WH Smith PLC





Annual report and accounts 2016

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Disclaimer

This Annual report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual report should be construed as a profit forecast.

WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street. Our goal is to be:

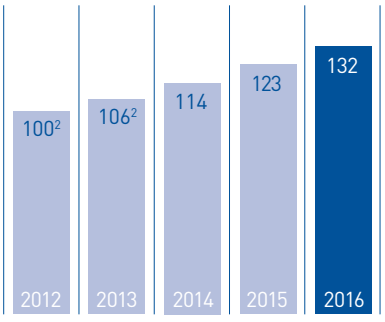
The leading retailer in convenience, books and news for the world's travelling customer.

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

About us

- → WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street.
- → WHSmith Travel has a presence in a wide range of locations including airports, train stations, hospitals and motorway service areas with a growing international business.
- → WHSmith High Street is present on most of the significant high streets in the UK.
- → WHSmith reaches customers online via www.whsmith.co.uk and its specialist personalised greetings cards and gifts websites, www.funkypigeon.com and www.funkypigeon.ie.
- → WHSmith employs approximately 14,000 colleagues.
- → WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index.
- → A commitment to the principles of corporate responsibility is a key focus for WHSmith. We continue to be ranked highly in the Business in the Community's Corporate Responsibility Index in recognition of our performance.
- → Find out more about WHSmith at www.whsmithplc.co.uk.

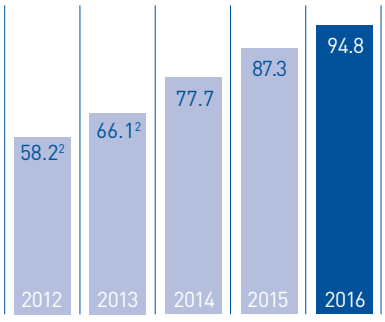
Headline Group profit before tax[1] (£m)



£132m

+ 7% (2015: £123m)

Headline diluted earnings per share (p)



94.8p

+ 9% (2015: 87.3p)

[1] Headline Group profit before tax excludes the non-cash income statement charge for pensions and other non-underlying operating items. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 64.

[2] Restated for adoption of IAS 19 Revised.

Strategic report

Group at a glance

WH Smith PLC is made up of two core businesses – Travel and High Street.

Travel

Travel sells a range of products to cater for people on the move or in need of a convenience offer.

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

As at 31 August 2016, the business operated from 768 units (2015: 736 units) mainly in airports, railway stations, motorway service areas and hospitals. 192 of these units (2015: 163 units) are outside the UK.

Travel delivered another strong profit[1] performance, up nine per cent year on year. We made good progress in Travel's growing international business, with 232 units now won.









Highlights

Sales
£573m
(2015: £521m)

Profit[1]
£87m
(2015: £80m)

Gross margin growth[2]
30 bps
(2015: 50 bps)

Stores
768
(2015: 736)

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

[2] Basis points ('bps').

High Street

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

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

As at 31 August 2016, the business operated from 612 High Street stores (2015: 615 stores), located in almost all of the UK's most significant high streets.

Our digital business operates through two websites: www.whsmith.co.uk and www.funkypigeon.com

High Street delivered a good profit[3] performance, up five per cent year on year.









Highlights

Sales
£639m
(2015: £657m)

Profit[3]
£62m
(2015: £59m)

Gross margin growth
130 bps
(2015: 140 bps)

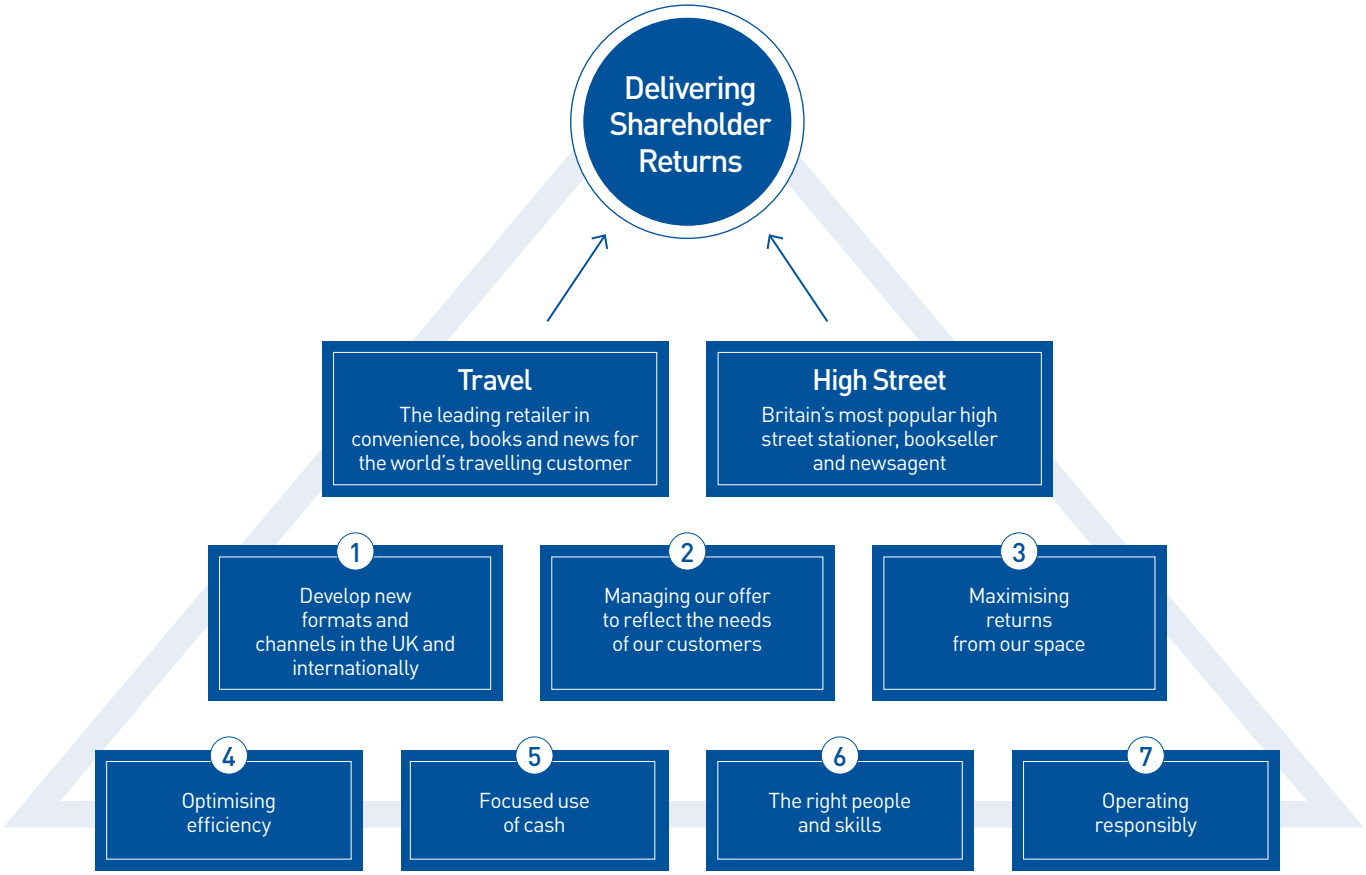
Stores
612
(2015: 615)

[3] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

Strategic report

Business model and strategy

Our business model explains what we do and how we deliver our primary purpose of creating value for our shareholders. We aim to do this through improving our profitability and cash flow, and delivering sustainable returns. WHSmith is one of the UK's leading retailers with two distinct businesses – Travel and High Street. At the heart of both our businesses are our people and our customers.



Our two businesses have distinct goals and strategies with some common elements, for example, the WHSmith brand and some shared services. Travel and High Street are run by separate management teams reflecting the different customers, strategies, operating models and cost structures.

Our goals

Travel

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

High Street

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

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

1 Develop new formats and channels in the UK and internationally

For Travel this means:
→ working closely with our landlords, franchise and joint venture partners;
→ renewing existing contracts and concessions;
→ identifying new locations, building on the strength of the WHSmith brand;
→ developing new formats; and
→ continuing to grow our international business through different operating models: directly-run, joint venture and franchise.

For High Street this means:
→ focusing on prime shopping locations in the UK where we benefit from significant levels of footfall;
→ working with landlords to manage our space needs;
→ developing new formats, for example, WHSmith LOCAL; and
→ developing our online channels whsmith.co.uk and funkypigeon.com.

2 Managing our offer to reflect the needs of our customers

For Travel this means:
→ ensuring our offer reflects the needs of our customers in different locations and channels, providing a compelling choice of products, available for them where and when they need them;
→ identifying changes in trends in our markets and channels and managing our space accordingly;
→ working with landlords to manage the product ranges in each location; and
→ using our own label and private labels, such as Gadgetshop, to develop product ranges appropriate for the travelling customer; and to wholesale to our international partners.

For High Street this means:
→ continuing to manage the space in our stores to reflect the characteristics of each location in terms of competition, affluence, and store size and layout;
→ identifying changes in trends in our markets and managing our space accordingly;
→ developing new products and ranges including building on our strong heritage in own-brand education and stationery;
→ developing other private labels such as Gadgetshop where we can benefit from lower costs; and
→ providing additional services for our customers, for example, Post Offices.

3 Maximising returns from our space

For Travel and High Street this means:
→ focusing on the return from space in each store taking into account all product and operating costs to ensure we are able to maximise the net profit from each store;
→ using our space and product profitability data to drive our decision-making; and
→ focusing on efficient and low cost operating models in our stores whilst maintaining high levels of customer service and availability.

4 Optimising efficiency

In both Travel and High Street we have a strong track record of optimising efficiency and continue to focus on delivering cost savings from across the businesses by:
→ identifying efficiencies and productivity improvements in our store operating models, distribution centres and supply chain;
→ utilising technology; and
→ ongoing cost reduction programmes including occupancy costs.

5 Focused use of cash

Both Travel and High Street are cash generative and the focused use of cash is a key part of our strategy. We see three uses for cash:
→ investing in the business where we believe we can achieve a rate of return on investments greater than our cost of capital;
→ making value accretive acquisitions; and
→ returning surplus cash beyond that required to fund organic growth and minor acquisitions to shareholders through a progressive dividend policy and share buybacks.

6 The right people and skills

Our ability to deliver our business model is underpinned by our 14,000 colleagues primarily in the UK but also in Australia, Asia, the Middle East and Europe who serve our customers every day. We are committed to promoting a culture of equality and diversity through our policies, practices and procedures and provide ongoing training and development for our employees. **Our core values of customer focus, value our people, accountability and drive for results are key to our performance.**

7 Operating responsibly

For Travel and High Street this means acting responsibly to all our stakeholders including customers, suppliers, business partners, employees and the communities in which we operate. You can read more about our approach to corporate responsibility in the Other disclosures section of the Strategic report on pages 25 to 28.

Review of operations

You can read more about our progress in all areas of the strategic priorities in the respective reviews of operations for Travel and High Street on pages 10 to 13. There are areas of risk and uncertainty associated with our strategy which you can read about in the Principal risks and uncertainties section on pages 20 to 24.

Strategic report

Our markets

Travel

Travel stores sell a range of products to cater for people on the move or in need of a convenience offer. Travel's typical customer has less time to browse and is more interested in purchasing food, drink and confectionery, impulse, travel accessories and souvenirs, as well as reading materials for a journey. Consequently, there is a limited demand for stationery product and the stock and layout of each Travel store reflects this.

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

Travel is impacted by macroeconomic trends (including any impacts arising from the process of exiting the European Union) and other factors which influence the number of travelling customers. These include levels of employment and investment, as well as specific category trends such as the impact of digitalisation on printed products. Where we have reliable data on passenger trends, we see a correlation between changes in passenger numbers and our sales. Travel faces competition in its product categories primarily from other retailers in air, rail, motorways and hospitals. The growth of these retailers may take market share from Travel.

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 the 'back to school' period.

The High Street business operates 612 stores with an extensive reach across the UK and a presence on nearly every significant UK high street with high levels of customer footfall.

For reporting purposes, the digital retail business is included in High Street and sells a range of Stationery, Books, Magazines and Gifts at www.whsmith.co.uk. We participate in the personalised greetings cards and gifts market through www.funkypigeon.com and www.funkypigeon.ie.

High Street's performance is dependent upon overall growth in consumer spending (including any impacts arising from the process of exiting the European Union), growth in the non-food, non-clothing sector, its ability to take share in its product markets as well as specific category trends such as the impact of digitalisation on printed products. Additionally, trends in the book market are impacted by the strength and quality of publishing in any year. High Street's competition comes primarily from other high street specialists, discounters, supermarkets and internet retailers. Other online retailers offer customers access to, and digital versions of, our product categories via their computers and mobile devices, while supermarkets give customers access to our product categories as they carry out their regular food shopping. The growth of these formats may take market share away from the High Street business.





Chairman's statement



> My sincere thanks extend to our 14,000 employees across our stores, distribution centres and head offices.
>
> **Henry Staunton**
> Chairman

I am delighted to report another year of good performance to 31 August 2016. We have seen a good sales performance across both Travel and High Street, driven by our key initiatives and growth in passenger numbers in Travel, and a strong Christmas trading period in High Street. In addition, we have made good progress overseas and have secured a further 32 units during the year.

The Group has grown its profit again with Group profit before tax increasing by eight per cent to £131m.

The Group remains highly cash generative delivering a free cash flow[1] of £108m.

We remain focused on profitable growth, cash generation and creating value for shareholders, while investing for future growth.

Corporate governance

Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy. A more detailed explanation of our approach to corporate governance can be found in our Corporate governance report on pages 30 to 57.

Corporate responsibility

Our corporate responsibility (CR) programme continues to address our key environmental and social impacts, with initiatives ranging from sustainable forestry to charitable giving and promoting literacy.

This year, we have also begun the implementation of a new initiative which looks specifically at supporting our colleagues' mental wellbeing. WHSmith has made a commitment to have the same number of mental health first aiders as physical health first aiders within the next year. We will also be working to ensure that our 1,100 line managers all receive mental health first aid training, with WHSmith being one of the first retailers to develop such an extensive mental health programme. Further information on all aspects of our CR programmes can be found on pages 25 to 28.

People

My sincere thanks extend to our 14,000 employees across our stores, distribution centres and head offices. Without their ongoing loyalty and support we could not have achieved these results.

Outlook

As we approach 2017, our 225th year of trading as WHSmith, we are confident that the Group is well positioned for the year ahead. While there is some uncertainty in the economic environment, we remain focused on the distinct strategies of each of our businesses in order to maximise the contribution from both and best deliver value for shareholders.

Henry Staunton
Chairman

13 October 2016

[1] Free cash flow is cash generated from operating activities adjusted for capital expenditure, repayments to HMRC (see Notes to the financial statements Note 9, page 81), pension funding and net interest paid. See Group cash flow statement on page 67 and Notes to the financial statements Note 22, Cash generated from operating activities on page 89.

Strategic report

Chief Executive's review



> The distinct strategies of each of our businesses have been successful in driving profit growth and creating shareholder value.

Stephen Clarke
Group Chief Executive

I am pleased to report that both of our businesses have delivered another good performance over the year. Travel continues to perform well with strong sales across all channels, reflecting our growth initiatives, ongoing investment and an improvement in passenger numbers. Internationally, we have made further good progress in growing our sales and profit. In our High Street business, our strategy of optimising the return from our space and assets continues to produce strong cash generation and sustainable profits.

It is important to acknowledge that this performance would not be possible without the support of all of our colleagues across the business. Their hard work and dedication ensures that we are able to achieve these results and I am very grateful for their ongoing support and valued contribution throughout the year.

Group overview

The distinct strategies of our Travel and High Street businesses have been successful in driving profit growth and creating shareholder value, underpinned by our disciplined approach to cash generation and capital allocation.

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

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

Group profit from trading operations[1] increased by seven per cent on the prior year to £149m and the Group generated Headline Group profit before tax[2] of £132m (2015: £123m), an increase of seven per cent on the prior year.

Total Group sales were up three per cent at £1,212m (2015: £1,178m) with like-for-like[3] sales up one per cent. Travel sales were up 10 per cent on 2015 at £573m and up four per cent on a like-for-like basis. High Street sales were down three per cent at £639m and down two per cent on a like-for-like basis.

Travel delivered a strong performance across all channels, with trading profit[1] increasing by nine per cent to £87m, including £7m (2015: £5m) from our growing international channel. We continue to invest in the business and we opened 18 new units in the UK during the year, taking us to a total of 576 units in the UK. We won a further 32 units in our international channel in the year, making a total of 232 units won, of which 192 are open.

[1] Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

[2] Headline Group profit before tax excludes the non-cash income statement charge for pensions. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 64.

[3] Like-for-like sales are calculated on stores with a similar selling space that have been open for more than a year (constant currency basis).

High Street delivered another good performance with trading profit[1] up five per cent to £62m and further good cash generation. We saw a strong gross margin performance and costs were tightly controlled. We were able to accelerate some of our efficiency initiatives in the second half of the year and delivered £6m of cost savings, £2m ahead of plan. In total, cost savings in the year were £11m. An additional £10m of cost savings have been identified making a total target of £19m over the next three years, of which £10m are planned for 2016/17.

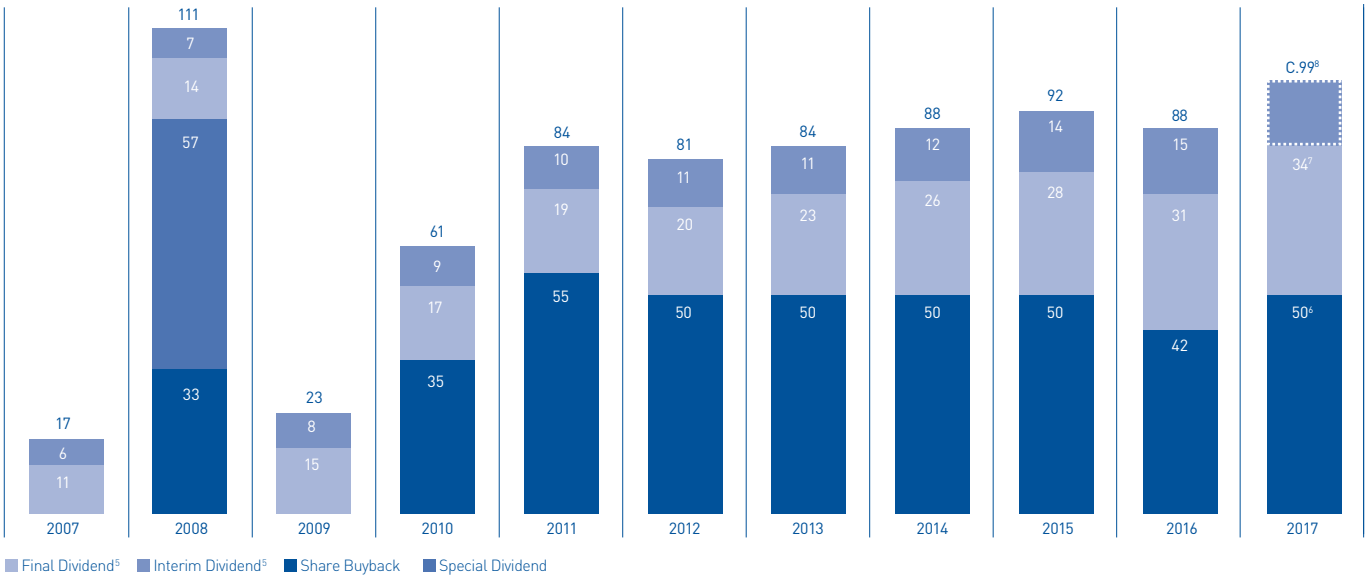
Diluted earnings per share increased by 10 per cent to 93.9p (2015: 85.6p). Headline diluted earnings per share[2] increased by nine per cent to 94.8p (2015: 87.3p). This reflects the increase in profit and a lower basic weighted average number of shares in issue following the share buyback.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £7m at 31 August 2016 (2015: £15m), with a Group free cash flow[4] of £108m (2015: £109m). We completed £42m of the share buyback announced on 15 October 2015 and on 13 October 2016 we announced a further return of cash to shareholders of up to £50m through a rolling on-market share buyback programme.

The Board has proposed a final dividend of 30.5p per share, a 12 per cent increase on last year, giving a total dividend per ordinary share of 43.9p, an 11 per cent increase on the prior year. The proposed increase in final dividend reflects the Board's confidence in the future prospects of the Group, the strong cash generative nature of the business, and our progressive dividend policy. The annual dividend has increased every year since demerger from 11.8p in 2007 to 43.9p for 2016.

Both Travel and High Street are cash generative and we utilise our cash effectively: investing in the business and new opportunities (capital expenditure in the year was £42m), and making appropriate acquisitions whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced on 13 October 2016 and the proposed final dividend, we will have returned over £800m of cash to shareholders and reduced our issued share capital by 38 per cent since our 2007 financial year.

Return of cash to shareholders (£m)



[4] Free cash flow is cash generated from operating activities adjusted for capital expenditure, repayments to HMRC (see Notes to the financial statements Note 9, page 81), pension funding and net interest paid. See Group cash flow statement on page 67 and Notes to the financial statements Note 22, Cash generated from operating activities on page 89.

[5] Cash dividend paid, except for year ending 31 August 2017, see footnotes 7 and 8.

[6] Buyback announced on 13 October 2016.

[7] Proposed final dividend for year ended 31 August 2016.

[8] Includes buyback announced on 13 October 2016, proposed final dividend for FY 2016 and, for illustrative purposes only, assumes interim dividend to be the same as in 2016.

Strategic report

Review of operations: Travel



Performance

Sales

£573m

(2015: £521m)

Total sales	Like-for-like sales
+10%	+4%

Profit[1]

£87m

(2015: £80m)

+9%

> We have further invested in staff in some of our busiest airport stores to drive improved customer service.

Performance review 2015/16

During the year Travel delivered a strong performance with trading profit[1] up nine per cent to £87m. Full year total sales were up 10 per cent, with like-for-like sales up four per cent. Second half like-for-like sales were up four per cent.

We saw a strong sales performance across all our channels driven by investment in our key initiatives and improved passenger numbers. In air, total and like-for-like sales were up five per cent; in rail, total and like-for-like sales were up four per cent; and in hospitals, total sales were up 21 per cent with like-for-like sales up six per cent. Total sales in hospitals were supported by the opening of new stores, including three franchised M&S Simply Food stores in the year. The improvement in like-for-like sales in hospitals reflects the impact of our growth initiatives, particularly focused on food and drink. Gross margin increased by 30 bps during the year, driven by mix.

Whilst the increase in passenger numbers will continue to be an important driver of growth in our Travel business, we see further opportunities:

i. in our existing stores through focusing on improved execution and customer service;

ii. investment in store layouts; space and category management

iii. developing new formats and opening new space in the UK and

iv. expanding profitability overseas

We have further invested in staff across our busiest airport stores to drive improved customer service. In a peak week we can complete around 100,000 transactions in some of these locations, so it is critical to effectively manage on-shelf availability, customer experience and customer throughput. We have introduced overnight replenishment in these stores, and more effective sales floor management. These initiatives have contributed to the higher sales and have helped us to achieve some of our best ever mystery shopper scores in surveys conducted by our landlords.

We continue to invest to improve the store environment and fabric. For example, where we have introduced new souvenir ranges in our existing airport stores we have at the same time introduced new point of sale and fixtures. These stores now offer customers an improved range, better value and a clear shopping zone for these products. We have also invested in store refits in a number of key locations, for example, Manchester, Stansted and Luton airports, and Victoria and London Bridge mainline stations.

Space in Travel is often very constrained and it varies substantially by channel and location. We have a very good understanding of the space and category elasticities for every metre of display space in every store and we seek to maximise the return of every square metre of this space. During the year, space changes have included extending our 'food to go' range in many of our Travel stores, rolling out our new headphone and digital ranges and opening dedicated bookshops.

