forecasts beyond the initial forecast period do not include a quantitative assessment of the impact of climate change on cash flows.

For certain groups of CGUs, additional adjustments to cash flows have been made during the extrapolation process for an extended period of up to 15 years before calculating a terminal value. This extended period of time is required to establish a normalised cash flow base on which a terminal value calculation can be appropriately calculated. The main reasons for cash flow adjustments include the need to forecast lease renewals under IFRS 16, and the unwinding of certain cash flow benefits arising from acquisitions in North America.

The key assumptions on which forecast three-year cash flows of the CGUs are based include revenue growth, product mix and operating costs, long-term growth rates and the pre-tax discount rate:

- The values assigned to each of the revenue, product mix and operating cost assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the travel and high street retail sectors.
- The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 10.4 per cent.
- The long-term growth rate assumptions are between 0 per cent and 2 per cent.

The value-in-use estimates indicated that the recoverable amount of goodwill exceeded the carrying value for each group of CGUs. As a result, no impairment has been recognised in respect of the carrying value of goodwill in the year (2020: £nil).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and it is possible that significant changes to these assumptions could lead to an impairment of goodwill and acquired brands. Given the significant uncertainty surrounding the impact of Covid-19 on the Group's operations and on the global economy, management have considered a range of sensitivities on each of the key assumptions, with other variables held constant. The sensitivities include applying increases in the discount rate by 1 per cent and reductions in the long-term growth rates to 0 per cent. Under these severe scenarios, the estimated recoverable amount of goodwill and acquired brands still exceeded the carrying value.

The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

Notes to the financial statements continued

12. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2020	15	272	198	108	593
Additions	3	12	15	7	37
Acquisitions (Note 27)	–	(1)	–	–	(1)
Disposals	–	(5)	(5)	(2)	(12)
Reclassifications	–	14	(11)	(3)	–
Foreign exchange	–	(2)	(1)	–	(3)
At 31 August 2021	**18**	**290**	**196**	**110**	**614**
Accumulated depreciation:					
At 1 September 2020	10	185	127	79	401
Depreciation charge	–	17	12	7	36
Impairment charge	–	9	5	2	16
Disposals	–	(5)	(5)	(2)	(12)
Reclassifications	–	–	2	(2)	–
Foreign exchange	–	–	(1)	–	(1)
At 31 August 2021	**10**	**206**	**140**	**84**	**440**
Net book value at 31 August 2021	**8**	**84**	**56**	**26**	**174**
Cost or valuation:					
At 31 August 2019	15	236	168	120	539
Adjustment on initial application of IFRS 16	–	(3)	(5)	(22)	(30)
At 1 September 2019	15	233	163	98	509
Additions	–	28	23	10	61
Acquisitions (Note 27)	–	18	14	2	34
Disposals	–	(5)	(1)	(1)	(7)
Foreign exchange	–	(2)	(1)	(1)	(4)
At 31 August 2020	**15**	**272**	**198**	**108**	**593**
Accumulated depreciation:					
At 31 August 2019	10	147	103	78	338
Adjustment on initial application of IFRS 16	–	1	(1)	(12)	(12)
At 1 September 2019	10	148	102	66	326
Depreciation charge	–	22	12	9	43
Impairment charge	–	20	14	5	39
Disposals	–	(5)	(1)	(1)	(7)
At 31 August 2020	**10**	**185**	**127**	**79**	**401**
Net book value at 31 August 2020	**5**	**87**	**71**	**29**	**192**

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The significant disruption to trading as a result of the Covid-19 pandemic has been identified as an indicator of impairment, and therefore all CGUs have been tested for impairment as at the balance sheet date.

12. Property, plant and equipment (continued)

Property, plant and equipment and right-of-use assets have been tested for impairment by comparing the carrying amount of each CGU with its recoverable amount determined from value-in-use calculations. It was determined that value-in-use was higher than fair value less costs to sell as a result of the significant impact on fair values as a result of Covid-19. The value-in-use of each CGU has been calculated using discounted cash flows derived from the Group's latest Board-approved budget and three-year plan, taking into account the projected impact of Covid-19, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth. Cash flows beyond this three-year period are extrapolated using growth rates and inflation rates appropriate to each store's location. Cash flows have been included for the remaining lease life for the specific store. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. Where stores have a relatively short remaining lease life, an extension to the lease has been assumed where management consider it likely that an extension will be granted.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include revenue and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer-term growth rates. The forecasts used in the impairment review are based on management's best estimate of revenue reductions versus a 'pre-Covid' base, and the recovery in revenue over the forecast period. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows, and knowledge gained during the pandemic up to the year end date.

The forecasts for the year for our High Street business assume that store like-for-like sales will be lower by around 20 per cent during the year ended 31 August 2022. In Travel UK, revenue is assumed to be initially down around 50 per cent recovering to around 5 per cent down by the end of that year. This is an average across all formats, with Hospitals recovering more quickly than Air. Our International locations outside of North America assume that like-for-like sales will be lower by around 75 per cent initially, and recovering to down around 25 per cent by the end of August 2022.

In North America, revenue is assumed to be down around 25 per cent in the early part of the next financial year, improving to around 2019 levels by the end of the August 2022 financial year. This is an average across all formats, with Resorts recovering more quickly than Air.

The second and third years of the three year plan include further gradual recoveries across all locations.

The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include the risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 10.4 per cent.

Where the value-in-use was less than the carrying value of the CGU, an impairment of property, plant and equipment and right-of-use assets was recorded. These stores were impaired to their recoverable amount of £56m, which is their carrying value at year end. The Group has recognised an impairment charge of £16m to property, plant and equipment and £28m to right-of-use assets as a result of impairment testing. Impairments of £42m have been presented as non-underlying items in the current year (see Note 4), and impairments of £2m have been included in underlying results.

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and changes to these assumptions could lead to further impairments to assets. Given the significant uncertainty regarding the impact of Covid-19 on the Group's operations and on the global economy, management have considered sensitivities to the impairment charge as a result of changes to the estimate of future revenues achieved by the stores.

The Group has applied certain sensitivities in isolation to demonstrate the impact on the impairment of changes in key assumptions. The most significant assumption is the revenue assumption. The impact of a potential slower recovery from the pandemic has been modelled by incorporating a further 10 per cent reduction in revenue in High Street stores and a delay in recovery of one year in Travel UK and North America, with no change to subsequent forecast revenue growth rate assumptions. This would result in a £21m increase in the impairment charge of retail store assets in the year ended 31 August 2021. An increase or decrease of 1 per cent in the discount rate would result in an increase or decrease in the impairment charge of around £2m.

Other changes in assumptions have been modelled and have shown that any reasonably possible changes would not lead to a significant impact on the impairment charge. Other modelled assumption changes include margin reductions and long-term growth rate reductions across all formats.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 154.

Notes to the financial statements continued

13. Right-of-use assets

£m	Land and buildings	Equipment	Total
At 1 September 2020	**400**	**13**	**413**
Additions	**45**	**–**	**45**
Modifications and remeasurements	**(13)**	**–**	**(13)**
Disposals	**(1)**	**–**	**(1)**
Depreciation charge	**(80)**	**(4)**	**(84)**
Impairment charge	**(28)**	**–**	**(28)**
Effect of movements in foreign exchange rates	**(4)**	**–**	**(4)**
Net book value at 31 August 2021	**319**	**9**	**328**

£m	Land and buildings	Equipment	Total
At 1 September 2019	439	18	457
Additions	98	–	98
Acquisitions	108	–	108
Modifications and remeasurements	(35)	–	(35)
Disposals	(2)	–	(2)
Depreciation charge	(105)	(5)	(110)
Impairment charge	(95)	–	(95)
Effect of movements in foreign exchange rates	(8)	–	(8)
Net book value at 31 August 2020	400	13	413

The information on the Group's leasing activities is included in Note 16, Lease liabilities.

Impairment of right-of-use assets

Right-of-use assets of £28m have been impaired in the year, as a result of the impact of Covid-19. This impairment charge has been presented in non-underlying items (see Note 4). The approach to impairment testing is described in detail in Note 12, Property, plant and equipment.

14. Trade and other receivables

£m	2021	2020
Current receivables		
Trade receivables	**25**	22
Other receivables	**5**	8
Prepayments	**10**	10
Accrued income	**5**	9
	45	49
Non-current receivables		
Other receivables	**2**	6
Prepayments	**4**	3
Total trade and other receivables	**51**	58

Included in accrued income is £3m (2020: £3m) 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.

There were no government grants receivables included in other receivables this year (2020: £1m).

The ageing of the Group's current trade and other receivables is as follows:

£m	2021	2020
Trade and other receivables gross	**35**	39
Expected credit losses	**(3)**	(3)
Trade and other receivables net	**32**	36
Of which:		
Amounts neither impaired nor past due on the reporting date	**25**	26
Amounts past due but not impaired:		
Less than one month old	**3**	4
Between one and three months old	**2**	2
Between three and six months old	**1**	2
Between six months and one year old	**1**	2
Trade and other receivables net carrying amount	**32**	36

The Group has limited exposure to expected credit losses due to the business model. An allowance has been made for lifetime expected credit losses from receivables at 31 August 2021 of £3m (31 August 2020: £3m). 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	2021	2020
Less than one month old	**–**	–
Between one and three months old	**–**	–
Between three and six months old	**1**	1
Between six months and one year old	**2**	2
	3	3

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 their fair value.

