WH Smith PLC

Annual Report and Accounts 2018

Contents

Strategic report

Corporate governance

Financial statements

Additional information

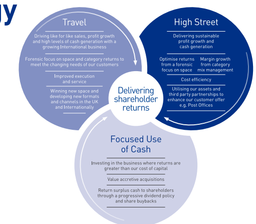
About us

P1 Read more

Group at a Glance

P2 Read more

Business model and strategy

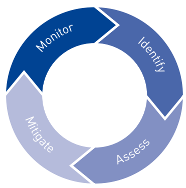


P4 Read more

Chief Executive's review

P8 Read more

Principal risks



P20 Read more

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.

About us

Revenue

£1,262m

Headline Group profit before tax[1]

£145m

Group profit before tax

£134m

Headline earnings per share[1]

108.2p

Dividend per share

54.1p

Dividend per share – growth

+12%

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

@whsmith

@whsmithofficial

youtube.com/
WHSmithDirect

Find out more at

whsmithplc.co.uk

1 Headline measures exclude Non-underlying items as described on page 116 for definition of Alternative performance measures ('APM').

Group at a glance

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

Travel

WHSmith Travel is a leading travel retailer in the UK with a growing presence outside of the UK.

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

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

As at 31 August 2018, the business operated from 867 units (2017: 815 units), mainly in the UK, in airports, railway stations, motorway service areas and hospitals. 286 of these units (2017: 233 units) are outside the UK and mainly in airports.

Travel delivered another strong trading profit[1] performance, up seven per cent year on year. We made good progress in Travel's growing International business, winning an additional 42 units, bringing the total number of units open to 286 units.

Revenue
£672m
(2017: £624m)

Gross margin growth[2]
120bps
(2017: 100bps)

Trading profit[1]
£103m
(2017: £96m)

Units
867
(2017: 815)

1 Travel trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

2 Basis points ('bps'). See Glossary on page 116 for an explanation of the Group's alternative performance measures.

High Street

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

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

As at 31 August 2018, the business operated from 607 High Street stores (2017: 611 stores), located on most of the UK's significant high streets.

Our online digital business operates through three websites:

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

High Street delivered a good trading profit[3] performance.

Revenue
£590m
(2017: £610m)

Gross margin growth[2]
70bps
(2017: 110bps)

Trading profit[3]
£60m
(2017: £62m)

Stores
607
(2017: 611)

[3] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

Our business model and strategy to create value

Business model and strategy

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

Our goals

Travel

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

High Street

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

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

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

Travel

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

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

Improved execution and service

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

High Street

Delivering sustainable profit and cash generation

Optimise returns from a forensic focus on space

Margin growth from category mix management

Cost efficiency

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

Delivering shareholder returns

Focused Use of Cash

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

Value accretive acquisitions

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

Operating responsibly

You can read more about our approach to corporate responsibility on pages 25 to 29.

Right people and skills

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

Our customers

You can read more about our markets on page 6.

Our markets

Travel

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

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

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

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

Travel operates in 149 air units, 127 rail units, 131 hospital units and in other locations in the UK, and 286 units outside of the UK.

High Street

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

The High Street business operates 607 stores with an extensive reach across the UK and a presence on nearly every significant UK high street and mainly in prime locations.

High Street also includes our online business www.whsmith.co.uk which sells a range of Stationery, Books, Magazines and Gifts. Our online personalised greetings card site, www.funkypigeon.com, is part of the broader greetings card market and has grown strongly. During the year, we acquired Cultpens.com – a leading online specialist pen retailer with over 18,000 products. This acquisition complements our existing stationery ranges in both our High Street stores and online at www.whsmith.co.uk as well as enhancing our customer offer.

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

Chairman's statement

I am delighted to report another year of good performance to 31 August 2018. Our UK and international travel businesses continue to deliver strong growth driven by our initiatives, an increase in passenger numbers and some encouraging results from our newly opened stores. This strong growth has transformed the Group into a travel focused retailer, accounting for over half our sales and two thirds of our operating profit.

Our High Street business remains an important part of the WHSmith Group and continues to deliver a good performance despite the well documented challenges facing high street retailers. Our strategy continues to focus on sustainable profit and cash generation.

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

Henry Staunton
Chairman

The Group remains highly cash generative delivering a free cash flow[1] of £96m and has, once again, grown its profit in the year with Headline Group profit before tax[2] increasing by four per cent to £145m. Group profit before tax decreased by £6m to £134m (2017: £140m), reflecting some non-underlying items primarily from a business review of High Street.

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

Corporate governance

Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy. A more detailed explanation of our approach to corporate governance can be found in our Corporate governance report on pages 30 to 62.

Corporate responsibility

During the year, we have continued to manage those corporate responsibility (CR) issues which are most material to our business and to our stakeholders. We have strong policies, programmes and governance in place across the four key areas of our strategy: environment, marketplace, workplace and community engagement. The current phase of our CR plan has a series of objectives and targets for all of our significant issues and these are due for completion by 2020. I am delighted to say that we have already met our targets in the areas of greenhouse gas emissions, sustainable forestry and charitable giving.

Further information on all aspects of our CR programmes can be found on pages 25 to 29.

People

This set of results would not be possible without the commitment and hard work of our employees across every aspect of our business: our stores, our distribution centres and head offices, and I would personally like to thank each and every staff member for their ongoing loyalty and support.

Outlook

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

Henry Staunton
Chairman
11 October 2018

1 Free cash flow is defined as the net cash inflow from operating activities before non-underlying items and pension funding, less capital expenditure and repayments to HMRC. See Group cash flow statement on page 74, Note 23 to the financial statements, Cash generated from operating activities on page 99 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

2 Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

Chief Executive's review

I am pleased to report another year of good performance across the Group. In our Travel business, which delivers two thirds of our profits, we continue to perform strongly across all channels driven by our initiatives to drive profitable sales and growth in passenger numbers. Internationally, we have established a good business and we continue to drive good revenue and profit growth. During the year, we won some significant tenders, including entry into new territories such as South America. In our High Street business, our strategy of optimising the return from our space and assets continues to produce strong cash generation and sustainable profits.

I would like to thank all of our colleagues across the WHSmith Group. Their ongoing hard work and commitment throughout the year ensures that we are able to achieve these results and I am sincerely grateful for their support and valued contribution.

> "I am pleased to report another year of good performance."

Stephen Clarke
Group Chief Executive

Group overview

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

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

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

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

Group profit from trading operations[1] increased by three per cent on the prior year to £163m with Headline Group profit before tax[2] increasing by £5m to £145m (2017: £140m), up four per cent. Group profit before tax decreased by £6m to £134m (2017: £140m), reflecting some non-underlying items primarily from a business review of High Street.

Compared to last year, total Group revenue was up two per cent to £1,262m (2017: £1,234m) with like-for-like[3] revenue flat.

Travel performance

Travel, which is the largest part of the Group in both revenue and profit, delivered a strong revenue performance across all channels with total revenue compared to last year up eight per cent and like-for-like revenue up three per cent. This performance reflects our ongoing investment in our key initiatives and growth in passenger numbers. Trading profit[1] increased by seven per cent to £103m which includes £11m (2017: £9m) from our fast growing international business. Travel now represents 63 per cent of Group profit from trading operations[1]. We continue to invest in the business and opened 20 new units in the UK during the year, taking us to a total of 581 units in the UK. In International, we won a further 42 units including a number of significant wins in South America and Europe. We opened 58 units in the year making the total number of units open internationally to 286 (2017: 233).

High Street performance

High Street delivered a good performance despite the well documented challenges of the UK high street. As expected, trading profit[1] was £60m (2017: £62m). This is the third highest profit delivered by High Street over the last 15 years and follows the past two record years which were driven by exceptional publishing trends. Second half profit was up £1m on last year. Total revenue was down three per cent with like-for-like revenue also down three per cent compared to the prior year. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £12m were delivered in the year. An additional £10m of cost savings have been identified over the next three years making a total of £19m, of which £9m are planned for 2018/19.

Despite the good performance from our High Street business, we are not ignoring the challenging conditions being experienced on the high street more generally. As such, we have undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we have made the following decisions: to increase the focus on our core categories; wind down non core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around six High Street stores, particularly those impacted by onerous leases. The costs of these changes were £9m in the year with around £5m expected in the current financial year.

Group

Headline earnings per share[4] increased by four per cent to 108.2p (2017: 103.6p). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback and a higher tax rate, as expected, of 18 per cent. Diluted earnings per share decreased by five per cent to 98.2p (2017: 103.6p), reflecting some non-underlying items primarily from a business review of High Street.

Return of cash to shareholders

The Group remains highly cash generative and has a strong balance sheet. Net debt was £2m at 31 August 2018, with a Group free cash flow[5] of £96m (2017: £105m). The Group has a committed revolving credit working capital facility of £140m through to December 2022.

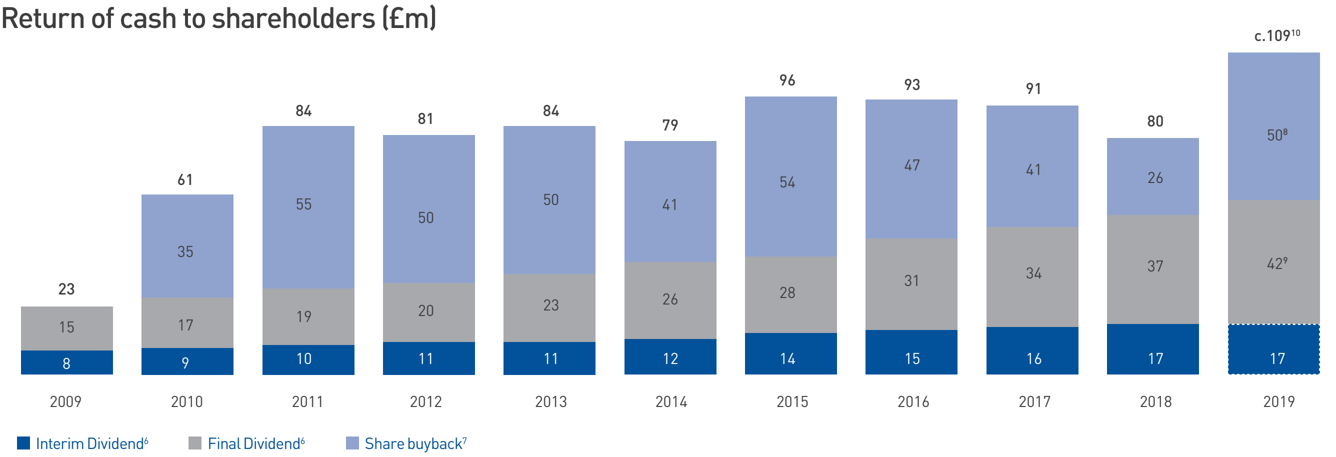
We completed £26m of the share buyback announced on 12 October 2017 and on 11 October 2018 we announced a further return of cash to shareholders of up to £50m through a rolling on-market share buyback programme.

The Board has proposed a final dividend of 38.1p per share, a 13 per cent increase on last year, giving a total dividend per ordinary share of 54.1p, a 12 per cent increase on the prior year. The proposed increase in final dividend reflects our progressive dividend policy, the Board's confidence in the future prospects of the Group and the strong cash generative nature of the business. The annual dividend has now increased every year since demerger from 11.8p in 2007 to 54.1p for 2018.

Both the Travel and High Street businesses are cash generative and we allocate our capital efficiently: investing in the business and new opportunities where we can achieve an attractive return ahead of our cost of capital (capital expenditure in the year was £53m), 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 11 October 2018 and the proposed final dividend, since our 2007 financial year, we will have returned over £1bn of cash to shareholders, increased the dividend each year and reduced our issued share capital by 40 per cent.

Return of cash to shareholders (£m)



1 Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

2 Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

3 Like-for-like revenue is calculated on stores with a similar selling space that have been open for more than one year (constant currency basis). See Glossary on page 116 for an explanation of the Group's alternative performance measures.

4 Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

5 Free cash flow is defined as the net cash inflow from operating activities before non-underlying items and pension funding, less capital expenditure and repayments to HMRC. See Group cash flow statement on page 74, Note 23 to the financial statements, Cash generated from operating activities on page 99 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

6 Cash dividend paid, except for year ended 31 August 2018, see footnotes 9 and 10.

7 Buyback in the year, except for year ended 31 August 2018, see footnote 8.

8 Buyback of up to £50m announced on 11 October 2018.

9 Proposed final dividend for year ended 31 August 2018.

10 Includes buyback announced on 11 October 2018, proposed final dividend for year ended 31 August 2018 and, for illustrative purposes only, assumes interim dividend to be the same as in 2018.

Review of operations:
Travel

Performance

Revenue
£672m
(2017: £624m)

Total revenue +8%

Like-for-like revenue +3%

Trading profit[1]
£103m
(2017: £96m)

+7%

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

Travel	Number of units	Retail selling space
2018	**867**	**650**
2017	815	613
2016	768	597
2015	736	579
2014	712	554

"During the year, Travel delivered a strong performance with trading profit[1] up seven per cent to £103m."

Performance review 2017/18

Travel delivered another strong performance in the year with trading profit[1] up seven per cent to £103m. Total revenue in the year was up eight per cent with like-for-like revenue up three per cent on a constant currency basis.