After early trials in Victoria Station, we have rolled out our digital offer to 23 stores. These stores are equipped with new display fixtures, providing customers with the opportunity to try products, for example, headphones, before making a purchase. In each of these locations we have also invested in additional training to ensure staff have the appropriate product knowledge and

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

are able to assist time-pressed customers with their purchase. In air, we have successfully refitted our existing bookshop stores and opened new dedicated bookshops in addition to existing news, books and convenience ('NBC') units in Heathrow T5 and Edinburgh Airport. These dedicated stores provide an enhanced customer experience with a unique look and feel. We now have seven bookshops open.

As part of our broader store investment programme and following a successful trial, we converted most of our 17 WHSmith cafés in hospital locations to the brand Coffee House in the year. We have also trialled a Coffee House counter within existing WHSmith stores in hospital and regional rail locations to optimise the space in these locations in order to provide a coffee offer to our customers. We now plan a further rollout of Coffee House counters into a number of WHSmith hospital and rail stores.

We have built a successful Travel business based on the different operating models applied in each channel. Our active space management and our focus on providing a compelling offer to customers and landlords has enabled us to win and retain business. During the year we opened 18 units in the UK, including four in air, seven in rail, three M&S Simply Food stores and an M&S Café, making a total of 15 M&S food units now open and operated under our franchise agreement with Marks & Spencer plc. Looking forward, we anticipate opening around 15–20 stores in the UK over each of the following three years, of which around 8–10 each year will be in hospitals.

We have been, and continue to be, successful in exporting our Travel business model overseas. The WHSmith brand has been well received and we have consistently demonstrated that we can deliver improved performance and add value, relative to the previous incumbents. Where we have opened new stores, sales per passenger continue to outperform previous incumbents.

Our international business continues to grow rapidly. However, our share of the global NBC travel market is still very small and we see opportunities to grow using our three operating models of directly-run, joint venture and franchise. Total sales were £79m (2015: £57m), up 39 per cent versus the previous year, as we opened more directly-run stores, and up eight per cent on a like-for-like basis. Trading profit[1] for the year was £7m, an increase of £2m on the previous year.

During the year we won a further 32 new units outside of the UK, including a number of important tenders in Europe. Following the success of tenders in Dusseldorf and Alicante airports in the first

> “Our active space management and our focus on providing a compelling offer to customers and landlords has enabled us to win and retain business.

> “The WHSmith brand has been well received overseas. Where we have opened new stores, sales per passenger continue to outperform previous incumbents.

half of the financial year, we have won a further two European tenders: seven stores at Athens Airport with an existing franchise partner and four stores at Helsinki Airport. The majority of these new stores are due to open by the end of 2017. In addition, we have also renewed our contract at Melbourne International Airport for a further five years. This is an important step as Melbourne was our first major win in Australia and demonstrates the strength of our relationship with the landlord.

We have now won 232 units internationally across four channels (air, rail, hospitals and malls) of which 192 are open. Of the 192 units open, 54 per cent are franchise, 39 per cent direct lease and the remainder are joint venture.

We are now operating in 22 countries and in 34 airports outside of the UK.

As at 31 August 2016 the Travel business operated from 768 units, including motorway service area franchise units. 15 UK units were closed in the year, primarily due to landlord redevelopment. We renewed 25 contracts and completed 57 refits. Excluding franchise units, Travel occupies 0.60m square feet.



Strategic report

Review of operations: High Street



Performance

Sales	Profit[1]
£639m	£62m
(2015: £657m)	(2015: £59m)

Total sales	Like-for-like sales	
(3)%	(2)%	+5%

Performance review 2015/16

High Street delivered a good performance in the year with an increase in trading profit[1] to £62m (2015: £59m), up five per cent on the prior year.

High Street total sales were down three per cent and down two per cent on a like-for-like basis, as we annualised a strong performance last year driven by 'colour therapy'. Gross margin improved by around 130 bps, through rebalancing the mix of our business, better buying and markdown management.

In High Street, we aim to deliver sustainable profit growth and good cash generation in a constantly changing consumer environment.

As with our Travel business, we consider space a strategic asset and we utilise it to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we utilise our space to maximise the return on every metre of display space in every store. We drive further value from improving margins, reducing costs and driving third party concession income opportunities. Going forward, we will continue to manage space in this way.

We saw a good performance in Stationery driven by a number of initiatives. We are able to differentiate ourselves in this category through our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; the ability to source competitively through our Far East sourcing office; our strong promotional offers; and our scale. During the year, Stationery has continued to benefit from additional space towards the front of store and further range improvements. We now have 140 stationery 'Brights' stores. This additional space combined with our range development initiatives was a key driver of our seasonal performance, with diaries and decorations, Christmas cards and wrap all showing good year on year growth. We will make further changes to the location of stationery space in our stores during the current financial year.

> In High Street, we aim to deliver sustainable profit growth and good cash generation in a constantly changing consumer environment.

In Books, we continue to see some stability in the General Retail Market, however the quality of publishing is still the biggest driver of market performance. Kids' book sales remain our most resilient category and our space allocation reflects this. In the first half of the financial year, 'colour therapy' books were a key driver of sales. However in the second half we started to annualise the strong publishing from last year.

Our approach to the Books business is to focus on areas of market growth, build on our areas of strength and drive the overall net profitability of the category. We saw good sales from the launch of the Zoella Book Club. Alongside the Richard and Judy Book Club and our Fresh Talent promotion in Travel, the Zoella Book Club further strengthens our recommendation credentials which is key for WHSmith books customers. The penetration of eBooks is showing no growth.

In News and Impulse, the newspaper and magazine market continues to be challenging but we held our market share through a number of successful promotions across key titles.

[1] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

Driving cost efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. We have delivered savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. We have made good progress again this year and accelerated some of our efficiency initiatives in the second half to deliver £6m of cost savings, £2m ahead of plan. We have therefore delivered cost savings for the year of £11m. These came from all areas across the business, including rent savings at lease renewal, the store operating model and productivity improvements in our distribution centres. We have identified an additional £10m of new cost savings, taking the target to £19m over the next three years. Of these, £10m are planned for 2016/17.

We announced in April a new commercial deal with Post Office Limited (POL) to relocate up to a further 61 Post Offices to WHSmith High Street stores as either franchises or as operations run directly by POL under a concession agreement. Since the announcement, we have relocated 19 Post Offices with up to a further 42 planned, subject to consultation, for this financial year with most expected to be in place by the end of March 2017. This will bring the total number of Post Offices in our High Street stores to 168. Customer feedback has been positive, with customers commenting on the new, modern layout and environment and in particular, the extended opening hours. This deal reflects our continuous focus on space management to create sustainable profit streams, and strengthens our position in the heart of the communities in which we operate.



Our franchise initiative, WHSmith LOCAL, continues to make progress. There is a large number of small independent newsagents across the country and we have now 127 franchisees signed up and 84 stores opened, of which 44 have opened in the last 12 months. We are seeing consistently good results across these stores, delivering incremental profits for the franchisees. We still see good long-term potential.

Funkypigeon.com, our online personalised greetings card and gifting website, continued its good performance, particularly over the key events in the year and we saw good sales and profit growth versus last year. We continue to invest in the website, particularly in the customer journey and in mobile and we have seen good improvements in conversion rates.

As at 31 August 2016, the High Street business operates from 612 stores[2] (2015: 615), which occupy 2.83m square feet (2015: 2.89m square feet). 13 stores were closed in the year.

> “Our agreement with the Post Office reflects our continuous focus on space management to create sustainable profit streams, and strengthens our position in the heart of the communities in which we operate.

[2] Including branches in Guernsey and Isle of Man.

Strategic report

Financial review

Group sales

Total Group sales were up three per cent at £1,212m and up one per cent on a like-for-like basis. In Travel, total sales were up ten per cent with like-for-like sales up four per cent reflecting a good performance in our air, rail, hospital and international channels. In High Street, total sales were down three per cent with like-for-like sales down two per cent.

In the first half, Travel like-for-like sales were up five per cent and up four per cent in the second half. In High Street, first half like-for-like sales were flat, reflecting a strong performance in the five weeks around Christmas when like-for-like sales were up two per cent. In the second half, like-for-like sales were down four per cent as we annualised against 'colour therapy' and stronger publishing last year.

Like-for-like sales	H1 %	H2 %	Year to August 2016 %
Travel	5	4	4
High Street	–	(4)	(2)
Group	2	(1)	1

Stationery like-for-like sales were up three per cent in the year with a good performance over Christmas from new product development, some of our seasonal categories and our back to school promotions. The second half saw Stationery sales flat compared to the prior year. Books like-for-like sales were down two per cent with the second half down three per cent reflecting the strong publishing in the second half of last year. News and Impulse like-for-like sales were flat. We have seen good growth in our impulse and Food to Go ranges, offset by a sales decline in challenging magazine and tobacco markets.

Books and News and Impulse saw an increase in gross margin compared to last year and Stationery was slightly lower than last year reflecting our successful promotions.

Category like-for-like sales	H1 %	H2 %	Year to August 2016 %
Stationery	5	–	3
Books	(1)	(3)	(2)
News and Impulse	1	–	–
Group	2	(1)	1

> The Group generated Group profit before tax of £131m, an increase of eight per cent on the prior year.

Group profit

The Group generated Headline Group profit before tax[1] of £132m (2015: £123m), an increase of seven per cent on the prior year. Profit from trading operations[1] increased to £149m, up seven per cent on the prior year.

	2016 £m	2015 £m	Growth %
Travel trading profit[2]	**87**	80	9
High Street trading profit[2]	**62**	59	5
Group profit from trading operations[2]	**149**	139	7
Unallocated costs	**(16)**	(15)	
Group operating profit	**133**	124	7
Net finance cost[3]	**(1)**	(1)	
Headline Group profit before taxation	**132**	123	7
IAS19 (R) pension interest charge	**(1)**	(2)	
Profit before taxation	**131**	121	8

Taxation

The effective tax rate was 17 per cent (2015: 17 per cent), reflecting the lower statutory rate combined with the agreement with the tax authorities of open items from prior years. We paid £36m in corporation tax in the year, including the £13m repayment to HMRC relating to an historic commercial structure (see cash flow section overleaf). In the current year, we expect the effective tax rate to also be around 17 per cent. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

In the year ended 31 August 2016, WHSmith contributed £263m in taxes, both paid and collected for the UK government. The key taxes paid by the Group were business rates, UK corporation tax and employers' national insurance incurred in employing our 14,000 people. Other taxes incurred include environmental levies and customs duties. The main taxes the Group collects for the government are the sales taxes charged to its customers on their purchases and employee payroll related taxes.

	£m
Taxes borne	98
Taxes collected	165
Total tax contribution	**263**

[1] Headline Group profit before tax excludes the non-cash income statement charge for pensions. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 64.

[2] Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable defined benefit service charge and share-based payment costs and before unallocated costs, interest and taxation. See Notes to the financial statements Note 2, Segmental analysis of results on page 74.

[3] Excluding pension interest charge, £1m (2015: £2m).

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

Earnings per share

Diluted earnings per share was 93.9p (2015: 85.6p), an increase of 10 per cent. Headline[1] diluted earnings per share increased by nine per cent to 94.8p (2015: 87.3p). This reflects the increase in profit and the lower basic weighted average number of shares in issue following the share buyback.

Dividends

The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

The Board has proposed a final dividend of 30.5p per ordinary share, an increase of 12 per cent on the prior year, giving a total dividend per ordinary share of 43.9p, an 11 per cent increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on 13 October 2016, reflects the continuing cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 2 February 2017 to shareholders registered at the close of business on 13 January 2017.

> The Board has proposed a final dividend of 30.5p per ordinary share, an increase of 12 per cent.

Balance sheet and cash flow

As at 31 August 2016, the Group had net assets of £168m (2015: £147m). The increase in net assets reflects the cash generation of the business and the return of cash to shareholders.

Cash flow

The Group generated £108m (2015: £109m) of free cash flow. The cash generative nature of both the Travel and High Street businesses is one of the strengths of the Group.

	2016 £m	2015 £m
Group operating profit	**133**	124
Depreciation, amortisation and amounts written off fixed assets	**41**	38
Working capital and provisions	**(6)**	5
Employers' payroll tax on exercised share awards	**(2)**	(1)
Capital expenditure	**(42)**	(39)
Tax paid[4]	**(23)**	(23)
Net interest paid	**(1)**	(1)
Other items	**8**	6
Free cash flow	**108**	109

[4] Excluding £13m repayment to HMRC (see Note 9 to the financial statements, page 81).

Cash outflows from working capital and provisions were £6m which reflects some timing and also our new store opening programme. Payments relating to employers' payroll tax were £2m compared to £1m last year, resulting from the exercise of share based awards.

Capital expenditure was £42m in the year and is analysed overleaf. This was £3m higher than the prior year and includes higher investment in Travel. This year we expect capex spend to be around £48m. This reflects further investment opportunities through the relocation of up to 61 Post Offices into High Street stores, new stores in the UK and internationally, and further investment in the store operating model. Going forward, after the current financial year, we expect capex to be around £40m per annum although this will depend on the number of new stores we open. Net corporation tax paid was £23m[4], compared to £23m last year.

Strategic report

Financial review continued

Analysis of capex:

	2016 £m	2015 £m
New stores and store development	**20**	12
Refurbished stores	**12**	13
Systems	**7**	12
Other	**3**	2
Total capital expenditure	**42**	39

The movement in net funds is as follows:

	2016 £m	2015 £m
Opening net funds	**15**	22
Free cash flow	**108**	109
Dividends paid[1]	**(46)**	(42)
Pension deficit funding	**(3)**	(4)
Net purchase of own shares for employee share schemes	**(6)**	(4)
Purchase of own shares for cancellation	**(47)**	(54)
Return of payment on account to HMRC	**(13)**	–
Acquisitions	**–**	(3)
Proceeds from the sale and leaseback of equipment	**3**	3
Repayments of obligations under finance leases	**(3)**	(1)
Other	**2**	(1)
Closing net funds before finance leases	**10**	25
Net movement on finance leases	**(3)**	(10)
Closing net funds	**7**	15

[1] Dividends paid include current year interim and prior year final dividends paid.

In addition to the £108m of free cash flow generated in the year, the Group has seen a net cash outflow of £55m in relation to non-trading operations. This includes £46m of dividend payments, £3m pension funding and net purchase of our own shares for employee share schemes of £6m.

As expected, in the first half of 2016 the Group repaid £13m to HMRC in respect of a payment on account received from HMRC in 2010 relating to an historical commercial structure which was put in place in the year ended 31 August 2009.

As at 31 August 2016 net funds were £7m. In total for the financial year we returned £47m to shareholders via an on-market share buyback of which £42m related to the up to £50m buyback announced on 15 October 2015. A further buyback of up to £50m was announced on 13 October 2016.

Return on capital employed (ROCE)

ROCE for the Group after capitalising operating leases has increased to 27 per cent (2015: 24 per cent) with Travel at 36 per cent (2015: 30 per cent) and High Street at 22 per cent (2015: 21 per cent).

	Operating capital employed £m[2]	ROCE %[3]	ROCE with operating leases capitalised %[4]
Travel	75	116%	36%
High Street	114	54%	22%
Trading operations	**189**	**79%**	**29%**
Unallocated central liabilities	(22)		
Operating assets employed	**167**	**80%**	**27%**

[2] Net assets adjusted for net funds and retirement benefit obligations (net of deferred tax).

[3] Return on capital employed is calculated as the trading profit as a percentage of operating capital employed.

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

For the prior year, comparable ROCE was 91 per cent (Travel 111 per cent and High Street 56 per cent).

Pensions

On 15 October 2014, the Group agreed a revised deficit funding schedule for the main defined benefit pension scheme, the WHSmith Pension Trust, based on an actuarial revaluation at 31 March 2014. At that date, the Group had an actuarial deficit of £24m. A schedule of contributions was agreed with the Trustees from October 2014 of around £3m per annum for nine years. With effect from 1 September 2015, the Group agreed to pay certain pension investment management costs directly, with a revised schedule of contributions of approximately £1m per annum. During the year ended 31 August 2016, the Group made a contribution of £3m in total to the scheme.

The scheme has been closed to new members since 1996 and closed to defined benefit service accrual since 2007. The Liability Driven Investment (LDI) policy adopted by the scheme continues to perform well with around 85 per cent of the inflation and interest rate risks hedged.

As at 31 August 2016, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £5m (2015: £5m) and an associated deferred tax asset of £1m (2015: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2016, the scheme had an IAS 19(R) surplus of £164m (2015: surplus of £214m) 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(R).

The IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £2m (2015: £1m).

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover-related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum net rental commitment of £159m (2015: £167m) (net of £2m of external rent receivable (2015: £2m)). The total future rental commitment at the balance sheet date amounted to £769m (2015: £856m) with the leases having an average life of five years.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Connect Group PLC (formerly Smiths News PLC) in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Connect Group PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £3m (2015: £4m).

Outlook

The distinct strategies for each of our businesses continue to deliver a good performance. We see further opportunities for growth in Travel in both the UK and internationally. In the UK, whilst there is some uncertainty in the broader economic environment, most airports are forecasting increases in passenger numbers, albeit in low single digits and the forecasts are variable by location. In addition, we will continue to invest in our stores and service levels and open new space. We have won 232 units outside of the UK and our international channel is growing fast and is profitable. In High Street, our profit focused strategy continues to deliver sustainable growth. We see further opportunities to grow our margin and reduce our cost base and we will continue to focus on driving returns from our existing space with our forensic approach to space management. Our recent agreement with the Post Office takes us up to 168 stores which have a Post Office helping make our profits sustainable into the longer term. Looking to the year ahead, there is some uncertainty in the economic environment. However, we will continue to drive both businesses, each with their distinct strategies, to maximise the contribution from both in order to deliver value for shareholders.

Stephen Clarke
Group Chief Executive

13 October 2016

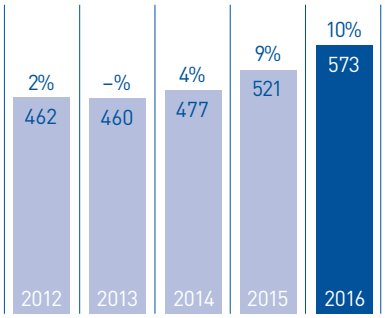
> We will continue to drive both businesses, each with their distinct strategies, to maximise the contribution from both in order to deliver value for shareholders.

Strategic report

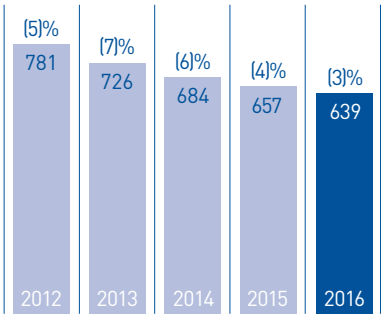
Key performance indicators

Revenue[1] (£m)

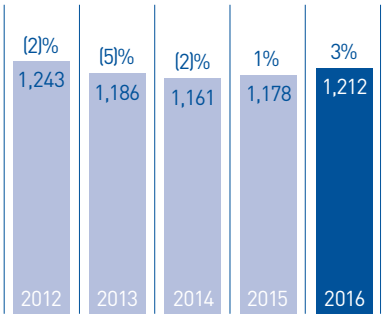
Travel



High Street



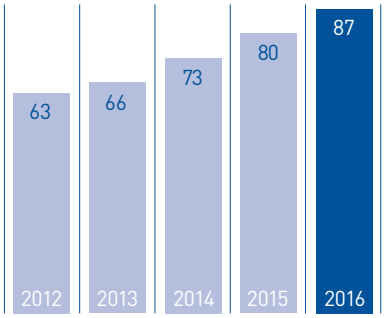
Group



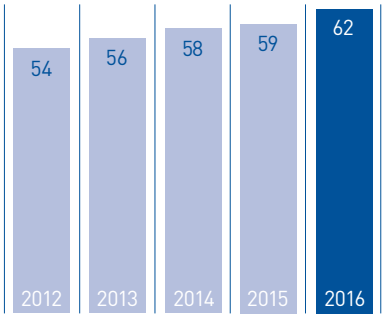
[1] Income receivable for goods and services, commission and fee income, and concession and franchise income.

Trading profit (£m)

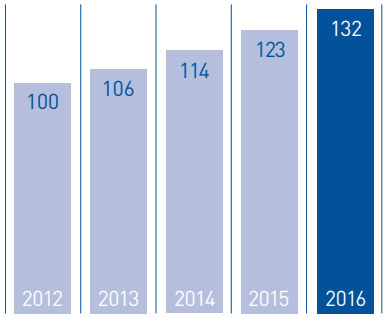
Travel[2]



High Street[2]



Group[3]

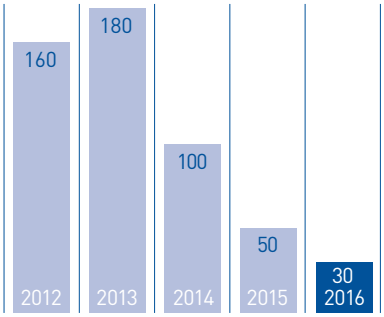


[2] High Street and Travel trading profit is stated after directly attributable share-based payment and pension service charges, and before unallocated costs, interest and taxation.

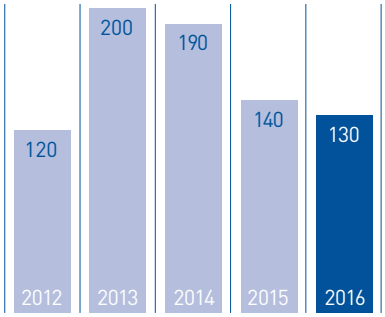
[3] Group Headline profit is Group profit before tax excluding the non-cash income statement charge for pensions and other non-underlying operating items. See Group income statement on page 64.

Gross margin movement (basis points)

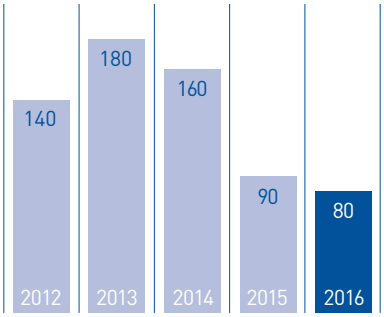
Travel



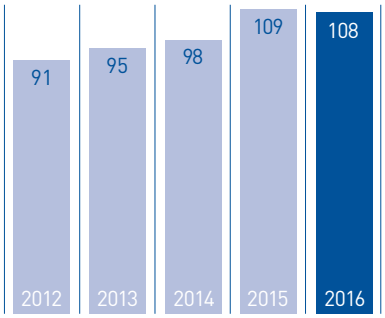
High Street



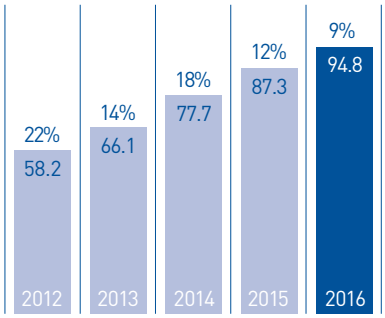
Group



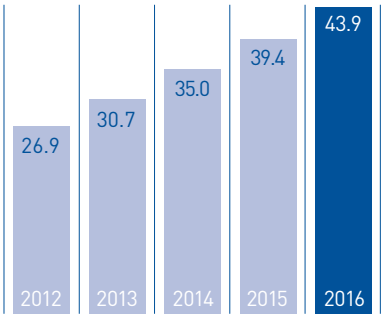
Free cash flow[4] (£m)



Headline earnings per share[5] (£m)



Dividend per share[6] (p)



[4] Free cash flow is cash generated from operating activities adjusted for capital expenditure, repayments to HMRC (see Note 9 to the financial statements, page 81), pension funding and net interest paid.