Notes to the financial statements continued

15. Trade and other payables

£m	2021	2020 (restated)
Trade payables	**70**	55
Other tax and social security	**24**	24
Other payables	**72**	63
Accruals	**83**	87
Deferred income	**16**	12
	265	241

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 56 days (2020: 50 days). The directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade payables is stated net of £4m (2020: £2m) 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.

The classification of trade and other payables has been reviewed and it was noted that certain balances more closely related to deferred income have previously been classified in other categories. The analysis provided above more closely reflects the nature of the underlying balances. The comparatives have been restated for consistency by reducing Trade payables by £5m, reducing Other creditors by £4m and increasing Deferred income by £9m. There is no impact on the total of trade and other payables.

16. Lease liabilities

£m	Land and buildings	Equipment	Total
At 1 September 2020	**548**	**11**	**559**
Additions	**41**	**–**	**41**
Modifications and remeasurements	**(37)**	**–**	**(37)**
Disposals	**(7)**	**–**	**(7)**
Interest	**10**	**–**	**10**
Payments	**(87)**	**(4)**	**(91)**
Effect of movements in foreign exchange rates	**(5)**	**–**	**(5)**
At 31 August 2021	**463**	**7**	**470**

£m	Land and buildings	Equipment	Total
At 3 August 2019	–	14	14
Adjustment on initial application of IFRS 16	476	3	479
At 1 September 2019	476	17	493
Additions	87	–	87
Acquisitions	106	–	106
Modifications and remeasurements	(50)	–	(50)
Disposals	(2)	–	(2)
Interest	11	–	11
Payments	(72)	(6)	(78)
Effect of movements in foreign exchange rates	(8)	–	(8)
At 31 August 2020	548	11	559

£m	2021	2020
Analysis of total lease liabilities:		
Non-current	**362**	429
Current	**108**	130
Total	**470**	559

The Group leases land and buildings for its retail stores, distribution centres, storage locations and office property. These leases have an average remaining lease term of 4 years. Some leases include an option to break before the end of the contract term or an option to renew the lease for an additional term after the end of the term. Management assess the lease term at inception based on the facts and circumstances applicable to each property.

16. Lease liabilities (continued)

Other leases are mainly forklift trucks for the retail stores and distribution centres, office equipment and vehicles. These leases have an average remaining lease term of 3 years.

The Group reviews the retail lease portfolio on an ongoing basis, taking into account retail performance and future trading expectations. The Group may exercise extension options, negotiate lease extensions or modifications. In other instances, the Group may exercise break options, negotiate lease reductions or decide not to negotiate a lease extension at the end of the lease term. Certain property leases contain rent review terms that require rent to be adjusted on a periodic basis which may be subject to market rent or increases in inflation measurements.

Many of the Group's property leases, particularly in Travel locations, also incur payments based on a percentage of revenue (variable lease payments) achieved at the location. In line with IFRS 16, variable lease payments which are not based on an index or rate are not included in the lease liability. See Note 3 for the expense charged to the Income statement relating to variable lease payments not included in the measurement of the lease liability.

In response to the Covid-19 pandemic, an amendment was issued to IFRS 16 in June 2020 and further extended in March 2021. This amendment (practical expedient) allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset. The Group has applied this practical expedient to all Covid-19 rent reductions/waivers that meet the requirements of the amendment. This has resulted in a credit to the Income statement of £23m for the year ended 31 August 2021.

The Group's accounting policy for leases is set out in Note 1. Details of Income statement charges and income for leases are set out in Note 3. The right-of-use asset categories on which depreciation is incurred are presented in Note 13. Interest expense incurred on lease liabilities is presented in Note 7. The maturity of undiscounted future lease liabilities are set out in Note 22.

The total cash outflow for leases in the financial year was £123m. This includes cash outflow for short-term leases of £14m and variable lease payments (not included in the measurement of lease liability) of £18m. The total future income from sub-leasing the right-of-use assets is £1m.

Notes to the financial statements continued

17. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2020	**13**	**1**	**14**
Charge in the year	**–**	**–**	**–**
Utilised in year	**–**	**–**	**–**
Unwinding of discount	**–**	**–**	**–**
At 31 August 2021	**13**	**1**	**14**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2019	3	2	5
Adjustment on initial application of IFRS 16	(2)	–	(2)
Charge in the year	12	–	12
Utilised in year	–	(1)	(1)
Unwinding of discount	–	–	–
At 31 August 2020	13	1	14

Total provisions are split between current and non-current liabilities as follows:

£m	**2021**	2020
Included in current liabilities	**2**	5
Included in non-current liabilities	**12**	9
	14	14

Property provisions relate to reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19. These expected costs of store closures are reviewed frequently and are based on information available as at the reporting date as well as management's historical experience of similar transactions. Utilisations of the property provisions are expected to be incurred in line with the profile of the leases to which they relate.

In the prior year, onerous lease provisions of £2m were derecognised on adoption of IFRS 16.

18. 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	At 1 September	On acquisition of subsidiaries	Adjustment on initial application of IFRS 16	Rate change	Credited / (charged) to income	Credited to equity	At 31 August
Accelerated tax depreciation	**7**	**–**	**–**	**3**	**(2)**	**–**	**8**
Leases	**4**	**–**	**–**	**1**	**–**	**–**	**5**
Share-based payments	**–**	**–**	**–**	**–**	**1**	**1**	**2**
Retirement benefit obligation	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Intangible assets	**(11)**	**–**	**–**	**–**	**–**	**–**	**(11)**
Losses	**17**	**–**	**–**	**4**	**24**	**–**	**45**
Unutilised interest expense	**3**	**–**	**–**	**–**	**2**	**–**	**5**
Provisions	**–**	**–**	**–**	**–**	**2**	**–**	**2**
Year ended 31 August 2021	**21**	**–**	**–**	**8**	**27**	**1**	**57**
Accelerated tax depreciation	5	(1)	–	–	3	–	7
Leases	–	–	4	–	–	–	4
Share-based payments	2	–	–	–	(2)	–	–
Retirement benefit obligation	1	–	–	–	–	–	1
Intangible assets	(3)	(8)	–	–	–	–	(11)
Losses	–	–	–	–	17	–	17
Unutilised interest expense	–	–	–	–	3	–	3
Year ended 31 August 2020	**5**	**(9)**	**4**	**–**	**21**	**–**	**21**

Deferred tax assets have not been recognised in respect of the following tax losses:

£m	2021	2020
Capital losses	**84**	88
Trading losses	**23**	33
	107	121

Substantially all of the deferred income tax assets are expected to be recovered after more than one year.

The UK corporation tax rate is 19 per cent effective from 1 April 2017. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25 per cent. This new law was substantively enacted on 24 May 2021, and the main impact of this change is an increase in the deferred tax assets and an increase in the current year tax income statement credit of £8m.

At 31 August 2021, deferred tax assets have been recognised in respect of tax losses and US unutilised interest expense. The deferred tax assets of £198m relates to carried forward tax losses which have been recognised to the extent that they will be recoverable using the estimated future taxable income based on the approved budgets for the Group. The Group has not recognised deferred tax assets on losses amounting to £107m (2020: £121m) due to uncertainty over the timing and extent of their utilisation. The losses can be carried forward indefinitely and have no expiry date.

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	2021	2020
Deferred tax liabilities (non-current liabilities)	**–**	(2)
Deferred tax assets	**57**	23
	57	21

Notes to the financial statements continued

19. Analysis of net debt

Movements in net debt can be analysed as follows:

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2020	**(400)**	**–**	**–**	**(559)**	**(959)**	**108**	**(851)**
Proceeds from borrowings	**–**	**(327)**	**–**	**–**	**(327)**	**327**	**–**
Repayments of borrowings	**267**	**–**	**–**	**–**	**267**	**(267)**	**–**
Bifurcation of convertible bond	**–**	**41**	**–**	**–**	**41**	**–**	**41**
Other non-cash movements	**–**	**(2)**	**–**	**(7)**	**(9)**	**–**	**(9)**
Other cash movements	**1**	**5**	**–**	**91**	**97**	**(38)**	**59**
Currency translation	**–**	**–**	**–**	**5**	**5**	**–**	**5**
At 31 August 2021	**(132)**	**(283)**	**–**	**(470)**	**(885)**	**130**	**(755)**

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2019	(200)	–	(15)	(14)	(229)	49	(180)
Recognised on adoption of IFRS 16	–	–	–	(479)	(479)	–	(479)
Movement on acquisition of subsidiaries	(115)	–	–	(106)	(221)	1	(220)
Proceeds from borrowings	(200)	–	–	–	(200)	200	–
Repayments of borrowings	–	–	15	–	15	(15)	–
Other non-cash movements	115	–	–	(46)	69	–	69
Other cash movements	–	–	–	78	78	(126)	(48)
Currency translation	–	–	–	8	8	(1)	7
At 31 August 2020	**(400)**	**–**	**–**	**(559)**	**(959)**	**108**	**(851)**

An explanation of Alternative Performance Measures, including Net debt on a pre-IFRS 16 basis, is provided in the Glossary on page 154.