During the year, we delivered a strong revenue performance across all our key channels as a result of growth in passenger numbers and our initiatives in managing space, ranges and customer service. In air, total revenue was up seven per cent with like-for-like revenue up four per cent; in rail, total revenue was up one per cent with like-for-like revenue also up one per cent; and in hospitals, total revenue was up six per cent with like-for-like revenue up three per cent. Gross margin increased by 120 bps, driven by mix.

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

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

Travel - UK

Retail space in Travel is often very constrained, it varies substantially by channel and location and is expensive. We seek to maximise the return from every square metre of this space through our detailed analysis of the space and category elasticities of each square metre of display space. This, along with our operational capabilities to make space changes three or four times a year even in our busiest stores, means we are able to respond to the changes in our customers' needs, growth opportunities and adapt to seasonal variations.

This process has, over the years, led to a significant evolution of our formats and ranges. For example, this year has seen an increasing focus on improving our digital offer to customers and we now have 42 'Tech Express' in store zones and standalone units open across air and rail. These units provide customers on the move with a range of digital accessories, including brands such as Apple and Bose, at varying price points in convenient travel locations.

A key focus for us this year has been investing in store layouts and store environment, as well as developing new formats that position us well for the future. An area of particular focus is our large airport format where our experience and analysis shows that we can deliver superior average transaction value and sales per passenger from larger store footprints. Larger stores enable improved customer circulation which drives customer conversion. We now have three stores open showcasing this new format in Gatwick North and Gatwick South terminals and Heathrow Terminal 3. All of these stores are trading well with sales growth in both Gatwick and Heathrow ahead of passenger growth. Landlord and customer feedback has been positive and we expect to open a new, extended store in Heathrow Terminal 4 over the coming weeks. We believe this new compelling offer will be attractive to landlords as they reconfigure their space going forward.

We continue to invest in rail and during the year we have further developed our book offer and our 'Tech Express' format with enhanced departments in existing stores, including larger footprints, new fixtures, improved ranges and specialist staff, as well as opening a standalone bookshop at London Bridge Station. Both customer, publisher and landlord feedback has been positive.

We now have 13 standalone bookshops open across air and rail and four standalone 'Tech Express' units.

Our hospital business is an increasingly important channel and it continues to grow. As a result of our ongoing investment and initiatives we expect it to become our second largest channel in the current financial year. Food and drinks are a very large part

1 Travel trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

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

of the mix in hospitals and increasingly landlords are looking for a customer offer that meets their healthy eating guidelines. Over the last two years, we have worked hard to create an improved and healthier sandwich range, the largest in the market, specifically for our hospital stores. Around 80 per cent of our sandwiches are now under 400 calories. This has been very well received by both the hospital trusts and NHS England as we continue to support their healthy eating programmes.

Following a successful trial during the year of an M&S food to go range within the main WHSmith store in hospitals, we have recently agreed to convert a further 11 stores to this format in the current financial year. We continue to see opportunities to open stores in hospitals and expect to open around eight new hospital stores this year.

“We anticipate opening around 15-20 new units across all three channels in the UK this year with around 15 new units each year over the following two years.”

In addition to investing in our stores, we continue to focus on improving customer service. During the year, a key priority has been to ensure queue times are reduced further at peak periods. To support this, we have invested in additional staff over these busy periods and installed better technology to support a faster and improved payment experience for customers. Following the opening of additional bookshops and with the growing number of Tech Express departments, we have also introduced tailored training programmes for these specific stores as well as product specialists to help customers select the right product for their journey.

International

We have established a good business overseas and the WHSmith brand continues to be well received in both the new and existing territories in which we operate. We are able to demonstrate that we can deliver improved performance and add value relative to the previous incumbents. Our active space management and focus on providing a compelling offer to customers and to landlords enables us to win and retain business.

Compared to last year, total revenue for the year was £132m (2017: £108m), up 22 per cent. Like-for-like revenue was up four per cent on a constant currency basis. Trading profit[1] for the year was £11m, an increase of £2m on the previous year.

“Our international business is growing rapidly with 42 new units won during the year and 58 units opened making a total of 286 units open as at 31 August 2018.”

Our share of the global news, books and convenience (NBC) travel market is still very small and we continue to see opportunities to grow using our three economic models of directly-run, joint venture and franchise.

Of the 42 new units won in the year, 13 are in Europe, 13 are in South East Asia, five are in Australia and 11 are in South America, including four units won in São Paulo Airport in the second half. Including the units won in Galeão airport in Rio de Janeiro, we have now won 11 units in South America through our joint venture with Duty Free Americas. We were pleased to win our first stores at Schiphol Airport, Amsterdam, the third busiest airport in Europe, which we will run directly ourselves as we do with our stores in Spain and Italy.

Of the 286 units open, 52 per cent are franchised, 8 per cent joint venture and 40 per cent directly run. We will continue to use these three economic models flexibly in order to create value and win new business.

We are now present in 50 airports and 27 countries outside of the UK with 77 units open in Europe, 104 in the Middle East and India and 105 in Asia Pacific.

As at 31 August 2018 the Travel business operated from 867 units, including motorway service area franchise units. 21 UK units were closed in the year, primarily due to landlord redevelopment. Excluding franchise units, Travel occupies 0.7m square feet (2017: 0.6m square feet).

Review of operations:

High Street

Performance

Revenue

£590m

(2017: £610m)

Total revenue (3)%

Like-for-like revenue (3)%

Trading profit[1]

£60m

(2017: £62m)

(3)%

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

High Street	Number of stores	Retail selling space
2018	**607**	**2,764**
2017	611	2,799
2016	612	2,827
2015	615	2,892
2014	604	2,490

Performance review 2017/18

High Street delivered a good performance despite challenging trading conditions, with trading profit[1] of £60m (2017: £62m). This is the third highest profit performance over the last 15 years outside of 2016 and 2017, which were driven by exceptional publishing trends in the form of 'colour therapy' titles and spoof humour books. Second half profit was up £1m on the same period last year.

Given the exceptional and well documented challenges on the UK high street, we have undertaken a detailed review of our High Street businesses to ensure we remain fit for purpose now and the future. The result of this review confirmed our successful strategy of actively managing our space to optimise our core categories, gross margin growth and good cost control, remains unchanged. We have created a plan that enables us to better structure the business for the future: by focusing on the core business; winding down our non core initiatives of Cardmarket and WHSmith Local; restructuring some operational activities and dealing with around six loss making stores which will now close at lease end. The cost of these changes was £9m in the year with around £5m expected in the current financial year.

Total revenue in High Street was down three per cent with like-for-like revenue also down three per cent, as expected. In the second half, like-for-like revenue was down two per cent reflecting strong sales of slime products which helped offset the impact of the hot weather and the World Cup. Gross margin improved by around 70 bps, through rebalancing the mix of our business, better buying and markdown management.

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

The majority of our stores are located in the best retail locations in the catchments in which we operate. This, and the huge variability in the size and shape of our stores, continues to give us opportunities to reconfigure our space to deliver margin mix benefits and efficiencies in the store operating model. As we do with our Travel business, we consider retail space as a strategic asset and we utilise our space to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we utilise our space to maximise the return on every metre drop of display space in every store. We also create value through improving margins, reducing costs and driving third party income opportunities.

During the year we have conducted a number of trials to further extend our Stationery ranges and providing more, better quality space in store to this category. These trials have ranged from lower cost initiatives that deliver key benefits, to additional space with new features, such as a dedicated pen shop and digital area, through to a complete store refurbishment, as we have done in locations such as Reading, Cheltenham, Winchester, Thurrock, Salisbury and Trafford Centre. During the second half, we have also undertaken a trial for a number of our smaller stores which incorporate the key principles of the larger refurbished stores. Results from these trials have been encouraging and customer feedback has been positive. We will continue to monitor the results of these trial stores closely.

Stationery remains an important area of investment in our High Street business with good economics and growth potential. It now generates around half our High Street sales and 60 per cent of store contribution. The market remains robust, particularly for fashion and seasonal stationery. Our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; our ability to source competitively through our Far East sourcing office; and our promotional offers and scale mean we can differentiate ourselves in this category.

We work hard at identifying new and emerging trends and are able to adapt quickly to establish ourselves as market leaders in the latest phenomena in our markets. In previous years we have driven strong sales as a result of trends such as colour therapy, and in the second half of this year we responded quickly to the slime phenomenon by creating a one stop shop solution for customers to purchase pre made slime and do it yourself slime kits. This ability to react quickly and become a market leader helped drive further revenue growth in the stationery category in the year.

[1] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

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

- **Funkypigeon.com**, our online personalised greetings card business, performed well over the key seasons delivering good revenue and profit growth. We saw increased traffic volumes with our focused marketing investment and conversion has continued to be strong as we have developed the website and app. Our expanded gifting ranges have performed well and our fulfilment centre in Guernsey has enabled us to meet record levels of demand for both gifting and greeting cards.
- **Cultpens.com**, our specialist pen website, which we acquired in the first half of our financial year has performed well. The integration is largely complete and we are pleased with the progress. The business complements our existing stationery ranges in both our High Street stores and online at whsmith.co.uk as well as enhancing our customer offer.
- **Whsmith.co.uk** continues to provide customers with a comprehensive book and stationery offer. This year we have increased the focus and prominence of stationery ranges, particularly over our key back to school period. This has seen the mix of stationery sales on the website increase by around 10 per cent.

Over the years as part of our strategy of actively managing our space, we have developed a number of key partnerships, including our partnership with Post Office Limited. We are pleased to announce that we have further extended our relationship with Post Office Limited and signed a new agreement including franchising a further 40 Post Offices, bringing the total number of franchised Post Offices within WHSmith High Street stores to 208. Subject to public consultation, we anticipate that the new Post Offices will open over the course of 2019 and will further confirm our position at the heart of the communities in which we operate.

During the second half of the year, we have also developed further our partnership with InComm, whom we have a very longstanding and successful partnership with through our in-store giftcard mall. InComm are the leading distributor for Playstation, Xbox and Nintendo giftcards and this latest agreement has seen us install digital gaming hubs within all of our High Street stores. These hubs will sell prepaid gift cards for the latest games releases as well as prepaid software giftcards for digital downloads.

In Books, the General Retail Market remains fairly stable however the quality of publishing is still the biggest driver of market performance. We had a challenging Christmas period in books, particularly given the success of colour therapy titles and spoof humour books over the past two Christmas periods. There was no new publishing trend for Christmas 2017. During the second half however, our books performance improved, driven by a good performance from titles such as Dan Brown's '*Origin*' and David Walliams's '*The World's Worst Children 3*', where we were the number one retailer at launch. In addition, we continue to make improvements to our customer proposition through ease of browsing and on-shelf book recommendations. Our approach to the books business goes unchanged. We will continue to build on our areas of relative strength to make WHSmith High Street the home for lighter readers, kids and educational books while at the same time driving the overall net profitability of the category by improving the efficiency of our books operating model. Ebooks continue to decline across the market.

The newspaper and magazine market continues to be challenging however the second half was supported by good sales of Royal Wedding titles and World Cup stickers. Across both businesses we continue to extend our healthy eating ranges.

> **"Driving efficiencies remains a core part of our strategy and we focus on all areas of cost in the business."**

We continue to deliver savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. During the year we achieved cost savings of £12m. These savings come from right across the business, including a more efficient store operating model through greater use of technology, contract renegotiations and rent savings at lease renewal.

We have worked hard over the years to create flexibility in our store portfolio. The average lease length is around four and a half years and we only renew a lease where we are confident of delivering economic value over the life of that lease. Over the next three years, the leases on over 240 stores expire giving us further opportunities to renegotiate our occupation costs.

An additional £10m of cost savings have been identified over the next three years making a total of £19m of which £9m are planned for 2018/19.

As at 31 August 2018, the High Street business operated from 607 stores[2] (2017: 611), which occupy 2.8m square feet (2017: 2.8m square feet). Six stores were closed in the year.

Outlook

The distinct strategies for each of our businesses continue to deliver a good performance. In Travel, we have seen another year of good like-for-like sales growth and our UK business has further opportunities to grow across all channels as we continue to invest and actively manage our space. Internationally, we have established a good business which is profitable and growing fast with 286 units open across 50 airports and 27 countries. We see further opportunities to grow our margin and reduce our cost base in our High Street business and we will continue to focus on driving returns from our existing space with our forensic approach to space management. Looking to the year ahead, while the broader economic environment remains uncertain we believe we are well positioned for the current year and beyond.

Stephen Clarke
Group Chief Executive
11 October 2018

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

Financial review

Group revenue

Total Group revenue was up two per cent at £1,262m with Group like-for-like revenue flat compared to last year. Second half Group like-for-like revenue was up one per cent. In Travel, total revenue was up eight per cent with like-for-like revenue up three per cent reflecting investment in our key initiatives and growth in passenger numbers. As expected, in High Street, total revenue was down three per cent with like-for-like revenue also down three per cent.

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

Like-for-like revenue	H1 %	H2 %	Year to August 2018 %
Travel	3	3	3
High Street	(4)	(2)	(3)
Group	(1)	1	–

Robert Moorhead
Chief Financial Officer
and Chief Operating Officer

Stationery like-for-like revenue was up three per cent in the year driven by a good performance in categories such as calendars, single Christmas cards, wrap and diaries over the Christmas period, as well as our strong sales of slime products. Stationery remains an attractive category for us with good economics and growth potential. In Books, publishing remains the biggest driver of the market. Books like-for-like revenue was down six per cent. We had a challenging Christmas period, particularly given the success of colour therapy titles and spoof humour books over the past two Christmas periods, however during the second half our Books performance improved driven by a good performance from titles such as David Walliams's '*The World's Worst Children 3*' and Dan Brown's '*Origin*'. In News and Impulse, we continue to see good growth in our impulse and Food to Go ranges. During the year we extended our healthy eating ranges.