[5] Headline earnings per share is diluted earnings per share adjusted for the post tax impact of the non-cash pension charge and other non-underlying operating items. See Group income statement on page 64.

[6] Dividend per share is the dividend attributable to the relevant year. For 2016, this includes the proposed final dividend of 30.5p.

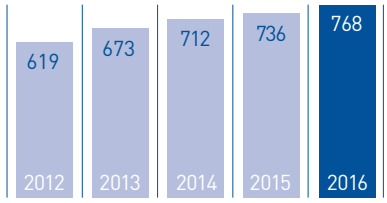
Retail selling space (sq ft '000s) and number of stores[7]

Travel

Retail selling space

2012	2013	2014	2015	2016
510	522	554	579	597

Number of stores

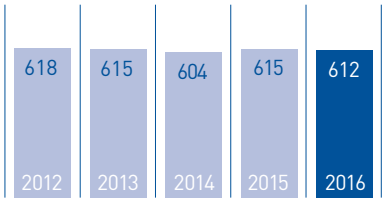


High Street

Retail selling space

2012	2013	2014	2015	2016
3,045	3,000	2,490	2,892	2,827

Number of stores



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

Performance indicators relating to operating responsibly can be found in the Corporate responsibility and environment section of the Strategic report set out on pages 25 to 28 and in our full CR report, available at www.whsmithplc.co.uk/cr.

Strategic report

Principal risks and uncertainties

Risk monitoring processes

The Group's risk management framework is designed so that material business risks throughout the Group can be identified, assessed and effectively managed. 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 taking account of risk appetite. This ongoing monitoring framework is overseen by the respective Business Risk Committees and the Group Audit Committee.

During the year, the Board reviewed the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and review of the risk registers and the internal controls across all business functions, as part of an annual exercise facilitated by the Internal Audit team. During the year, the Board also received presentations from management on specific risk areas such as cyber risk, the risks relating to the EU referendum, international expansion, and the ongoing risk monitoring processes and appropriate mitigating controls.

Board review of principal risks and uncertainties

The Board has undertaken a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those principal risks are described below, 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

Following the Board's review, the Group has included international expansion as a separate risk heading this year reflecting the Group's growing international business. We have also added further information relating to the movement in the level of risk exposure during the year, to highlight whether, in our view, exposure to each of the principal risks is increasing, decreasing or remains broadly the same.

Key: Change in risk level

↑ higher ↔ level ↓ lower

Risk/description	Mitigation	Change in risk level
Economic, political, competitive and market risks		
The Group operates in highly competitive markets and our failure to compete effectively with travel, convenience and other retailers 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 and customer shopping patterns, and raw material costs could also impact on profit performance. The Group may also be impacted by political developments such as exiting the European Union, regulatory and tax changes, increasing scrutiny by competition authorities and other changes in the general condition of the retail and travel markets.	The Group's performance is dependent upon effectively predicting and quickly responding to changing consumer demands. The Group conducts customer research to understand current demands and preferences in order to help translate market trends into saleable merchandise. The Group continues to monitor the implications arising from the process of exiting the European Union and is a member of a number of key industry bodies which provide insight and updates on the this process.	↑ There are a number of additional uncertainties relating to the UK's impending exit from the European Union.
Brand and reputation		
The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business, adversely affecting revenues. As the Group continues to expand its convenience food offer in travel locations, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all of our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. We operate a framework for monitoring compliance with all regulatory, hygiene and safety standards, encompassing supplier and store audits and clearly defined sourcing policies and procedures. Our corporate responsibility programme monitors our performance in respect of our key themes of the Marketplace, Workplace, Environment and impact on the Community.	↔
Key suppliers and supply chain management		
The Group has agreements with key suppliers in the UK, Europe and the Far East. 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. All suppliers have to comply with the conditions laid out in our Supplier Code of Conduct, which covers areas such as production methods, employee working conditions and quality control. 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.	↔

Strategic report

Principal risks and uncertainties continued

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 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 locations 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, that 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 reviewed and tested regularly to ensure that data is protected from corruption or unauthorised use.	
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.	

Risk/description	Mitigation	Change in risk level
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 on our operations in overseas territories and to conduct reputational due diligence on potential new business partners. Our geographical spread of activity mitigates against the concentration of risk in any one area.	New risk heading, introduced to reflect the Group's growing international business.
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 23 on page 89 of the financial statements. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a committed facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. This facility matures in June 2019.	↔
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 or other malware 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, encompassing the monitoring of 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 provider and the engagement with third party specialists, where appropriate. We have a Steering Group overseeing our programme of ongoing monitoring and compliance with the Payment Card Industry Data Security Standard.	↑ The external threat level is ever changing. There has been a general increase in the number of externally reported cyber attacks affecting businesses.

Principal risks and uncertainties continued

Assessing the impact of our principal risks on our strategic priorities

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

Principal Risks	Economic, political, competitive & market risks	Brand & reputation	Key suppliers & supply chain management	Store portfolio	Business interruption	Reliance on key personnel	International expansion	Treasury, financial & credit risk management	Cyber risk & data security
Strategic Priorities									
Develop new formats & channels in the UK & Internationally	✓	✓	✓	✓	✓	✓	✓	✓	✓
Managing our offer to reflect the changing needs of our customers	✓	✓	✓	✓			✓		✓
Maximising returns from our space	✓	✓	✓	✓			✓		✓
Optimising efficiency	✓	✓	✓	✓			✓		✓
Focused use of cash	✓	✓	✓	✓			✓	✓	
The right people & skills	✓	✓				✓	✓		
Operating responsibly	✓	✓	✓	✓			✓		✓

Viability Statement

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

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

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

Using the strategic plan as a base, we have modelled a range of severe but plausible scenarios reflecting the Group's principal risks to establish their effect on the Group's cash and bank facilities.

The directors, having carried out a robust assessment of the principal risks facing the Group, along with their potential financial impact, consider that there is 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 2019.

Other disclosures

Corporate responsibility programme

We continue to operate a robust corporate responsibility (CR) programme that is closely aligned to the Group's strategy. Our CR programme is divided into four key areas: Marketplace, Environment, Workplace and Community.

Our CR strategy is based on ensuring that we effectively manage the environmental and social issues which are material to the Group and to each business. Our approach is shaped by the views and expectations of our stakeholders with whom we are in regular dialogue.

The management of social and environmental matters is embedded into day-to-day operations across the business. The Board carry out annual reviews to ensure the successful implementation of the CR strategy and to approve our targets for the years ahead. The following pages provide an introduction to our CR work during the year. More detailed information, including performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/cr.

Customers

We are committed to maintaining high customer service standards across the Group. In our Travel business, we have developed an initiative called Customer First to drive a culture of excellent customer service standards throughout the business. To ensure that these standards have been fully embedded within the business, members of our senior management team visited every store to check that they are 'Customer Ready' with stores scored on a set criteria specifically focusing on service and store standards. In High Street, our independently conducted Customer Satisfaction Monitor assesses performance in areas such as friendliness and helpfulness of staff, time spent queuing as well as store cleanliness and tidiness. Our High Street stores continue to achieve high overall customer satisfaction scores of 8.3 out of 10.

We take seriously the responsibility for the products we sell, and we are committed to listening to our customers' feedback. Our Marketing Code of Practice sets out the standards we follow in our promotional activity, marketing and advertising and seeks to ensure that the products we sell are safe, fit for purpose, meet legal standards and are not described in a misleading manner, particularly when marketing to children.

We are continuing to take further steps to extend our healthy eating range. WHSmith is an active member of the NHS Healthy Eating forum and we have been working to improve our healthy eating offer in our hospital stores by rapidly increasing our ranges of healthy products to our customers. We are currently working with NHS Scotland in order to help deliver the new Healthcare Retail Standard (HRS) and with the Royal Free Hospital in London, taking a proactive approach, as a pioneer of the UK government's 'Healthy Living Award' legislation.

Ethical trading and human rights

We are committed to good labour standards and respecting the environment in our supply chain. Our Ethical Trading Code of Conduct and Human Rights Policy outlines our expectations of our suppliers.

The in-house supplier audit team based in our Far East sourcing office undertakes a regular programme of supplier audits to monitor labour standards. They visit each new direct-source supplier factory to assess its performance, ensure that minimum standards are met and, where necessary, agree an action plan to ensure that the factory is improving its performance. We provide support as suppliers make these improvements, and aim to ensure that all direct source suppliers and Asia-based suppliers of UK agents are audited at least every two years.

WHSmith is a member of the Ethical Trading Initiative (ETI), an alliance of companies, trade unions and NGOs that promote respect for workers' rights around the world.

In order to encourage improvements in labour standards, we focus on a number of key issues which we know are common challenges facing many of our suppliers. One such issue has been health and safety, which continues to be a key area of focus during our factory audits. We are working with a number of our key suppliers to help strengthen their health and safety procedures. We are providing training for the factories on best practice in health and safety management, and supporting them as they conduct risk assessments of their own sites and identify required improvements. The changes made should result in a direct benefit for workers through reduced risk of accidents and also reduced downtime.

We have undertaken a large programme of work looking at modern slavery risks within our business and supply chain and updating policies and procedures to ensure we have the right level of focus on this issue. We have reported on this area in detail in a separate Board-approved Modern Slavery Statement. This is available at www.whsmithplc.co.uk.

A copy of our Ethical Trading Code of Conduct and Human Rights Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Strategic report

Other disclosures continued

> We recognise that good environmental management also makes good business sense. We are committed to reducing the environmental impact of our business and measure our performance each year.

Forest sourcing

We are committed to minimising the environmental impact of the paper used in own-brand products, and we work to a continuing objective that all virgin (i.e. non-recycled) material used in our products is from known, legal, well-managed and credibly certified forests.

We carry out an in-depth and rigorous assessment of supplier forest sourcing systems. Our sourcing teams both in the UK and the Far East work with our suppliers to help them understand our requirements. By 2020, our aim is that 95 per cent of own-brand stationery units will come from sustainable certified or recycled sources. We have made good progress in the year, with 85 per cent of own-brand stationery units now from certified sources, up from 69 per cent in 2015/16. This performance is due to several key product lines being confirmed as FSC-sourced, for example boxed Christmas cards. We are already working with suppliers on lines for 2016/17 and would expect to be able to deliver further improvements in the year ahead. A copy of our Forest Sourcing Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Environment

We recognise that good environmental management also makes good business sense. We are committed to reducing the environmental impact of our business, and measure our performance each year. A copy of our Environmental Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Greenhouse gas emissions

Good energy management is an established part of the business culture, especially amongst our store teams. We have made good progress in recent years, achieving a reduction in CO_2e emissions per square foot from stores and distribution centres of over 49 per cent since 2007.

We have achieved this energy performance through close real-time monitoring of energy consumption, with our managers having direct accountability for energy costs. We have successfully rolled out more efficient LED lighting across the majority of our stores, distribution centres and in back of house areas, such as stockrooms and offices, delivering significant savings in energy consumption. This year, we have also continued our programme to reduce energy wastage from our drinks and food chillers, with the greatest opportunity being in our Travel stores. As part of this work, we have installed more time clocks installed that turn off fridges containing non-perishable products out of hours. In the year ahead, we are rolling out a suite of energy efficiency best practice measures to ensure that stores are working towards the best achievable performance in terms of energy use. We are targeting savings of around five per cent for the stores involved in the project.

We continue to work hard to maximise the efficiency of our fleet wherever we can, not only helping to reduce our carbon footprint, but also reducing fuel costs for the business. Since 2007, we have achieved a reduction in CO_2e emissions per pallet of over 25 per cent.

Regular and in-depth reviews of our transport operations enable us to optimise routing and delivery frequency. In addition, our transport management system provides real-time data to monitor driver behaviour. During 2015/16, we have delivered a project to relocate Travel and High Street product within WHSmith's distribution network, with product located closer to the key hubs for each business. This has been a complex process, but it is one which we believe will deliver ongoing savings in terms of mileage, fuel and emissions by ensuring that our transport network can be used more efficiently.

Global greenhouse gas emissions data for period 1 September 2015 to 31 August 2016 in tonnes of CO_2e

	2015/2016	Percentage of carbon footprint	2014/2015
Scope 1 emissions			
Combustion of fuel for the transport of WHSmith products from distribution centre to store using vehicles owned by third parties. Also combustion of gas to heat and cool WHSmith stores, offices and distribution centres	**8,320**	23.5%	8,700
Scope 2 emissions			
Electricity purchased for WHSmith's own use (used to power, light and heat stores, offices or distribution centres)	**25,582**	72.5%	30,544
Scope 3 emissions			
WHSmith employee business travel (by air, rail and owned and non-owned motor vehicles)	**1,374**	4 %	882
Total	**35,276**	100%	40,126
Intensity measurement			
Total emissions (Scopes 1, 2 and 3) reported above normalised per 1,000 square feet	**8.03**		9.16

Scope and methodology

In the above table we have reported on all of the emission sources required under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013, as well as Scope 3 emissions, which are reported on a voluntary basis. These sources fall within our consolidated financial statements. This data covers the continuing activities undertaken by our retailing operation in the UK and Ireland. The impacts resulting from franchise operations are excluded from this report as we are not responsible for the operations of these stores. The impacts resulting from international stores are also excluded from this report because it is not possible to collect the base emissions data at the current time.

We have used data gathered to fulfil our requirements under the GHG Protocol, and recommended DEFRA conversion factors. We do not believe there are any material omissions.

Waste management

Waste created by inefficient use of resources and rising landfill tax represents a significant cost to the business. In High Street, we operate a dry mix recycling system which can accept most forms of waste, including plastics and metals. This year, we achieved a reduction in overall waste volumes of 10 per cent year on year. In our Travel business, we are working hard to minimise food waste. This is however a complex area. Our focus has been on improving our forecasting to ensure that we only stock the chilled food that we expect to sell. For unsold ambient food, we are conducting a trial in our M&S Simply Food units, working with the social network, Neighbourly, to make links to local charities and community organisations who can make use of this unsold food. If this trial is successful, we would hope to roll this out to a wider range of stores.

Reducing the number of single-use plastic carrier bags we hand out has been a focus for many years, with our staff habitually asking customers whether they need a carrier bag and promoting the use of re-usable bags. In October 2015, a new 5p carrier bag levy was introduced in England, which means that there are now 5p levies for carrier bags in place across the UK. Since the carrier bag levies have been in place, we have seen a drop in the number of bags we are giving out by approximately 30 per cent.

For the bags we do use, we donate the proceeds from the levy to good causes. During the year, we have donated over £390,000 to our charity partners. In our Travel business, this money goes to the homelessness charity, Shelter, and in our High Street business, 25 per cent of the carrier bag levy proceeds go to the Woodland Trust to fund their tree planting projects. The other 75 per cent of the High Street carrier bag levy goes to the new WHSmith Community Fund, which makes grants to hundreds of customer-nominated schools and charities across the UK.

Health and safety

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

Other disclosures continued

Social and community matters

As a leading bookseller and stationer we focus our community investment on supporting education and life-long learning. Over the year we invested a total of £1,602,675 into local communities (2015: £1,161,504). Included in this figure are cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report, available at www.whsmithplc.co.uk/cr.

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

Our store teams are active members in their communities, with many store managers and staff giving their time to promote a positive business environment on their high streets. As part of this, we continue to support Business in the Community's High Street Champions programme, which is working to encourage high street regeneration in 33 towns. The annual WHSmith Community Awards help to share good practice and encourage more stores to engage in their local community. This year, we launched the WHSmith Community Fund which distributes the proceeds of the carrier bag levy to customer-nominated charities, schools and community organisations. The levy collected during 2015/16, will enable us to make over 500 grants to a wide range of community groups spread across the UK.

Promoting literacy is a priority for us as a business and at the heart of our community engagement programme. This year saw the completion of our latest literacy project with our long-term charity partner, the National Literacy Trust. In the last three years, with the support of the WHSmith Trust and WHSmith store teams across the country, around 7,500 children aged six to nine have taken part in the National Literacy Trust's Young Readers Programme, giving children the opportunity to discover the pleasure of reading. We have been pleased to see that the project has had a measurable impact on children's attitudes to reading, with 80 per cent of all participating children reading more frequently and 100 per cent of teachers observing better overall reading attainment against expected levels for participating children.

WHSmith's High Street stores are committed to building strong relationships with local schools. We work in partnership with the WHSmith Trust to make donations to local schools which help them improve their library resources, as well as running fun activities in our stores to help promote the joy of reading. During 2015/16, we supported 150 schools across the UK.

We have continued to increase our Christmas charity ranges. Over the last three years, we have seen total charity donations from these ranges almost double. For Christmas 2016, we plan to increase these ranges further with a higher profile presence in store for our key charity partner, Save the Children. We also encourage charity fundraising by staff and customers. In September 2016, six WHSmith teams took part in the national Three Peaks Challenge, raising £ 71,000 for the WHSmith Trust and Save the Children. A copy of our Community Engagement Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

“Promoting literacy is a priority for us as a business and at the heart of our community engagement programme. This year saw the completion of our latest literacy project with our long-term charity partner, the National Literacy Trust.

Employees and diversity

Employees

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

Equal opportunities

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

We recognise that it is just as important to support our colleagues' mental wellbeing as it is to look after their physical wellbeing. WHSmith has now made a pledge to have as many mental health first aiders as physical health first aiders within the next year. We will also be working to ensure that our 1,100 line managers all receive mental health first aid training.

Training and development

We recognise the importance of training and development to support employee satisfaction and promote a knowledgeable workforce. Our programmes enable all our staff to grow within the Company and develop their careers. Succession planning is emphasised across the Group and we continue to achieve high internal succession rates. Our Retail Academy supports store staff in developing their skills and moving on to new roles, and targeted development programmes in head office helps to create a pipeline of talent to fill future vacancies. These programmes support internal succession and enable us to continue to make progress towards our objective that over 90 per cent of store manager appointments should be sourced from internal candidates.

Employee involvement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, employee events, intranet sites and e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development. We conduct annual employee engagement surveys across our head offices and all distribution centres, and are extending these to our Travel and High Street store management population during 2016. Results are shared with all staff and actions agreed to respond to specific points of feedback, with employee focus groups used to help understand the staff feedback in more depth.

Employee share ownership

The Company operates a HM Revenue & Customs Approved Save-As-you-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 716 employees participate in the scheme.

Diversity

WHSmith is committed to promoting a culture of equality and diversity through its policies, practices and procedures in all divisions of the WHSmith Group. We want to ensure that all our employees receive equal and fair treatment, and this applies to recruitment and selection, terms and conditions of employment, promotion, training and development opportunities and employment benefits.

Within our strategy, one area of focus is on the attraction, recruitment, development and retention of middle and senior female managers within the business to create a pipeline of talent for future senior level and board appointments. We have developed a partnership with www.workingmums.co.uk, a job and community website for professional and working mothers, and have introduced a range of flexible working initiatives, including flexible working hours and more flexibility over home working.

The Board has chosen not to set specific representation targets for women at Board level at this time although it does have due regard for the benefits of diversity within the overriding objective of ensuring that its membership has the appropriate balance of skills, experience and independence. The table below shows a breakdown of the composition of the Board as at year end.

Tenure		Male/Female	
0–1 year	0%	Male	4 (67%)
1–3 years	0%	Female	2 (33%)
3–6 years	67%		
6–9 years	33%	**Executive/non-executive**	
		Executive	2 (33%)
		Non-executive	4 (67%)

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

Senior Management team[1]	
Women	4 (23.5%)
Men	13 (76.5%)

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

Management team[2]	
Women	323 (41%)
Men	465 (59%)

[2] This wider group includes store managers and senior Head Office staff (who are not also members of the senior management team).

Employee mix across the Group	
Women	8,472 (65%)
Men	4,634 (35%)

The Strategic report on pages 1 to 29 of the Annual report has been approved and signed on behalf of the Board.

Stephen Clarke
Group Chief Executive

13 October 2016

Corporate governance

Corporate governance report



Henry Staunton
Chairman

Introduction from the Chairman

The Board of the Company is committed to achieving the highest standards of corporate governance. As Chairman, my role is to run the Board to ensure that the Company operates effectively and ensure that the Board has the right balance of skills 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 2014 (the 'Code'). A copy of the Code is available publicly from www.frc.org.uk.

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 40 to 52 and in the Directors' report on pages 53 to 56.

Board of Directors

As at the date of this report, the Board comprised the Chairman, two executive directors and three independent non-executive directors. Short biographies of each of these directors, which illustrate their range of experience, are set out on page 39. There is a clear division of responsibility at the head of the Company; Henry Staunton (Chairman) being responsible for running the Board and Stephen Clarke (Group Chief Executive) being responsible for implementing strategy. Drummond Hall 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 page 39, served during the financial year ended 31 August 2016 and up to the date of this report.

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.

The Board met nine times during the year. It is expected that all directors attend Board meetings, Committee meetings and the Annual General Meeting ('AGM') unless they are prevented from doing so by prior commitments. The minimum time commitment expected from the non-executive directors is one day per month attendance at meetings, together with attendance at the AGM, Board away days and site visits, plus adequate preparation time. Where directors are unable to attend meetings, they receive the papers for that meeting giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting the Chairman briefs any director not present on the discussions and any decisions taken at the meeting. The following table shows the number of Board meetings held during the year ended 31 August 2016 and the attendance record of individual directors.

Board membership	Number of meetings attended
Henry Staunton	9 of 9
Suzanne Baxter	9 of 9
Stephen Clarke	9 of 9
Annemarie Durbin	9 of 9
Drummond Hall	9 of 9
Robert Moorhead	9 of 9

The Board has met twice since 31 August 2016 and all the directors attended both meetings.

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

The Board has a forward timetable of business to ensure that it allocates sufficient time to key areas. The timetable is flexible enough for items to be added to any particular agenda as necessary. The Board's annual business includes Chief Executive's reports including business reports, financial results, strategy, risk management, dividend policy, investor relations, health and safety, Board evaluation, governance and compliance, communications and the Annual report.

The Board has overall responsibility for the Group's system of risk management and internal control (including financial controls, controls in respect of the financial reporting process and operational and compliance controls) and has conducted a detailed review of its effectiveness during the year, to ensure that management has implemented its policies on risk and control. This review included receiving reports from management, discussion, challenge, and assessment of the principal risks. No significant failings or weaknesses were identified from this review. In addition, the Board also received presentations from management on higher risk areas, for example, cyber risk, risks arising from the process of exiting the European Union and growing international expansion. The Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying 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 principal risks faced by the Group, including those risks relating to social, environmental and ethical matters. The Board confirms that the systems have been in place for the year under review and up to the date of this report and that they accord with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'Risk Management and Internal Control Guidance'). The systems are regularly reviewed by the Board. The principal risks and uncertainties facing the Group can be found in the Strategic report on pages 20 to 24.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 35 and 36.

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. New directors receive induction training on joining the Board which is tailored to meet their needs to learn about the business, its markets and risks and includes store visits and meetings with employees across the businesses and with external advisers. The need for director training is regularly assessed by the Board.

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 August 2016. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The scope of the evaluation was broad and included Board effectiveness, Board structure and diversity, decision-making processes, corporate strategy and business model, risk, succession planning, investor relations and Board Committees.

The findings were presented to the Board in October 2016. The results of the assessment were considered by the Board, and confirmed the strength of the management of the Company, a sound governance framework and practices compliant with the Code. As a result of the review, the Board agreed a number of actions which will be implemented in the financial year ending 31 August 2017 and which include continuing to build relationships between members of the Board and key talent below Board level by, for example, the non-executive directors spending time with key management, additional measures to ensure maximum benefit is derived from the strategy session held each year and continuing to build on the Company's succession plans for Board and key management. 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 Board intends to undertake an external review in 2017 as the Company seeks to further enhance the effectiveness of the Board.