Cash and cash equivalents
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.

Lease liabilities
Non-cash movements in lease liabilities mainly relate to new leases, modifications and remeasurements in the year.

Term loans and revolving credit facilities
On 28 April the Group announced new financing arrangements. These included the issuance of £327m of convertible bonds, the repayment of the existing £400m term loans and replacement with a new £133m term loan, and an increased revolving credit facility of £250m.

At 31 August 2021 the Group has in place a five-year committed multi-currency revolving credit facility of £250m with Santander UK PLC, BNP Paribas, HSBC UK Bank PLC, JP Morgan Securities PLC and Barclays Bank PLC. The revolving credit facility is due to mature on 28 April 2025. The utilisation is interest bearing at a margin over SONIA. As at 31 August 2021, the Group has drawn down £nil on this facility (2020: £nil drawn down on previous facility).

As part of the new financing arrangements the additional multi-currency revolving credit facility of £120m, which was undrawn and due to expire in November 2021, was cancelled.

The Group has a four-year committed £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing in April 2021. This loan is interest bearing at a margin over SONIA and is due to mature on 28 April 2025.

Transaction costs of £1m relating to the term loan are amortised to the Income statement through the effective interest rate method. Transaction costs of £1m relating to the RCF have been capitalised and are amortised to the Income statement on a straight-line basis.

19. Analysis of net debt (continued)

Convertible bonds

On 28 April 2021, the Group announced the launch of an offering of £327m of guaranteed senior unsecured convertible bonds due in 2026. Settlement and delivery of convertible bonds took place on 7 May 2021. The total bond offering of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £286m was initially recognised as a liability in the balance sheet on issue and the remainder of the proceeds of £41m, which represents the option component, was recognised in equity.

Transaction costs of £6m were allocated between the two components and the element relating to the debt component of £5m is being amortised through the effective interest rate method. The issue costs apportioned to the equity component of £1m have been deducted from equity.

Further information regarding the Group's borrowings and revolving credit facilities is provided in Note 22.

20. Contingent liabilities and capital commitments

£m	2021	2020
Bank guarantees and guarantees in respect of lease agreements	**31**	31

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 Smiths News PLC, any such contingent liability which becomes an actual liability will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News 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 2021 of £1m (2020: £1m). 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 £26m (2020: £18m).

£m	2021	2020
Commitments in respect of property, plant and equipment	**25**	17
Commitments in respect of other intangible assets	**1**	1
	26	18

Notes to the financial statements continued

21. Cash generated from operating activities

£m	2021	2020
Group operating loss	**(92)**	(260)
Depreciation of property, plant and equipment	**36**	43
Impairment of property, plant and equipment	**16**	39
Amortisation of intangible assets	**14**	12
Impairment of intangible assets	**–**	1
Depreciation of right-of-use assets	**84**	110
Impairment of right-of-use assets	**28**	95
Non-cash change in lease liabilities	**(23)**	(15)
Non-cash movement in pension	**–**	14
Share-based payments	**6**	–
Gain on disposal and remeasurement of leases	**(3)**	–
Other non-cash items	**(2)**	2
Decrease in inventories	**14**	35
Decrease in receivables	**4**	27
Increase/(decrease) in payables	**24**	(10)
Pension funding	**(3)**	(3)
Income taxes paid	**–**	(32)
Income taxes refund	**10**	37
Movement on provisions (through utilisation or income statement)	**–**	(1)
Cash generated from operating activities	**113**	94

22. Financial instruments

Categories of financial instruments

£m	Carrying value 2021	2020
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**–**	–
Receivables at amortised cost (including cash and cash equivalents)[2]	**167**	161
Financial liabilities		
Amortised cost[3]	**(1,134)**	(1,188)

1 All derivatives are categorised as Level 2 within the fair value hierarchy. 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 receivables held at amortised cost are trade and other receivables (excluding prepayments) and cash and cash equivalents.

3 Included within amortised cost are trade payables, other payables, accruals, borrowings, 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.

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 19 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.

The Group has in place a £250m committed multi-currency revolving credit facility, and a syndicated £133m term loan. The covenants, tested half-yearly, are based on minimum liquidity for the periods ending 31 August 2021, 28 February 2022 and 31 August 2022, and from 28 February 2023 are based on fixed charges cover and net borrowings (defined as total borrowings excluding lease liabilities that would have been treated as an operating lease prior to the adoption of IFRS 16, less cash and cash equivalents).

On 28 April 2021, the Group announced the launch of an offering of £327m of guaranteed senior unsecured convertible bonds due in 2026. Settlement and delivery of the convertible bonds took place on 7 May 2021. The total bond offering of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of the WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

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 28 April 2025.

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.

Notes to the financial statements continued

22. Financial instruments (continued)

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2021 (£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	**10**	**30**	**461**	**–**	**501**
Trade and other payables	**249**	**–**	**–**	**–**	**249**
Lease liabilities	**115**	**92**	**159**	**148**	**514**
Total cash flows	**374**	**122**	**620**	**148**	**1,264**

2020 (£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	7	10	402	–	419
Trade and other payables	229	–	–	–	229
Lease liabilities	139	97	195	180	611
Total cash flows	375	107	597	180	1,259

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.

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 high volume, low-value and of 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 2021, the Group had drawn down £nil (2020: £nil) from its £250m committed revolving credit facility. If the Group draws down on this facility, it does not view any draw down as long-term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

The Group has a four-year committed £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing (April 2021). This loan is interest-bearing at a margin over SONIA. 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.

22. Financial instruments (continued)

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's treasury function uses financial instruments to mitigate foreign exchange risk, in line with treasury policies approved by the Board. Financial instruments include foreign exchange contracts, deposits and bank loans.

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 2021 the Group had no material unhedged currency exposures.

The Group's US dollar, Euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in North America, France, Ireland, Spain, Germany, Italy and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

The fair value of cash flow hedges recognised on the balance sheet within derivative assets/liabilities is shown below:

£m	2021	2020
Fair value of derivative assets	–	–

At 31 August 2021, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$25m (2020: US$15m). These instruments will be used to hedge cash flows occurring up to one year from the balance sheet date.

Gains of £nil (2020: £1m) have been transferred to the income statement and gains of £nil (2020: £1m) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2021. In the year to 31 August 2021, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £nil (2020: £nil).

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. 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.

Sensitivity analysis as at 31 August 2021

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 1.3769/1 (2020: 1.3347/1), EUR/GBP 1.1652/1 (2020: 1.1193/1) and AUD/GBP 1.8821/1 (2020: 1.8115/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2021 and 31 August 2020 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 SONIA/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.

Notes to the financial statements continued

22. Financial instruments (continued)

Using these assumptions, the following table shows the illustrative effect on the Group income statement and equity.

£m	2021 Income gain/(loss)	2021 Equity gain/(loss)	2020 Income (loss)/gain	2020 Equity (loss)/gain
GBP SONIA/base rate interest rates 1% increase	–	–	(3)	–
USD/GBP exchange rates 10% increase	1	(47)	4	(37)
EUR/GBP exchange rates 10% increase	1	1	1	2
AUD/GBP exchange rates 10% increase	–	1	2	1
GBP SONIA/base rate interest rates 1% decrease	–	–	3	–
USD/GBP exchange rates 10% decrease	(1)	57	(5)	45
EUR/GBP exchange rates 10% decrease	(1)	(1)	(1)	(2)
AUD/GBP exchange rates 10% decrease	–	(2)	(2)	(1)

23. Called up share capital

Allotted and fully paid

£m	2021 Number of shares (millions)	2021 Nominal value £m	2020 Number of shares (millions)	2020 Nominal value £m
Equity:				
Ordinary shares of 22⁶⁄₆₇p	131	29	131	29
Total	131	29	131	29

During the year, 43,345 ordinary shares were allotted under the terms of the Company's Sharesave Scheme.

The effect of the above share issues was to increase share premium by £1m.

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 £5m (2020: £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 304,641 (2020: 203,628).

24. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2020	307,077	1,179,064	513,695	17,041	2,016,877
Options and awards granted	272,790	1,103,099	180,468	56,330	1,612,687
Options and awards exercised	(43,345)	(5,915)	(10,833)	(21,339)	(81,432)
Options and awards lapsed	(148,043)	(293,934)	(150,356)	–	(592,333)
Outstanding at 31 August 2021	**388,479**	**1,982,314**	**532,974**	**52,032**	**2,955,799**
Exercisable at 31 August 2021	**–**	**–**	**4,839**	**–**	**4,839**
Outstanding at 1 September 2019	379,398	1,189,362	526,922	34,087	2,129,769
Options and awards granted	–	371,521	251,081	–	622,602
Options and awards exercised	(5,024)	(161,368)	(82,234)	(11,791)	(260,417)
Options and awards lapsed	(67,297)	(220,451)	(182,074)	(5,255)	(475,077)
Outstanding at 31 August 2020	**307,077**	**1,179,064**	**513,695**	**17,041**	**2,016,877**
Exercisable at 31 August 2020	**–**	**–**	**15,899**	**–**	**15,899**

Pence	2021	2020
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**232.88**	272.76
– Granted in the year	**236.81**	–
– Exercised in the year	**767.49**	27.80
– Lapsed in the year	**373.06**	218.88
– Outstanding at the end of the year	**192.20**	232.88
– Exercisable at the end of the year	**–**	–

Detail of movements in options and awards

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:

	Number of shares			
Date of grant	2021	2020	Exercise price (pence)	Exercise period
20 October 2016	**136,613**	136,613	Nil	Oct 2019 – 20.10.26
26 October 2017	**38,315**	338,164	Nil	Oct 2020 – 26.10.27
1 November 2018	**332,766**	332,766	Nil	Nov 2023 – 01.11.28
5 November 2019	**371,521**	371,521	Nil	Nov 2024 – 05.11.29
19 November 2020	**1,103,099**	–	Nil	Nov 2025 - 19.11.30
	1,982,314	1,179,064		

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Notes to the financial statements continued

24. 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 applies to 50 per cent of any shares which vest. For awards made in November 2018, and all subsequent awards, the holding period applies to 100 per cent of any shares that vest. The awards will accrue dividends paid over the performance and any holding period. LTIP awards are equity-settled.

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 three 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. SAYE options are equity-settled.

Outstanding options granted under the Sharesave Scheme at 31 August 2021 are as follows:

	Number of shares			
Date of grant	2021	2020	Exercise price (pence)	Exercise period
7 June 2017 (3 year)	–	140,310	1434.40	01.08.20 – 31.01.21
5 June 2019 (3 year)	115,689	166,767	1609.60	01.08.22 – 31.01.23
9 June 2021 (3 year)	272,790	–	1400.00	01.08.24 – 31.01.25
	388,479	307,077		

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. PSP awards are equity-settled.

Outstanding awards granted under the PSP are as follows:

	Number of shares			
Date of grant	2021	2020	Exercise price (pence)	Exercise period
5 November 2012	–	977	Nil	Nov 2015 – 05.11.22
17 October 2013	–	1,693	Nil	Oct 2016 – 17.10.23
23 October 2014	870	3,111	Nil	Oct 2017 – 23.10.24
22 October 2015	–	1,346	Nil	Oct 2018 – 22.10.25
20 October 2016	3,969	8,772	Nil	Oct 2019 – 20.10.26
26 October 2017	–	128,867	Nil	Oct 2020 – 26.10.27
1 November 2018	137,553	141,392	Nil	Nov 2021 – 01.11.28
7 December 2018	10,476	10,476	Nil	Dec 2021 – 07.12.28
5 November 2019	205,170	217,061	Nil	Nov 2022 – 05.11.29
19 November 2020	174,936	–	Nil	Nov 2021 - 19.11.30
	532,974	513,695		

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.

At 31 August 2021, 10,108 shares remain deferred in accordance with this plan.

24. Share-based payments (continued)

Cash-settled schemes

Under the terms of the LTIP and PSP, 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 2021 there were 52,032 outstanding nil-cost cash-settled awards (2020: 17,041), which will be settled between November 2021 and November 2030. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2020: less than £1m).

Fair value information

	2021	2020
Weighted average share price at date of exercise of share options exercised during year – pence	**1,558.60**	2,223.54
Weighted average remaining contractual life at end of year – years	**8**	7

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted in the year is:

£m	2021	2020
	16	12

The fair values of the LTIP and PSP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2021	2020
Share price – pence	**1,482**	2,224
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**42**	22
Expected life – years	**2.8**	2.8
Risk-free rate – per cent	**(0.03)**	0.53
Dividend yield – per cent	**0%-2%**	Nil
Weighted average fair value of options – pence	**1,060.81**	1,975.56

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 2021 were measured using a Black Scholes model. None were granted in the year ended 31 August 2020. The input range into the Black Scholes models was as follows in the year ended 31 August 2021:

	2021
Share price – pence	**1,785**
Exercise price – pence	**1,400**
Expected volatility – per cent	**37**
Expected life – years	**3.4**
Risk-free rate – per cent	**0.16**
Dividend yield – per cent	**Nil**
Weighted average fair value of options – pence	**616.43**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

Notes to the financial statements continued

25. 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 58 to 84.

£'000	2021	2020
Short-term employee benefits	**2,470**	1,517
Post-employment benefits	**176**	186
Share-based payments	**1,042**	(4)
	3,688	1,699

There are no other transactions with directors.

26. Other reserves and Capital redemption reserve

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Convertible bond reserve	Total
Balance as at 1 September 2020	(277)	2	(4)	–	–	(279)
Issue of convertible bond - value of conversion rights	–	–	–	–	40	40
Employee share schemes	–	–	(1)	–	–	(1)
Balance at 31 August 2021	**(277)**	**2**	**(5)**	**–**	**40**	**(240)**

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Convertible bond reserve	Total
Balance as at 1 September 2019	(272)	2	(6)	2	–	(274)
Employee share schemes	(5)	–	2	–	–	(3)
Cash flow hedges	–	–	–	(2)	–	(2)
Balance at 31 August 2020	**(277)**	**2**	**(4)**	**–**	**–**	**(279)**

The Other reserves include reserves created in relation to historical capital reorganisation and proforma restatement, £(238)m (2020: £(238)m), demerger from Smiths News PLC in 2006, £69m (2020: £69m), and cumulative amounts relating to employee share schemes of £(108)m (2020: £(108)m).

The convertible bond reserve is a reserve created to recognise the equity component of the convertible bond issued in April 2021 (see Note 19) and represents the value of the conversion rights at initial recognition of £41m, net of transaction costs of £1m.

The Capital redemption reserve of £13m (2020: £13m) represents the par value of shares repurchased and cancelled under the Group's share buyback programme and is reclassified from Share capital to the Capital redemption reserve.

27. Acquisitions

Prior year acquisitions

On 20 December 2019, the Group acquired the entire issued share capital of Marshall Retail Group ('MRG'), for a total cash payment of USD $402m (£317m) comprising $243m enterprise value, $146m repayment of loans, $12m working capital, and $1m cash and restricted cash. During the year ended 31 August 2021, the Group received £1m as an adjustment to the consideration paid.

MRG is an independent travel retailer operating in high footfall airport and tourist locations in the United States. The acquisition builds further on the acquisition of InMotion in November 2018 and significantly strengthens the Group's offering in the United States, the world's largest travel retail market.

Included within the fair value of the net identifiable assets on acquisition is an intangible asset of £29m (US$37m) representing the MRG brand. The Board believes that the excess of consideration paid over the net assets on acquisition of £257m is best considered as goodwill on acquisition representing future operating synergies. This amount is not tax deductible.

The provisional goodwill calculation included significant estimates that may be refined for a period of 12 months from the acquisition date. During the year ended 31 August 2021, final fair value adjustments were recognised of £1m to property, plant and equipment and £1m to goodwill.

Transaction and integration costs totalling £20m were incurred in the year to 31 August 2020 in respect of the acquisition. A further £2m integration costs have been incurred in the year ended 31 August 2021.

Notes to the financial statements continued

28. Subsidiary companies

The subsidiary companies included within the financial statements are disclosed below.

UK subsidiaries

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held directly by WH Smith PLC:					
WH Smith Retail Holdings Limited	England & Wales	1	Ordinary	100	Holding company
Held indirectly:					
Books & Stationers Limited	England & Wales	1	Ordinary	100	Retailing
Card Market Limited	England & Wales	1	Ordinary	100	Retailing
Dotty About Paper Limited	England & Wales	1	Ordinary	100	Dormant
funkypigeon.com Limited	England & Wales	1	Ordinary	100	Retailing
Modelzone Limited	England & Wales	1	Ordinary	100	Dormant
Sussex Stationers Limited	England & Wales	1	Ordinary	100	Dormant
The Card Gallery (UK) Limited	England & Wales	1	Ordinary	100	Retailing
The SQL Workshop Limited	England & Wales	1	Ordinary	100	Retailing
The Websters Group Limited	England & Wales	1	Ordinary	100	Dormant
Tree of Hearts Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith (Qatar) Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith 1955 Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith High Street Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith High Street Limited	England & Wales	1	Ordinary & Preference	100	Retailing
WH Smith Hospitals Holdings Limited	England & Wales	1	Ordinary & Preference	100	Holding Company
WH Smith Hospitals Limited	England & Wales	1	Ordinary	100	Retailing
WH Smith Promotions Limited	England & Wales	1	Ordinary	100	Retailing
WH Smith Retirement Savings Plan Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith Travel 2008 Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith Travel Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith Travel Limited	England & Wales	1	Ordinary & Preference	100	Retailing
WH Smith US Group Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith US Retail Holdings Limited	England & Wales	1	Ordinary	100	Holding Company

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 August 2021.

The Company will guarantee the debts and liabilities of the below UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Company number
Held indirectly:	
Books & Stationers Limited	07515820
Card Market Limited	8956574
WH Smith 1955 Limited	549069
WH Smith High Street Holdings Limited	6560371
WH Smith Hospitals Holdings Limited	03896896
WH Smith Promotions Limited	2339902
WH Smith Travel 2008 Limited	6560390

28. Subsidiary companies (continued)

International joint ventures

The below entities are joint ventures and per the Group's accounting policies on page 105, the Group's share of results of these joint ventures is included in the Group consolidated income statement using the equity method of accounting.