Books and News and Impulse saw an increase in gross margin compared to last year and Stationery was slightly lower than last year reflecting mix and strong sales of digital ranges in Travel.

Category like-for-like sales	H1 %	H2 %	Year to August 2018 %
Stationery	3	4	3
Books	(7)	(4)	(6)
News and Impulse	–	1	1
Group	(1)	1	–

Group profit

Group profit from trading operations[1] increased to £163m, up three per cent on the prior year with Headline Group profit before tax[2] increasing by £5m to £145m (2017: £140m), up four per cent. Group profit before tax decreased by £6m to £134m (2017: £140m), reflecting some non-underlying items primarily from a business review of the High Street.

	2018 **£m**	2017 £m	Change %
Travel trading profit[1]	**103**	96	7
High Street trading profit[1]	**60**	62	(3)
Group profit from trading operations[1]	**163**	158	3
Unallocated costs	**(16)**	(16)	
Group operating profit[3]	**147**	142	4
Net finance costs	**(2)**	(2)	
Headline Group Profit before taxation[2]	**145**	140	4
Non-underlying items	**(11)**	–	
Group profit before taxation	**134**	140	(4)

1 Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and taxation. See Note 2 to the financial statements, Segmental analysis of results on page 83 and Glossary on page 116 for an explanation of the Group's alternative performance measures.

2 Headline Group profit before tax excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

3 Headline, 2018 excludes £11m non-underlying items explained on page 15.

Non-underlying items

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

Non-underlying items included in the year end 31 August 2018 (2017: £nil) are:

	£m
High Street business review	
– Restructuring	(3)
– Cardmarket and store closure costs, onerous lease charges	(6)
Costs relating to uncompleted transaction	(2)
	(11)

Cash flow impact in year ended 31 August 2018	(3)

Despite the good performance from our High Street business, we are not ignoring the challenging conditions being experienced on the high street more generally. As such, we have undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we have made the following decisions: to increase the focus on our core categories; wind down non core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around six High Street stores. The costs relating to the business review will be incurred in both our year ended 31 August 2018 and 31 August 2019. Costs of £3m were incurred in the year relating to the restructuring of central costs. Closure costs of £6m (including onerous lease charges) were incurred relating to Cardmarket and around six High Street stores which we will now close.

We expect the costs of this review to cover both our year ended 31 August 2018 and 31 August 2019 with a non-underlying charge in 2019 of around £5m and a cash flow impact of around £5m. We also incurred £2m relating to fees on an acquisition outside of the UK which we chose not to complete.

[4] See Glossary on page 116 for an explanation of Group's alternative performance measures.

[5] Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

Taxation

The effective tax rate[4] was 18 per cent (2017: 17 per cent), reflecting the statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 19 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 2018, WHSmith contributed £263m (2017: £255m) 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	91
Taxes collected	172
Total tax contribution	**263**

Earnings per share

Headline diluted earnings per share[5] increased by four per cent to 108.2p (2017: 103.6p). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback and the slightly higher tax rate. Diluted earnings per share decreased by five per cent to 98.2p (2017: 103.6p) reflecting some non-underlying items primarily from a business review of High Street.

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 38.1p per share, an increase of 13 per cent on the prior year, giving a total ordinary dividend per share of 54.1p, a 12 per cent increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on 11 October 2018, 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 31 January 2019 to shareholders registered at the close of business on 11 January 2019. The final dividend will be paid gross.

"The Board has proposed a final dividend of 38.1p per share, an increase of 13 per cent on the prior year."

Financial review continued

Balance sheet and cash flow

As at 31 August 2018, the Group had net assets of £212m (2017: £187m). The increase in net assets reflects the cash generation of the business, offset by the return of cash to shareholders and investments in fixed assets.

Cash flow

The Group generated free cash flow of £96m (2017: £105m). The cash generative nature of both the Travel and High Street businesses is one of the strengths of the Group.

	2018 £m	2017 £m
Group operating profit[1]	**147**	142
Depreciation, amortisation and amounts written off fixed assets[1]	**44**	42
Non cash items	**4**	5
Working capital[1]	**(14)**	(7)
Employers' payroll tax on exercised share awards	**(2)**	(2)
Capital expenditure	**(53)**	(48)
Net tax paid	**(27)**	(25)
Net interest paid	**(1)**	(1)
Movement on provisions[1]	**(2)**	(1)
Free cash flow	**96**	105

1 Headline, 2018 excludes non-underlying items as described on page 15 of the Strategic report and Note 4 of the financial statements on page 85.

The higher working capital outflow reflects continued investment in opening new stores and some timing. Payments relating to employers' payroll tax resulting from the exercise of share based awards were £2m in line with last year. Net corporation tax paid on trading profits was £27m, compared to £25m last year.

Capital expenditure was £53m in the year and was £5m higher than the prior year mainly due to our continued investment in stores. Capex includes new stores in Travel in the UK and International, further investment in the store operating model, IT and our existing stores, and store format trials in High Street.

This year we expect capex spend to also be around £50m. Going forward after this year, we expect capex to also be around £50m per annum although this will depend on the number of new stores we open.

Analysis of capex:

	2018 £m	2017 £m
New stores and store development	**25**	23
Refurbished stores	**17**	13
Systems	**9**	10
Other	**2**	2
Total capital expenditure	**53**	48

As at 31 August 2018, net debt was £2m being net cash of £12m and finance leases of £14m.

The movement in net debt is as follows:

	2018 £m	2017 £m
Opening net funds	**4**	7
Free cash flow	**96**	105
Dividends paid[2]	**(54)**	(50)
Pension funding	**(3)**	(3)
Net purchase of own shares for employee share schemes	**(3)**	(9)
Purchase of own shares for cancellation	**(26)**	(40)
Return of payment on account to HMRC[3]	**–**	(2)
Acquisitions/investments in joint ventures	**(5)**	–
Repayments of obligations under finance leases	**(5)**	(4)
Other	**(1)**	(1)
Non-underlying items[4]	**(3)**	–
Closing net funds before net movement on finance leases	**–**	3
Net movement on finance leases	**(2)**	1
Closing net (debt) / funds	**(2)**	4

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

3 £2m in 2017 relates to the interest on the £13m repayment to HMRC made in 2016.

4 Cash flow effect of Non-underlying items explained on page 15 and Note 4 to the financial statements on page 85.

In addition to the £96m of free cash flow generated in the year, the Group has seen a net cash outflow of £60m in relation to non-trading operations. This includes £54m of dividend payments, £3m pension funding and the net purchase of own shares for employee share schemes of £3m. During the year, we also invested £2m in Cultpens.com and £3m in international businesses, including £2m in joint ventures. The cash flow impact of non-underlying items was £3m. Further detail is provided in Note 4 to the financial statements.

We returned £26m to shareholders through an on-market buyback. A further buyback of up to £50m was announced on 11 October 2018.

As at 31 August 2018 net debt was £2m being net cash of £12m and finance leases of £14m.

Return on capital employed (ROCE)

ROCE for the Group after capitalising operating leases is 26 per cent (2017: 25 per cent) with Travel at 31 per cent (2017: 29 per cent) and High Street at 23 per cent (2017: 23 per cent).

	Operating capital employed £m[5]	ROCE %[6]	ROCE with operating leases capitalised %[7]
Travel	92	112	31
High Street	135	44	23
Trading operations	**227**	**72**	**28**
Unallocated central liabilities	(10)		
Operating assets employed	**217**	**68**	**26**

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

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

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

For the prior year, comparable ROCE was 76 per cent (Travel 128 per cent and High Street 48 per cent).

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2017 at which point the deficit was £11m (31 March 2014 actuarial revaluation deficit of £24m). The Group agreed a revised annual funding schedule with the Trustees from September 2017 for the next six years of £3m. This includes the deficit recovery contributions and other running costs. During the year ended 31 August 2018, the Group made a contribution of £3m to the scheme.

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

As at 31 August 2018, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £3m (2017: £4m) and an associated deferred tax asset of £1m (2017: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2018, the scheme had an IAS 19 surplus of £294m (2017: surplus of £269m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2017: £2m).

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 £184m (2017: £182m) (net of £1m of external rent receivable (2017: £1m)). The total future rental commitment at the balance sheet date amounted to £824m (2017: £841m) with the leases having an average life of 4.5 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 £2m (2017: £3m).

Robert Moorhead
Chief Financial Officer
and Chief Operating Officer
11 October 2018

Our performance

Key performance indicators

Driving profitable growth

Revenue (£m)

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

Gross margin movement[1] (basis points)

Gross profit divided by revenue.

Year-on-year movement expressed in basis points.

Profit[1] (£m)

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

Group is Headline Group profit before tax[1].

Travel

Year	Revenue (1)	(2)	Gross margin movement	Profit
2018	**672**	**8%**	**120**	**103**
2017	624	9%	100	96
2016	573	10%	30	87
2015	521	9%	50	80
2014	477	4%	100	73

High Street

Year	Revenue (1)	(2)	Gross margin movement	Profit
2018	**590**	**(3)%**	**70**	**60**
2017	610	(5)%	110	62
2016	639	(3)%	130	62
2015	657	(4)%	140	59
2014	684	(6)%	190	58

Group

Year	Revenue (1)	(2)	Gross margin movement	Profit
2018	**1,262**	**2%**	**90**	**145[1]**
2017	1,234	2%	90	140
2016	1,212	3%	80	132
2015	1,178	1%	90	123
2014	1,161	(2)%	160	114

1 See Glossary on page 116 for an explanation of the Group's alternative performance measures.

Focused use of cash

Free cash flow[1] (£m)

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

2018	**96**
2017	105
2016	108
2015	109
2014	98

Returns to shareholders

Headline earnings per share[1] (p)

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

2018	**108.2**	**4%**
2017	103.6	9%
2016	94.8	9%
2015	87.3	12%
2014	77.7	18%

Dividend per share (p)

Total dividend per share.

2018	**54.1**
2017	48.2
2016	43.9
2015	39.4
2014	35.0

Return of cash to shareholders (£m)

Total cash returned to shareholders through dividends and buybacks.

2018	**80**
2017	91
2016	93
2015	96
2014	79

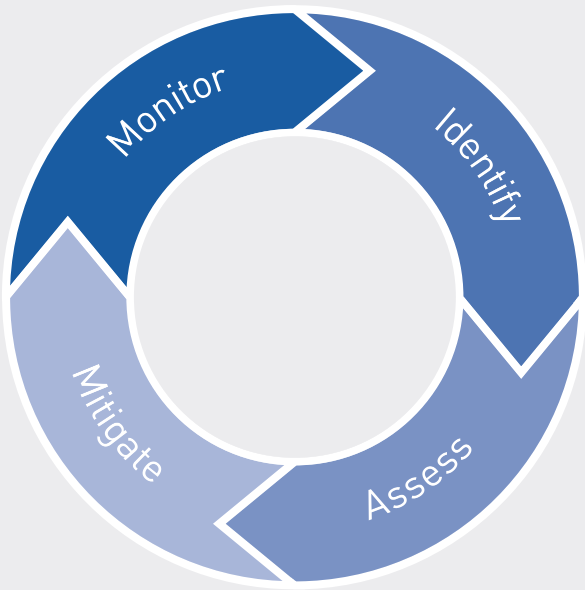
Performance indicators relating to operating responsibility can be found in the Corporate responsibility and environment section of the Strategic report set out on pages 25 to 28 and in our full CR report, available at www.whsmithplc.co.uk/cr.

[1] See Glossary on page 116 for an explanation of the Group's alternative performance measures.

Principal risks and uncertainties

Risk management framework

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



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

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

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

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

All principal business functions compile risk registers and summary risk maps to identify key risks, assess them in terms of their likelihood and potential impact, and determine appropriate control strategies to mitigate the impact of these risks taking account of risk appetite. The ongoing monitoring of this framework is overseen by the respective Business Risk Committees and the Group Audit Committee.