Corporate governance report continued

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 commits sufficient time to the business of the Company and contributes to its governance and operations. The Senior Independent Director met the other non-executive directors to assess the Chairman's performance taking into account also the views of the executive directors and they concluded that Henry Staunton continues to be an effective Chairman and demonstrates his commitment to the role. The Chairman was appointed as the Chairman of Phoenix Group Holdings on 1 September 2015. In advance of this, the Board reviewed the Chairman's existing commitments and the time commitment required for the new role, and had no objection to the Chairman taking up the appointment.

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 will stand for re-election at the AGM to be held on 25 January 2017. Biographies of all the directors are set out on page 39 of this Annual report and are also available for viewing on the Company's website, www.whsmithplc.co.uk.

The Company's Articles of Association give a power to the Board to appoint directors and, where notice is given and signed by all the other directors, to remove a director from office. The Company's Articles of Association themselves may be amended by special resolution of the shareholders. The Articles of Association were approved by shareholders at the AGM in January 2016.

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 40 to 52.

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.

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 33 to 36, of the Nominations Committee on page 37 and of the Remuneration Committee on pages 40 to 52. In addition, following the implementation of the new EU Market Abuse Regulation (MAR) in July 2016, the Board established a Disclosure Committee which is responsible for ensuring compliance with the Company's obligations under MAR. The role and responsibilities of each Committee are set out in formal terms of reference which are available on the Company's website, www.whsmithplc.co.uk.

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

The Board recognises the importance of being visible and accessible to customers and employees and, during the year, the Board visited the stores at Stansted Airport and Alicante Airport. During these visits the Board received presentations from our airport partners and local management teams. The non-executive directors are also encouraged to accompany 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.

Board Committees/Audit Committee



Suzanne Baxter
Chair

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 2016. Our principal objectives are to oversee and assist the Board in its responsibility to produce a set of Annual report and accounts which are fair, balanced and understandable and to provide effective financial governance in respect of the Group's financial results, the performance of both the internal audit function and the external Auditor, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Annemarie Durbin and Drummond Hall who are both 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 and representatives of the Group's senior management team and of the external Auditor attend meetings. The Committee has regular private meetings with the external and internal Auditors during the year.

The Committee met four times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2016 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Suzanne Baxter	4 of 4
Annemarie Durbin	4 of 4
Drummond Hall	4 of 4

Henry Staunton, Stephen Clarke and Robert Moorhead were invited to and attended all four meetings of the Audit Committee.

The Audit Committee has met once since 31 August 2016 and all the Committee members attended the meeting.

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

- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security, tax and in respect of the Company's international businesses;
- monitoring the integrity of the Group's financial statements and trading statements;
- considering papers from management on the key financial reporting judgements, including the Company's approach to recognising supplier incomes;
- reviewing the Interim report and the Annual report and accounts including compliance with the Code and statutory reporting requirements and recommending those documents for Board approval;
- considering the Company's principal risks and uncertainties and reviewing the mitigating actions that management has taken to ensure that these risks are appropriately monitored and controlled;
- monitoring the role and effectiveness of Internal Audit;
- receiving reports and presentations from the business risk committees;
- receiving and reviewing reports from the Internal Audit and Risk teams;
- holding private meetings with the external and internal Auditors;
- considering the issues which may impact the Company following the vote to leave the European Union;
- agreeing the scope of PricewaterhouseCoopers LLP's ('PwC') annual audit plans, assessing the effectiveness of the external audit process and considering the accounting, financial control and audit issues reported by the auditors that flowed from their work;
- reviewing auditor independence and 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 Company's Auditor; and
- considering the CSR report.

Corporate governance report continued

Board Committees/Audit Committee

Long-term viability statement

Following the adoption of the Code during the financial year ended 31 August 2016, the Committee's terms of reference were extended to include providing advice to the Board on the form and basis underlying the long-term viability statement set out on page 24.

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

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

Significant financial reporting issues

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

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

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

Pensions
The Committee assessed the accounting treatment adopted by management and the application of IAS 19 (revised) in relation to the WH Smith defined benefit pension scheme. The Committee, having also received a paper on pensions from the external Auditor, and 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.

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

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

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

Fair, balanced and understandable assessment

As required by the Code, the directors confirm that they consider the Annual report and accounts, taken as a whole, to be 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. When arriving at this position the Board was assisted 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. The Committee advised the Board that the Annual report and accounts taken as a whole was considered to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Risk management and internal controls

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

- each business conducts risk assessments based on identified business objectives which are reviewed and agreed annually by the executive management of each business. Risks are considered in respect of strategy, reputation, operations, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly and are reported to the Committee;
- a Group risk assessment is also undertaken by the Internal Audit team, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment, together with the business risk assessments, forms the basis for determining the Internal Audit Plan. Audit reports in relation to areas reviewed are discussed and agreed with the Committee;
- the Internal Audit team meets annually with all senior executives, to undertake a formal review and certification process in assessing the effectiveness of the internal controls across the Group. The results of this review are reported to the Committee;
- the Committee confirmed to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational, and compliance controls and risk management for the period of this report, in accordance with the Code and the Risk Management and Internal Control Guidance;
- the Board is responsible for approving the annual budget and the three-year plan, for approving major acquisitions and disposals and for determining the financial structure of the Company, including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external Auditor through regular meetings;

Corporate governance report continued

Board Committees/Audit Committee

- the Internal Audit team advises and assists management in the establishment and maintenance of adequate internal controls and reports to the Committee on the effectiveness of those controls;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in light of actual performance. These results and forecasts cover profits, cash flows, capital expenditure and balance sheets;
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Committee covering tax, treasury policies, insurance and pensions;
- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impact that our activities have on the environment, workplace, marketplace and community. More detailed information is available in our full CR report, available at www.whsmithplc.co.uk/cr; and
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy which is regularly reviewed by the Board. A copy of our Health and Safety policy is available at www.whsmithplc.co.uk/cr. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All reportable accidents are investigated and targets are set to reduce the level of incidence.

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

External Auditor

During the year the external Auditor reported to the Committee on their independence from the Company. The Committee and the Board are satisfied that PwC has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The Committee has recommended to the Board the re-appointment of the external Auditor for the 2017 financial year and the directors will be proposing the re-appointment of PwC at the 2017 AGM. PwC were first appointed as auditor at the 2015 AGM, following a competitive tender process completed in 2014. The Committee will continue to review the external Auditor's appointment and the need to tender the audit.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2016 year-end audit provided by PwC. The Director of Audit and Risk prepared a questionnaire seeking the views and feedback of the Board, together with those of Group and divisional management and it formed the basis of further discussion with respondents. The findings of the survey were considered by the Committee.

The Committee has a formal policy on the Company's relationship with its external Auditor in respect of non-audit work to ensure that auditor objectivity and independence are maintained. The policy is reviewed annually by the Committee, and will be updated following the introduction of the new EU regulations in respect of provision of non-audit services. The majority of non-audit work undertaken by PwC in 2015/16 related to pensions and tax advice. The Auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. As Chair of the Audit Committee, my approval is required before the Company uses non-audit services that exceed £25,000 per matter. For the financial year ended 31 August 2016 the non-audit fees paid to PwC were £15,628 and the audit fees payable to PwC were £364,450.

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

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

Suzanne Baxter
Chair of the Audit Committee

13 October 2016

Board Committees/Nominations Committee



Henry Staunton
Chair

Nominations Committee report

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 2016. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee comprises a majority of independent non-executive directors. The other members of the Committee are Suzanne Baxter, Stephen Clarke, Annemarie Durbin and Drummond Hall. 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 Drummond Hall, the Senior Independent Director, would take the Chair.

The Committee met once during the year. The principal matters discussed at the meeting were succession planning for Board and senior executives, career planning and identifying talent across the businesses.

All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2016 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Henry Staunton	1 of 1
Suzanne Baxter	1 of 1
Stephen Clarke	1 of 1
Annemarie Durbin	1 of 1
Drummond Hall	1 of 1

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

The Nominations Committee has met once since 31 August 2016 and all the Committee members attended the meeting.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity. Information on diversity, including gender, in respect of the Board and the Company is set out in the Employees and Diversity section of the Strategic report on page 29. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. The Board is committed to strengthening the pipeline of women in senior roles across the business and continues to take steps to ensure there are no barriers to women succeeding at the highest level of the Company. An action plan has been agreed to take further steps to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity within the Senior Management team, and the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company. Further information on Diversity is set out in the Employees and Diversity section of this report on page 29.

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

The Committee will also enhance its focus on culture in the year ahead, recognising that good governance, leadership and culture are key considerations for a strong sustainable business.

In preparation for its Gender pay gap reporting obligations, the Company has begun the work to understand the level of any difference between male and female pay throughout the Company.

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

Henry Staunton
Chair of the Nominations Committee

13 October 2016

Corporate governance report continued

Remuneration Committee

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 40 to 52.

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 Act. The Group's Bribery Ethics Statement is included on the Company's website, www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Compliance with the Code

Throughout the year ended 31 August 2016 and up to the date of this report the Company has been in compliance with the provisions of the Code (including the updates applicable since our financial year end).

The Board acknowledges the changes to the Code that were announced in April 2016 and apply to the Company's financial year ending 31 August 2017. These changes will be an area of focus for the Board and the relevant Committees over the next year and the Company will report on compliance against the revised Code in the 2017 Annual report.

This report was approved by the Board on 13 October 2016.

Signed on behalf of the Board

Henry Staunton
Chairman

13 October 2016

Directors' biographies













① **Henry Staunton** joined the Board of WHSmith in September 2010 and became Chairman on 1 September 2013. He is also Chair of the Nominations Committee. He has extensive finance, media and retail expertise and is Chairman of BrightHouse Group PLC and Phoenix Group Holdings and a non-executive director of Capital and Counties Properties plc. He was previously the Finance Director of Granada and ITV, Chairman of Ashtead Group and Vice Chairman of Legal and General PLC.

② **Stephen Clarke** is Group Chief Executive and joined the Board of WHSmith in June 2012, becoming Group Chief Executive on 1 July 2013. He joined WHSmith in August 2004 as Marketing Director for WHSmith High Street. In 2006 he was appointed Commercial and Marketing Director and in 2008 became Managing Director of WHSmith High Street. He began his career at the Dixons Group where he carried out a number of store, product and marketing roles.

③ **Robert Moorhead** is Chief Financial Officer and Chief Operating Officer ('CFO/COO') and joined the Board of WHSmith in December 2008. He is a Chartered Accountant and joined WHSmith in 2004 as Retail Finance Director. 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.

④ **Suzanne Baxter** is a non-executive director and joined the Board of WHSmith in February 2013. She is Chair of the Audit Committee. She was appointed as Group Finance Director of Mitie Group Plc in April 2006. Following her qualification as a Chartered Accountant with Price Waterhouse, her career has been divided between advisory roles in corporate finance with Deloitte and a range of finance, commercial, operational and business development roles in support of both public and private sector clients, firstly with Serco and now with Mitie. She is Chair of the Business in the Community (BITC) South West Strategic Advisory Board, a business to community outreach charity promoting responsible business practice, and is Chair of the Council of the Business Services Association (BSA), a policy and research centre of excellence for the support services industry.

⑤ **Annemarie Durbin** is a non-executive director and joined the Board of WHSmith in December 2012. She is a non-executive director of Santander UK plc and serves on its Audit, Risk and Remuneration Committees. She has 25 years' international banking experience particularly across Asia, Africa and the Middle East operating at Board and Executive Committee level. She is also Chair of the Listing Authority Advisory Panel. In addition to her directorships, Annemarie is an executive coach, a conflict mediator and provides Board governance consultancy services.

⑥ **Drummond Hall** is a non-executive director and joined the Board of WHSmith in September 2008. He is the Senior Independent Director and Chair of the Remuneration Committee. He is a non-executive director and Chair of the Remuneration Committee of The Sage Group plc and is the Senior Independent Director of First Group plc. He spent the early part of his career with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC.

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

Board Committees

Audit Committee

Suzanne Baxter – Chair
Annemarie Durbin
Drummond Hall

Nominations Committee

Henry Staunton – Chair
Suzanne Baxter
Stephen Clarke
Annemarie Durbin
Drummond Hall

Remuneration Committee

Drummond Hall – Chair
Suzanne Baxter
Annemarie Durbin
Henry Staunton

Corporate governance

Directors' remuneration report



Drummond Hall
Chair

Annual statement from the Remuneration Committee Chair

Dear Shareholder

At the 2016 AGM we submitted a new remuneration policy for approval. This was supported by 98.5 per cent of our shareholders which, we believe, indicates that our arrangements continue to have the support of our shareholders. On that basis, I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2016.

The other members of the Committee are Suzanne Baxter, Annemarie Durbin and Henry Staunton. At the invitation of the Committee, the Group Chief Executive and representatives of the Committee's external independent remuneration adviser regularly attend meetings.

The Committee met six times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2016 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Drummond Hall	6 of 6
Suzanne Baxter	6 of 6
Annemarie Durbin	6 of 6
Henry Staunton	6 of 6

Stephen Clarke was invited to and attended six meetings of the Remuneration Committee but excludes himself in relation to any discussion in respect of his own remuneration.

The Committee has met twice since 31 August 2016 and all the Committee members attended the meetings.

Key decisions and changes

The key decisions and changes made by the Committee during the financial year ended 31 August 2016 are highlighted as follows:

- The Committee decided that the salary of the CFO/COO should increase by two per cent from 1 April 2016 in line with the general annual pay rise of two per cent for all head office employees. No increase was awarded to the CEO as agreed when he received a larger salary increase on 1 September 2015.
- The Committee undertook a review of the fee paid to the Chairman and, after taking advice from FIT, its external independent remuneration adviser, increased the fee with effect from 1 March 2016 from £200,000 to £215,000 per annum.
- The Committee undertook a review of the EPS performance targets for the LTIP grant in October 2016. The Committee sought the views of the Company's largest shareholders and shareholder representatives before finalising the new EPS performance targets. The new EPS targets will be set at a CAGR of 5 to 10 per cent per annum (from the previous 7 to 12 per cent) using a base EPS of 94.8p. This scale is felt to be suitably challenging reflecting both the Company's now significantly higher profit base and our aspiration to continue to deliver superior returns for shareholders amongst the retail sector.
- The Committee considered the new gender pay gap reporting requirements.

In January 2016 the Chairman and the executive members of the Board undertook a review of non-executive pay. As a consequence, it was agreed that the fees paid to non-executive directors should be increased from 1 March 2016. The basic annual fee increased from £46,000 to £50,000 per annum; the additional fee paid to the Senior Independent Director increased from £9,000 to £10,000 per annum and the additional fee paid to the Committee Chair of the Audit and Remuneration Committees increased from £9,000 to £10,000 per annum.

Outcome 2015/16

The Company delivered another good performance during the year. The Travel and High Street businesses remain highly cash generative and continue to deliver good profit growth with profit before tax increasing by eight per cent to £131m. As a result of this good performance, the Company has increased Headline diluted EPS by nine per cent to 94.8p per share and dividends by 11 per cent to 43.9p per share. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 1 to 29.

The Company's good performance and their individual performance has resulted in the maximum bonus potential being awarded to Stephen Clarke and Robert Moorhead, being £880,000 and £487,000 respectively.

The 2013 LTIP vesting percentage is determined by the growth in the Company's EPS, relative dividend growth and TSR over the three-year performance period which ended on 31 August 2016. The Company substantially met the performance targets for the 2013 LTIP as the Company's EPS increased by 43 per cent during the performance period, the Company's relative dividend growth ranked between six and seven out of 21 companies in the comparator group and the Company's TSR ranked between two and three out of 21 companies in the comparator group. The 2013 CIP vesting percentage is determined by the growth in the Company's EPS over the three-year performance period which ended on 31 August 2016. The 2013 CIP vested in full as the Company's EPS increased by 43 per cent during the performance period.

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

Drummond Hall
Chair of the Remuneration Committee

1. Information subject to audit

The following information has been audited by PwC:

- Section 2.4 – Summary of non-executive directors' remuneration 2016;
- Section 2.5 – Summary of executive remuneration 2016;
- Section 2.6 – Payments made to former directors;
- Section 2.7 – Payments for loss of office;
- Section 2.11 – Annual bonus targets;
- Section 2.12 – Share plans; and
- Section 2.16 – Directors' interests in shares.

2. Annual remuneration report

The Remuneration Committee presents the annual report on remuneration (the 'Remuneration Report') which, together with the introductory letter by the Chair of the Committee on pages 40 and 41, will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 25 January 2017.

2.1 Remuneration Committee

During the year the Committee continued to receive advice from FIT, which is a member of the Remuneration Consultants Group (the professional body) and adheres to its code of conduct. FIT has no other relationship with the Company and the Committee is satisfied that it continues to provide objective and independent advice. FIT's fees in respect of the year under review were £51,396 (excluding VAT) and were charged on the basis of FIT's standard terms of business. The Committee also received advice from an independent law firm, Allen & Overy LLP, who were appointed by the Company, in respect of its share incentive plans.

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 Chief Executive attends the Committee but excludes himself in relation to discussion of his own remuneration, as does the Chairman.

Corporate governance

Directors' remuneration report continued

2.2 Implementation of remuneration policy in the financial year ended 31 August 2016

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2016.

Executive directors

Element of pay	Implementation of policy
Base salary	Robert Moorhead, in line with other head office staff, received a two per cent salary increase in April 2016. Stephen Clarke agreed that he would not be considered for an increase as part of the March 2016 review. The current salary of Stephen Clarke is £550,000 and the current salary of Robert Moorhead is £374,544.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2016 (although the cost of providing benefits may change without any action by the Company).
Pension	No changes were made to these elements of remuneration within the financial year ended 31 August 2016. Both executive directors were members of the Company's defined contribution scheme and received a total benefit equivalent to 25 per cent of base salary. During the financial year ended 31 August 2016, Stephen Clarke received a pension contribution equal to 3.27 per cent of his base salary with the balance being received as a salary supplement. Stephen Clarke applied for fixed protection in April 2016 and as such received all of his pension contribution as a salary supplement after that date. Robert Moorhead received all of his pension contribution as a salary supplement after applying for fixed protection in 2014 so the amount otherwise paid to the Company's defined contribution scheme was reduced to reflect the requirement to pay employers' National Insurance.
Annual bonus	The bonus payable for the financial year ended 31 August 2016 in respect of Stephen Clarke and Robert Moorhead was £880,000 and £487,000 respectively. The bonus is primarily assessed against a sliding scale target of profit before tax but after interest and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives. The target range for the year ended 31 August 2016 is set out on page 46.
Long-term incentives	Annual LTIP and CIP awards set at the policy level. The terms of and the performance measures applicable to the LTIP and the CIP awards made in the financial year ended 31 August 2016 are described on pages 46 and 47. Vesting of LTIP awards is determined based on the following three measures: 40 per cent is based on relative TSR; 30 per cent is based on EPS growth and 30 per cent is based on relative dividend growth. The CIP is entirely subject to an EPS growth measure. All performance periods are for three years. The Committee approved these performance measures as they are directly linked to the objectives set out in the Group's strategy; there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward.
Shareholding guidelines	Stephen Clarke was required to hold 300 per cent of salary in shares and Robert Moorhead was required to hold 250 per cent of salary in shares. The directors have met their required holding as at 31 August 2016, with Stephen Clarke holding 290,064 shares with a value of £4,420,575 and Robert Moorhead holding 302,676 shares with a value of £4,612,782.

Non-executive directors

Element of pay	Implementation of policy
Annual fees	Current fees are £215,000 for the Chairman of the Board and £50,000 for the role of non-executive director with additional fees of: (i) £10,000 payable for the role of SID; and/or (ii) £10,000 payable where an individual also chairs the Audit or Remuneration Committee. Following a review in February 2016, the fee levels were increased with effect from 1 March 2016.

2.3 Implementation of remuneration policy in the financial year ending 31 August 2017

The Committee envisages that there will be no changes to the remuneration policy, which was approved by shareholders at the Company's AGM on 27 January 2016, during the financial year ending 31 August 2017. The policy in respect of the executive directors will be applied as follows:

Element of pay	Implementation of policy
Base salary	Stephen Clarke and Robert Moorhead will be eligible, in line with other head office staff, for any increase in salary following the March 2017 review.
Benefits	No changes will be made to these elements of remuneration within the financial year ending 31 August 2017.
Pension	No changes will be made to these elements of remuneration within the financial year ending 31 August 2017.
Annual bonus	No changes in the measures or weightings will be made in respect of the annual bonus for the financial year ending 31 August 2017 except that the CEO's bonus arrangements have been aligned with that of other employees by adding a number of personal objectives which can have a negative only impact on his bonus out-turn.
Long-term incentives	This will be the first set of awards under the new LTIP. Annual LTIP awards will be set at the policy level (335 per cent of salary for Stephen Clarke and 310 per cent for Robert Moorhead). Vesting of LTIP awards is determined based on the following two measures: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR. The number of shares vesting for threshold performance will be 25 per cent. The EPS performance targets will be 25 per cent for EPS growth of 5 per cent per annum to 100 per cent for EPS growth of 10 per cent per annum.
Shareholding guidelines	Stephen Clarke 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.

2.4 Summary of non-executive directors' remuneration 2016 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2016:

	Base fee £'000	Committee/ SID fee £'000	Total £'000	2015 £'000
Henry Staunton	208	–	**208**	200
Suzanne Baxter	48	9	**57**	55
Annemarie Durbin	48	–	**48**	46
Drummond Hall	48	19	**67**	64

The Chairman and non-executive director fees were increased with effect from 1 March 2016.

Corporate governance

Directors' remuneration report continued

2.5 Summary of executive remuneration 2016 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2016:

	Salary £'000		Benefits £'000		Annual bonus £'000		LTI £'000		Pension £'000		Total £'000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Stephen Clarke	**550**	485	**14**	14	**880**	783	**3,664**	2,745	**136**	121	**5,244**	4,148
Robert Moorhead	**370**	364	**14**	14	**487**	477	**2,064**	2,772	**90**	89	**3,025**	3,716

The LTI figures in the table above include both the WH Smith LTIP and CIP. The share price at the date of grant for the LTIP award granted on 18 April 2013 was 762.33p and for the LTIP/CIP awards granted on 17 October 2013 was 901.33p. The total value of the awards granted under the LTIP and the CIP in 2013 to Stephen Clarke was £2,009,995 and to Robert Moorhead was £1,187,998. The share price used to calculate the LTI figures in the table is 1581.76p, being the average share price for the Company over the last quarter of the financial year ended 31 August 2016.

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

[b] For the year under review, Stephen Clarke had the opportunity to receive an annual bonus up to a maximum of 160 per cent of his base salary and Robert Moorhead had the opportunity to receive an annual bonus up to a maximum of 130 per cent of his base salary. The financial measure applied to the financial year ended 31 August 2016's annual bonus was statutory profit before tax. The calculated outcome under this measure may be moderated (downwards only) by the Committee having regard to personal performance ratings. The Company's statutory profit before tax of £131m was above the maximum target set for financial performance and, therefore, the Committee approved maximum bonus payments under this measure for the financial year ended 31 August 2016. Stephen Clarke received an annual bonus equivalent to 160 per cent of his base salary, and Robert Moorhead received an annual bonus equivalent to 130 per cent of his base salary.

[c] The performance measures for the LTIP and CIP are set out on pages 46 and 47. The 2015 figures have been updated to the actual values of the LTIP and CIP awards that vested in respect of performance periods ending in that financial year.

[d] The pension figures in the table above includes both the pension contribution into the Company's defined contribution pension plan and any salary supplement received in lieu.

The total aggregate emoluments paid to the Board in the financial year ended 31 August 2016 was £2,921,000 and in the financial year ended 31 August 2015 was £2,712,000.