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
WH Smith – DFA Brasil Cafeteria, Livraria E Conveniencia Eireli	Brazil	15	Ordinary	50	Retailing
WH Smith Malaysia SDN BHD	Malaysia	11	Ordinary	50	Retailing
WH Smith LLC	Oman	10	Ordinary	50	Retailing
MSP Innovations, LLC	USA	16	Ordinary	33	Retailing
Nash Nails MRG, LLC	USA	16	Ordinary	39	Retailing

International subsidiaries

The below list of interests in overseas entities includes certain entities, particularly in the United States of America, in which WH Smith PLC holds less than 100 per cent ownership. These entities primarily relate to airport operations in which the Group is required to engage with a local partner in order to operate the stores. Per the accounting policy set out on page 105, the Group has determined that it has control of these entities and has therefore consolidated their results.

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
WH Smith Asia Limited	Hong Kong	2	Ordinary	100	Product sourcing for Group companies
WH Smith Australia Pty Limited	Australia	3	Ordinary	100	Retailing
WH Smith Calais S.A.S	France	4	Ordinary	100	Retailing
WH Smith Germany GmbH	Germany	5	Ordinary	100	Retailing
WH Smith Ireland Limited	Ireland	6	Ordinary	100	Retailing
WH Smith Italia S.R.L	Italy	7	Ordinary	100	Retailing
WH Smith Jersey Limited	Jersey	8	Ordinary	100	Retailing
WH Smith LLC	Qatar	9	Ordinary	49	Retailing
WH Smith Nederland B.V.	Netherlands	12	Ordinary	100	Dormant
WH Smith Singapore Pte. Limited	Singapore	13	Ordinary	100	Retailing
WH Smith Spain S.L.	Spain	14	Ordinary	100	Retailing
WH Smith USA Holdings Inc	USA	16	Ordinary	100	Holding Company
InMotion Entertainment Holdings LLC	USA	16	Ordinary	100	Holding Company
InMotion Entertainment Personnel Leasing Corp	USA	16	Ordinary	100	Holding Company
WH Smith USA Retail Inc	USA	16	Ordinary	100	Holding Company
InMotion SFO, LLC	USA	16	Ordinary	88	Retailing
Wild Retail Group Pty Limited	Australia	3	Ordinary	100	Retailing
InMotion Entertainment Group, LLC	USA	16	Ordinary	100	Retailing
BTS – InMotion Atlanta, LLC	USA	16	Ordinary	100	Retailing
InMotion AUS, LLC	USA	16	Ordinary	88	Retailing
InMotion BNA, LLC	USA	16	Ordinary	84	Retailing
InMotion BNA-C,LLC	USA	16	Ordinary	80	Retailing
Soundbalance BOS, LLC	USA	16	Ordinary	67	Dormant
InMotion BOS-A, LLC	USA	16	Ordinary	80	Dormant
InMotion BOS, LLC	USA	16	Ordinary	70	Dormant
InMotion BOS-BCE, LLC	USA	16	Ordinary	80	Retailing
InMotion BWI, LLC	USA	16	Ordinary	60	Retailing
InMotion CLE, LLC	USA	16	Ordinary	67	Retailing

Notes to the financial statements continued

28. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:	USA	16	Ordinary	67	Retailing
Soundbalance CLT, LLC	USA	16	Ordinary	67	Retailing
InMotion – SB DC, LLC	USA	16	Ordinary	75	Retailing
InMotion DCA, LLC	USA	16	Ordinary	75	Retailing
InMotion DEN-B, LLC	USA	16	Ordinary	75	Retailing
DFW-A Retail Partners, LLC	USA	16	Ordinary	60	Retailing
DFW-E Retail Partners, LLC	USA	16	Ordinary	65	Retailing
DFW-D/E Retail Partners, LLC	USA	16	Ordinary	70	Retailing
Soundbalance DTW, LLC	USA	16	Ordinary	67	Retailing
InMotion DTW, LLC	USA	16	Ordinary	75	Retailing
InMotion EWR, LLC	USA	16	Ordinary	80	Retailing
InMotion EWR-B, LLC	USA	16	Ordinary	85	Retailing
InMotion FLL, LLC	USA	16	Ordinary	62	Retailing
InMotion FLL-T4, LLC	USA	16	Ordinary	62	Retailing
InMotion IAD, LLC	USA	16	Ordinary	75	Retailing
Soundbalance IAH, LLC	USA	16	Ordinary	67	Retailing
BR InMotion IAH, LLC	USA	16	Ordinary	65	Retailing
InMotion LAX, LLC	USA	16	Ordinary	75	Retailing
InMotion LAX-IT,LLC	USA	16	Ordinary	80	Retailing
Soundbalance MCO, LLC	USA	16	Ordinary	67	Retailing
InMotion MCO, LLC	USA	16	Ordinary	73	Retailing
Soundbalance Miami, LLC	USA	16	Ordinary	67	Retailing
InMotion Bright, LLC	USA	16	Ordinary	75	Retailing
InMotion MKE, LLC	USA	16	Ordinary	79	Retailing
InMotion MSY, LLC	USA	16	Ordinary	64	Retailing
InMotion ORD, LLC	USA	16	Ordinary	70	Retailing
InMotion ORD T2, LLC	USA	16	Ordinary	70	Retailing
Soundbalance PDX, LLC	USA	16	Ordinary	67	Retailing
Soundbalance PHL, LLC	USA	16	Ordinary	67	Retailing
InMotion PHL, LLC	USA	16	Ordinary	70	Dormant
Soundbalance ATL-E, LLC	USA	16	Ordinary	67	Retailing
InMotion ATL-A, LLC	USA	16	Ordinary	64	Retailing
InMotion ATL, LLC	USA	16	Ordinary	80	Retailing
InMotion PHX, LLC	USA	16	Ordinary	80	Retailing
InMotion PHX T3, LLC	USA	16	Ordinary	90	Retailing
Soundbalance SAN, LLC	USA	16	Ordinary	55	Retailing
InMotion SAT, LLC	USA	16	Ordinary	75	Retailing
InMotion SEA, LLC	USA	16	Ordinary	88	Retailing
InMotion SFO-T3, LLC	USA	16	Ordinary	85	Retailing
InMotion SFO-IT, LLC	USA	16	Ordinary	90	Retailing
Soundbalance SJC, LLC	USA	16	Ordinary	67	Dormant
InMotion SLC,LLC	USA	16	Ordinary	80	Retailing
InMotion IAH, LLC	USA	16	Ordinary	70	Dormant
InMotion SLC-A,LLC	USA	16	Ordinary	85	Retailing
InMotion SLC-B,LLC	USA	16	Ordinary	90	Retailing
InMotion SMF,LLC	USA	16	Ordinary	90	Retailing
InMotion CLT, LLC	USA	16	Ordinary	74	Retailing

28. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
SBIP, LLC	USA	16	Ordinary	50	Dormant
InMotion LGA, LLC	USA	16	Ordinary	75	Dormant
Marshall Retail Group Holding Co Inc	USA	16	Ordinary	100	Holding company
MRG Holdings Corp	USA	16	Ordinary	100	Holding company
Marshall Retail Group LLC	USA	16	Ordinary	100	Retailing
The Marshall Retail Group Canada Inc	Canada	17	Ordinary	100	Retailing
MRG Baltimore Concourse A, LLC	USA	16	Ordinary	70	Retailing
MRG Baltimore (BWI), LLC	USA	16	Ordinary	70	Retailing
MRG Denver, LLC	USA	16	Ordinary	75	Retailing
MRG Dallas II, LLC	USA	16	Ordinary	65	Retailing
MRG LaGuardia, LLC	USA	16	Ordinary	80	Retailing
MRG LaGuardia Terminal A, LLC	USA	16	Ordinary	75	Retailing
MRG Los Angeles, LLC	USA	16	Ordinary	70	Retailing
MRG Nashville, LLC	USA	16	Ordinary	80	Retailing
MRG Raleigh Terminal 1, LLC	USA	16	Ordinary	55	Retailing
MRG Raleigh Terminal 2, LLC	USA	16	Ordinary	85	Retailing
MRG RDU T2, LLC	USA	16	Ordinary	80	Retailing
MRG Sacramento, LLC	USA	16	Ordinary	90	Retailing
MRG San Francisco, LLC	USA	16	Ordinary	80	Retailing
MRG San Francisco Terminal 1, LLC	USA	16	Ordinary	80	Retailing
MRG San Francisco Terminal 2, LLC	USA	16	Ordinary	85	Retailing
MRG San Francisco Terminal 3, LLC	USA	16	Ordinary	80	Retailing
MRG Washington (DCA), LLC	USA	16	Ordinary	75	Retailing
MRG Washington (IAD), LLC	USA	16	Ordinary	75	Retailing
WH Smith DEN, LLC	USA	16	Ordinary	70	Retailing
WH Smith DCA, LLC	USA	16	Ordinary	75	Retailing