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

Board review of principal risks and uncertainties

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

Changes in principal risks compared to last year

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

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

Key: Change in risk level

↑ higher ↔ no change ↓ lower

Risk/description	Mitigation	Change in risk level
Economic, political, competitive and market risks		
The Group operates in highly competitive markets and in the event of failing to compete effectively with travel, convenience and other similar product category retailers, this may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. Factors such as the economic climate, levels of household disposable income that may be impacted by Brexit, seasonality of sales, changing demographics and customer shopping patterns, and raw material costs could also impact on profit performance. The Group may also be impacted by political developments 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 this process.	↑ Uncertainties relating to the nature and resulting impact of the UK's exit from the EU.
Brand and reputation		
The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business, adversely affecting revenues. As the Group continues to expand its convenience food offer in travel locations, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all of our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. We operate a framework for monitoring compliance with all regulatory, hygiene and safety standards, encompassing supplier and store audits and clearly defined sourcing policies and procedures. Our corporate responsibility programme monitors our performance in respect of our key themes of the Marketplace, Workplace, Environment and Impact on the Community.	↔

Principal risks and uncertainties continued

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

Risk/description	Mitigation	Change in risk level
Reliance on key personnel		
The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment. Labour retention may also be impacted in some areas in the event of Brexit restrictions to migrant labour.	The Group reviews key roles and succession plans. The Remuneration Committee monitors the levels and structure of remuneration for directors and senior management and seeks to ensure that they are designed to attract, retain and motivate the key personnel to run the Group successfully.	↔
International expansion		
The Group continues to expand internationally. 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 material concentration of risk in any one area.	↑ This is an area of increasing risk, reflecting the growth of our International business, with over 280 stores now open.
Treasury, financial and credit risk management		
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 24 on page 99 of the financial statements. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a committed facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. This facility matures in December 2022.	↔
Cyber risk and data security		
The Group is subject to the risk of systems breach or data loss from various sources including external hackers or the infiltration of computer viruses. Theft or loss of Company or customer data or potential damage to any systems from viruses, ransomware or other malware could result in fines and reputational damage to the business that could negatively impact our sales.	The Group employs a framework of IT controls to protect against unauthorised access to our systems and data, including monitoring developments in cyber security. This control framework encompasses the maintenance of firewalls and intruder detection, encryption of data, regular penetration testing conducted by our appointed external quality assurance providers and engagement with third party specialists, where appropriate. We have a Steering Group overseeing our approach and response to cyber risk, and monitoring our programme of ongoing compliance with the Payment Card Industry Data Security Standard and the GDPR.	↑ While the external threat level is ever changing, there has been a general increase in the number of externally reported cyber attacks affecting 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.

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

Brexit

Following the UK referendum to leave the EU, there will be a period of uncertainty until an agreement on exit has been agreed between the UK and the EU. The extent to which our operations and financial performance are likely to be affected in the longer term should therefore become clearer as details of this agreement emerge.

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

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the directors are required to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities over a period greater than 12 months, taking into account its current position and principal risks.

The Group's strategy is highlighted on page 5. The key factors are:

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

Other disclosures

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

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

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

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

We have also modelled the adverse impact following the UK's vote to leave the European Union, including reduced consumer spending, input cost inflation from increased tariffs and a weakening of sterling.

Taking account of the above matters, and the Group's current position and principal risks, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 August 2021.

Corporate responsibility programme

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

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

The following pages provide a summary of our CR work this year. We have addressed the new requirements for non-financial reporting introduced as part of the UK Companies Act, and have included details of policies, activities and performance for our key risk areas. More detailed information, including performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/cr.

Environment

Our main environmental impacts relate to:

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

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

Other disclosures continued

Greenhouse gas emissions

We have been working for many years to reduce the amount of energy we use, recognising the opportunity to minimise our overall greenhouse gas footprint and to reduce operating costs for the business. We have now met our objective to cut GHG emissions from stores and distribution centres by 45 per cent per square foot by 2020 (from a 2007 baseline), this year achieving a 61 per cent reduction against the baseline. The ownership for energy consumption sits with our store managers who have direct accountability for energy costs, driving high levels of awareness and engagement among our store teams.

This year we completed a three-year project to roll-out energy efficiency best practice to stores, altering energy settings for lighting, heating and air conditioning to minimise energy consumption, whilst maintaining a welcoming and comfortable environment for customers. We have introduced additional air-conditioning controls to 229 High Street stores and 369 Travel stores. These conserve energy by switching off air-conditioning units when temperatures are within an optimal range.

WHSmith's transport and distribution network is a long and complex one, delivering from our distribution centres to well over 1,000 stores across the length and breadth of the UK. The emissions from our fleet of lorries make up a significant part of our GHG footprint and we work hard to maximise efficiency wherever we can. We set ourselves a long-term target to reduce our GHG emissions per pallet by 20 per cent by 2020 (against a 2007 baseline). We have now met this target, achieving a reduction against the baseline of 28 per cent this year.

We work with our transport providers to carry out regular and in-depth reviews of our transport operations to help us to optimise routing and delivery frequency. The addition of double deck trailers which are suitable for both High Street and Travel distribution centres has helped to achieve greater efficiencies by enabling more stock to be transported in fewer journeys.

Global greenhouse gas emissions data for period 1 September 2017 to 31 August 2018 in tonnes of CO_2e

	2017/18	Percentage of carbon footprint	2016/17
Scope 1 emissions			
Combustion of gas to heat and cool WHSmith stores, offices and distribution centres.	**2,659**	10	2,653
Scope 2 emissions			
Electricity purchased for WHSmith's own use (used to power, light and heat stores, offices and distribution centres).	**18,667**	67	21,419
Scope 3 emissions			
Combustion of fuel for the transport of products from distribution centres to stores using vehicles owned by third parties. Also emissions from WHSmith employee business travel (by air, rail and owned and non-owned motor vehicle).	**6,430**	23	7,094
Total	**27,756**	100	31,166

Scope and methodology

Our methodology for the reporting of GHG emissions has been developed using the following guidance: GHG Protocol (including the Corporate Standard and Scope 2 and 3 guidance documents); CDP guidance (including the 2018 Climate Change Responder's Pack and the Technical Note on Accounting of Scope 2 Emissions); and the Climate Disclosure Standards Board. We have also begun to incorporate the recommendations of the Task Force on Climate-Related Financial Disclosure into our reporting. Conversion factors from the UK Government department for the Environment, Food and Rural Affairs (DEFRA) have been used to calculate GHG emissions. Scope 2 emissions are reported using the location-based method. This data covers the continuing activities undertaken by our retailing operations in the UK. Emissions from directly-run international stores are approximately 2,000 tonnes CO_2e. Assurance of greenhouse gas emissions has been provided by Corporate Citizenship.

Waste management

Waste is not only damaging to the environment but also costly for our business, so we are focused on reducing excess materials and maximising recycling wherever we can. In our High Street stores, we operate a recycling system which enables the stores to recycle most forms of waste, including cardboard, paper, plastics and metals. Waste is also segregated in our distribution centres and offices. Overall 87 per cent of our waste was recycled during 2017/18.

The number of food lines that we sell is growing, and eliminating food waste is a priority for our Travel business. One of the main sources of food waste is from unsold sandwiches which have reached their use by date. We have implemented a number of initiatives over the past two years, including a new stock control system to improve forecasting and ordering of chilled food sales, so that we only stock the chilled food that we expect to sell, reducing waste volumes. We have also instigated changes in our markdown strategies for chilled food to reduce waste volumes as far as we can. This year we delivered a 28 per cent reduction in sandwich waste.

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

We regularly review the type and quantities of packaging we use, including primary packaging of our own-brand products and the secondary packaging used to protect goods during transit and distribution. We seek to identify opportunities to minimise packaging where possible, and use more environmentally-preferable solutions such as cardboard and reusable skips for internal transfer of stock. This year we have removed all plastic stirrers, replaced plastic straws with compostable ones and introduced re-usable cups into our Coffee House coffee shops and office restaurants. We have also introduced a much wider range of refillable water bottles into most of our High Street and Travel stores.

Sustainable forestry

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

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

Our sourcing teams work with our suppliers to help them understand our requirements and how the data they provide is needed to demonstrate that the pulp used in a WHSmith product is sourced from a certified or recycled source. We have made significant progress and this year we have achieved our 2020 target, with 95 per cent of paper in our own-brand products now originating from certified and recycled material.

Ethical trading and respect for human rights

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

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

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

Our understanding of modern slavery risks continues to grow, and we have developed a due diligence process to make sure we are identifying and assessing any potential and actual risks, and providing appropriate risk control, mitigation and remedy where needed. We have reported on this area in detail in a separate Modern Slavery Statement, available at www.whsmithplc.co.uk/docs/Modern_Slavery_Statement_FINAL.pdf.

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 over £1.5 million into local communities, including cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report.

This year, we have continued to partner with the three charities we selected as part of our 225th anniversary celebrations, and have now raised over £1.7 million for Cancer Research UK, Mind and the National Literacy Trust from customer and employee donations and fundraising . Once again, we sold pin badges, wristbands, Christmas cards and books to raise money for the three charities, and customers and employees across the UK have been generous with fundraising support. We have held special events to celebrate World Book Day for the National Literacy Trust, to mark Mental Health Awareness Week for Mind and to publicise Cancer Research's Stand up to Cancer event in October.

The WHSmith Group Charitable Trust is an independent registered charity, which works in partnership with the Group to support literacy projects and actively supports WHSmith employees involved with charitable organisations in their local communities. This year, it has continued its support of the National Literacy Trust's Young Readers Programme, incorporating 'live literature' events to bring children into direct contact with authors, storytellers and illustrators, helping to bring books to life and inspiring children to discover the joy of reading. Over the year, the project has worked with 1,500 children in 24 primary schools across the UK, allowing them to choose more than 4,500 free new books to keep. Further details of the WHSmith Trust can be found at: www.whsmithplc.co.uk/corporate_responsibility/whsmith_trust/.

Employees

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

Equal opportunities

The 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.

Diversity and inclusion

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

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

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

Training and development

Our learning and development programmes are designed to support our employees to reach their potential within the business and their careers. We focus on supporting and developing talented individuals within our business, with the objective of continuing to achieve a 90 per cent internal succession rate across the business. Our Retail Academy supports store staff in developing their skills and moving on to new roles, and targeted development programmes in head office help to create a pipeline of talent to fill future vacancies. Our current wave of apprenticeship qualifications for 37 of our team leaders in our Travel business is due to complete in November 2018, resulting in a nationally recognised Level 3 Retail Qualification for those taking part. In our High Street business, where we are transforming a number of our highest volume stores, we have provided extra training and development to store managers.

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. We conduct annual employee engagement surveys and the results are shared with all staff and actions agreed to respond to specific points of feedback, with employee focus groups used to help understand the staff feedback in more depth.

Employee share ownership

The Company operates a HM Revenue & Customs Approved Save-As-you-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 780 employees participate in the scheme.

Our employees: key information

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

Tenure		**Male/Female**		
0–1 year	0%	Male	4	67%
1–3 years	0%	Female	2	33%
3–6 years	33%			
6–9 years	50%	**Executive/non-executive**		
10+ years	17%	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	5	25%
Men	15	75%

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

Management team[2]		
Women	312	43%
Men	407	57%

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	8,141	65%
Men	4,416	35%

Health, safety and wellbeing

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

We believe that it is just as important to support our colleagues' mental wellbeing as it is to look after their physical wellbeing. Our strategy is led from the top, with CEO Stephen Clarke signing the Time to Change pledge in February 2017. During the year, we have continued with our work with the organisation Time to Change to raise awareness of mental health issues and the associated stigma among employees, and our work with Mental Health First Aid (MHFA) England to train our employees on how to support mental health in the workplace. Training for line and store managers is well progressed with over 90 per cent of office line managers trained as well as the vast majority of store managers.

Anti-bribery and anti-corruption

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

Corporate governance report

Introduction from the Chairman

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

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

During the year the Board was kept up to date on the developments and changes to the corporate governance landscape and the Code. In July 2018, the FRC published the new Code which will apply to the Company's financial year ending August 2020. The new Code will be an area of focus for the Board and the relevant Committees over the next year.

As a Company, we have a long-standing commitment to high standards of corporate responsibility, which includes considering the interests of a broad stakeholder group in making business decisions. The Board remains focused on all our stakeholders, including our employees, customers, shareholders and the communities we are part of. You can read about our engagement with shareholders on page 38 and our commitments to customers, employees and community matters on pages 25 to 29.

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

Henry Staunton
Chairman

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 59 and in the Directors' report on pages 60 to 62.

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, leadership of the Company and managing it within the authorities delegated by the Board. Drummond Hall is the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All the directors, whose biographies are on page 39, served during the financial year ended 31 August 2018 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. Drummond Hall was appointed as a non-executive director in September 2008. He was appointed as the Chair of the Remuneration Committee in July 2009 and became the Senior Independent Director in September 2013. He began his tenth year as a director of the Company in September 2017. In light of the provisions of the Code, the Board has considered Drummond's role and has concluded that Drummond Hall demonstrates independence and continues to give effective counsel. Drummond Hall has stood for annual re-election since 2011 and will be standing again at the AGM in January 2019. He will step down as Chair of the Remuneration Committee at the 2019 AGM but will remain as a member of the Committee. Drummond Hall will not stand for re-election as a non-executive director at the 2020 AGM. I would like to thank Drummond for his valuable contributions and strong commitment to his continuing role as Senior Independent Director.

Following Drummond Hall's stepping down as Chair of the Remuneration Committee, Annemarie Durbin will be appointed as Chair of the Remuneration Committee.

Further information on the Board evaluation process can be found on pages 31 and 32 of this report.

Attendance at Board meetings

The Board met 11 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 2018 and the attendance record of individual directors.

Board membership	Number of meetings attended
Henry Staunton	11 of 11
Suzanne Baxter	11 of 11
Stephen Clarke	11 of 11
Annemarie Durbin	11 of 11
Drummond Hall	11 of 11
Robert Moorhead	11 of 11

The Board has met three times since 31 August 2018 and all the directors attended the meetings.