2.6 Payments made to former directors (audited)

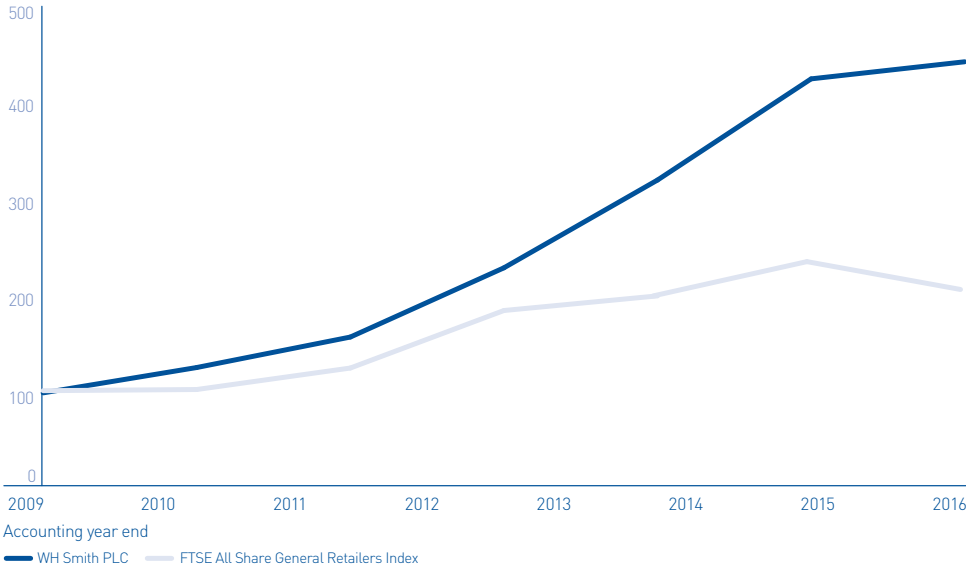
No payments were made in the financial year ended 31 August 2016 to former directors of the Company.

2.7 Payments for loss of office (audited)

No payments were made in respect of a director's loss of office in the financial year ended 31 August 2016.

2.8 Assessing pay and performance

Total shareholder return performance since 31 August 2009



[a] The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last seven 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 CEO's remuneration and how the Company's variable pay plans have paid out over the past seven years. It can be compared with the historic TSR performance over the same period which indicates a TSR for the Company of 342 per cent, compared with a TSR for the Index of 104 per cent. This demonstrates consistently superior performance in line with the achievements under the variable pay plans.

Financial year ended 31 August	CEO	Single figure of total remuneration £'000	Annual bonus (vesting versus maximum opportunity) %	Long-term incentive (vesting versus maximum opportunity) %
2016	Stephen Clarke	5,244	100	99
2015	Stephen Clarke	4,148	100	100
2014	Stephen Clarke	2,546	100	100
2013 – from 1 June	Stephen Clarke	4,067	100	97
2013 – until 31 May	Kate Swann	9,192	100	98
2012	Kate Swann	3,147	100	90
2011	Kate Swann	3,313	100	92
2010	Kate Swann	6,966	100	97

The 2015 single figure of total remuneration has been updated to reflect the actual value of the LTIP and CIP awards that vested in respect of the performance period ending in that financial year.

2.9 Change in remuneration of Chief Executive

The table below shows the percentage changes in the Chief Executive's remuneration (i.e. salary, annual bonus and taxable benefits) between the financial year ended 31 August 2015 and the financial year ended 31 August 2016 compared with the percentage changes in the average of those components of pay for all full time equivalent employees based in the UK. This group has been selected as the most appropriate comparator for the Chief Executive as he is a full-time employee based in the UK and approximately 95 per cent of all WHSmith employees are based in the UK.

	Salary increase/decrease %	Annual bonus increase/decrease %	Taxable benefits increase/decrease %
Chief Executive	13.4	12.4	(15.7)
UK employees (average per FTE)	7.3	(5.2)	(2.6)

2.10 Relative spend on pay

The table below shows the total cost of remuneration paid to or receivable by all employees in the Group as well as dividends/share buybacks made during the financial year ended 31 August 2016. 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		
2015 £m	**2016 £m**	**% change**	2015 £m	**2016 £m**	**% change**
189	**202**	**6.9%**	95	**93**	**(2.1)%**

Corporate governance

Directors' remuneration report continued

2.11 Annual bonus targets (audited)

Bonuses for the financial year ended 31 August 2016 were earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against profit before tax (PBT) target	Role Model	Outstanding	Strong	Developing	Under Achiever
Max:£129.1m	100%	80%	60%	40%	0%
Target:£121.8m	80%	64%	48%	32%	0%
Threshold:£116.9m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The PBT of £131m was above the maximum target set for financial performance. For Stephen Clarke, his personal rating is also based on the achievement of the Group statutory profit before tax target resulting in him receiving a maximum bonus payment of £880,000. For Robert Moorhead, his personal rating includes a range of objectives relating to the financial and operational performance of the Company. Following his appraisal, Robert Moorhead will receive a maximum bonus payment of £487,000.

No changes in the measures or weightings have been made in respect of the annual bonus for the financial year ending 31 August 2017 except that the CEO's bonus arrangements have been aligned with that of other employees by adding a number of personal objectives which can have a negative only impact on his bonus out-turn. 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.

2.12 Share plans (audited)

The performance conditions for awards granted under the Company's long-term incentive plans in the financial year ended 31 August 2016 were as follows:

WH Smith LTIP

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

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

TSR performance ranking at end of the Performance Period	Proportion exercisable
Below median	Zero
Median	30%
Upper quartile	100%
Between median and upper quartile	On a straight-line basis between 30% and 100%

b) 30 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the Performance Period	Proportion exercisable
Below 7%	Zero
7%	30%
12% or more	100%
Between 7% and 12%	On a straight-line basis between 30% and 100%

For these purposes, EPS will be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency; and

c) 30 per cent based on the Company's dividend growth against the FTSE All Share General Retailers Index and the FTSE Food and Drugs Retailers Index constituents. Vesting will occur on the following basis:

Dividend growth ranking at end of the Performance Period	Proportion exercisable
Below median	Zero
Median	30%
Upper quartile	100%
Between median and upper quartile	On a straight-line basis between 30% and 100%

For these purposes, the percentage increase in the Company's dividends (in pence) paid in respect of the year to 31 August 2015 (i.e. the financial year ended prior to grant), the interim dividend paid on 6 August 2015 together with the final dividend declared on 15 October 2015 and paid on 4 February 2016 of 39.4p in total will be compared with the equivalent dividends paid in respect of the financial year ending three years later and the percentage increase compared and ranked with dividends paid by the same companies in the TSR comparator group, except that any company which paid no dividend in respect of the base year will be excluded and companies within the FTSE All Share Food and Drugs retailers will be added to replace them. The Committee has discretion to assess whether a company's dividend is paid otherwise than out of operating profits, or otherwise than supported by its normal levels of cover, and therefore should be excluded. The Committee will report any adjustments in subsequent Remuneration Reports.

2016 LTIP

Following the remuneration review in 2015, the Committee decided to cease granting separate CIP awards so the LTIP will be the only ongoing long-term incentive plan. A new LTIP was therefore introduced at the 2016 AGM and the first LTIP awards are likely to be granted in October 2016. The new LTIP is similar to the legacy LTIP except that, consistent with market practice, awards accrue the benefit of dividends and will be subject to a two year holding period which will apply to 50 per cent of the vested award. From 2018, it is intended that the holding period will apply to the full vested award.

The 2016 awards will be based 60 per cent on EPS and 40 per cent on TSR. The number of shares vesting for threshold performance will be reduced from 30 per cent to 25 per cent. The Company will no longer use the dividend growth measure. The performance conditions over the three years commencing with the financial year of grant (the 'Performance Period') will, therefore, be:

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

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

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

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

For these purposes, EPS will continue to be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency.

FIT independently carries out the relevant TSR and dividend growth calculations for the Company.

WH Smith 2012 Co-Investment Plan ('CIP')

The CIP performance conditions require the Company's EPS (determined in the same way as for the LTIP) to increase over the three financial years commencing on 1 September 2015 as follows:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the Performance Period	Proportion exercisable
Below 7%	Zero
7%	25%
12% or more	100%
Between 7% and 12%	On a straight-line basis between 25% and 100%

Following the 2015 remuneration review, no future awards will be made to executives under the CIP.

In the event of a takeover or other change of control (excluding an internal reorganisation), outstanding awards under the LTIP and/or CIP vest and become exercisable to the extent that any applicable performance conditions have been met, and subject to applicable time pro-rating, in accordance with the LTIP and/or CIP rules, unless the Committee decides otherwise. Awards may be exchanged for awards over shares in the acquiring company in some circumstances.

Corporate governance

Directors' remuneration report continued

Outstanding awards

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

	Date of grant	Number of shares subject to awards at 31 August 2015	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2016	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Stephen Clarke									
WH Smith CIP	05.11.12	65,241	–	65,241	–	**–**	627.67	409	05.11.15 – 05.11.22
	17.10.13	79,882	–	–	–	**79,882**	901.33	720	17.10.16 – 17.10.23
	23.10.14	66,055	–	–	–	**66,055**	1090.00	720	23.10.17 – 23.10.24
	22.10.15	–	53,452	–	–	**53,452**	1646.33	880	22.10.18 – 22.10.25
WH Smith LTIP	05.11.12	100,371	–	100,371	–	**–**	627.67	630	05.11.15 – 05.11.22
	18.04.13	43,288	–	42,812	476	**–**	762.33	330	18.04.16 – 18.04.23
	17.10.13	106,509	–	–	–	**106,509**	901.33	960	17.10.16 – 17.10.23
	23.10.14	88,073	–	–	–	**88,073**	1090.00	960	23.10.17 – 23.10.24
	22.10.15	–	66,815	–	–	**66,815**	1646.33	1,100	22.10.18 – 22.10.25
Total		**549,419**	**120,267**	**208,424**	**476**	**460,786**			
Robert Moorhead									
WH Smith CIP	05.11.12	65,863	–	65,863	–	**–**	627.67	413	05.11.15 – 05.11.22
	17.10.13	51,923	–	–	–	**51,923**	901.33	468	17.10.16 – 17.10.23
	23.10.14	42,936	–	–	–	**42,936**	1090.00	468	23.10.17 – 23.10.24
	22.10.15	–	28,995	–	–	**28,995**	1646.33	477	22.10.18 – 22.10.25
WH Smith LTIP	05.11.12	101,327	–	101,327	–	**–**	627.67	636	05.11.15 – 05.11.22
	17.10.13	79,882	–	–	–	**79,882**	901.33	720	17.10.16 – 17.10.23
	23.10.14	66,055	–	–	–	**66,055**	1090.00	720	23.10.17 – 23.10.24
	22.10.15	–	44,608	–	–	**44,608**	1646.33	734	22.10.18 – 22.10.25
Total		**407,986**	**73,603**	**167,190**	**–**	**314,399**			

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.

b) In respect of the award granted on 5 November 2012 under the CIP held by Stephen Clarke, 65,241 shares vested. The value of the 65,241 shares on the date of vesting was £1,081,512.58 (1657.72p per ordinary share).

c) In respect of the award granted on 5 November 2012 under the CIP held by Robert Moorhead, 65,863 shares vested. The value of the 65,863 shares on the date of vesting was £1,091,823.60 (1657.72p per ordinary share).

d) In respect of the award granted on 5 November 2012 under the LTIP held by Stephen Clarke, 100,371 shares vested. The value of the 100,371 shares on the date of vesting was £1,663,869.34 (1657.72p per ordinary share).

e) In respect of the award granted on 5 November 2012 under the LTIP held by Robert Moorhead, 101,327 shares vested. The value of the 101,327 shares on the date of vesting was £1,679,717.13 (1657.72p per ordinary share).

f) In respect of the award granted on 18 April 2013 under the LTIP held by Stephen Clarke, 42,812 shares vested and 476 shares lapsed. The value of the 42,812 shares on the date of vesting was £743,210.41 (1735.99p per ordinary share).

g) The aggregate value of shares which vested and were received by the executive directors under the CIP and LTIP during the financial year ended 31 August 2016 was £6,260,133.07.

h) The performance conditions for LTIP awards granted in the financial year ended 31 August 2014 are set out on pages 46 and 47. The performance conditions were substantially met with 98.35 per cent of the shares subject to the awards vesting. The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period.

i) The performance condition for matching awards granted in the financial year ended 31 August 2014 under the CIP is set out on page 47. The performance condition was met with 100 per cent of the shares subject to the awards vesting.

j) No awards have been granted to directors or have vested between 1 September 2016 and 13 October 2016.

k) The awards granted in the financial years ended 31 August 2015 and 31 August 2016 under the LTIP will only vest to the extent that the performance targets as set out on pages 46 and 47 are satisfied. Matching awards granted in the financial years ended 31 August 2015 and 31 August 2016 under the CIP will only vest to the extent that the performance targets as set out on page 47 are satisfied and related investment shares are held until the end of the performance period. These disclosures set out the threshold vesting levels and performance period for awards granted in these years.

2.13 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 418,075 shares in the financial year ended 31 August 2016, the number of WH Smith shares held in the Trust at 31 August 2016 was 873,040. The Group's accounting policy with respect to the Trust is detailed within Note 1 of the financial statements and movements are detailed in the Group statement of changes in equity on page 68.

2.14 Dilution limits

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

2.15 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 250 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain fees from one of their external directorships. Neither of the executive directors currently holds any external appointments.

2.16 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:

			Nil-Cost Options subject to performance conditions			
	Ordinary shares		LTIP		CIP	
	31 August 2016	31 August 2015	**31 August 2016**	31 August 2015	**31 August 2016**	31 August 2015
Suzanne Baxter	**1,000**	1,000	**–**	–	**–**	–
Stephen Clarke	**290,064**	290,064	**261,397**	338,241	**199,389**	211,178
Annemarie Durbin	**1,000**	1,000	**–**	–	**–**	–
Drummond Hall	**10,000**	10,000	**–**	–	**–**	–
Robert Moorhead	**302,676**	402,676	**190,545**	247,264	**123,854**	160,722
Henry Staunton	**30,000**	30,000	**–**	–	**–**	–

[1] The LTIP and CIP amounts above are the maximum potential awards that may vest subject to the performance conditions described on pages 46 and 47.

[2] The performance conditions for the October 2013 LTIP will be substantially met with 98.35 per cent of the shares subject to awards due to vest on 17 October 2016. As a result, the outstanding number of LTIP awards for Stephen Clarke will reduce to 259,640 and for Robert Moorhead to 189,227.

[3] There has been no further change in the directors' interests shown above between 1 September 2016 and 13 October 2016.

[4] The middle market price of an ordinary share at the close of business on 31 August 2016 was 1524 p (28 August 2015: 1500p).

2.17 Voting at the Annual General Meeting

At the Annual General Meeting on 27 January 2016, two proposals were put to shareholders in relation to directors' remuneration: the advisory vote on the annual Directors' remuneration report and the binding vote on the Directors' Remuneration Policy. The results of the votes are shown in the table below:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Remuneration Report	80,324,149	98.47	1,248,944	1.53	81,573,093	177,272
Approval of Remuneration Policy	80,375,087	98.53	1,195,511	1.47	81,570,598	179,767

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.

Directors' remuneration report continued

2.18 Directors' Service Contracts

The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Stephen Clarke	18 April 2012	12 months	12 months
Robert Moorhead	1 December 2008	12 months	9 months

Stephen Clarke'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. Copies of the service contracts may be inspected at the registered office of the Company.

The Chairman, who has a letter of appointment, is appointed for an initial term of three years. His 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 appointed for an initial term of three years. These appointments can be terminated at any time by either the Company or the non-executive director without notice.

3. The Directors' Remuneration Policy: extract

The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting held on 27 January 2016 and applies from that date. The Remuneration Policy table is set out below for information only. The full Directors' Remuneration Policy is set out on pages 37 to 44 of the 2015 Annual Report and Accounts which is available in the investor relations section of the Company's website: www.whsmithplc.co.uk/investors.

3.1 Remuneration Policy Table – executive directors

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

Element and purpose	Policy and opportunity	Operation and performance measures
Base salary		
This is the basic element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution. Base salary is used to attract and retain executives who can deliver our strategic objectives and create shareholder value.	• While base salaries are reviewed each year, the Company's policy is not automatically to award an inflationary increase. When reviewing salaries, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. • Base salaries are benchmarked against both FTSE 250 companies and other leading retailers. While the Committee applies judgement rather than setting salaries by reference to a fixed percentile position, its general approach is to constrain base salaries to a median or lower level. • While the Committee's general approach is to keep salaries to a relatively low level, and, in the normal course, would not expect salary increases to be higher than the average for other head office staff, given the need for a formal cap, the Committee has limited the maximum salary which it may award to 110 per cent of the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark.	• Base salary is paid monthly in cash. • Base salaries are reviewed annually with any changes normally taking effect from 1 April. Following the March 2016 salary review, the CFO/COO was awarded a two per cent pay increase in line with the general annual pay rise of two per cent for head office employees. Stephen Clarke did not receive any annual increase in April 2016.

Element and purpose	Policy and opportunity	Operation and performance measures
Benefits		
To provide other benefits valued by the recipient which assist them in carrying out their duties effectively. Competitive benefits assist in attracting and retaining executives.	• Provide market competitive benefits in kind. • The Company may periodically amend the benefits available to staff. The executive directors would normally be eligible to receive such amended benefits on similar terms to all senior staff. • During the policy period 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.	• Benefits received by executive directors comprise a car allowance, staff discount, private medical insurance and life assurance. • While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies.
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement.	• Provide a competitive employer-sponsored pension plan or equivalent cash allowance with a total value of up to 25 per cent of base salary.	• 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/CIP or other benefits). • Although the mix may change, currently five per cent of salary is paid into a registered pension and 20 per cent by way of a salary supplement. If the individual elects to receive the five per cent direct (e.g. to avoid breaching HMRC limits), employers' NICs are deducted from that element.
Annual bonus		
To motivate employees and incentivise delivery of annual performance targets.	• During the policy period the bonus potential is 160 per cent of base salary for Stephen Clarke (or any replacement) and 130 per cent of base salary for Robert Moorhead (or any other executive director), with target levels at 48 per cent of their respective maxima and threshold bonus levels at 16 per cent of their respective maxima. • Clawback provisions apply to the annual bonus plan. • Bonuses are all currently paid in cash in one tranche although the Committee has discretion to defer part of the bonus (either in cash or shares).	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. • The appropriateness of performance measures is reviewed annually to ensure they continue to support the Company's strategy. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to ensure they operate as originally intended and to take account of events which were not foreseen when the performance targets were originally set.

Corporate governance

Directors' remuneration report continued

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 new Long-Term Incentive Plan ('LTIP'). Awards delivered in shares to provide further alignment with shareholders.	• The policy is to award executive directors with shares with an initial face value of up to 350 per cent of base salary each year under the LTIP. • In practice awards of 335 per cent are envisaged for the CEO and 310 per cent for any other executive director. • The LTIP will credit participants with the benefit of accrual for dividends paid over the performance and any holding period. • Malus and Clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP. • Awards are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant. For awards made in October 2016 and October 2017 the holding period will apply to 50 per cent of any shares which vest in order to transition the pay-out schedule from the current basis. • Legacy awards under the previous LTIP and the Co-Investment Plan ('CIP') will be honoured although no further awards will be made after the adoption of this new policy.	• The Committee may set such performance conditions as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) over a period of at least three financial years. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition. • Executive directors can earn a minimum of 25 per cent of the award for threshold performance. Although not currently envisaged, the Committee has the right to lengthen the performance period or to make similar additional changes, not to the benefit of participants. • The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards.
Shareholding guidelines		
To encourage share ownership by the executive directors and ensure interests are aligned with shareholders.	• Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP/CIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares. • Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans. • To the extent that an executive director is not meeting the guidelines, he or she will be expected to use half of any after-tax bonus to buy shares and to achieve compliance within six years of joining the Board or any significant promotion.	• 300 per cent of base salary for Stephen Clarke (increased from 200 per cent) and 250 per cent of base salary for Robert Moorhead (or any other executive director) (increased from 200 per cent). • Once the shareholding guidelines have been met, individuals are expected to maintain these levels as a minimum. The Committee will review shareholdings annually in the context of this policy. The Committee will review compliance with the policy as awards approach maturity. • The Committee reserves the right to alter the shareholding guidelines during the period of this policy but any such alterations will not make the guidelines less onerous.
All-employee share plans		
To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	• Executive directors are able to participate in all-employee share plans on the same terms as other Group employees.	• Sharesave – individuals may save up to such limit as permitted by the relevant legislation (currently £500 each month) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20 per cent of the market price set at the launch of each scheme. • In line with market practice, no performance conditions are attached to options granted under the Sharesave Scheme.

On behalf of the Board

Drummond Hall
Chair of the Remuneration Committee

13 October 2016

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2016. The Company is the ultimate parent company of the WH Smith group of companies (the 'Group'). WH Smith PLC is registered in England and Wales (Number 5202036) and domiciled in the United Kingdom.

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

Information	Page number
Likely future developments in the business	8 to 17
Branches outside the UK	13
Disclosures concerning greenhouse gas emissions	26 to 27
Employment of disabled persons	29
Employee involvement	29

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

Section	Page number
Corporate governance report	30
Directors' biographies	39
Statement of directors' responsibilities	57
Information on use of financial instruments	89

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	52 Directors' remuneration report / Note 24 on page 92 to the financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/future dividends	49 Directors' remuneration report

Corporate governance

Directors' report continued

Profit and dividends

The Group profit before taxation for the financial year ended 31 August 2016 was £131m (2015: £121m). The directors recommend the payment of a final dividend for the year of 30.5p per ordinary share on 2 February 2017 to members on the Register at the close of business on 13 January 2017. This final dividend and the interim dividend of 13.4p per ordinary share paid on 4 August 2016 make a total dividend of 43.9p per ordinary share for the year ended 31 August 2016 (2015: 39.4p).

Share capital

The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 24 to the financial statements on page 92.

The issued share capital of the Company as at 31 August 2016 was 112,959,195 ordinary shares of 22$^{6}/_{67}$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 EU Market Abuse Regulation and the Listing Rules, and also the Company's Share Dealing Code whereby directors and certain employees of the Company require Board approval to deal in the Company's securities.

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

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

Purchase of own shares

At the 2016 AGM, authority was given for the Company to purchase, in the market, up to 11,477,980 ordinary shares of 22$^{6}/_{67}$p each, renewing the authority granted at the 2015 AGM. The Company used this authority to facilitate its ongoing strategy of returning surplus cash to shareholders by way of dividends and share buy backs thereby increasing total shareholder returns and the net asset value per share. The directors will only exercise the authority when satisfied that it is in the best interests of shareholders generally and that it would result in an increase in earnings per share. The Company purchased and subsequently cancelled 2,884,833 of its own shares during the financial year, representing 2.6 per cent of the issued share capital as at 31 August 2016, at an average price of £16.38. The aggregate amount of consideration (including costs) paid by the Company for the purchases during the financial year was £47m. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2016 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2016, 162,917 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 400.40p and 1147.20p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

Significant agreements – change of control

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

Directors' conflicts

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

Directors' indemnities

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

Company's shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2016, the following information had been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Holder	Number	% as at date of notification	Nature of holding
Aberdeen Asset Managers Limited	5,608,298	4.95	Indirect
Marathon Asset Management LLP	6,097,207	5.38	Indirect

On 28 September 2016 BlackRock, Inc. notified the Company of a holding of 5,728,975 shares (5.07 per cent, broken down as follows: Indirect 2.33 per cent; Securities Lending 1.16 per cent; and CFD 1.57 per cent).