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	38 Rue des Mathurins, 75008 Paris 8, France
5	Terminal Ring 1, Zentralgebaude Ost, Zi. 5. 035, 40474 Dusseldorf, Germany
6	6th Floor, Grand Canal Square, Dublin 2, Ireland
7	Via Borgogna, Cap 20122, Milano, Italy
8	72/74 King Street, St Helier, Jersey, JE2 4WE
9	27 Um Ghwalinah Road, 230 C-ring Road, Doha, Qatar
10	PO Box 3275, PC112, Ruwi, Oman
11	C2-6-1, Solaris Dutamas, 1, Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
12	Weteringschans 94, 1017 XS, Amsterdam, Netherlands
13	11 Keng Cheow Street #3-10 The Riverside Piazza, Singapore 059608
14	Paseo de Recoletos, 27, 7ª, 28004, Madrid, Spain
15	Avenida das Americas, No. 3434, Barra da Tijuca, CEP 22640-102, Rio de Janeiro, RJ, Brazil
16	3755 W Sunset Road, Las Vegas, Nevada, NV 89118, USA
17	2200 HSBC Building, 885 West Georgia Street, Vancouver, BC V6C 3E8, Canada

Company balance sheet

As at 31 August 2021

£m	Note	2021	2020
Non-current assets			
Investments	3	**835**	835
		835	835
Current assets			
Receivables: amounts falling due within one year	4	**298**	291
		298	291
Current liabilities			
Payables: amounts falling due within one year	5	**(168)**	(203)
		(168)	(203)
Net current assets		**130**	88
Non-current liabilities			
Borrowings	6	**(415)**	(400)
		(415)	(400)
Total net assets		**550**	523
Shareholders' equity			
Called up share capital	9	**29**	29
Share premium account		**316**	315
Other reserves	10	**40**	–
Capital redemption reserve	10	**13**	13
Profit and loss account[1]		**152**	166
Total equity		**550**	523

1 The loss for the year attributable to shareholders was £14m (2020: loss of £7m). See Note 2.

The financial statements of WH Smith PLC, registered number 5202036, on pages 150 to 153 were approved by the Board of Directors and authorised for issue on 11 November 2021 and were signed on its behalf by:

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Company statement of changes in equity

For the year ended 31 August 2021

£m	Share capital	Share premium	Capital redemption reserve	Other reserves	Profit and loss account	Total
Balance at 1 September 2020	**29**	**315**	**13**	**–**	**166**	**523**
Loss for the financial year	–	–	–	–	(14)	(14)
Total comprehensive loss for the year	–	–	–	–	(14)	(14)
Premium on issue of shares	–	1	–	–	–	1
Issue of convertible bonds - value of conversion rights (Note 10)	–	–	–	40	–	40
Balance at 31 August 2021	**29**	**316**	**13**	**40**	**152**	**550**
Balance at 1 September 2019	**24**	**9**	**13**	**–**	**220**	**266**
Loss for the financial year	–	–	–	–	(7)	(7)
Total comprehensive loss for the year	–	–	–	–	(7)	(7)
Premium on issue of shares	5	306	–	–	–	311
Equity dividends paid during the year (Note 7)	–	–	–	–	(47)	(47)
Balance at 31 August 2020	**29**	**315**	**13**	**–**	**166**	**523**

Notes to the Company financial statements

1. Accounting policies

a) Basis of preparation

The Company's financial statements have been prepared on a going concern basis, as detailed in the Directors' report on page 85.

The financial statements are prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The Company meets the definition of a qualifying entity under FRS 100 (Application of Financial Reporting Requirements) issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemption available under the standard in relation to share–based payments, 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 consolidated financial statements of the Group.

The financial statements are prepared under the historical cost convention.

The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below. No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 August 2021, have had a material impact on the Company.

On initial recognition of the convertible bond, judgement is required in respect of the accounting treatment of embedded derivatives. The fixed principal amount of each bond is convertible into a fixed number of shares and as a result management has determined that the conversion feature meets the fixed-for-fixed criterion for equity classification. The bonds include anti-dilution provisions to ensure that the holder's potential interest in the equity of the Company is not diluted in specified circumstances. If these provisions are triggered, the number of shares that will be delivered to the holder is adjusted. Management considers that the provisions are anti-dilutive in order to ensure that the holder's potential interest in the equity of the Company is not diluted under each of these circumstances. These provisions are not deemed to breach the fixed-for-fixed criterion, therefore the conversion feature is accounted for as equity.

In the application of the Company's accounting policies, the Directors do not consider that there are any further critical accounting judgements or sources of estimation uncertainty that could lead to a material change in the carrying amounts of assets and liabilities.

b) Investments in subsidiary undertakings

Investments in subsidiaries are valued at historical cost less provision for impairment in value. Investments in subsidiaries are tested annually for impairment. An impairment loss is recognised for the amount by which the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value-in-use.

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.

d) Receivables

Receivables represent amounts due from other Group companies. Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for the expected credit loss on receivables is established at inception. This is modified when there is a change in the credit risk and hence evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

2. (Loss)/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 loss for the year attributable to shareholders, which is stated on an historical cost basis, was £14m (2020: loss of £7m) comprising of finance costs of £14m (2020: £7m), non-underlying items of £6m (£2020: £nil) offset by a tax credit of £6m.There were no other recognised gains or losses.

The Company did not have any employees during the year ended 31 August 2021 (2020: nil). All directors were remunerated by other Group companies.

3. Investments

A full list of the Company's subsidiary undertakings is included in Note 28 of the Notes to the consolidated financial statements. The registered office of WH Smith Retail Holdings Limited is Greenbridge Road, Swindon, Wiltshire SN3 3RX.

The investment in subsidiaries balance has been tested for impairment at the balance sheet date. The recoverable amount of the investment is assumed to approximate the Group's market capitalisation on the London Stock Exchange, adjusted for any assets or liabilities on the Company's balance sheet. There was substantial headroom between the recoverable amount of the investment and its carrying value. Consequently, no impairment has been recognised in respect of the investment.

Notes to the Company financial statements continued

4. Receivables: amounts falling due within one year

£m	2021	2020
Amounts owed by subsidiary undertakings	**293**	290
Prepayments	**1**	1
Current tax receivable	**4**	–
	298	291

Amounts receivable from subsidiary undertakings are non-interest bearing and repayable on demand. The Company has undertaken a review of the liquidity position of the counterparty subsidiaries and noted that the subsidiaries continue to have sufficient immediately available funds to settle the receivables at the balance sheet date. As a result, no expected credit losses have been included in the profit and loss account in the current year in respect of these receivables.

5. Payables: amounts falling due within one year

£m	2021	2020
Amounts owed to subsidiary undertakings	**162**	202
Bank overdrafts	**3**	–
Accruals and deferred income	**3**	1
	168	203

Amounts owed to subsidiary undertakings are unsecured, non-interest bearing and repayable on demand.

6. Borrowings

£m	2021	2020
Term loans	**132**	400
Convertible bonds	**283**	–
	415	400

On 28 April the Group announced new financing arrangements. These included the issuance of £327m of convertible bonds, the repayment of the existing £400m term loans and replacement with a new £133m term loan, and an increased revolving credit facility of £250m.

Term loans and revolving credit facilities

At 31 August 2021, alongside other Group companies, the Company is a guarantor on a five-year committed multi-currency revolving credit facility of £250m with Santander UK PLC, BNP Paribas, HSBC UK Bank PLC, JP Morgan Securities PLC and Barclays Bank PLC. The revolving credit facility is due to mature on 28 April 2025. The utilisation is interest bearing at a margin over SONIA.

At 31 August 2021, the Company has a four-year committed £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing in April 2021. This loan is interest bearing at a margin over SONIA and is due to mature on 28 April 2025.

Transaction costs of £1m relating to the term loan are being amortised through the effective interest rate method.

Convertible bonds

On 28 April 2021, the Company announced the launch of an offering of £327m of guaranteed senior unsecured convertible bonds due in 2026. Settlement and delivery of convertible bonds took place on 7 May 2021. The total bond offering of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £286m was initially recognised as a liability in the balance sheet on issue and the remainder of the proceeds of £41m, which represents the option component, was recognised in equity.

Transaction costs of £6m were allocated between the two components and the element relating to the debt component of £5m is being amortised through the effective interest rate method. The issue costs apportioned to the equity component of £1m have been deducted from equity.

7. Dividends

Amounts paid and recognised as distributions to shareholders in the year are as follows:

£m	2021	2020
Dividends		
Final dividend for the year ended 31 August 2019 of 41.0p per ordinary share	–	47
	–	47

The Board of Directors have not declared an interim dividend during the year and do not propose a final dividend in respect of the year ended 31 August 2021.

8. Contingent liabilities

Contingent liabilities of £1m (2020: £1m) are in relation to insurance standby letters of credit.

The Company will guarantee the debts and liabilities of the below UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Company number
Held indirectly:	
Books & Stationers Limited	07515820
Card Market Limited	8956574
WH Smith 1955 Limited	549069
WH Smith High Street Holdings Limited	6560371
WH Smith Hospitals Holdings Limited	03896896
WH Smith Promotions Limited	2339902
WH Smith Travel 2008 Limited	6560390

9. Called up share capital

Allotted and fully paid

	2021		2020	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22⁶⁄₆₇p	131	29	131	29
Total	131	29	131	29

During the year, 43,345 ordinary shares were allotted under the terms of the Company's Sharesave Scheme.