Matters reserved for the Board

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

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

Risk management

The Board has overall responsibility for the Group's system of risk management and internal control (including financial controls, controls in respect of the financial reporting process and operational and compliance controls) and has conducted a detailed review of its effectiveness during the year to ensure that management has implemented its policies on risk and control. This review included receiving reports from management, discussion, challenge, and assessment of the principal risks. No significant failings or weaknesses were identified from this review. In addition, the Board also received presentations from management on higher risk areas, for example, cyber risk, risks arising from the process of exiting the European Union and growing international expansion. The Board has established an organisational structure with clearly defined lines of responsibility which identify matters requiring approval by the Board. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas that require improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing principal risks faced by the Group, including those risks relating to social, environmental and ethical matters. The Board confirms that the processes have been in place for the year under review and up to the date of this report and that they accord with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'Risk Management and Internal Control Guidance'). The processes are regularly reviewed by the Board. The principal risks and uncertainties facing the Group can be found in the Strategic report on pages 20 to 24.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 33 to 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.

Board evaluation

The performance of the Board, its Committees and its individual directors is a fundamental component of the Company's success. The Board regularly reviews its own performance and, following the externally facilitated evaluation carried out in June 2017, a formal internally facilitated evaluation was carried out in July 2018. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The main areas considered during the evaluation were strategy, operations and risk; succession planning; Board composition; culture and Board Committees.

The findings were presented to the Board in October 2018. 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. Additionally, the culture of the Board remains very good, being open and frank, whilst also supportive and collaborative. As a result of the review, the Board agreed an action plan that will be implemented in the financial year ending 31 August 2019 and will include continued focus on succession planning and the overall composition of the Board, including developing more structured plans for internal candidates; continuing to improve communications between members of the Board and employees and other stakeholders; additional measures to ensure maximum benefit is derived from the strategy session held each year; and steps to improve the Board's procedures and effectiveness. In addition to the Board and Committee evaluation process, the Group Chief Executive reviews the performance of the Chief Financial Officer/Chief Operating Officer ('CFO/COO') and other senior executives. The Chairman reviews the performance of the Group Chief Executive.

The Chairman also undertook a rigorous review with each of the non-executive directors to assess their effectiveness and commitment to the role. The Board has also scrutinised the factors relevant to the determination of the independence of Drummond Hall given that he has been a director for ten years. The Board considers his continued membership of the Board is in the best interests of the Company and, having given careful consideration to the matter, the Board is satisfied that Drummond Hall continues to demonstrate the qualities of

Corporate governance report continued

independence in carrying out his role as a non-executive director and Senior Independent Director. The Board considers that he continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. Drummond Hall has stood for re-election annually and, on each occasion, has been re-elected by shareholders. The Board will continue to keep his independence under review. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to maintain the best possible team. The Board is satisfied that each of the non-executive directors commits sufficient time to the business of the Company and contributes to its governance and operations. The Senior Independent Director met the other non-executive directors to assess the Chairman's performance, taking into account the views of the executive directors, and they concluded that Henry Staunton continues to be an effective Chairman and demonstrates his commitment to the role.

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 23 January 2019. At the last AGM on 24 January 2018, all the directors stood for re-election and were duly elected with a range of 96.76 per cent to 99.36 per cent of votes cast by shareholders. 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 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 59.

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

Board Committees

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 33 to 36, the Nominations Committee on pages 37 to 38 and the Remuneration Committee on pages 40 to 59. The role and responsibilities of each Committee are set out in formal terms of reference which are available on the Company's website, www.whsmithplc.co.uk. In addition, following the implementation of the EU Market Abuse Regulation (MAR) in July 2016, the Board established a Disclosure Committee which is responsible for ensuring compliance with the Company's obligations under MAR.

Diversity policy

The Board values diversity in all its forms, both within its own membership and at all levels of the Group, and are highly supportive of the initiatives the Company has in place to promote diversity throughout the business. The Board believes that diversity in its widest sense is a key component to the success of the Company and during the year approved the Board's diversity policy. The Board aims to ensure its membership, and that of the wider Group, reflects diversity in its broadest sense so that it has a combination of demographics, skills, experience, race, age, gender, education and professional background thereby providing a wide range of perspectives, insights and challenge needed to support good decision-making. The policy aims to ensure that the Board nominations/appointments process is based on fairness, respect and inclusion, and that the search for candidates will be conducted with due regard to the benefits of diversity. It is the Company's aim to achieve a minimum of 30 per cent of women at Board and senior levels. Further information on diversity can be found in the Nominations Committee section on pages 37 to 38 and is set out in the Employees section of the Strategic report on pages 28 to 29.

UK gender pay gap reporting

During the year the Board was kept up to date on the Company's obligation to report gender pay gap data for UK legal entities on the UK Government website and on our website. Further information can be found in the Nominations Committee report on pages 37 to 38.

Succession planning and culture

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

The Board recognises the importance of being visible and accessible to customers and employees. The non-executive directors are 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.

Fair, balanced and understandable

The Board confirms that it considers the 2018 Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Discussion of the Board's assessment of the Annual report and accounts is described in the Audit Committee Report on page 35.

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 2018. 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, 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.

"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 2018."

Suzanne Baxter
Chair of the Audit Committee

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 2018 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 2018 and all the Committee members attended the meeting.

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

- reviewing the effectiveness (including focus on the Group's growing International business) of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security and tax;
- monitoring the integrity of the Group's financial statements and trading statements;
- assessing and recommending to the Board that the Annual report is fair, balanced and understandable;
- considering the Company's viability statement and papers from management, which considers the long-term viability of the Group;
- considering papers from management on the key financial reporting judgements, including the paper on the presentation and components of non-underlying items and 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;
- considering the Company's systems and framework of controls designed to detect and report fraud and money-laundering;
- monitoring the role and effectiveness of Internal Audit;
- reviewing the Company's approach to cyber risk;
- receiving reports and presentations on the Company's expanding International businesses and working on measures to strengthen controls;
- 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;

Corporate governance report continued

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

Long-term viability statement and going concern

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

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

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

The Committee reviewed management's analysis supporting the going concern basis of preparation including reviewing the Company's financial performance, budgets for 2018/19 and cash flow projections. As a result of the assessment, the Committee reported to the Board that the going concern basis of preparation remained appropriate. The going concern statement is set out in the Directors' report on page 62.

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 received a paper from management on accounting for and valuation of inventory and considered the judgements made by management. The Committee also received 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

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

Impairment review of store assets

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

Property transactions and provisions

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

Non-underlying items

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

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

At the request of the Board, the Committee has considered whether, in its opinion, the 2018 Annual report and accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee was assisted in its review by a number of processes, including the following:

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

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

Risk management and internal controls

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

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

Corporate governance report continued

- 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 2019 financial year and the directors will be proposing the re-appointment of PwC at the 2019 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 accordance with applicable law and regulation.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2017 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 was updated in 2017 following the introduction of the FRC Revised Ethical Standard 2016. The majority of non-audit work undertaken by PwC in 2017/18 related to due diligence work in relation to a potential acquisition, the interim review, non-audit and tax advice. The Company decided to use PwC in respect of the potential transaction after considering alternative approaches and taking into account their understanding of our business, their retail expertise and the tight timescales for completing due diligence. PwC used a specialist team which was separate from the audit team for this work. The Auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. As Chair of the Audit Committee, my approval is required before the Company uses non-audit services as specifically set out in the policy, or if the fees exceed £25,000 per matter. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum level of permitted fees incurred for non-audit services provided by PwC. For the financial year ended 31 August 2018 the non-audit fees paid to PwC were £567,800 and the audit fees payable to PwC were £352,500.

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

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

Suzanne Baxter
Chair of the Audit Committee
11 October 2018

Board Committees/Nominations Committee

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 2018. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge, independence and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee comprises a majority of independent non-executive directors. The other members of the Committee are Suzanne Baxter, Stephen Clarke, 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.

"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 2018."

Henry Staunton
Chair of the Nominations Committee

The Committee met three times during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, the search for a new non-executive director, the appointment of a new Chair of the Remuneration Committee, career planning and identifying talent across the businesses, approval of a diversity policy and reviewing the work that has been undertaken in respect of the Company's gender pay gap reporting obligations.

As part of the Company's succession plans, the Committee has appointed external recruitment consultants, Lygon Group, to assist in the process of identification of potential candidates to join the Board. I confirm that Lygon have no other relationship with the Company and have signed up to the voluntary Code of Conduct covering Board appointments established following the Davies Review. This process is ongoing.

Following Drummond Hall's decision to step down as Chair of the Remuneration Committee, the Committee also agreed that Annemarie Durbin should be appointed as the Chair of the Remuneration Committee with effect from the AGM in January 2019. I confirm that Annemarie Durbin absented herself from the meetings at which her appointment as Chair of the Remuneration Committee was discussed by the Committee.

All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2018 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Henry Staunton	3 of 3
Suzanne Baxter	3 of 3
Stephen Clarke	3 of 3
Annemarie Durbin	3 of 3
Drummond Hall	3 of 3

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

The Nominations Committee has met twice since 31 August 2018 and all the Committee members attended both meetings.

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

During the year the Board became a member of 'The 30% Club', which aims to achieve a minimum of 30 per cent of women on FTSE 350 Boards and in senior management within FTSE 100 companies by 2020. The organisation runs targeted initiatives and campaigns to improve gender diversity and accelerate the pace of change. The Board is committed to strengthening the pipeline of women in senior roles across the business and continues to take steps to ensure there are no barriers to women succeeding at the highest level of the Company. An action plan has been agreed to take further steps

Corporate governance report continued

to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity within the senior management team, and the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company.

During our 'Learning at Work Week' programme, 'Women in Leadership' has been a key theme, with talks from our most senior female executives, master classes and chances to network. To ensure we attract more women at senior level, we continue to aim for gender balanced shortlists for internal and external recruitment at a senior executive level. The Company also works with 'Everywoman' who provide a host of personal development tools aimed at women and also provide our employees with links to an external network of professional women in other organisations. Further information on diversity is set out in the Employees section of the Strategic report on pages 28 and 29.

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

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

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

Henry Staunton
Chair of the Nominations Committee
11 October 2018

Remuneration Committee

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 40 to 59.

Approvals Committee

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

Disclosure Committee

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

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

Anti-corruption

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

Compliance with the code

Throughout the year ended 31 August 2018 and up to the date of this report the Company has been in compliance with the provisions of the Code.

This report was approved by the Board on 11 October 2018.

Signed on behalf of the Board

Henry Staunton
Chairman
11 October 2018

Directors' biographies

Henry Staunton
Chairman

Henry Staunton joined the Board of WH Smith 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 Capital and Counties Properties plc and Phoenix Group Holdings. He was previously the Finance Director of Granada and ITV, Chairman of Ashtead Group, BrightHouse Group PLC and Vice Chairman of Legal and General PLC.

Stephen Clarke
Group Chief Executive

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

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Robert Moorhead is Chief Financial Officer and Chief Operating Officer ('CFO/COO') and joined the Board of WH Smith in December 2008. He is a Chartered Accountant and joined WH Smith 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.

Suzanne Baxter
Non-Executive Director

Suzanne Baxter is a non-executive director and joined the Board of WH Smith in February 2013. She is a Chartered Accountant having trained at Price Waterhouse, and is Chair of the Audit Committee. She is a Commissioner on the Board of the Equality and Human Rights Commission and is a member of its Audit and Risk Assurance Committee and Treaty Monitoring Commissioner Working Group. She was formerly the Group Finance Director of Mitie Group Plc. She has also been the Chair of the Business in the Community South West Strategic Advisory Board, Deputy Chair of Opportunity Now and Chair of the Business Services Association.

Annemarie Durbin
Non-Executive Director

Annemarie Durbin is a non-executive director and joined the Board of WH Smith in December 2012. She is a non-executive director and Chair of the Remuneration Committee of Santander UK plc. Previously, she was a non-executive director of Ladbrokes Coral Group plc and was Chair of the Listing Authority Advisory Panel. She has 25 years' international banking experience, particularly across Asia, Africa and the Middle East, operating at Board and Executive Committee level. In addition to her directorships, Annemarie is an executive coach, a conflict mediator and provides Board governance consultancy services.

Drummond Hall
Non-Executive Director

Drummond Hall is a non-executive director and joined the Board of WH Smith 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. He was previously Chairman of Mitchell's and Butlers and a non-executive director of TNS.

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

Directors' remuneration report

Annual statement from the Remuneration Committee Chair

Dear Shareholder

On behalf of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2018 which is in line with the Company's approved remuneration policy. I also include details of the proposed changes to the Directors' remuneration policy in line with our requirement to obtain shareholder approval of our policy at least every three years. Over the following pages we have set out:

- the Company's forward-looking Directors' remuneration policy which is subject to a binding shareholder vote at our 2019 AGM as set out on pages 42 to 50; and
- our Annual remuneration report setting out details of the implementation of our remuneration policy in 2017/18 and how the proposed remuneration policy will be implemented in 2018/19 as set out on pages 51 to 59. This section of the report is subject to an advisory vote at our 2019 AGM.

"The Directors' remuneration policy has served the Company well. The Committee is therefore seeking approval for its renewal with only limited changes."

Drummond Hall
Chair of the Remuneration Committee

Our policy, as set out in this report, focuses on our approach to pay which we believe is in our shareholders' best interests. It includes appropriate, but limited, flexibility to address changing circumstances during the period in which the policy will operate. The 2016 remuneration policy was supported by 98.53 per cent of our shareholders at our AGM in 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 advisor regularly attend meetings.