The Company received no other notifications in the period between 31 August 2016 and the date of this report.

Relations with shareholders

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

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

The Notice of Meeting is made available to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the Annual report on the Company's website. The deadline for appointing a proxy is 48 hours before the time fixed for the meeting (although, in calculating this period, no account is taken of any non-working days).

In accordance with best practice all resolutions at the 2017 AGM will be taken on a poll vote. This enables the Company to count all votes, not just those of shareholders who attend the meeting. On a poll, each shareholder has one vote for every share he or she holds. The results of the poll vote on the resolutions put to the meeting will be disclosed to the London Stock Exchange following the end of the meeting and will also be published on the Company's website.

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.

Corporate governance

Directors' report continued

Political donations

It is the Company's policy not to make political donations and no political donations, contributions or EU political expenditure were made in the year (2015: £nil).

Going concern

The Group's business activities, together with the factors that are likely to affect its future developments, performance and position, are set out in the Strategic report on pages 1 to 29. The Financial review on pages 14 to 17 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 20 to 23 of the financial statements on pages 88 to 91. In addition, Note 23 of the financial statements on page 89 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report on pages 20 to 24 also highlights the principal risks and uncertainties facing the Group.

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

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 Allen & Overy LLP, One Bishops Square, London E1 6AD on 25 January 2017 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 13 October 2016.

By order of the Board

Ian Houghton
Company Secretary

13 October 2016

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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' responsibility statement

Each of the directors, whose names and functions are set out on page 39, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic report and the Directors' report (which form the management report) include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- this 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 and the Group's position and performance, business model and strategy.

By order of the Board

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

13 October 2016

Financial statements

Independent auditors' report to the members of WH Smith PLC

Report on the Group financial statements

Our opinion

In our opinion, WH Smith PLC's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 31 August 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Group balance sheet as at 31 August 2016;
- the Group income statement and the Group statement of comprehensive income for the year then ended;
- the Group cash flow statement for the year then ended;
- the Group statement of changes in equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual report, rather than in the Notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality

- Overall Group materiality: £6.5m which represents five per cent of profit before tax.

Audit scope

- WH Smith PLC comprises two operating segments, High Street and Travel, and one central function. Within the two operating segments there are 15 entities, ten of which are UK, Ireland and Channel Island based and the other five are in Hong Kong, France, Qatar, Spain and Australia. There are also seven non-trading holding entities.
- We performed full scope audits on the UK, Ireland and Channel Island entities of the two operating segments, and the central function.
- The entities where we performed full scope audits accounted for 98 per cent of profit before tax and the entities where we performed full scope audits accounted for 95 per cent coverage of revenue.

Areas of focus

- Recognition of supplier income.
- Inventory valuation.
- Impairment review of store assets.
- Property-related provisions.
- Pension scheme valuation.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

Recognition of supplier income

Refer to Note 1 (c) Accounting policies and page 34 for the views of the Audit Committee.

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

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

How our audit addressed the area of focus

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

Income statement testing

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

We also analysed supplier income by type recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of supplier income recognised in each period. No unusual trends were identified.

Balance sheet testing

In the sample of confirmations detailed above, we included requests for the receivables balance at the year end to also be confirmed. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of supplier income and the accrued and deferred balances at year end. Cut-off work involved testing a sample of supplier income amounts by reference to documentation from suppliers that the timing of recognition was appropriate. Our credit note testing focused on credit notes raised after the year end in order to identify instances of supplier income being subsequently reversed. We did not identify any exceptions from this work.

We tested the recoverability of invoiced supplier income unsettled balances included within trade receivables in Note 15 to the financial statements and where the Group does not have the right of offset against trade creditors. We assessed the ageing of both outstanding supplier income and promotional funding supplier income debtors together with understanding the details of any disputes, and obtained explanations from management to assess whether any provisions were appropriate. Explanations obtained were deemed satisfactory and supported the year-end balance sheet position.

Financial statements

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

Area of focus	How our audit addressed the area of focus
Inventory valuation Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 34 for the views of the Audit Committee. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and digital. A large proportion of stock is supplied through sale or return arrangements including the majority of books, newspapers and magazines and therefore these are considered to be lower risk than stock acquired through firm purchases such as stationery. Inventory is initially valued using a weighted average cost method. Provisions are then recognised against inventory for estimated losses related to shrinkage and slow moving or obsolete inventory. The valuation of inventory was focused on because of the judgements made by management when assessing the level of provisions required. In calculating the provision for slow moving or obsolete inventory, an assessment of expected future sales of individual product lines is performed by management, taking into account the product category and the level of risk of obsolescence. Inventory is counted by the Group on a cyclical basis throughout the year, rather than in full at the period-end, and as such the shrinkage provision at 31 August 2016 which is based on historical shrinkage rates contains a degree of estimation.	We attended a sample of stock counts performed by the Group during the year across High Street and Travel stores and distribution centres. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation at each site. We also evaluated the results of other cycle counts performed by management and third parties throughout the period to assess the level of count variances. We tested the shrinkage assumptions determined by the count procedures by comparing them to historical data. The historical data included the results of the previous counts at each location, and our analytical procedures did not identify any significant unusual fluctuations in the data. The obsolescence provision is calculated by applying a judgemental percentage to the period-end stock levels, with this judgement being informed by historical data on the levels of obsolescence as well as management's view of the current stock profile and forecast sales by product line. We assessed this provision by checking the accuracy of the historical data and the explanations provided by management noting no issues.
Impairment review of store assets Refer to Note 1 (o) Accounting policies for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Notes 13 and 14 (other intangible assets and property, plant and equipment). As at 31 August 2016 management assessed the Group's store assets comprising leasehold improvements and fixtures and fittings for indication of impairment. The economic and sector trends facing the Group may adversely impact the recoverable value of assets used within the store portfolio which is considered to be a triggering event for impairment review. Management considers each store to be a cash generating unit ('CGU') and has performed a review of the trading results of the stores for the year. Where a store is loss making and is not expected to return to profitability in the near future, an impairment charge is recognised over the assets that cannot be recycled within the store portfolio as set out in Note 14 (property, plant and equipment). We focused on this area because of the sales and cost pressure that could mean further impairment of the store assets is needed.	Our audit work included obtaining management's impairment assessment and discussing the basis for their decision whether or not to impair store assets. We agreed individual store trading performance to underlying records including trading data and confirmed that those that were loss making were appropriately impaired where an improvement in results could not be expected, and this testing did not highlight any significant issues. We also examined the results for all stores to check that management's identification of loss making stores was complete. This did not identify any further stores requiring impairment to be recognised.

Area of focus	How our audit addressed the area of focus
Property-related provisions Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 34 for the views of the Audit Committee. Given the long history of WHSmith, the Group has an extensive property portfolio of both existing and former WHSmith properties (now sublet or vacant) held under operating leases, which requires the directors to make significant judgements and estimates relating to the need to provide for dilapidation costs and onerous leases when the store is making losses or when stores are earmarked for closure. These judgements include assessing a number of factors including duration of the lease, estimations of costs and future income potential and as such, was an area of focus for us.	We obtained management's assessment of those properties requiring provisions and gained an understanding of the rationale behind the provision recognised including the basis for the calculations. We agreed a sample of the properties to underlying documents including lease agreements and written communications from third parties for onerous lease provisions. In doing so, we agreed the costs being incurred by the Group and any amounts being received as income from lessees where the Group is sub-letting properties at a shortfall. For dilapidations provisions, we compared management's estimates to either correspondence of amounts to be paid (where stores have been vacated), or in the case of stores yet to be vacated, historical amounts incurred by the Group for similar stores previously vacated and confirmed that management's estimates were in line with previous experience or were supported by communication from landlords or property consultants. We performed an independent assessment of whether provisions were required through review of the schedule of leases and comparing these to the individual store's contribution. The work we performed indicated that management have sufficient provisions held for property matters at 31 August 2016.
Pension scheme valuation Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 4 Retirement benefit obligations and page 34 for the views of the Audit Committee. The Group has two defined benefit pension plans which comprise total plan assets of £1,424m and total pension liabilities of £1,260m. The valuation of the schemes' liabilities requires a significant level of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including inflation, discount rates and mortality) can have a material impact on the position as disclosed in Note 4 of the financial statements. We focused on this area because of the impact of the judgements inherent in the actuarial assumptions involved in the valuation of the schemes' liabilities.	We examined the pension assumptions, including discount rates, salary increases, inflation, and mortality, utilising our specialist knowledge of pensions. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range.

Financial statements

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

WH Smith PLC comprises two operating segments, High Street and Travel, and one central function. Within the two operating segments there are 15 entities, ten of which are UK, Ireland and Channel Island based and five are overseas in Hong Kong, France, Qatar, Spain and Australia.

We performed full scope audits on the UK, Ireland and Channel Island entities of the two operating segments, and the central function.

The entities where we performed full scope audits accounted for 98 per cent of profit before tax and the entities where we performed full scope audits or specific audit procedures accounted for 95 per cent of revenue.

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 on the financial statements as a whole.

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

Overall Group materiality	£6.5m.
How we determined it	Five per cent of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £325,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 56, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed.

As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In our opinion:

- the information given in the Corporate governance statement set out as set out on pages 30 to 56 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 35, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual report on pages 33 to 36, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 20 of the Annual report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity	We have nothing material to add or to draw attention to.
• the disclosures in the Annual report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 24 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a Corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate governance statement relating to ten further provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of WH Smith PLC for the year ended 31 August 2016 and on the information in the Directors' remuneration report that is described as having been audited.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, UK

13 October 2016

Financial statements

Group income statement

For the year ended 31 August 2016

£m	Note	2016 Headline	2016 Non-underlying items[1]	2016 Total	2015 Headline	2015 Non-underlying items[1]	2015 Total
Continuing operations							
Revenue	2	**1,212**	**–**	**1,212**	1,178	–	1,178
Group operating profit	2, 3	**133**	**–**	**133**	124	–	124
Finance costs	8	**(1)**	**(1)**	**(2)**	(1)	(2)	(3)
Profit before tax		**132**	**(1)**	**131**	123	(2)	121
Income tax expense	9	**(23)**	**–**	**(23)**	(20)	–	(20)
Profit for the year		**109**	**(1)**	**108**	103	(2)	101
Earnings per share							
Basic	11			**95.6p**			87.1p
Diluted	11			**93.9p**			85.6p
Non GAAP measures							
Headline earnings per share							
Basic	11			**96.5p**			88.8p
Diluted	11			**94.8p**			87.3p
Equity dividends per share[2]				**43.9p**			39.4p
Fixed charges cover	7			**1.7x**			1.6x

[1] Non-underlying items include the non-cash income statement charge for pensions.
[2] Dividend per share is the final proposed dividend of 30.5p (2015: 27.3p) and the interim dividend of 13.4p (2015: 12.1p).

Group statement of comprehensive income

For the year ended 31 August 2016

£m	Note	2016	2015
Profit for the year		**108**	101
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to the income statement:			
Actuarial (losses)/gains on defined benefit pension schemes	4	**(3)**	47
Tax on defined benefit pension schemes	19	**–**	(9)
		(3)	38
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**2**	–
Exchange differences on translation of foreign operations		**5**	(2)
		7	(2)
Other comprehensive income for the year, net of tax		**4**	36
Total comprehensive income for the year		**112**	137

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Group balance sheet

As at 31 August 2016

£m	Note	2016	2015
Non-current assets			
Goodwill	12	**38**	36
Other intangible assets	13	**25**	23
Property, plant and equipment	14	**158**	155
Deferred tax assets	19	**9**	10
Trade and other receivables	15	**4**	2
		234	226
Current assets			
Inventories		**146**	141
Trade and other receivables	15	**50**	52
Current tax asset		**–**	3
Derivative financial assets		**2**	–
Cash and cash equivalents	20	**38**	34
		236	230
Total assets		**470**	456
Current liabilities			
Trade and other payables	16	**(229)**	(231)
Bank overdrafts and other borrowings	20	**(18)**	(9)
Retirement benefit obligations	4	**(1)**	(1)
Obligations under finance leases	17	**(3)**	(2)
Current tax liabilities		**(16)**	(35)
Short-term provisions	18	**(1)**	(1)
		(268)	(279)
Non-current liabilities			
Retirement benefit obligations	4	**(6)**	(5)
Deferred tax liabilities	19	**–**	–
Long-term provisions	18	**(5)**	(3)
Obligations under finance leases	17	**(10)**	(8)
Other non-current liabilities		**(13)**	(14)
		(34)	(30)
Total liabilities		**(302)**	(309)
Total net assets		**168**	147

£m	Note	2016	2015
Shareholders' equity			
Called up share capital	24	**25**	25
Share premium		**6**	5
Capital redemption reserve		**12**	12
Revaluation reserve		**2**	2
ESOP reserve		**(10)**	(11)
Hedging reserve		**2**	–
Translation reserve		**–**	(5)
Other reserve		**(247)**	(239)
Retained earnings		**378**	358
Total equity		**168**	147

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 64 to 96 were approved by the Board of Directors and authorised for issue on 13 October 2016 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group cash flow statement

For the year ended 31 August 2016

£m	Note	2016	2015
Operating activities			
Cash generated from operating activities	22	**135**	145
Interest paid		**(1)**	(1)
Net cash inflow from operating activities		**134**	144
Investing activities			
Purchase of property, plant and equipment		**(34)**	(34)
Purchase of intangible assets		**(8)**	(5)
Acquisition of business		**–**	(3)
Net cash outflow from investing activities		**(42)**	(42)
Financing activities			
Dividend paid	10	**(46)**	(42)
Issue of new shares for employee share schemes		**1**	–
Purchase of own shares for cancellation	24	**(47)**	(54)
Purchase of own shares for employee share schemes		**(7)**	(4)
Repayments of borrowings	20	**–**	(3)
Proceeds from borrowings	20	**9**	–
Repayments of obligations under finance leases	20	**(3)**	(1)
Proceeds from sale and leaseback of property, plant and equipment		**3**	3
Net cash outflow from financing activities		**(90)**	(101)
Net increase in cash and cash equivalents in year		**2**	1
Opening cash and cash equivalents		**34**	34
Effect of movements in foreign exchange rates		**2**	(1)
Closing cash and cash equivalents		**38**	34

Reconciliation of net cash flow to movement in net funds

£m	Note	2016	2015
Net funds at beginning of the year		**15**	22
Increase in cash and cash equivalents		**2**	1
(Increase)/decrease in debt		**(9)**	3
Net movement in finance leases		**(3)**	(10)
Effect of movements in foreign exchange rates		**2**	(1)
Net funds at end of the year	20	**7**	15

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Group statement of changes in equity

For the year ended 31 August 2016

£m	Called up share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves[1]	Other reserve[2]	Retained earnings	Total equity
Balance at 1 September 2015	**30**	**12**	**2**	**(11)**	**(5)**	**(239)**	**358**	**147**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**108**	**108**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(3)	(3)
Cash flow hedges	–	–	–	–	2	–	–	2
Exchange differences on translation of foreign operations	–	–	–	–	5	–	–	5
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**7**	**–**	**105**	**112**
Recognition of share-based payments	–	–	–	–	–	–	7	7
Current tax on share-based payments	–	–	–	–	–	–	2	2
Deferred tax on share-based payments	–	–	–	–	–	–	(1)	(1)
Premium on issue of shares (Note 24)	1	–	–	–	–	–	–	1
Dividends paid (Note 10)	–	–	–	–	–	–	(46)	(46)
Employee share schemes	–	–	–	1	–	(8)	–	(7)
Purchase of own shares for cancellation (Note 24)	–	–	–	–	–	–	(47)	(47)
Balance at 31 August 2016	**31**	**12**	**2**	**(10)**	**2**	**(247)**	**378**	**168**
Balance at 1 September 2014	**30**	**11**	**2**	**(11)**	**(3)**	**(235)**	**307**	**101**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**101**	**101**
Other comprehensive income/(expense):								
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	47	47
Tax on defined benefit pension schemes	–	–	–	–	–	–	(9)	(9)
Exchange differences on translation of foreign operations	–	–	–	–	(2)	–	–	(2)
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**–**	**(2)**	**–**	**139**	**137**
Recognition of share-based payments	–	–	–	–	–	–	5	5
Current tax on share-based payments	–	–	–	–	–	–	1	1
Deferred tax on share-based payments	–	–	–	–	–	–	1	1
Premium on issue of shares (Note 24)	1	–	–	–	–	–	–	1
Dividends paid (Note 10)	–	–	–	–	–	–	(42)	(42)
Employee share schemes	–	–	–	–	–	(4)	–	(4)
Purchase of own shares for cancellation (Note 24)	(1)	1	–	–	–	–	(53)	(53)
Balance at 31 August 2015	**30**	**12**	**2**	**(11)**	**(5)**	**(239)**	**358**	**147**

[1] Included within the Hedging and translation reserves is a cumulative loss of £nil (2015: £5m) relating to foreign currency translation.

[2] The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006, as well as movements relating to employee share schemes of £8m (2015: £4m).

Notes to the financial statements

1. Accounting policies

a) Basis of preparation

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

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have been prepared on a going concern basis as explained on page 56 of the Directors' report.

New standards

The Group has adopted the following standards and interpretations which became mandatory during the current financial year. These changes have had no material impact on the Group's financial statements:

Amendment to IAS 19	Defined Benefit Plans: Employee Contributions
Annual improvements 2010–2012	
Annual improvements 2011–2013	

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

IFRS 9	Financial Instruments
IFRS 14	Regulatory deferral accounts
IFRS 15	Revenue from Contracts with Customers
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 12	Income taxes: Recognition of deferred tax assets for unrealised losses
Amendments to IAS7	Statement of cash flows
IFRS 16	Leases
Annual improvements 2012-2014	

With the exception of IFRS 9, IFRS 15 and IFRS 16, the directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's financial statements. IFRS 9 may impact on the measurement and disclosure of financial instruments and IFRS 15 may impact on the timing of recognition of revenue.

IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019 (subject to endorsement by the EU). This standard replaces IAS 17, and will require entities to apply a single lessee accounting model, with lessees recognising right of use assets and lease liabilities on balance sheet for all applicable leases. The Group anticipates that the adoption of IFRS 16 will have a material impact on the Income statement and Balance sheet including operating profit, profit before tax, property plant and equipment and net debt. There is no cash impact of adoption of this standard. The Group will assess the full impact in due course.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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, are set out below.

Basis of consolidation

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

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

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

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

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

Notes to the financial statements continued

1. Accounting policies (continued)

Non GAAP measures

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. The Group believes that High Street and Travel trading profit, Group profit from trading operations, Headline Group profit before tax, Headline earnings per share, Fixed charges cover and Free cash flow provide useful information to users of the financial statements. The terms are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures.

b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers, together with commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Revenue on store sales of goods and concession sales is recognised when goods are sold to the customer. Internet sales are recognised when the goods are delivered to the customer and title has passed. Revenue from gift vouchers and gift cards sold by the Group is recognised on the redemption of the gift voucher or gift card. Franchise and concession fees are recognised in revenue based on the terms of the contracts.

c) Supplier income

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

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

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

Retrospective discounts

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

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

Promotional and marketing activity

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

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

d) Retirement benefit costs

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

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the United News Shops Retirement Benefits Scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the Group statement of comprehensive income.

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

e) Leasing

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

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

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

1. Accounting policies (continued)

f) Intangible assets

Business combinations

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

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its 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.

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 those cash-generating units (CGUs) that have benefited from the acquisition. The CGUs are groups of stores within the Travel and High Street operating segments. 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 cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

Other intangible assets

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, and is recorded in Distribution costs. The estimated lives are usually a period of up to five years. Software assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Other intangible assets are valued at cost and amortised over their useful life, and the amortisation is recorded in Administrative expenses, unless the asset can be demonstrated to have an indefinite life.

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

g) Property, plant and equipment

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

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

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

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

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

h) Inventories

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

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

Provisions are made for obsolescence, markdown and shrinkage.

i) 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.

Notes to the financial statements continued

1. Accounting policies (continued)

Onerous contracts – property provisions

The Group's property provisions represent the present value of unavoidable future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant, loss-making or currently not planned to be used for ongoing operations. The unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 8 as 'Unwinding of discount on provisions'.

j) Foreign currencies

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

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

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

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

k) Taxation

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

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

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

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

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

l) Financial instruments

Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value 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 when there is evidence that the asset is impaired.

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.

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or use derivative financial instruments for speculative purposes.

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

1. Accounting policies (continued)

l) Financial instruments (continued)

If the cash flow hedge of a firm commitment or 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 in which the hedged item affects net income.

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 the net 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.

m) 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 shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date, with any changes in fair value recognised in the profit or loss for the year.

n) 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.

o) Critical accounting judgements and key sources of estimation uncertainty

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

The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to retirement benefit obligations, valuation of goodwill and acquired intangible assets, onerous lease costs, inventory valuation and taxation.

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 expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

Goodwill, intangible assets and property, plant and equipment impairment reviews

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

Provisions

Provisions have been estimated for taxation, onerous leases and discontinued operation exit costs. 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.

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Notes to the financial statements continued

2. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions – Travel and High Street. These divisions are the basis on which the Group reports its IFRS 8 operating segment information.

a) Group revenue

£m	2016	2015
Continuing operations:		
Travel	**573**	521
High Street	**639**	657
Group revenue	**1,212**	1,178

b) Group results

	2016			2015		
£m	Headline	Non-underlying items[1]	Total	Headline	Non-underlying items[1]	Total
Continuing operations:						
Travel	**87**	**–**	**87**	80	–	80
High Street	**62**	**–**	**62**	59	–	59
Profit from trading operations	**149**	**–**	**149**	139	–	139
Unallocated costs	**(16)**	**–**	**(16)**	(15)	–	(15)
Group operating profit	**133**	**–**	**133**	124	–	124
Finance costs	**(1)**	**(1)**	**(2)**	(1)	(2)	(3)
Income tax expense	**(23)**	**–**	**(23)**	(20)	–	(20)
Profit for the year	**109**	**(1)**	**108**	103	(2)	101

[1] Non-underlying items include the non-cash income statement charge for pensions.

Included within Travel revenue and trading profit is International revenue of £79m (2015: £57m) and International trading profit of £7m (2015: £5m).

c) Balance sheet

	2016				
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	**165**	**262**	**427**	**–**	**427**
Unallocated assets	**–**	**–**	**43**	**–**	**43**
Consolidated total assets	**165**	**262**	**470**	**–**	**470**
Liabilities					
Segment liabilities	**(90)**	**(148)**	**(238)**	**(3)**	**(241)**
Unallocated liabilities	**–**	**–**	**(61)**	**–**	**(61)**
Consolidated total liabilities	**(90)**	**(148)**	**(299)**	**(3)**	**(302)**
Net assets/(liabilities)	**75**	**114**	**171**	**(3)**	**168**

2. Segmental analysis of results (continued)

£m	Travel	High Street	2015 Continuing operations	Discontinued operations	Group
Assets					
Segment assets	149	265	414	–	414
Unallocated assets	–	–	42	–	42
Consolidated total assets	149	265	456	–	456
Liabilities					
Segment liabilities	(77)	(159)	(236)	(3)	(239)
Unallocated liabilities	–	–	(70)	–	(70)
Consolidated total liabilities	(77)	(159)	(306)	(3)	(309)
Net assets/(liabilities)	72	106	150	(3)	147

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. Included within Travel segment assets are International non-current assets of £19m (2015: £12m).