The effect of the above share issues was to increase share premium by £1m.

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.

10. Other reserves and Capital redemption reserve

Other reserves are reserves created to recognise the equity component of the convertible bond issued in April 2021 (see Note 6) and represents the value of the conversion rights at initial recognition of £41m, net of transaction costs of £1m.

The Capital redemption reserve of £13m (2020: £13m) represents the par value of shares repurchased and cancelled under the Company's share buyback programme is reclassified from Share capital to the Capital redemption reserve.

Glossary (unaudited)

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.

Non-underlying items

The Group has chosen to present a 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 operations of the Group. These measures may exclude 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 other property costs, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, 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.

IFRS 16

The Group adopted IFRS 16 in the prior year. IFRS 16 superseded the lease guidance under IAS 17 and the related interpretations. 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

For the purposes of narrative commentary on the Group's performance and financial position in the Strategic report, the effects of IFRS 16 have been excluded, in order to provide meaningful year on year comparisons.

The impact of the implementation of IFRS 16 on the Income statement and Segmental information is provided in Notes A1 and A2 below. There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities, as set out in Note A9 below. The balance sheet as at 31 August 2021 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Leases policies applicable prior to 1 September 2019

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. These assets are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. 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.

Definitions and reconciliations

In line with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority ('ESMA'), we have provided additional information on the APMs used by the Group below, including full reconciliations back to the closest equivalent statutory measure.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures			
Headline measures	Various	See Notes A1-A11	Headline measures exclude the impact of IFRS 16 (applying the principles of IAS 17). Reconciliations of all Headline measures are provided in Notes A1 to A11.
Group (loss)/profit before tax and non-underlying items	Group (loss)/ profit before tax	See Group income statement and Note A1	Group (loss)/profit before tax and non-underlying items excludes the impact of non-underlying items as described below. A reconciliation from Group (loss)/profit before tax and non-underlying items to Group (loss)/profit before tax is provided on the Group income statement on page 98, and on a Headline (pre-IFRS 16) basis in Note A1.
Group (loss)/profit from trading operations and segment trading (loss)/profit	Group operating (loss)/profit	See Note 2 and Note A2	Group (loss)/profit from trading operations and segment trading (loss)/ 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 (loss)/profit and Group (loss)/profit before tax on an IFRS 16 basis is provided in Note 2 to the financial statements and on a Headline (pre-IFRS 16) basis in Note A2.
Non-underlying items	None	Refer to definition and see Note 4 and Note A6	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 on an IFRS 16 basis is provided in Note 4 to the financial statements, and on a Headline (pre-IFRS 16) basis in Note A6.
(Loss)/earnings per share before non-underlying items	(Loss)/ earnings per share	Non-underlying items, see Note 10 and Note A4	(Loss)/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. A reconciliation is provided on an IFRS 16 basis in Note 10 and on a Headline (pre-IFRS 16) basis in Note A4.
Headline EBITDA	Group operating (loss)/profit	Refer to definition	Headline EBITDA / Operating cash flow is Headline Group operating (loss)/profit before non-underlying items adjusted for pre-IFRS 16 depreciation, amortisation and other non-cash items (see Strategic report on page 18).
Effective tax rate	None	Non-underlying items	Total income tax credit/charge excluding the tax impact of non-underlying items divided by Group Headline (loss)/profit before tax and non-underlying items. See Note 8 on an IFRS 16 basis, and Notes A3 and A6 on a Headline pre-IFRS 16 basis.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax covers the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges (excluding finance charges from IFRS 16 leases) and net operating lease rentals stated on a pre-IFRS 16 basis. The calculation of this measure is outlined in Note A5.

Glossary (unaudited) continued

Definitions and reconciliations (continued)

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures continued			
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Annual report, gross margin is calculated as gross profit divided by revenue.
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. As a result of the Covid-19 pandemic, this measure has not been utilised in the current year.
Balance sheet measures			
Headline net debt	Net debt	Reconciliation of net debt	Headline 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 as defined on a pre-IFRS 16 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of net debt on an IFRS 16 basis provided in Note A8.
Other measures			
Free cash flow	Net cash inflow from operating activities	See Note A7 and Strategic report page 18	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 in Note A7 and on page 18, as part of the Strategic report.

A1. Reconciliation of Headline to Statutory Group operating loss and Group loss before tax

	2021				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Revenue	**886**	**–**	**886**	**–**	**886**
Cost of sales	**(358)**	**–**	**(358)**	**–**	**(358)**
Gross profit	**528**	**–**	**528**	**–**	**528**
Distribution costs	**(431)**	**–**	**(431)**	**12**	**(419)**
Administrative expenses	**(136)**	**–**	**(136)**	**(4)**	**(140)**
Other income	**–**	**–**	**–**	**4**	**4**
Non-underlying items	**–**	**(49)**	**(49)**	**(16)**	**(65)**
Group operating loss	**(39)**	**(49)**	**(88)**	**(4)**	**(92)**
Finance costs	**(16)**	**–**	**(16)**	**(8)**	**(24)**
Loss before tax	**(55)**	**(49)**	**(104)**	**(12)**	**(116)**
Income tax credit	**26**	**9**	**35**	**1**	**36**
Loss for the period	**(29)**	**(40)**	**(69)**	**(11)**	**(80)**
Attributable to:					
Equity holders of the parent	**(31)**	**(40)**	**(71)**	**(11)**	**(82)**
Non-controlling interests	**2**	**–**	**2**	**–**	**2**
	(29)	**(40)**	**(69)**	**(11)**	**(80)**

	2020				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Revenue	1,021	–	1,021	–	1,021
Cost of sales	(441)	–	(441)	–	(441)
Gross profit	580	–	580	–	580
Distribution costs	(545)	–	(545)	7	(538)
Administrative expenses	(97)	–	(97)	5	(92)
Other income	2	–	2	–	2
Non-underlying items	–	(157)	(157)	(55)	(212)
Group operating loss	(60)	(157)	(217)	(43)	(260)
Finance costs	(9)	–	(9)	(11)	(20)
Loss before tax	(69)	(157)	(226)	(54)	(280)
Income tax credit	16	18	34	7	41
Loss for the period	(53)	(139)	(192)	(47)	(239)
Attributable to:					
Equity holders of the parent	(53)	(139)	(192)	(47)	(239)
Non-controlling interests	–	–	–	–	–
	(53)	(139)	(192)	(47)	(239)

Glossary (unaudited) continued

A2. Reconciliation of Headline to Statutory segmental trading (loss)/profit and Group (loss)/profit from trading operations

	2021				
	pre-IFRS 16 basis		IFRS 16 basis		
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Travel UK trading (loss)/profit	(32)	–	(32)	3	(29)
North America trading profit/(loss)	6	–	6	(4)	2
Rest of the World trading loss	(13)	–	(13)	(4)	(17)
Total Travel trading loss	(39)	–	(39)	(5)	(44)
High Street trading profit	19	–	19	17	36
Group (loss)/profit from trading operations	(20)	–	(20)	12	(8)
Unallocated central costs	(19)	–	(19)	–	(19)
Headline Group operating (loss)/profit	(39)	–	(39)	12	(27)
Non-underlying items	–	(49)	(49)	(16)	(65)
Group operating loss	(39)	(49)	(88)	(4)	(92)

	2020				
	pre-IFRS 16 basis		IFRS 16 basis		
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Travel UK trading loss	(1)	–	(1)	–	(1)
North America trading (loss)/profit	(18)	–	(18)	4	(14)
Rest of the World trading (loss)/profit	(14)	–	(14)	2	(12)
Travel trading (loss)/profit	(33)	–	(33)	6	(27)
High Street trading (loss)/profit	(10)	-	(10)	6	(4)
Group (loss)/profit from trading operations	(43)	–	(43)	12	(31)
Unallocated central costs	(17)	–	(17)	–	(17)
Headline Group operating (loss)/profit	(60)	–	(60)	12	(48)
Non-underlying items	–	(157)	(157)	(55)	(212)
Group operating loss	(60)	(157)	(217)	(43)	(260)

A3. Reconciliation of Headline to Statutory tax (credit)/expense

	2021			2020		
£m	Headline (pre-IFRS 16)	IFRS 16 adjustments	IFRS 16	Headline (pre-IFRS 16)	IFRS 16 adjustments	IFRS 16
Loss before tax and non-underlying items	(55)	4	(51)	(69)	1	(68)
Tax on loss – *Standard rate of UK corporation tax (19.00%; 2020: 19.00%)*	–	–	–	(5)	–	(5)
Adjustment in respect of prior years	(1)	–	(1)	(6)	–	(6)
Total current tax credit	(1)	–	(1)	(11)	–	(11)
Deferred tax – current year	(13)	2	(11)	(7)	–	(7)
Deferred tax – prior year	(4)	–	(4)	2	–	2
Deferred tax – adjustment in respect of change in tax rates	(8)	–	(8)	–	–	–
Tax on Headline (loss)/profit	(26)	2	(24)	(16)	–	(16)
Tax on non-underlying items – current tax	–	–	–	(5)	(4)	(9)
Tax on non-underlying items – deferred tax	(9)	(3)	(12)	(13)	(3)	(16)
Total tax on (loss)/profit	(35)	(1)	(36)	(34)	(7)	(41)