The Committee met five 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 2018 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Drummond Hall	5 of 5
Suzanne Baxter	5 of 5
Annemarie Durbin	5 of 5
Henry Staunton	5 of 5

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

The Committee has met twice since 31 August 2018 and all Committee members attended both meetings.

Key decisions and changes

The key decisions and changes made by the Committee during the financial year ended 31 August 2018 are highlighted as follows:

- The Committee agreed to the request of the CEO and CFO/COO that they should not receive a pay increase in the financial year ended 31 August 2018. There was a general annual pay rise of two per cent for most other head office employees which took effect from 1 April 2018.
- The Committee undertook a review of the existing remuneration policy in anticipation of presenting a new policy for consideration by shareholders at the 2019 AGM. The Committee sought the views of the Company's largest shareholders and shareholder representatives before finalising the proposals. Details of the review are set out on page 42. The proposed policy is largely unchanged from the current one except for the introduction of bonus deferral from 2019 and widening the malus/claw-back provisions. The Committee also considered, as part of the policy renewal, increasing the salaries of the executive directors given that the CEO has not received a salary increase since September 2015 and the CFO/COO has not received a salary increase since April 2016. The executives' chose not to accept the increase. The Committee believes that it may be appropriate to consider this background when reviewing future salary increases.

- The Committee approved the 2017 Directors' remuneration report.
- The Committee undertook a review of the fees paid to the Chairman and, after taking advice from FIT Remuneration Consultants LLP, its external independent remuneration advisor, increased the fee with effect from 1 April 2018 from £215,000 to £235,000 per annum.
- The Committee approved the performance targets for the Long-Term Incentive Plan ('LTIP') and annual bonus plan.
- The Committee approved the payout under the LTIP, Co-Investment Plan ('CIP') and bonus plan.
- The Committee considered the Company's gender pay gap report.
- The Committee received updates on the new UK Corporate Governance Code and its impact upon the Committee's remit and process. As this was only published very shortly prior to the end of the financial year, the Committee will be considering appropriate revisions in the next financial year.

In March 2018, the Chairman and the executive members of the Board undertook a review of non-executive fees. Following this review, it was agreed that the fees paid to non-executive directors should be increased from 1 April 2018. The basic annual fee increased from £50,000 to £55,000 per annum with the additional fees paid to the Senior Independent Director, Chair of the Audit and Remuneration Committees being increased from £10,000 to £12,000 per annum.

Gender pay

In line with the new UK regulations, we published our gender pay gap report in March 2018. It showed a median gender pay gap of zero per cent and a mean gender pay gap of 20 per cent across all our UK employees. We are confident that our gender pay gap is caused by the gender imbalance in our senior executive positions and is not an issue of equal pay. As a business, we are committed to promoting a culture of inclusion and diversity and continue to develop initiatives to attract, retain and engage more women across the business. The Company is a member of 'The 30% Club', which helps businesses create sustainable strategies to increase the number of women in senior executive roles. Further information regarding diversity can be found in the Strategic report on pages 28 and 29.

Outcome 2017/18

The Group delivered another good performance during the year. The Travel and High Street businesses remain highly cash generative and continue to deliver good profit growth with Headline Group profit before tax[1] increasing by four per cent to £145m. As a result of this good performance, the Company has increased Headline earnings per share[1] by four per cent to 108.2p per share and dividends by 12 per cent to 54.1p per share. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 8 to 17.

The Company's good performance as well as individual directors' performance has resulted in Stephen Clarke and Robert Moorhead receiving bonus payments of £820,033 and £453,938 respectively.

The 2015 LTIP vesting percentage is determined by the growth in the Company's Headline earnings per share[1], relative dividend growth and TSR over the three-year performance period which ended on 31 August 2018. The Company substantially met the performance targets for the 2015 LTIP as the Company's Headline earnings per share[1] increased by 24 per cent during the performance period, the Company's relative dividend growth ranked between 8 and 9 out of 31 companies in the comparator group, and the Company's TSR ranked between 3 and 4 out of 32 companies in the comparator group. The 2015 CIP vesting percentage is determined by the growth in the Company's Headline earnings per share[1] over the three-year performance period which ended on 31 August 2018. The Company partially met the performance target for the 2015 CIP.

The Committee confirmed that, as the Company has incurred items that are considered non-recurring and exceptional, the out-turn for the LTIP, CIP and Annual Bonus Plan should be determined by reference to the Headline results. The Committee noted that the majority of these items will be incurred with a view to enhancing the overall strength of the Group by refocusing the High Street business. For completeness, this definition has been applied consistently and, therefore, increases the base EPS for the forthcoming LTIP awards.

Finally, as you may be aware, this is my last letter to you as Chair of the Remuneration Committee. I will be stepping down as Chair of the Committee at the AGM and handing over to Annemarie Durbin, who will take up the position from January 2019. Annemarie has a wealth of experience of remuneration issues and I am grateful to her for her guidance and support over the last six years as a Committee member. 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
11 October 2018

[1] Headline Group Profit before tax and Headline diluted earnings per share exclude £11m Non-underlying items as described on page 15 of the Financial review. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

1. Information subject to audit

The following information has been audited by PwC:

- Section 4.4 – Summary of non-executive directors' remuneration 2018;
- Section 4.5 – Summary of executive remuneration 2018;
- Section 4.6 – Payments made to former directors;
- Section 4.7 – Payments for loss of office;
- Section 4.11 – Annual bonus targets;
- Section 4.12 – Share plans; and
- Section 4.16 – Directors' interests in shares.

2. Background to remuneration policy

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

Executive remuneration packages are structured so that they:

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

The key changes to the Company's remuneration policy are the introduction of bonus deferral in the Annual Bonus Plan, the malus/claw-back provisions have been widened and that a new executive director will be entitled to a pension contribution of not more than 20 per cent of salary. From 2019, bonuses will be paid in cash and shares. Any bonus payable over target performance will be deferred into shares for a period of up to three years. One third of the shares will be released on each anniversary of assessment. There will be a transitional arrangement with one third of any bonus payable over target performance being deferred in 2019, two thirds of any bonus payable over target performance being deferred in 2020 and full implementation of bonus deferral from 2021. In addition, to comply with the latest GC100 guidance, the salary cap has been re-expressed as a monetary sum (this is not expected to have any practical impact and is not an aspiration).

3. The Directors' remuneration policy

The Committee presents the Directors' remuneration policy, which will be put to a binding vote at the Annual General Meeting to be held on 23 January 2019 and, subject to shareholder approval, will take immediate effect. The Directors' remuneration policy has been prepared in accordance with the Companies Act 2006 and on the basis prescribed in the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 (the 'Regulations').

Future policy table

3.1 Executive directors

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

Element and purpose	Policy and opportunity	Operation and performance measures
Base salary		
This is the basic element of pay and reflects the individual's role and position within the Group, with some adjustment to reflect their capability and contribution. Base salary is used to attract and retain executives who can deliver our strategic objectives and create shareholder value.	• While base salaries are reviewed each year, the Company's policy is not automatically to award an inflationary increase. When reviewing salaries, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. • Base salaries are benchmarked against both FTSE 250 companies and other leading retailers. While the Committee applies judgement rather than setting salaries by reference to a fixed percentile position, its general approach is to constrain base salaries to a median or lower level. • While the Committee's general approach is to keep salaries to a relatively low level, and, in the normal course, would not expect salary increases to be higher than the average for other head office staff, given the need for a formal cap, the Committee had limited the maximum salary in the previous policy which it may award to 110 per cent of the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark. To comply with the latest GC100 guidance, the formal cap set out in the preceding sentence is replaced with a formal monetary amount of £680,000 (as increased by RPI) being the current 110 per cent median level.	• Base salary is paid monthly in cash. • Base salaries are reviewed annually with any changes normally taking effect from 1 April. Following the March 2018 salary review, Stephen Clarke and Robert Moorhead did not receive an annual increase in April 2018.
Benefits		
To provide other benefits valued by the recipient which assist them in carrying out their duties effectively. Competitive benefits assist in attracting and retaining executives.	• Provide market competitive benefits in kind. • The Company may periodically amend the benefits available to staff. The executive directors would normally be eligible to receive such amended benefits on similar terms to all senior staff. • The value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £80,000. In addition, the Committee reserves the right to pay relocation costs in any year or any ongoing costs incurred as a result of such relocation to an executive director if considered appropriate to secure the better performance by an executive director of their duties. In the normal course, such benefits would be limited to two years following a relocation.	• Benefits received by executive directors comprise a car allowance, staff discount, private medical insurance and life assurance. • While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies.

Directors' remuneration report continued

Element and purpose	Policy and opportunity	Operation and performance measures
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement.	• Provide a competitive employer-sponsored pension plan or equivalent cash allowance with a total value of up to 25 per cent of base salary. For new joiners to the Board, this will not be more than 20 per cent of salary.	• All executive directors are eligible to participate in the Company's defined contribution pension plan and/or receive a salary supplement in lieu (which is not taken into account as salary for calculation of bonus, LTIP or other benefits). • Although the mix may change, currently up to five per cent of salary is paid into a registered pension and 20 per cent by way of a salary supplement. If the individual elects to receive the five per cent direct (e.g. to avoid breaching HMRC limits), employers' NICs are deducted from that element.
Annual bonus		
To motivate employees and incentivise delivery of annual performance targets.	• During the policy period the bonus potential is 160 per cent of base salary for Stephen Clarke (or any replacement) and 130 per cent of base salary for Robert Moorhead (or any other executive director), with target levels at 48 per cent of their respective maxima and threshold bonus levels at 16 per cent of their respective maxima. • Clawback provisions apply to the annual bonus plan. • Bonuses are paid in cash and shares. Any bonus payable over target is deferred into shares for a period of up to three years. The shares are released one third on each anniversary of assessment. Transitional introduction with one third of bonus payable over target in 2019, two thirds of bonus payable in 2020 and full implementation in 2021.	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. • The appropriateness of performance measures is reviewed annually to ensure they continue to support the Company's strategy. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to ensure they operate as originally intended and to take account of events which were not foreseen when the performance targets were originally set.
Long-term incentives		
To motivate and incentivise delivery of sustained performance over the long-term, the Group will operate the Long-Term Incentive Plan ('LTIP'). Awards delivered in shares to provide further alignment with shareholders.	• The policy is to award executive directors with shares with an initial face value of up to 350 per cent of base salary each year under the LTIP. • In practice, awards of 335 per cent are envisaged for the Group Chief Executive and 310 per cent for any other executive director. • The LTIP will credit participants with the benefit of accrual for dividends paid over the performance and any holding period. • Malus and clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP. • Awards are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant.	• The Committee may set such performance conditions as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) over a period of at least three financial years. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition. • Executive directors can earn a minimum of 25 per cent of the award for threshold performance. Although not currently envisaged, the Committee has the right to lengthen the performance period or to make similar additional changes, not to the benefit of participants. • The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards.

Element and purpose	Policy and opportunity	Operation and performance measures
Shareholding guidelines		
To encourage share ownership by the executive directors and ensure interests are aligned with shareholders.	• Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares. • Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans. • To the extent that an executive director is not meeting the guidelines, he or she will be expected to achieve compliance within six years of joining the Board or any significant promotion.	• 300 per cent of base salary for Stephen Clarke (or any other Chief Executive) and 250 per cent of base salary for Robert Moorhead (or any other executive director). • Once the shareholding guidelines have been met, individuals are expected to maintain these levels as a minimum. The Committee will review shareholdings annually in the context of this policy. The Committee will review compliance with the policy as awards approach maturity. • The Committee reserves the right to alter the shareholding guidelines during the period of this policy but any such alterations will not make the guidelines less onerous.
All-employee share plans		
To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	• Executive directors are able to participate in all-employee share plans on the same terms as other Group employees.	• Sharesave – individuals may save up to such limit as permitted by the relevant legislation (currently £500 each month) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20 per cent of the market price set at the launch of each scheme. • In line with the governing legislation, no performance conditions are attached to options granted under the Sharesave Scheme. In addition, executive directors may participate in other comparable all-employee incentives on the same basis as other employees.

Notes to the policy table

Stating maximum amounts for each element of remuneration

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

Payments from existing awards

Stephen Clarke and Robert Moorhead are eligible to receive payment from awards made before the approval and implementation of the remuneration policy adopted in 2016 or payments envisaged under that policy. Details of these awards can be found in the Annual remuneration report on page 57. The Company will similarly honour pre-existing commitments made to any other new Board members.

Performance measure selection and approach to target setting

Annual bonus plan

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

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

No bonus is paid unless both the threshold profit target and at least an acceptable personal rating are achieved. For on-target achievement of the profit target and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus available under the plan. The Company intends to introduce bonus deferral for any bonus paid to executive directors following approval of the new remuneration policy. No other changes to the structure of the bonus plan are proposed for the forthcoming financial year.

Long-term incentives

The Committee regularly reviews the performance targets applicable to the LTIP to ensure that they align with the Company's strategy and reinforce financial performance. The Committee may change the measures and/or targets in respect of subsequent awards. The Committee believes that a combination of financial and market-based conditions as the basis for the performance targets for the LTIP is best suited to the needs of the Company and its shareholders in order to reward sustained long-term performance and the creation of shareholder value. The performance targets for awards made under the LTIP in the financial year ended 31 August 2018 were: 60 per cent is based on Headline earnings per share[2] growth and 40 per cent is based on relative TSR. EPS has for some years been defined as fully diluted pre-exceptional items and excluding IAS 19 pension charges together with other adjustments as considered appropriate by the Committee (although practice has been to make limited adjustments).