Discontinued operations include property provisions relating to reversionary leases and provisions for discontinued operations.

d) Other segmental items

£m	Travel	High Street	2016 Continuing operations	Discontinued operations	Group
Capital additions	**22**	**22**	**44**	**–**	**44**
Depreciation and amortisation of non-current assets	**(14)**	**(24)**	**(38)**	**–**	**(38)**
Impairment losses	**(1)**	**(2)**	**(3)**	**–**	**(3)**

£m	Travel	High Street	2015 Continuing operations	Discontinued operations	Group
Capital additions	21	26	47	–	47
Depreciation and amortisation of non-current assets	(13)	(23)	(36)	–	(36)
Impairment losses	–	(2)	(2)	–	(2)

3. Group operating profit

£m	2016	2015
Revenue	**1,212**	1,178
Cost of sales	**(503)**	(498)
Gross profit	**709**	680
Distribution costs[1]	**(495)**	(479)
Administrative expenses	**(86)**	(79)
Other income[2]	**5**	2
Group operating profit	**133**	124

[1] During the year there was a £3m (2015: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.
[2] Other income is profit attributable to property and the sale of plant and equipment.

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Notes to the financial statements continued

3. Group operating profit (continued)

£m	2016	2015
Cost of inventories recognised as an expense	**503**	499
Write-down of inventories in the year	**4**	3
Depreciation and amounts written off property, plant and equipment	**35**	32
Amortisation and amounts written off intangible assets	**6**	6
Net operating lease charges		
– land and buildings	**192**	189
– equipment and vehicles	**1**	1
Other occupancy costs	**67**	67
Staff costs (Note 5)	**202**	189
Auditors' remuneration (see below)		
Audit services		
Fees payable the Group's auditors, included in the income statement relate to:		
Fees payable to the Group's auditors for the audit of the Group's financial statements	**0.2**	0.2
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.1**	0.1
Total audit and audit-related services	**0.3**	0.3
Non-audit services		
Fees payable to the Group's auditors for other services:		
Taxation compliance services	**–**	–
Taxation advisory services	**–**	–
All other non-audit services	**0.1**	0.1
Non-audit fees including taxation and other services	**0.1**	0.1
Total auditors' remuneration	**0.4**	0.4

Included in Administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Group's auditors PricewaterhouseCoopers LLP and its associates as set out above.

A description of the work performed by the Audit Committee is set out in the corporate governance section of the Directors' report and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by auditors.

4. 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 4 a) i).

The retirement benefit obligations recognised in the balance sheet within non-current liabilities for the respective schemes at the relevant reporting dates were:

£m	2016	2015
WHSmith Pension Trust	**(5)**	(5)
United News Shops Retirement Benefits Scheme	**(2)**	(1)
Retirement benefit obligation recognised in the balance sheet	**(7)**	(6)
Recognised as:		
Current liabilities	**(1)**	(1)
Non-current liabilities	**(6)**	(5)

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.

4. Retirement benefit obligations (continued)

The WHSmith Pension Trust is independent of the Group and is administered by a Trustee. The Trustee is responsible for the administration and management of the scheme on behalf of the members in accordance with the Trust Deed and relevant legislation. Responsibilities include the investment of funds, the triennial valuation and determining the deficit funding schedule. Under the terms of the Trust Deed there are ten Trustee directors of which three are appointed by the Sponsor, four are member-nominated directors, and three are independent. Trustee directors are appointed for a term of six years, and are then eligible for re-appointment.

The WHSmith Pension Trust, has assets valued at £1,424m as at 31 August 2016 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 and equity option agreements, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

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

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

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

An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Company is represented on this Committee. Although investment decisions are the responsibility of the Trustee, the Group is an active participant of the investment sub-committee to ensure that pension plan risks are managed efficiently The risk of failure of counterparties and of the investment manager is monitored regularly by the Committee. The Trustees have the right to determine the level of contributions and the Company has agreed with the Trustees a deficit funding schedule.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2014 by independent actuaries using the projected unit credit method. At 31 March 2014 the deficit was £24m, and a revised deficit funding schedule of approximately £3m per annum was agreed with the Trustee, with effect from 1 October 2014 for the following nine years. With effect from 1 September 2015 the Group agreed to pay certain investment management costs directly. The annual deficit funding agreement is around £1m per annum with effect from 1 September 2015. During the year ending 31 August 2016, the Group made a contribution of £3m to the WHSmith Pension Trust (2015: £4m) 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 2017, to be on the same basis. The weighted average duration of the defined benefit obligation is 21 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	2016	2015
Present value of the obligations	**(1,260)**	(948)
Fair value of plan assets	**1,424**	1,162
Surplus before consideration of asset ceiling	**164**	214
Amounts not recognised due to effect of asset ceiling	**(164)**	(214)
Additional liability recognised due to minimum funding requirements	**(5)**	(5)
Retirement benefit obligation recognised in the balance sheet	**(5)**	(5)

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £164m (2015: £214m) available on a reduction of future contributions is £nil (2015: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. Scheme assets are stated at their market value at the relevant reporting date.

Financial statements

Notes to the financial statements continued

4. Retirement benefit obligations (continued)

Income Statement

The amounts recognised in the income statement were as follows:

£m	2016	2015
Current service cost	–	–
Administration expenses	–	–
Past service credit	–	–
Net interest cost on the defined benefit liability	(1)	(2)
	(1)	(2)

The charge for the current service cost has been included in administrative expenses in the income statement (Note 3). The net interest cost has been included in finance costs (Note 8). Actuarial gains and losses have been reported in the statement of comprehensive income.

Statement of comprehensive income

Total (expense)/income recognised in the statement of comprehensive income ('SOCI'):

£m	2016	2015
Actuarial gain on defined benefit obligations arising from experience	20	15
Actuarial loss on defined benefit obligations arising from changes in financial assumptions	(330)	(21)
Actuarial loss on defined benefit obligations arising from changes in demographic assumptions	(5)	(12)
Total actuarial loss before consideration of asset ceiling	(315)	(18)
Return on plan assets excluding amounts included in net interest cost	255	67
Gain/(loss) resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	58	(52)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	–	51
Total actuarial (loss)/gain recognised in other comprehensive income	(2)	48

In addition, a £1m debit (2015: £1m debit) was recognised in the statement of comprehensive income in relation to actuarial losses 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:

	2016				2015			
£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	1,162	(948)	(219)	(5)	1,087	(932)	(210)	(55)
Current service cost	–	–	–	–	–	–	–	–
Interest income/(expense)	42	(35)	(8)	(1)	41	(35)	(8)	(2)
Past service credit	(1)	1	–	–	(1)	1	–	–
Actuarial gains/(losses)	255	(315)	58	(2)	67	(18)	(1)	48
Contributions from the sponsoring companies	3	–	–	3	4	–	–	4
Benefits paid	(37)	37	–	–	(36)	36	–	–
At 31 August	1,424	(1,260)	(169)	(5)	1,162	(948)	(219)	(5)

The actual return on scheme assets was a gain of £297m (2015: gain of £108m) primarily due to an increase in the value of the interest rate swaps following the reduction in bond yields during the year.

4. Retirement benefit obligations (continued)

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

	2016				2015			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	**417**	**–**	**417**	**29**	349	–	349	30
– Corporate bonds								
UK	**40**	**–**	**40**	**3**	44	–	44	4
Non-UK	**269**	**–**	**269**	**19**	321	–	321	28
Investment funds[1]	**317**	**–**	**317**	**22**	306	–	306	26
Derivatives								
– Interest rate swaps	**–**	**296**	**296**	**21**	–	167	167	14
– Inflation swaps	**–**	**(111)**	**(111)**	**(8)**	–	(94)	(94)	(8)
– Other	**–**	**(10)**	**(10)**	**(1)**	–	(19)	(19)	(2)
Cash and cash equivalents	**206**	**–**	**206**	**15**	88	–	88	8
Total	**1,249**	**175**	**1,424**	**100**	1,108	54	1,162	100

[1] The investment funds include several funds managed by Insight Investment Management. These actively managed pooled funds seek to provide long-term positive returns through diversified assets and strategies.

No amount is included in the market value of assets relating to either financial instruments or property occupied by the Group.

The principal long-term assumptions used in the IAS 19 valuation were:

%	2016	2015
Rate of increase in pension payments	**2.91**	3.22
Rate of increase in deferred pensions	**1.85**	2.20
Discount rate	**2.00**	3.75
RPI inflation assumption	**2.95**	3.30
CPI inflation assumption	**1.85**	2.20

The mortality assumptions in years underlying the value of the accrued liabilities for 2016 and 2015 are:

	2016		2015	
Years	**Male**	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**23.0**	**24.6**	22.4	24.7
Member currently aged 45	**24.3**	**26.5**	24.1	26.6

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2016, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

£m	Effect on liabilities at 31 August 2016
Discount rate + / - 0.1% per annum	**-25/+26**
Inflation assumptions + / - 0.1% per annum	**+23/-23**
Life expectancy + / - 1 year	**+52/-52**

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 2015 by independent actuaries. Following this valuation, the deficit was £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.

Financial statements

Notes to the financial statements continued

4. Retirement benefit obligations (continued)

The present value of obligations and fair value of assets are consistent with their acquisition valuations and are stated below.

£m	2016	2015
Present value of the obligations	**(8)**	(6)
Fair value of plan assets	**6**	5
Retirement benefit obligation recognised in the balance sheet	**(2)**	(1)

A £1m debit (2015: £1m debit) was recognised in the statement of comprehensive income in relation to actuarial losses 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 £3m for the year ended 31 August 2016 (2015: £3m).

5. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2016	2015
Wages and salaries	**179**	168
Social security costs	**12**	12
Other pension costs	**3**	3
Share-based payments	**8**	6
Total Group	**202**	189

b) Employee numbers

The monthly average total number of employees (including executive directors) was:

	2016	2015
Total retailing	**13,741**	13,875
Support functions	**28**	28
Total Group	**13,769**	13,903

6. Operating lease commitments

Amounts recognised in operating profit:

£m	2016	2015
Minimum lease payments	**181**	182
Contingent rent payments	**15**	11
Total rent paid	**196**	193
Sublease rentals received on operating leases	**(3)**	(3)
Net operating lease charges	**193**	190

Minimum lease payments under non-cancellable operating leases are payable as follows:

	2016			2015		
£m	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Within one year	**158**	**1**	**159**	166	1	167
Within two to five years	**425**	**2**	**427**	468	2	470
In more than five years	**183**	**–**	**183**	219	–	219
	766	**3**	**769**	853	3	856

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £5m (2015: £6m). The average remaining lease length across the Group is five years with both Travel and High Street at five years.

Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are discussed in Note 21.

7. Fixed charges cover

£m	2016	2015
Net finance charges (Note 8)	**2**	3
Net operating lease rentals (Note 6)	**193**	190
Total fixed charges	**195**	193
Profit before tax	**131**	121
Profit before tax and fixed charges	**326**	314
Fixed charges cover – times	**1.7x**	1.6x

8. Finance costs

£m	2016	2015
Interest payable on bank loans and overdrafts	**1**	1
Net interest cost on defined benefit pension liabilities	**1**	2
	2	3

9. Income tax expense

£m	2016	2015
Tax on profit	**30**	32
Standard rate of UK corporation tax 20.00% (2015: 20.58%)		
Adjustment in respect of prior year UK corporation tax	**(7)**	(11)
Total current tax charge	**23**	21
Deferred tax – current year (Note 19)	**(2)**	(1)
Deferred tax – prior year (Note 19)	**2**	–
Tax on profit	**23**	20
Effective tax rate	***17%***	*17%*

Reconciliation of the taxation charge

£m	2016	2015
Tax on profit at standard rate of UK corporation tax 20.00% (2015: 20.58%)	**26**	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	**2**	6
Adjustment in respect of prior years	**(5)**	(11)
Total income tax expense	**23**	20

The UK corporation tax rate has been 20 per cent with effect from 1 April 2015. The UK corporation tax rate will reduce to 19% from 1 April 2017 and 18% from 1st April 2020. Additional changes to the UK corporation tax rates were announced in the Chancellor's Budget on 16 March 2016. These include a reduction to the main rate to reduce the rate to 17 per cent from 1 April 2020. As the change had not been substantively enacted at the balance sheet date, their effects are not included in these financial statements.

The Group provides against known tax exposures, on a reasonable basis, until we have received formal agreement from the relevant tax authority that an inquiry into a particular tax return has been closed. As expected, during the year we made a £13m repayment to HMRC of a previous payment on account in respect of a historical commercial structure put in place in the year ended 31 August 2009.

Notes to the financial statements continued

10. Dividends

Amounts paid and recognised as distributions to shareholders in the year are as follows:

£m	2016	2015
Dividends		
Interim dividend of 13.4p per ordinary share (2015: 12.1p per ordinary share)	**15**	14
Final dividend of 27.3p per ordinary share (2015: 24.2p per ordinary share)	**31**	28
	46	42

The proposed dividend of 30.5p per share, amounting to a final dividend of £34m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 2 February 2017 to shareholders on the register at the close of business on 13 January 2017.

11. Earnings per share

a) Earnings

£m	2016	2015
Earnings attributable to shareholders	**108**	101
Adjusted for non-headline items (net of taxation):		
Non-cash income statement charge for pensions	**1**	2
Headline earnings attributable to shareholders	**109**	103

b) Weighted average share capital

Millions	2016	2015
Weighted average ordinary shares in issue	**114**	118
Less weighted average ordinary shares held in ESOP Trust	**(1)**	(2)
Weighted average shares in issue for earnings per share	**113**	116
Add weighted average number of ordinary shares under option	**2**	2
Weighted average ordinary shares for diluted earnings per share	**115**	118

c) Basic and diluted earnings per share

Pence	2016	2015
Basic earnings per share	**95.6**	87.1
Adjustments for non-headline items	**0.9**	1.7
Basic headline earnings per share	**96.5**	88.8
Diluted earnings per share	**93.9**	85.6
Adjustments for non-headline items	**0.9**	1.7
Diluted headline earnings per share	**94.8**	87.3

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid.

12. Goodwill

	£m
Cost	
At 1 September 2015	36
Foreign exchange differences	2
At 31 August 2016	**38**
Accumulated impairment	
At 1 September 2015	–
Impairment charge	–
At 31 August 2016	**–**
Net book value at 31 August 2016	**38**

Cost	
At 1 September 2014	34
Additions	2
At 31 August 2015	**36**
Accumulated impairment	
At 1 September 2014	–
Impairment charge	–
At 31 August 2015	**–**
Net book value at 31 August 2015	**36**

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2016	2015
Travel	**27**	25
High Street	**11**	11
	38	36

Goodwill has been tested for impairment by comparing the carrying amount of each cash-generating unit ('CGU'), including goodwill, with the recoverable amount determined from value-in-use calculations. Management has determined that no impairment was necessary for the current financial year (2015: £nil).

All goodwill relates to the acquisitions of groups of retail stores and each CGU is sensitive to movements in the same key assumptions. The key assumptions on which forecast three-year cash flows of the CGUs are based include sales growth, product mix and operating costs.

The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the UK retail industry.

These cash flows are extrapolated for up to an additional nine years (representing the average length of the lease for the relevant group of stores) based on estimated long-term growth rates of between 0 and 2.5 per cent. The rate used to discount the forecast cash flows was ten per cent pre-tax (2015: ten per cent).

A sensitivity analysis has been performed in assessing recoverable amounts of goodwill. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to one per cent and a decrease in the long-term growth rate of up to one per cent. The sensitivity analysis showed that no impairment would arise under each scenario.

Notes to the financial statements continued

13. Other intangible assets

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment) and certain tenancy rights.

The amortisation period for capitalised software costs is over a maximum period of five years. Other intangible assets are either considered to have an indefinite life, therefore no amortisation has been charged, or are amortised over their useful economic life. These assets are reviewed annually for indicators of impairment.

	£m
Cost	
At 1 September 2015	84
Additions	8
Acquisitions	–
Disposals	–
At 31 August 2016	**92**
Accumulated amortisation	
At 1 September 2015	61
Amortisation charge	6
Impairment charge	–
Disposals	–
At 31 August 2016	**67**
Net book value at 31 August 2016	**25**

Cost	
At 1 September 2014	77
Additions	6
Acquisitions	1
Disposals	–
At 31 August 2015	**84**
Accumulated amortisation	
At 1 September 2014	55
Amortisation charge	6
Impairment charge	–
Disposals	–
At 31 August 2015	**61**
Net book value at 31 August 2015	**23**

Included in the net book value of other intangible assets are software costs of £18m (2015: £15m), tenancy agreements of £6m (2015: £6m) and brands and franchise contracts of £1m (2015: £2m). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2015: £4m), representing certain rights under tenancy agreements, which include the right to renew leases. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period.

The net book value of software assets held under finance leases included within these balances as at 31 August 2016 was £1m (2015: £2m).

14. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2015	22	170	121	113	426
Additions	–	16	11	9	36
Transfers	–	–	–	–	–
Disposals	–	(5)	(7)	(6)	(18)
Foreign exchange differences	–	1	1	1	3
At 31 August 2016	**22**	**182**	**126**	**117**	**447**
Accumulated depreciation:					
At 1 September 2015	12	111	84	64	271
Depreciation charge	1	12	7	12	32
Impairment charge	–	1	1	1	3
Transfers	–	–	–	–	–
Disposals	–	(5)	(7)	(6)	(18)
Foreign exchange differences	–	1	–	–	1
At 31 August 2016	**13**	**120**	**85**	**71**	**289**
Net book value at 31 August 2016	**9**	**62**	**41**	**46**	**158**
Cost or valuation:					
At 1 September 2014	22	165	120	99	406
Additions	–	12	9	20	41
Transfers	–	(1)	–	1	–
Disposals	–	(6)	(7)	(6)	(19)
Foreign exchange differences	–	–	(1)	(1)	(2)
At 31 August 2015	**22**	**170**	**121**	**113**	**426**
Accumulated depreciation:					
At 1 September 2014	12	102	87	58	259
Depreciation charge	–	12	7	11	30
Impairment charge	–	1	1	–	2
Transfers	–	2	(3)	1	–
Disposals	–	(6)	(7)	(6)	(19)
Foreign exchange differences	–	–	(1)	–	(1)
At 31 August 2015	**12**	**111**	**84**	**64**	**271**
Net book value at 31 August 2015	**10**	**59**	**37**	**49**	**155**

The net book value of assets held under finance leases included within these balances as at 31 August 2016 was £13m (2015: £8m), being £2m (2015: £nil) short-term leasehold, £1m (2015: £nil) fixtures and fittings, and £10m (2015: £8m) equipment and vehicles.

15. Trade and other receivables

£m	2016	2015
Current debtors		
Trade debtors	**26**	22
Other debtors	**4**	10
Prepayments and accrued income	**20**	20
	50	52
Non-current debtors		
Prepayments and accrued income	**4**	2
Total trade and other receivables	**54**	54

Included in trade receivables is £5m (2015: £4m) of supplier income that has been invoiced but not yet settled (where the Group does not have the right to offset against trade payables balances). Included in prepayments and accrued income is £7m (2015: £6m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income, that has been earned but not yet invoiced.

Notes to the financial statements continued

15. Trade and other receivables (continued)

The ageing of the Group's current trade and other receivables is as follows:

£m	2016	2015
Trade and other receivables gross	**32**	33
Allowance for doubtful debts	**(1)**	(1)
Trade and other receivables net	**31**	32
Of which:		
Amounts neither impaired nor past due on the reporting date	**24**	28
Amounts past due but not impaired:		
Less than one month old	**3**	2
Between one and three months old	**3**	2
Between three and six months old	**1**	–
Between six months and one year old	**–**	–
Trade and other receivables net carrying amount	**31**	32

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2016 of £1m (31 August 2015: £1m). The ageing analysis of these receivables is given in the table below. This 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. No collateral is held for amounts past due but not impaired.

Ageing analysis of bad and doubtful debt provisions:

£m	2016	2015
Less than one month old	**–**	–
Between one and three months old	**–**	–
Between three and six months old	**–**	1
Between six months and one year old	**1**	–
	1	1

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

16. Trade and other payables – current

£m	2016	2015
Trade payables	**98**	92
Other tax and social security	**22**	26
Other creditors	**64**	60
Accruals and deferred income	**45**	53
	229	231

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2015: 58 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables is stated net of £13m (2015: £14m) 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.

17. Obligations under finance leases

£m	2016 Minimum lease payments	2016 Present value of minimum lease payments	2015 Minimum lease payments	2015 Present value of minimum lease payments
Amounts payable under finance leases:				
Within one year	**3**	**3**	2	2
Within two to five years	**11**	**10**	8	8
After five years	**–**	**–**	1	–
Total	**14**	**13**	11	10
Less: future finance charges	**(1)**	**–**	(1)	–
Present value of lease obligations	**13**	**13**	10	10
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(3)**		(2)	
Amount due for settlement after 12 months	**10**		8	

The Group leases certain fixtures and equipment under finance leases. All lease obligations are denominated in sterling. The average lease term is five years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

18. Provisions

£m	Property provision	Total
At 1 September 2015	4	4
Charge in the year	2	2
Utilised in year	–	–
Unwinding of discount	–	–
At 31 August 2016	**6**	**6**

£m	Property provision	Total
At 1 September 2014	5	5
Charge in the year	–	–
Utilised in year	(1)	(1)
Unwinding of discount	–	–
At 31 August 2015	**4**	**4**

Total provisions are split between current and non-current liabilities as follows:

£m	2016	2015
Included in current liabilities	**1**	1
Included in non-current liabilities	**5**	3
	6	4

The property provision relates to the estimated future unavoidable lease costs in respect of non-trading properties, stores earmarked for closure and loss-making stores. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls, and the provision is expected to be utilised over the length of each lease. This provision has been discounted at two per cent, and this discount will be unwound over the life of the leases.

Notes to the financial statements continued

19. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2015	2	1	5	1	1	10
Credited/(charged) to income	–	(1)	1	–	–	–
Credited/(charged) to equity	–	–	(1)	–	–	(1)
At 31 August 2016	**2**	**–**	**5**	**1**	**1**	**9**
At 1 September 2014	–	1	4	10	2	17
Credited/(charged) to income	2	–	–	–	(1)	1
Credited/(charged) to equity	–	–	1	(9)	–	(8)
At 31 August 2015	**2**	**1**	**5**	**1**	**1**	**10**

Changes to UK corporation tax rates reduce the tax rate to 19% from 1 April 2017 and 18% from 1st April 2020. Additional changes to the UK corporation tax rates were announced in the Chancellor's Budget on 16 March 2016. These include a reduction to the main rate to 17 per cent from 1 April 2020. As the change had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. If these changes had applied to the deferred tax balance at the balance sheet date, there would have been no effect on the deferred tax asset or the tax expense for the year.

The following is an analysis of the deferred tax balances for financial reporting purposes.

£m	2016	2015
Deferred tax liabilities (non-current liabilities)	**–**	–
Deferred tax assets	**9**	10
	9	10

20. Analysis of net funds

Movements in net funds can be analysed as follows:

£m	2015	Cash flow	Non cash	Currency translation	2016
Cash and cash equivalents	34	2	–	2	**38**
Borrowings					
- Revolving credit facility	(9)	(9)	–	–	**(18)**
- Obligations under finance leases	(10)	3	(6)	–	**(13)**
Net funds	**15**	**(4)**	**(6)**	**2**	**7**

£m	2014	Cash flow	Non cash	Currency translation	2015
Cash and cash equivalents	34	1	–	(1)	34
Borrowings					
- Revolving credit facility	(12)	3	–	–	(9)
- Obligations under finance leases	–	1	(11)	–	(10)
Net funds	**22**	**5**	**(11)**	**(1)**	**15**

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 their fair value.

The Group has in place a five-year committed multi-currency revolving credit facility of £93.3m with Barclays Bank PLC, HSBC, Lloyds Banking Group and Santander UK PLC. The revolving credit facility is due to mature on 9 June 2019. The utilisation is interest-bearing at LIBOR plus 90 basis points. Utilisation at 31 August 2016 was £18m (2015: £9m).