A4. Calculation of Headline and Statutory loss per share

£m	2021 pre-IFRS 16 basis: Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 basis: IFRS 16 adjustments	Total
Loss for the year, attributable to equity holders of the parent (Note A1)	(31)	(40)	(71)	(11)	(82)
Weighted average shares in issue for basic earnings per share (Note 10)			131		131
Weighted average shares in issue for diluted earnings per share (Note 10)			131		131
Basic loss per share (pence)	**(23.7)p**	**(30.5)p**	**(54.2)p**	**(8.4)p**	**(62.6)p**
Diluted loss per share (pence)	**(23.7)p**	**(30.5)p**	**(54.2)p**	**(8.4)p**	**(62.6)p**

£m	2020 pre-IFRS 16 basis: Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 basis: IFRS 16 adjustments	Total
Loss for the year, attributable to equity holders of the parent (Note A1)	(53)	(139)	(192)	(47)	(239)
Weighted average shares in issue for basic earnings per share (Note 10)			120		120
Weighted average shares in issue for diluted earnings per share (Note 10)			120		120
Basic loss per share (pence)	(44.2)p	(115.8)p	(160.0)p	(39.2)p	(199.2)p
Diluted loss per share (pence)	(44.2)p	(115.8)p	(160.0)p	(39.2)p	(199.2)p

A5. Fixed charges cover

£m	Note	2021	2020
Headline net finance costs (pre-IFRS 16)	A1	**16**	9
Net operating lease rentals (pre-IFRS 16)	A11	**151**	210
Total fixed charges		**167**	219
Headline loss before tax and non-underlying items	A1	**(55)**	(69)
Headline profit before tax, non-underlying items and fixed charges		**112**	150
Fixed charges cover – times		**0.7x**	0.7x

Glossary (unaudited) continued

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

£m	2021 Headline (pre-IFRS 16)	2021 IFRS 16	2020 Headline (pre-IFRS 16)	2020 IFRS 16
Costs relating to business combinations				
– Transaction costs	–	–	11	11
– Integration costs	2	2	9	9
Amortisation of acquired intangible assets	3	3	3	3
Pension past service cost	–	–	14	14
Costs directly attributable to Covid-19				
– Impairment of property, plant and equipment	18	14	54	39
– Impairment of intangible assets	–	–	1	1
– Impairment of right-of-use assets	–	28	–	95
– Other property costs	5	–	25	–
– Write-down of inventories	5	5	14	14
– Restructuring costs	9	9	25	25
– Costs associated with refinancing	6	6	–	–
– Other	1	(2)	1	1
Non-underlying items, before tax	**49**	**65**	157	212
Tax credit on non-underlying items	(9)	(12)	(18)	(25)
Non-underlying items, after tax	**40**	**53**	139	187

Non-underlying items on a pre-IFRS 16 basis are calculated on a consistent basis with IFRS 16, with the exception of the below items.

A tax credit of £12m has been recognised in relation to the above items (£9m pre-IFRS 16).

Impairment of property, plant and equipment and right-of-use assets
The impairment charge recognised on a pre-IFRS 16 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base pre-IFRS 16, coupled with lower expected store cash flows, with rental expenses being included in the forecast cash flows (treated as financing costs under IFRS 16), and a higher discount rate. The calculation of the Group's weighted average cost of capital differs under IFRS 16 versus pre-IFRS 16. The pre-tax discount rate used in the IFRS 16 calculation was 10.4 per cent and the pre-tax discount rate used in the pre-IFRS 16 calculation was 13.9 per cent.

Right-of-use assets are not recognised on a pre-IFRS 16 basis.

Other property costs
Other property costs on a pre-IFRS 16 basis include provisions for onerous lease contracts; on an IFRS 16 basis, onerous lease contracts are recognised as an impairment of the right-of-use asset. As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. We anticipate that a number of stores will not fully recover to pre-Covid-19 sales levels and have accelerated our internal forecasts for the rate of sales decline in those locations. As a result, we have recognised onerous provisions of £5m for stores where we now anticipate we will make a cash loss over the remaining term of their leases.

The Group's pre-IFRS 16 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. 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.

A7. Free cash flow

£m	2021	2020
Cash generated from operating activities (Note 21)	113	94
Interest paid	(13)	(13)
Net cash inflow from operating activities	100	81
Cash flow impact of IFRS 16 (Note A9)	(83)	(66)
Add back:		
– Cash impact of non-underlying items	38	20
– Pension funding	3	3
Deduct:		
– Purchase of property, plant and equipment	(37)	(67)
– Purchase of intangible assets	(7)	(12)
Free cash flow	**14**	(41)

A8. Headline net debt

The table below shows Headline net debt (pre-IFRS 16). This includes lease liabilities that were previously presented as finance leases (applying the principles of IAS 17), and Group accounting policies as applicable prior to 1 September 2019, described in the Glossary on page 154), but excludes additional lease liabilities recognised on application of IFRS 16.

£m	2021	2020
Borrowings		
– Revolving credit facility	–	–
– Convertible bonds	(283)	–
– Bank loans	(132)	(400)
– Lease liabilities (Note 16)	(470)	(559)
Liabilities from financing activities	**(885)**	(959)
Cash and cash equivalents	130	108
Net debt (IFRS 16) (Note 19)	**(755)**	(851)
Add back lease liabilities recognised under IFRS 16[1]	464	550
Headline net debt (pre-IFRS 16)	**(291)**	(301)

1 Excludes lease liabilities previously recognised as finance leases on a pre-IFRS 16 basis.

A9. Cash flow disclosure impact of IFRS 16

There is no impact of IFRS 16 on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities.

	2021			2020		
£m	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16
Net cash inflows from operating activities	17	83	100	15	66	81
Net cash outflows from investing activities	(43)	–	(43)	(395)	–	(395)
Net cash inflows/(outflows) from financing activities	48	(83)	(35)	440	(66)	374
Net increase in cash in the period	**22**	**–**	**22**	60	–	60

Additional information

Glossary (unaudited) continued

A10. Balance sheet impact of IFRS 16

The balance sheet as at 31 August 2021 including and excluding the impact of IFRS 16 is shown below:

£m	2021 Headline (pre-IFRS 16)	2021 IFRS 16 adjustment	2021 IFRS 16	2020 Headline (pre-IFRS 16)	2020 IFRS 16 adjustment	2020 IFRS 16
Goodwill and other intangible assets	474	(1)	473	495	(2)	493
Property, plant and equipment	167	7	174	190	2	192
Right-of-use assets	–	328	328	–	413	413
Investments in joint ventures	2	–	2	2	–	2
	643	334	977	687	413	1,100
Inventories	135	–	135	150	–	150
Payables less receivables	(237)	23	(214)	(226)	43	(183)
Working capital	(102)	23	(79)	(76)	43	(33)
Derivative financial asset	–	–	–	–	–	–
Net current and deferred tax asset	46	10	56	17	11	28
Provisions	(28)	14	(14)	(27)	13	(14)
Operating assets employed	559	381	940	601	480	1,081
Net debt	(291)	(464)	(755)	(301)	(550)	(851)
Net assets excluding pension liability	268	(83)	185	300	(70)	230
Pension liability	(3)	–	(3)	(4)	–	(4)
Deferred tax asset on pension liability	1	–	1	1	–	1
Total net assets	266	(83)	183	297	(70)	227

A11. Operating lease expense

Amounts recognised in Headline Group operating profit on a pre-IFRS 16 basis are as follows:

£m	2021	2020
Net operating lease charges	151	210

In the prior year, the Group adopted IFRS 16. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. In order to provide comparable information the Group has chosen to present Headline measures of operating profit/(loss) and profit/(loss) before tax, as explained in Note 2 segmental analysis.

The table above presents the pre-IFRS 16 net operating lease charges, applying the principles of IAS 17, and Group accounting policies as applicable prior to 1 September 2019, as described in the Glossary on page 154.

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. 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.

The average remaining lease length across the Group is four years.

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.

Temporary rent reductions due to Covid-19, affecting rent payments due on or before June 2022, have been recognised in the Income statement in the period they are received.

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 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 19 January 2022 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. At the time of writing, UK public health regulations and guidance allow us to return to an in-person meeting this year, with shareholders physically able to attend the AGM should they wish to do so. We will continue to review our AGM arrangements in light of the latest government Covid-19 guidance, and therefore shareholders are encouraged to monitor the AGM page of the Company's website whsmithplc.co.uk/investors/shareholder-centre/agm for any updates.

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 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 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 or email notification of availability of AGM documents.

Please note that dealing fees will apply and will vary between providers.

Financial calendar

The following dates are given for information purposes only. Please check the WH Smith PLC website at whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2021
Preliminary results announced	11 November 2021
Annual report posted	December 2021
AGM	19 January 2022
Christmas trading statement	19 January 2022
Half-year end	28 February 2022
Interim results announced	April 2022
Trading statement	June 2022
Financial year end	31 August 2022

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 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 whsmithplc.co.uk. You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to 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 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.

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