The Committee is also proposing that any awards made in the financial year ending 31 August 2019 will have the same target ranges as the performance targets for awards made in the financial year ended 31 August 2018 as fully set out on page 56.

Malus/Clawback

The bonus plan and LTIP rules include a provision for clawback (before or within a period of three years following payment or vesting or earlier change of control) of a bonus or award if the Committee discovers information which leads it to conclude that any bonus or award was made, paid or vested to a greater extent than it should have been or if it concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned. In addition, a specific provision has been added permitting the Committee (as constituted immediately prior to any insolvency) to enforce malus/clawback in the event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.

[1] Headline Group profit before tax excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

[2] Headline earnings per share excludes non-underlying items as explained on page 15 of the Strategic report. A reconciliation from Headline earnings per share to Earnings per share is provided in Note 12 to the financial statements. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

3.2 Statement of consideration of employment conditions elsewhere in the Company and differences to executive director policy

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

The Committee does not formally consult with employees on the remuneration policy but the Committee receives updates on pay and conditions, including the impact of flexible working conditions/family friendly policies. Each business has an employee forum and employees are invited to participate in the annual Engagement Survey where their views on all aspects of working conditions can be collected and shared with the Committee and the Board. The Company is proud of its long history of being regarded as a responsible and respected employer and regularly reviews the overall structure of pay practices across the Group and the wider retail sector to ensure it remains competitive and is able to retain and attract employees.

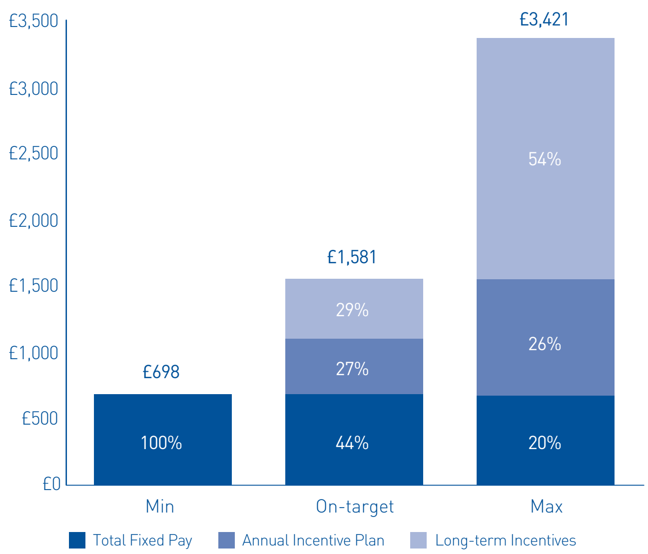
All employees are entitled to base salary and benefits, including pension and staff discount. Eligible employees are able to participate in the Company's Sharesave plan and thereby become shareholders in the Company. Our Employee Assistance programme offers all employees access to free, 24/7 confidential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

Participation in a pension plan is offered to all employees on a contributory basis and we have approximately 6,330 employees in our pension plans.

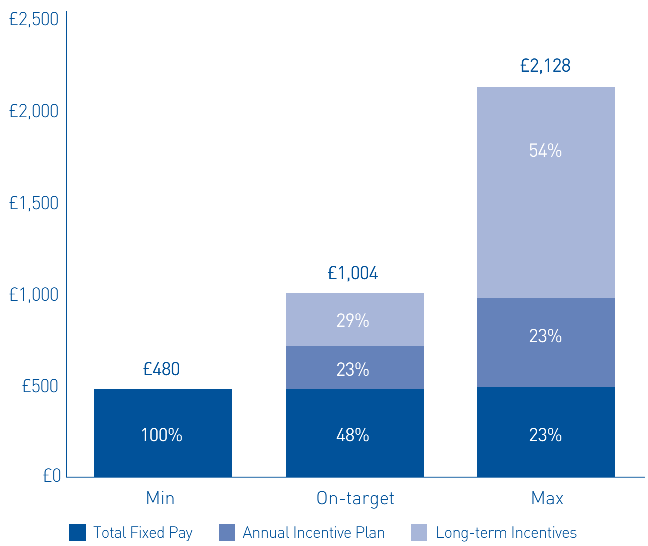
3.3 Potential rewards under various scenarios

The graphs below provide an estimate of the potential total rewards available to the executive directors for the financial year ending 31 August 2019, ignoring any change in share price and the potential split between the different elements of remuneration under the various scenarios. The potential total rewards are based on the Company's remuneration policy.

Group CEO – Stephen Clarke (£'000)



CFO and COO – Robert Moorhead (£'000)



Valuation assumptions

1. The minimum scenario reflects base salary, pension and benefits, being the only elements of the remuneration package not linked to performance. No salary increase has been assumed in respect of the April 2019 salary review.
2. The on-target scenario reflects fixed remuneration as above, plus the target level of performance for the annual bonus plan which is 48 per cent of maximum annual bonus; and for the LTIP awards, threshold vesting levels have been assumed.
3. The maximum scenario reflects fixed remuneration as above, plus the maximum level of performance for the annual bonus plan of 160 per cent of base salary for Stephen Clarke and 130 per cent of base salary for Robert Moorhead; and for the LTIP awards, maximum vesting levels have been assumed.
4. Consistent with market practice, the impact of share price appreciation and dividend reinvestment has been ignored in the above scenarios.

3.4 Recruitment remuneration policy

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

- The starting point for the Committee will be to look at the general policy for executive directors as set out above, and structure a package in accordance with that policy. Although the Regulations provide that, technically, the caps on fixed pay within the general policy will not apply on the recruitment of an executive, the Committee would seek not to exceed those caps in practice. In addition, ignoring any special buy-out arrangements which may prove to be necessary, the annual bonus and long-term incentive compensation arrangements will operate consistently (including the maximum award levels) within the limits as set out in the Future policy table in Section 3.1 for executive directors on pages 43 to 47.
- For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses and legal fees as it considers to be appropriate.
- Where it is necessary to make a recruitment-related pay award to an external candidate to buy-out entitlements under a previous employers' plan, the Company will not pay more than the Committee considers necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such buy-out awards on terms that are more bespoke than the existing annual and equity-based pay structures at the Company in order to secure a candidate.
- Any buy-out awards for external appointments, whether under the bonus plan, LTIP or otherwise, will be capped at the commercial value of the amount forfeited and will take account of the nature, time-horizons and performance requirements of those awards. In particular, the Committee will seek to ensure that any awards being forfeited which were subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements and any awards with service requirements are, again, bought out with similar terms. However, exceptionally the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the view of the Committee, equally reflected in some other way, for example, through a significant discount to the face value of the awards forfeited.

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

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 and limits the maximum sum due on termination to base salary only for the notice period. Copies of the service contracts may be inspected at the registered office of the Company.

It is envisaged that any new executive director would join with a contract which is no more favourable than that summarised in respect of Stephen Clarke. In practice, the facts surrounding a termination may be complex and do not always fit neatly into defined categories for 'good' or 'bad' leavers. Therefore, it is appropriate for the Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Committee may choose to apply under the discretions available to it under the terms of the annual bonus plan and LTIP. The potential treatments on termination under these plans are summarised on page 49.

Reason for leaving	Timing of vesting/payment	Calculation of vesting/payment
Annual bonus		
'Bad leaver' (all cases other than those specified below)	Not applicable	No bonus to be paid for the financial year
Redundancy, retirement or otherwise at the Committee's discretion	At the end of the financial year	Bonuses will only be paid to the extent that the performance measures have been met. Any bonus will be paid on a time pro-rata basis
Deferred Share Bonus Plan		
Dismissal for misconduct	Not applicable	Unvested awards lapse
All other cases	Vesting: at the end of the relevant vesting period (save in the case of death where vesting occurs immediately) unless the Committee decides otherwise	Awards vest over the original number of shares
Change of control	On change of control	Awards will vest over the original number of shares. Awards may be treated otherwise or exchanged for awards over shares in the acquiring company in some circumstances
LTIP		
'Bad leaver' (all cases other than those specified below)	Not applicable	Unvested awards lapse
Ill health, injury, permanent disability, retirement with the agreement of the Company, redundancy, sale of a division or subsidiary or any other reason that the Committee determines in its absolute discretion	Vesting: at the end of the relevant performance period Payment: at the end of any relevant holding period	Generally, awards vest over the original timescales, subject to the original performance conditions. Awards are normally pro-rated for time
Death	Vesting: at the end of the relevant performance period or as soon as possible after the date of death, at the discretion of the Committee	The Committee has discretion to dis-apply performance conditions and may allow immediate vesting. Awards may be pro-rated for time
Change of control	On change of control	Awards will vest to the extent that any performance conditions have been satisfied and will be reduced pro-rata to take account of the performance period not completed, unless the Committee decides otherwise. Awards may be exchanged for awards over shares in the acquiring company in some circumstances

3.6 Chairman and non-executive director fees

The following table explains the different elements of the remuneration that is paid to the Chairman and non-executive directors. All payments made to the Chairman are determined by the Committee. The Chairman does not participate in any bonus or share plans.

The fees paid to non-executive directors are determined by the Chairman and the executive directors (being the Board excluding the non-executive directors themselves) and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. Non-executive directors do not participate in any bonus or share plans. The current fees payable to the Chairman and the non-executive directors are set out on page 52.

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.

Under the Company's Articles of Association, all directors are required to retire and submit themselves for re-election every three years. However, in accordance with the Code, the Board has agreed that all directors will stand for re-election at the AGM to be held on 23 January 2019.

Element and purpose	Policy and opportunity	Operation
Annual fees	• The fees paid to the Chairman and the fees of the other non-executive directors aim to be competitive with other fully listed companies of equivalent size and complexity. Fee levels are periodically reviewed by the Board (for non-executive directors) and the Committee (for the Chairman). In both cases, the Company does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum. • Additional fees are paid to non-executive directors who chair a Board Committee (excluding the Nominations Committee) and to the Senior Independent Director ('SID'). • All fees are subject to the aggregate fee cap for directors in the Articles of Association (currently £750,000 per annum). • Non-executive directors do not participate in incentive arrangements.	• Fees are paid monthly in cash. • Fee levels for the Chairman and the non-executive directors are reviewed periodically (the last review being in March 2018) with the next review due in March 2020. • The Company reserves the right to change how the elements and weightings within the overall fees are paid and to pay a proportion of the fees in shares within this limit if it is considered appropriate to do so.
Benefits	• In line with other employees, the Chairman and the non-executive directors receive an employee staff discount.	• It is not the policy of the Company to provide benefits to the Chairman or the non-executive directors (other than the employee staff discount). However, while the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies and within the overall limits.

4. Annual remuneration report

The Committee presents the Annual report on remuneration which, together with the introductory letter by the Chair of the Committee on pages 40 and 41, will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 23 January 2019.

4.1 Remuneration Committee

During the year, the Committee continued to receive advice from FIT Remuneration Consultants LLP (FIT), which is a member of the Remuneration Consultants Group (the professional body) and adheres to its code of conduct. FIT was appointed by the Committee and has no other relationship with the Company. The Committee is satisfied that FIT continues to provide objective and independent advice. FIT's fees in respect of the year under review were £70,605 (excluding VAT) and were charged on the basis of FIT's standard terms of business.

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

4.2 Implementation of remuneration policy in the financial year ended 31 August 2018

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2018.

Executive directors

Element of pay	Implementation of policy
Base salary	Stephen Clarke and Robert Moorhead did not receive a salary increase in the financial year ended 31 August 2018. There was a general annual pay rise of two per cent for most other head office employees, which took effect from 1 April 2018. 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 2018 (although the cost of providing benefits may change without any action by the Company). Both executive directors were provided with a car allowance, private medical insurance and life assurance, in addition to other benefits, during the financial year ended 31 August 2018.
Pension	No changes were made to these elements of remuneration within the financial year ended 31 August 2018. 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 2018, Stephen Clarke received a pension contribution equal to one per cent of his base salary with the balance being received as a salary supplement. Robert Moorhead received all of his pension contribution as a salary supplement after applying for fixed protection. Part of the amount otherwise paid to the Company's defined contribution scheme was reduced to reflect the requirement to pay employers' National Insurance.
Annual bonus	The bonus payable for the financial year ended 31 August 2018 in respect of Stephen Clarke and Robert Moorhead was £820,033 and £453,938 respectively. The bonus is primarily assessed against a sliding scale target of Headline profit before tax and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives. The target range for the year ended 31 August 2018 is set out on page 55.

Long-term incentives	Annual LTIP awards were set at the policy level (335 per cent for Stephen Clarke and 310 per cent for Robert Moorhead). The terms of and the performance measures applicable to the LTIP awards made in the financial year ended 31 August 2018 are described on page 56. Vesting of LTIP awards is determined based on the following measures: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR. The performance period is three years. 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 2018, with Stephen Clarke holding 235,408 shares with a value of £4,858,821 (approximately 880 per cent of salary) and Robert Moorhead holding 227,676 shares with a value of £4,699,233 (approximately 1,250 per cent of salary).