21. Contingent liabilities and capital commitments

£m	2016	2015
Bank and other loans guaranteed	**6**	6

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Connect Group PLC (formerly Smiths News PLC), any such contingent liability which becomes an actual liability, will be apportioned between the Group and Connect Group PLC in the ratio 65:35 (provided that the actual liability of Connect Group PLC in any 12-month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2016 of £3m (2015: £4m). 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 this combined financial information amount to £8m (2015: £5m).

22. Cash generated from operating activities

£m	2016	2015
Group operating profit	**133**	124
Depreciation of property, plant and equipment	**32**	30
Impairment of property, plant and equipment	**3**	2
Amortisation of intangible assets	**6**	6
Share-based payments	**8**	6
(Increase)/decrease in inventories	**(5)**	3
Decrease in receivables	**–**	2
Decrease in payables	**(5)**	–
Pension funding	**(3)**	(4)
Income taxes paid	**(36)**	(23)
Movement on provisions	**2**	(1)
Cash generated from operating activities	**135**	145

23. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2016	2015
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**2**	–
Loans and receivables (including cash and cash equivalents)[2]	**92**	91
Financial liabilities		
Finance lease obligations	**(13)**	(10)
Amortised cost[3]	**(276)**	(289)

[1] All derivatives are categorised as Level 2 under the requirements of IFRS 13. The fair value measurements relating to the instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

[2] Included within loans and receivables are trade and other receivables, current tax assets and cash and cash equivalents.

[3] Included within amortised cost are trade and other payables, current tax liabilities, borrowings 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.

Notes to the financial statements continued

23. Financial instruments (continued)

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 20 for the value of the Group's net debt/funds and refer to the Group statement of changes in equity for the value of the Group's equity.

In managing the Group's capital levels the Board regularly monitors the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the Board determines the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives. The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

As at 13 October 2016 the Group has in place a £93.3m committed multi-currency revolving credit facility, carrying certain financial covenants which have been met throughout the period. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

Liquidity risk

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

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

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2016 (£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	**18**	**–**	**–**	**–**	**18**
Trade and other payables	**242**	**–**	**–**	**–**	**242**
Finance leases	**3**	**3**	**8**	**–**	**14**
Total cash flows	**263**	**3**	**8**	**–**	**274**

2015 (£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	9	–	–	–	9
Trade and other payables	258	1	–	–	259
Finance leases	2	2	6	1	11
Total cash flows	**269**	**3**	**6**	**1**	**279**

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.

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 doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The Group has low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1 and long-term ratings of A2 or better.

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 2016, the Group had drawn down £18m (2015: £9m) from its committed revolving credit facility. The Group draws down on its facility, but does not view any draw down as long-term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

23. 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 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 2016, the Group had no material un-hedged currency exposures.

The Group's euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in France, Ireland, Spain and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

Forward foreign exchange contracts have been used to hedge France and Ireland retail stores purchases in GBP to minimise foreign exchange risk in movements of the GBP/EUR exchange rates. These are designated as cash flow hedges.

The fair value of cash flow hedges recognised on the balance sheet within derivative assets/liabilities is shown below:

£m	2016	2015
Fair value of derivative assets	**2**	–

At 31 August 2016, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$30m (2015: US$31m) and £4m (2015:nil). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Gains totalling £nil (2015: £nil) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2016. In the year to 31 August 2016, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £2m (2015: £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 of IFRS 13, 'Fair value measurement'. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

Sensitivity analysis as at 31 August 2016

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 1.3111/1 (2015: 1.5391/1), EUR/GBP 1.1762/1 (2015: 1.3762/1) and AUD/GBP 1.7443/1 (2015: 2.1460/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2016 and 31 August 2015 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the Group's income statement and equity given reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in GBP LIBOR/base rate to be one per cent, based on interest rate history. Similarly, sensitivity to movements in USD/GBP, EUR/GBP and AUD/GBP exchange rates of ten per cent are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over time.

Using these assumptions, the following table shows the illustrative effect on the Group income statement and equity.

	2016		2015	
£m	Income gains/(loss)	Equity gains/(loss)	Income gains/(loss)	Equity gains/(loss)
GBP LIBOR/base rate interest rates 1% increase	**–**	**–**	–	–
USD/GBP exchange rates 10% increase	**–**	**(2)**	–	(2)
EUR/GBP exchange rates 10% increase	**–**	**1**	–	–
AUD/GBP exchange rates 10% increase	**–**	**–**	–	–
GBP LIBOR/Base rate interest rates 1% decrease	**–**	**–**	–	–
USD/GBP exchange rates 10% decrease	**–**	**3**	–	2
EUR/GBP exchange rates 10% decrease	**–**	**–**	–	–
AUD/GBP exchange rates 10% decrease	**–**	**–**	–	–

Financial statements

Notes to the financial statements continued

24. Called up share capital

Allotted and fully paid

£m	2016 Number of shares (millions)	2016 Nominal value £m	2015 Number of shares (millions)	2015 Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	**113**	**25**	115	25
Total	**113**	**25**	115	25

During the year the Company repurchased 2,864,833 of its own shares in the open market for an aggregate consideration of £47m. In total 2,884,833 shares were cancelled during the year.

During the year 162,917 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2015: £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 £10m (2015: £11m) 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 873,040 (2015: 1,410,608).

25. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2012 CIP	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2015	445,606	73,447	1,218,467	941,441	442,154	112,083	3,233,198
Options and awards granted	–	–	299,573	237,945	95,388	18,466	651,372
Options and awards exercised	(162,917)	(20,703)	(433,344)	(340,972)	(159,494)	(33,052)	(1,150,482)
Options and awards lapsed	(19,998)	–	(7,296)	(476)	(18,273)	–	(46,043)
Outstanding at 31 August 2016	**262,691**	**52,744**	**1,077,400**	**837,938**	**359,775**	**97,497**	**2,688,045**
Exercisable at 31 August 2016	**40,610**	**52,744**	**9,022**	**11,471**	**16,492**	**–**	**130,339**
Outstanding at 1 September 2014	475,744	302,678	830,264	1,235,639	327,020	143,434	3,314,779
Options and awards granted	239,086	–	409,351	322,219	136,742	–	1,107,398
Options and awards exercised	(241,236)	(229,231)	–	(616,417)	–	(31,351)	(1,118,235)
Options and awards lapsed	(27,988)	–	(21,148)	–	(21,608)	–	(70,744)
Outstanding at 31 August 2015	**445,606**	**73,447**	**1,218,467**	**941,441**	**442,154**	**112,083**	**3,233,198**
Exercisable at 31 August 2015	**10,642**	**73,447**	**–**	**18,267**	**–**	**–**	**102,356**

	2016	2015
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**130.92**	108.83
– Granted in the period	**nil**	247.68
– Exercised in the period	**89.26**	175.07
– Lapsed in the period	**438.70**	225.69
– Outstanding at the end of the year	**111.76**	130.92
– Exercisable at the end of the year	**350.19**	353.87

Detail of movements in options and awards

2012 Co-Investment Plan (CIP)

Under the terms of the 2012 Co-Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith PLC and have been granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they have invested. These awards will only vest and become exercisable to the extent that the related performance target is met.

25. Share-based payments (continued)

Outstanding awards granted under the CIP are as follows:

	Number of shares			
Date of grant	2016	2015	Exercise price (pence)	Exercise period
5 November 2012	**9,022**	428,737	Nil	Nov 2015 – Nov 2022
18 April 2013	**–**	11,412	Nil	Apr 2016 – Apr 2023
14 May 2013	**–**	2,365	Nil	Nov 2015 – Nov 2022
17 October 2013	**381,110**	381,110	Nil	Oct 2016 – Oct 2023
23 October 2014	**361,780**	363,448	Nil	Oct 2017 – Oct 2024
6 November 2014	**31,395**	31,395	Nil	Nov 2017 – Nov 2024
22 October 2015	**289,532**	–	Nil	Oct 2018 – Oct 2025
19 November 2015	**4,561**	–	Nil	Nov 2018 – Nov 2025
	1,077,400	1,218,467		

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	2016	2015	Exercise price (pence)	Exercise period
15 November 2011	**11,471**	18,267	Nil	Nov 2014 – 15.11.21
5 November 2012	**–**	291,364	Nil	Nov 2015 – 05.11.22
18 April 2013	**–**	43,288	Nil	Apr 2016 – 18.04.23
17 October 2013	**257,664**	257,664	Nil	Oct 2016 – 17.10.23
20 November 2013	**8,639**	8,639	Nil	Nov 2016 – 20.10.23
23 October 2014	**290,824**	290,824	Nil	Oct 2017 – 23.10.24
6 November 2014	**31,395**	31,395	Nil	Nov 2017 – 06.11.24
22 October 2015	**237,945**	–	Nil	Oct 2018 – 22.10.25
	837,938	941,441		

Awards will first become exercisable on the vesting date, which is the date (as soon as practicable after the announcement of WHSmith's results for the final year of the performance period) that participants receive notification of the number of award shares that have vested.

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 one year's service who enter into an HM Revenue & Customs approved Save-As-You-Earn (SAYE) savings contract for a term of three or five years. Options are granted at up to a 20 per cent discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

Outstanding options granted under the Sharesave Scheme at 31 August 2016 are as follows:

	Number of shares			
Date of grant	2016	2015	Exercise price (pence)	Exercise period
2 June 2010 (5 year)	**–**	10,558	400.40	01.08.15 – 31.01.16
30 November 2011 (3 year)	**–**	84	426.80	01.02.15 – 31.07.15
5 June 2013 (3 year)	**40,610**	197,577	580.80	01.08.16 – 31.01.17
3 June 2015 (3 year)	**222,081**	237,387	1147.20	01.08.18 – 31.01.19
	262,691	445,606		

Financial statements

Notes to the financial statements continued

25. Share-based payments (continued)

Performance Share Plan (PSP)

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

Outstanding awards granted under the PSP are as follows:

	Number of shares			
Date of grant	2016	2015	Exercise price (pence)	Exercise period
5 November 2012	**14,512**	165,632	Nil	Nov 2015 – 05.11.22
18 April 2013	**1,980**	10,354	Nil	Apr 2016 – 18.04.23
17 October 2013	**131,822**	137,280	Nil	Oct 2016 – 17.10.23
20 November 2013	**877**	877	Nil	Nov 2016 – 20.11.23
23 October 2014	**119,380**	127,090	Nil	Oct 2017 – 23.10.24
23 April 2015	**–**	921	Nil	Apr 2018 – 23.04.25
22 October 2015	**88,924**	–	Nil	Oct 2018 – 22.10.25
19 November 2015	**2,280**	–	Nil	Nov 2018 – 19.11.25
	359,775	442,154		

Executive Share Option Schemes

Under the terms of the Executive Share Option Scheme, the Board may grant options 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.

Outstanding options granted under the Executive Share Option Schemes as at 31 August 2016 are as follows:

	Number of shares			
Date of grant	2016	2015	Exercise price (pence)	Exercise period
17 October 2007	**38,058**	38,058	381.00	17.10.10 – 16.10.17
5 November 2009	**3,584**	3,584	497.37	05.11.12 – 04.11.19
21 October 2010	**–**	20,703	478.20	21.10.13 – 20.10.20
15 November 2011	**11,102**	11,102	520.17	15.11.14 – 14.11.21
	52,744	73,447		

Cash-settled schemes

Under the terms of the LTIP, PSP and CIP, the Board may grant cash-settled awards to executives. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. These awards will be settled in cash based on the share price at the date of exercise. As at 31 August 2016 there were 97,497 outstanding nil-cost cash-settled awards (2015: 112,083), which will be settled between November 2016 and November 2024. The carrying amount of liabilities arising from share-based payment transactions is £1m (2015: £1m).

Fair value information

	2016	2015
Weighted average share price at date of exercise of share options exercised during period – pence	**1,659.41**	1,260.81
Weighted average remaining contractual life at end of period – years	**5**	5

25. Share-based payments (continued)

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted each year is:

£m	2016	2015
	10	9

The fair values of the CIP, LTIP and PSP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2016	2015
Share price – pence	**1,664**	1,107
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**22**	23
Expected life – years	**3.0**	3.0
Risk free rate – per cent	**0.73**	1.05
Dividend yield – per cent	**2.37**	3.16
Weighted average fair value of options – pence	**1,460.95**	953.50

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 2015 were measured using a Black Scholes model. None were granted in the year ended 31 August 2016. The input range into the Black Scholes models was as follows:

	2015
Share price – pence	1,572
Exercise price – pence	1,147.20
Expected volatility – per cent	22
Expected life – years	3.5
Risk free rate – per cent	0.94
Dividend yield – per cent	2.23
Weighted average fair value of options – pence	424.0

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

26. 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.

£'000	2016	2015
Short-term employee benefits	**2,695**	2,502
Post-employment benefits	**226**	210
Share-based payments	**2,282**	1,826
	5,203	4,538

There are no other transactions with directors.

27. Events after the balance sheet date

On 13 October 2016, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.

Notes to the financial statements continued

28. Subsidiary companies

The subsidiary companies included within the financial statements, are disclosed below.

Name	Country of incorporation/ registration	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
Held directly by WH Smith PLC:					
WH Smith Retail Holdings Limited	England & Wales	Ordinary	100	100	Holding Company
Held indirectly:					
Books & Stationers Limited	England & Wales	Ordinary	100	100	Retailing
Card Market Limited	England & Wales	Ordinary	100	100	Retailing
Lexicon Book Company Limited	England & Wales	Ordinary	100	100	Property
Modelzone Limited	England & Wales	Ordinary	100	100	Dormant
funkypigeon.com Limited	England & Wales	Ordinary	100	100	Retailing
Sussex Stationers Limited	England & Wales	Ordinary	100	100	Dormant
WH Smith (Qatar) Limited	England & Wales	Ordinary	100	100	Dormant
WH Smith 1955 Limited	England & Wales	Ordinary	100	100	Holding Company
WH Smith Asia Limited	Hong Kong	Ordinary	100	100	Product sourcing for WH Smith Group companies
WH Smith Australia Pty Limited	Australia	Ordinary	100	100	Retailing
WH Smith France S.A.S	France	Ordinary	100	100	Retailing
W H Smith Germany GmbH	Germany	Ordinary	100	100	Retailing
WH Smith High Street Holdings Limited	England & Wales	Ordinary	100	100	Holding Company
WH Smith High Street Limited	England & Wales	Ordinary & Preference	100	100	Retailing
WH Smith Hospitals Holdings Limited	England & Wales	Ordinary & Preference	100	100	Holding Company
WH Smith Hospitals Limited	England & Wales	Ordinary	100	100	Retailing
WH Smith Ireland Limited	Ireland	Ordinary	100	100	Retailing
WH Smith Jersey Limited	Jersey	Ordinary	100	100	Retailing
WH Smith LLC	Qatar	Ordinary	49	100	Retailing
WH Smith Malaysia SDN BHD	Malaysia	Ordinary	50	50	Retailing
WH Smith New Zealand Limited	New Zealand	Ordinary	100	100	Dormant
WH Smith PLC	England & Wales	Ordinary	N/A	N/A	Parent
WH Smith Promotions Limited	England & Wales	Ordinary	100	100	Retailing
WH Smith Retirement Savings Plan Limited	England & Wales	Ordinary	100	100	Dormant
WH Smith Singapore Pte. Limited	Singapore	Ordinary	100	100	Dormant
W H Smith Spain S.L.	Spain	Ordinary	100	100	Retailing
WH Smith Travel 2008 Limited	England & Wales	Ordinary	100	100	Holding Company
WH Smith Travel Holdings Limited	England & Wales	Ordinary	100	100	Holding Company
WH Smith Travel Limited	England & Wales	Ordinary & Preference	100	100	Retailing
Wild Retail Group Pty Limited	Australia	Ordinary	100	100	Retailing
WH Smith Group Holdings (USA) Inc.	USA	Ordinary	100	100	Dormant
WH Smith Music Inc.	USA	Ordinary	100	100	Dormant
WH Smith Nevada Enterprises LLC	USA	Ordinary	100	100	Dormant

Independent auditors' report to the members of WH Smith PLC

Report on the Company financial statements

Our opinion

In our opinion, WH Smith PLC's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 August 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and accounts (the 'Annual report'), comprise:

- the Company balance sheet as at 31 August 2016;
- the Company statement of changes in equity for the year then ended; and
- the Notes to the Company balance sheet, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual report, rather than in the Notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2016.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, UK

13 October 2016

Company balance sheet

As at 31 August 2016

£m	Note	2016	2015
Fixed assets			
Investments in subsidiaries	3	**357**	357
Total fixed assets		**357**	357
Current assets			
Cash and cash equivalents		**–**	58
		–	58
Current liabilities			
Creditors: amounts falling due within one year	4	**(143)**	(189)
		(143)	(189)
Net current liabilities		**(143)**	(131)
Total net assets		**214**	226
Capital and reserves			
Called up share capital	7	**25**	25
Share premium account	8	**6**	5
Capital redemption reserve	8	**12**	12
Profit and loss account	8	**171**	184
Total equity		**214**	226

The financial statements of WH Smith PLC, registered number 5202036, on pages 99 to 101 were approved by the Board of Directors on 13 October 2016.

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Company statement of changes in equity

For the year ended 31 August 2016

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2015	25	5	12	184	226
Profit for the financial year	–	–	–	80	80
Purchase of own shares for cancellation	–	–	–	(47)	(47)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the period (Note 5)	–	–	–	(46)	(46)
Balance at 31 August 2016	**25**	**6**	**12**	**171**	**214**
Balance at 1 September 2014	26	4	11	219	260
Profit for the financial year	–	–	–	60	60
Purchase of own shares for cancellation	(1)	–	1	(53)	(53)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the period (Note 5)	–	–	–	(42)	(42)
Balance at 31 August 2015	**25**	**5**	**12**	**184**	**226**

Financial statements

Notes to the Company balance sheet

1. Accounting policies

a) Basis of preparation

The financial statements are prepared in compliance with the Companies Act 2006 and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

The Company meets the definition of a qualifying entity under FRS 100 (Application of Financial Reporting Requirements) issued by the Financial Reporting Council. Accordingly, in the year ended 31 August 2016 the Company has changed its accounting framework from UK GAAP to FRS 101 'Reduced Disclosure Framework'. These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'. This transition is not considered to have had a material effect on the financial statements and the prior period financial statements did not require restatement for material adjustments on adoption of FRS 101 in the current year.

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

Where required, equivalent disclosures are given in the consolidation financial statements of the Group.

As more fully detailed in the Directors' report on page 56, the Company's financial statements have been prepared on a going concern basis. The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries, joint ventures and associates are stated at cost less, where appropriate, provisions for impairment. Accounting judgements and assumptions are disclosed in the Notes to the Financial Statements, Note 1.

Explanation of transition to FRS 101

This is the first time that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 August 2015 and the date of transition to FRS 101 was therefore 1 September 2014.

There have been no adjustments on transition to FRS 101.

b) Investment in subsidiary undertakings

Investment in equity and long-term loans in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

c) Taxation

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

2. Profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £80m (2015: £60m) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

3. Investments in subsidiary undertakings

The Company acquired the shares of WH Smith Retail Holdings Limited at a fair value of £357m on 31 August 2006. A full list of the Company's subsidiary undertakings is included in Note 28 of the Notes to the consolidated financial statements.

4. Creditors – amounts due within one year

£m	2016	2015
Amounts owed to subsidiary undertakings	**143**	189
	143	189

5. Dividends

Amounts paid and recognised as distributions to shareholders in the period are as follows:

£m	2016	2015
Dividends		
Interim dividend of 13.4p per ordinary share (2015: 12.1p per ordinary share)	**15**	14
Final dividend of 27.3p per ordinary share (2015: 24.2p per ordinary share)	**31**	28
	46	42

The proposed dividend of 30.5p per share, amounting to a final dividend of £34m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 2 February 2017 to shareholders on the register at the close of business on 13 January 2017.

6. Contingent liabilities

Contingent liabilities of £1m (2015: £3m) are in relation to insurance standby letters of credit.

7. Called up share capital

Allotted and fully paid

	2016		2015	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22$^{67}/_{91}$p	**113**	**25**	115	25
Total	**113**	**25**	115	25

During the year the Company repurchased 2,864,833 of its own shares in the open market for an aggregate consideration of £47m. In total 2,884,833 shares were cancelled during the period.

Also during the year 162,917 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2015: £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.

8. Reserves

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2015	25	5	12	184	226
Profit for the financial year	–	–	–	80	80
Purchase of own shares for cancellation	–	–	–	(47)	(47)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the period	–	–	–	(46)	(46)
Balance at 31 August 2016	**25**	**6**	**12**	**171**	**214**

Other information

Information for shareholders

Company Secretary and Registered Office
Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (Number 5202036).

Company website
This Annual report and accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

Annual General Meeting
The Annual General Meeting will be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD on Wednesday 25 January 2017 at 11.30am. A separate notice convening the meeting is being sent to shareholders and includes an explanation of the items of special business to be considered at the meeting.

Shareholder enquiries – the registrars
All enquiries relating to shareholdings should be addressed to the registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline: 0371 495 0100 or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005.

Sharedealing services
The Company is offering internet and telephone share dealing services for shareholders (in certain jurisdictions) in conjunction with Computershare. For internet dealing, log on to www.computershare.com/dealing/uk and for telephone dealing call 0370 703 0084. You will need to have your Shareholder Reference Number (SRN) to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend confirmation.

Dividend Mandates
If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers' Automated Clearing Services) system, you should contact Computershare for a Dividend Mandate Form or apply online at www.investorcentre.co.uk. Shareholders who receive their dividend payments in this way receive an annual dividend confirmation once a year, with the final dividend, detailing all payments made throughout the UK tax year.

Financial calendar
The following dates are given for information purposes only. Please check the WH Smith PLC website at www.whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2016
Preliminary results announced	13 October 2016
Annual report posted	November 2016
Final dividend ex-dividend date	12 January 2017
Final dividend record date	13 January 2017
Christmas trading statement	25 January 2017
AGM	25 January 2017
Final dividend payment date	2 February 2017
Half-year end	28 February 2017
Interim results announced	12 April 2017
Trading statement	June 2017
Interim dividend ex-dividend date	July 2017
Interim dividend record date	July 2017
Interim dividend payment date	August 2017
Financial year end	31 August 2017

The dividend dates shown above are in respect of the Company's ordinary shares of 22$\frac{6}{67}$p.

ShareGIFT
If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to Shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. Information on how to avoid share fraud or report a scam can be found on our website at www.whsmithplc.co.uk. You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to www.fca.org.uk/scamsmart.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Connect Group PLC (formerly Smiths News PLC).

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2^{13}/_{81}$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 $2^{13}/_{81}$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 $22^{6}/_{67}$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 $55^{5}/_{9}$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 $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$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 $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$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.

Notes

Designed and produced by Radley Yeldar www.ry.com

Contact details

WH Smith PLC

Greenbridge Road
Swindon, Wiltshire SN3 3RX
United Kingdom
T 01793 616161
W www.whsmithplc.co.uk

WHSmith Travel

Victoria House, 37-63 Southampton Row
Bloomsbury Square, London WC1B 4DA
United Kingdom
T 020 7406 6300
W www.whsmithplc.co.uk

WHSmith High Street

Greenbridge Road
Swindon, Wiltshire SN3 3LD
United Kingdom
T 01793 616161
W www.whsmith.co.uk

Investor Relations

T 020 7406 6320
W www.whsmithplc.co.uk/investors

Media Relations

T 020 7406 6350
W www.whsmithplc.co.uk/media

Corporate Responsibility

W www.whsmithplc.co.uk/corporate_responsibility

Recruitment

W www.whsmithcareers.co.uk

Customer Service

Freepost SCE4410
Swindon, Wiltshire SN3 3XS
United Kingdom
T 0333 600 5000
E customer.relations@whsmith.co.uk