Non-executive directors

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

4.3. Implementation of remuneration policy in the financial year ending 31 August 2019

The Committee envisages that there will be no changes to the implementation of the remuneration policy, beyond the introduction of bonus deferral, during the financial year ending 31 August 2019. 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 2019 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2019.
Pension	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2019.
Annual bonus	The bonus opportunity remains unchanged and the bonus metrics will again be based on a matrix of financial and personal performance, with the financial performance measure being Headline profit before tax for the financial year ending 31 August 2019.
Long-term incentives	Annual LTIP awards will again 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 is 25 per cent. The EPS performance targets will again be 25 per cent for EPS growth of five per cent per annum to 100 per cent for EPS growth of 10 per cent per annum, and the TSR condition remains a median to upper quartile scale relative to the FTSE All Share General Retailers Index constituents.
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.

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

Element of pay	Implementation of policy
Annual fees	No changes are expected to be made to the fees of the Chairman and non-executive directors.

4.4 Summary of non-executive directors' remuneration 2018 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2018:

	Base fee £'000		Committee/SID fee £'000		Benefits[a] £'000		Total £'000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Henry Staunton	**223**	215	**–**	–	**–**	–	**223**	215
Suzanne Baxter	**52**	50	**11**	10	**2**	1	**65**	61
Annemarie Durbin	**52**	50	**–**	–	**–**	–	**52**	50
Drummond Hall	**52**	50	**22**	20	**–**	–	**74**	70

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

4.5 Summary of executive remuneration 2018 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2018:

	Salary £'000		Benefits £'000[a]		Annual bonus £'000[b]		LTI £'000[c,d]		Pension £'000[e]		Total £'000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Stephen Clarke	**550**	550	**14**	14	**820**	866	**1,384**	2,548	**134**	134	**2,902**	4,112
Robert Moorhead	**375**	375	**14**	14	**454**	479	**883**	1,817	**91**	90	**1,817**	2,775

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 of up to a maximum of 130 per cent of his base salary. The calculated outcome under this measure may be moderated (downwards only) by the Committee having regard to personal performance ratings. The Company's headline profit before tax was £145m. Stephen Clarke received an annual bonus equivalent to 149 per cent of his base salary and Robert Moorhead received an annual bonus equivalent to 121 per cent of his base salary.

c) The performance measures for the LTIP and CIP, and achievement against them, are set out on page 57. The 2017 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 LTI figures in the table include both the WH Smith LTIP and CIP. The share price used to calculate the LTI figures in the table is 1991.39p, being the average share price for the Company over the last quarter of the financial year ended 31 August 2018.

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

The total aggregate emoluments paid to the Board in the financial year ended 31 August 2018 was £2,866,000 and in the financial year ended 31 August 2017 was £2,919,000.

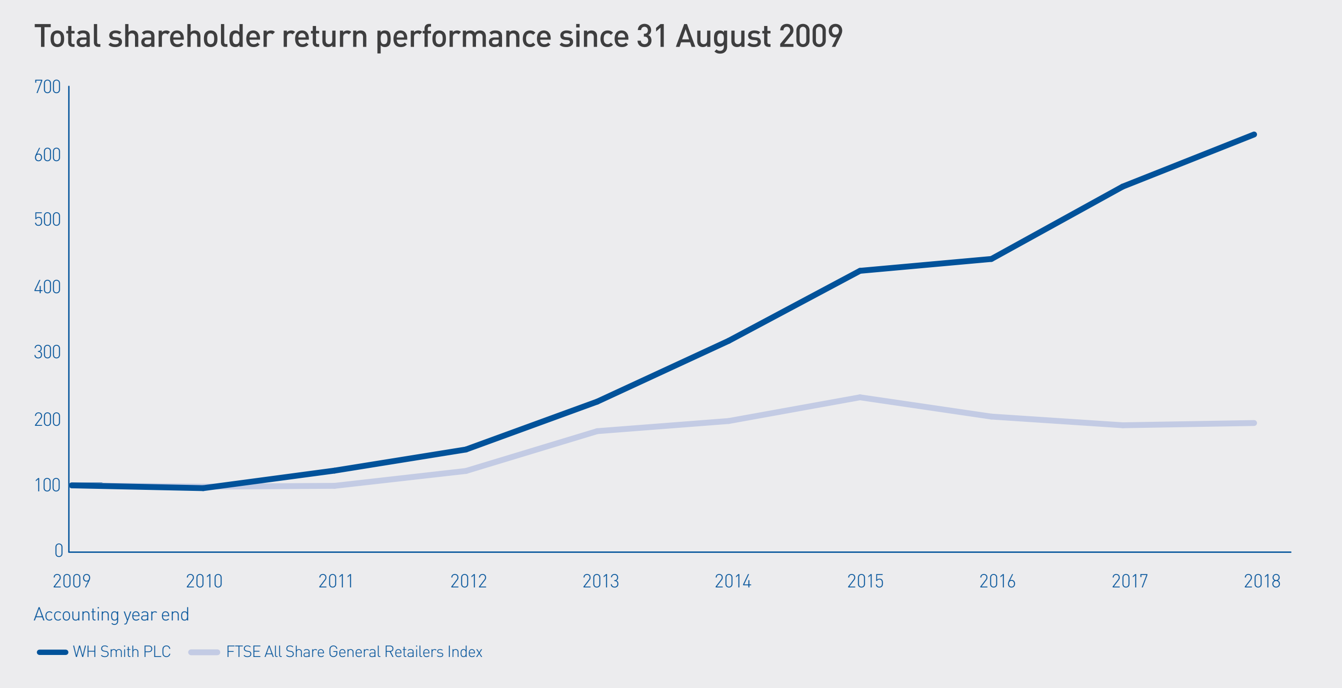
4.6 Payments made to former directors (audited)

No payments were made in the financial year ended 31 August 2018 to former directors of the Company.

4.7 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 2018.

4.8 Assessing pay and performance



a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last nine 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 nine years. It can be compared with the historic TSR performance over the same period which indicates a TSR for the Company of 530 per cent, compared with a TSR for the Index of 94 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) %
2018	Stephen Clarke	2,902	93	58
2017	Stephen Clarke	4,112	98	81
2016	Stephen Clarke	5,179	100	98
2015	Stephen Clarke	4,148	100	100
2014	Stephen Clarke	2,546	100	100
2013 – from 1 June	Stephen Clarke	4,067	100	97
2013 – until 31 May	Kate Swann	9,192	100	98
2012	Kate Swann	3,147	100	90
2011	Kate Swann	3,313	100	92
2010	Kate Swann	6,966	100	97

The 2017 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.

4.9 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 2017 and the financial year ended 31 August 2018 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 WH Smith employees are based in the UK.

	Salary increase/decrease %	**Annual bonus increase/decrease %**	**Taxable benefits increase/decrease %**
Chief Executive	–	(5.27)	6.62
UK employees (average per FTE)	4.15	(27.44)	2.07

4.10 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 2018. 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**		
2017 £m	**2018 £m**	**% change**	2017 £m	**2018 £m**	**% change**
212	**216**	**2%**	91	**80**	**(12)%**

4.11 Annual bonus targets (audited)

Bonuses for the financial year ended 31 August 2018 were earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against Headline Group profit before tax target	**Role Model**	**Outstanding**	**Strong**	**Developing**	**Under Achiever**
Max: £146.9m	100%	80%	60%	40%	0%
Target: £139.9m	80%	64%	48%	32%	0%
Threshold: £135.7m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The Company's Headline Group profit before tax[1] for the financial year ended 31 August 2018 was £145m. For Stephen Clarke, his personal rating is based on a range of objectives including the development of the talent and succession pipeline to meet the future needs of the business; employee engagement and well-being at work; new format development and international expansion. Following the successful achievement of all of his key personal objectives, the Committee determined that no downwards adjustment was appropriate and, therefore, Stephen Clarke will receive an unadjusted bonus payment reflecting the financial performance in the year of £820,033. For Robert Moorhead, his personal rating is based on a range of objectives including achievement of financial targets; development of a high performing executive team; developing Funky Pigeon; managing pensions and management of cyber risk. Following the successful achievement of all of his key personal objectives, the Committee also determined that no downwards adjustment was appropriate and, therefore, Robert Moorhead will receive an unadjusted bonus payment reflecting the financial performance in the year of £453,938.

For the annual bonus plan for the financial year ending 31 August 2019, the bonus metrics will also be based on a similar matrix of financial and personal performance with the financial performance measure again being Headline Group profit before tax[1]. The Committee will publish the targets for that financial year in next year's report and, consistent with market practice, has elected not to pre-disclose them (or give numerical personal objectives) on the basis of commercial sensitivity. Any bonus payable in respect of the financial year ended 31 August 2019 will be paid in cash and shares. Any bonus payable over target is deferred into shares for a period of up to three years. The shares will be released one third on each anniversary of assessment. Transitional introduction with one third of bonus payable over target in 2019, two thirds of bonus payable in 2020 and full implementation in 2021.

[1] Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

4.12 Share plans (audited)

The performance conditions for awards granted under the Company's long-term incentive plans in the financial year ended 31 August 2018 were as follows:

WH Smith LTIP

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

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

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

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

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

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

It is envisaged that the grants to be made in 2018 will be subject to the same performance targets.

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

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 2017[b]	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 2018[j]	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Stephen Clarke									
WH Smith CIP[a][i]	23.10.14	66,055[c]	–	46,239	19,816	**–**	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[h]	23.10.14	88,073[e]	–	79,001	9,072	**–**	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
	20.10.16[k]	118,794	-	–	–	**118,794**	1551.00	1,842	20.10.19 – 20.10.26
	26.10.17[k]	–	90,466	–	–	**90,466**	2036.67	1,842	26.10.20 – 26.10.27
Total		**393,189**	**90,466**	**125,240[g]**	**28,888**	**329,527**			
Robert Moorhead									
WH Smith CIP[a][i]	23.10.14	42,936[d]	–	30,055	12,881	**–**	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[h]	23.10.14	66,055[f]	–	59,251	6,804	**–**	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
	20.10.16[k]	74,861	-	–	–	**74,861**	1551.00	1,161	20.10.19 – 20.10.26
	26.10.17[k]	–	57,009	–	–	**57,009**	2036.67	1,161	26.10.20 – 26.10.27
Total		**257,455**	**57,009**	**89,306[g]**	**19,685**	**205,473**			

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

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

c) In respect of the award granted on 23 October 2014 under the CIP held by Stephen Clarke, 46,239 shares vested and 19,816 shares lapsed. The value of the 46,239 shares on the date of vesting was £940,841.12 (2034.735p per ordinary share).

d) In respect of the award granted on 23 October 2014 under the CIP held by Robert Moorhead, 30,055 shares vested and 12,881 shares lapsed. The value of the 30,055 shares on the date of vesting was £611,539.61 (2034.735p per ordinary share).

e) In respect of the award granted on 23 October 2014 under the LTIP held by Stephen Clarke, 79,001 shares vested and 9,072 shares lapsed. The value of the 79,001 shares on the date of vesting was £1,607,460.99 (2034.735p per ordinary share).

f) In respect of the award granted on 23 October 2014 under the LTIP held by Robert Moorhead, 59,251 shares vested and 6,804 shares lapsed. The value of the 59,251 shares on the date of vesting was £1,205,600.83 (2034.735p 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 2018 was £4,365,442.55.

h) The performance conditions for awards granted in the financial year ended 31 August 2016 under the LTIP are:

(i) 40 per cent based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis: Below median - Nil; Median - 30%; Upper quartile - 100%; and on a straight-line basis between 30% and 100%;

(ii) 30 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis: Below 7% - Nil; 7% - 30%; 12% or more - 100%; and 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

(iii) 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: Below median - Nil; Median - 30%; Upper quartile - 100%; and 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 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. 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 material adjustments in subsequent Remuneration Reports.

The performance conditions were substantially met with 79.2 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 2016 under the CIP are based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis: Below 7% - Nil; 7% - 25%; 12% or more - 100%; and 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. The performance condition was partially met with 31 per cent of the shares subject to the awards vesting.

j) No awards have been granted to directors or have vested between 1 September 2018 and 11 October 2018.

k) The awards granted in the financial years ended 31 August 2017 and 31 August 2018 under the LTIP will only vest to the extent that the performance targets as set out on page 56 are satisfied.

Directors' remuneration report continued

4.13 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 262,428 shares in the financial year ended 31 August 2018, the number of WH Smith shares held in the Trust at 31 August 2018 was 265,062. The Group's accounting policy with respect to the Trust is detailed within Note 1 to the financial statements and movements are detailed in the Group statement of changes in equity on page 75.

4.14 Dilution limits

Awards under the CIP and LTIP are currently 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.

4.15 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 100 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain fees from one of their external directorships. Neither of the executive directors currently holds any external appointments.

4.16 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 2018	31 August 2017	**31 August 2018**	31 August 2017	**31 August 2018**	31 August 2017
Suzanne Baxter	**1,000**	1,000	**–**	–	**–**	–
Stephen Clarke	**235,408**	235,408	**276,075**	273,682	**53,452**	119,507
Annemarie Durbin	**1,000**	1,000	**–**	–	**–**	–
Drummond Hall	**10,000**	10,000	**–**	–	**–**	–
Robert Moorhead	**227,676**	252,676	**176,478**	185,524	**28,995**	71,931
Henry Staunton	**30,000**	30,000	**–**	–	**–**	–

a) The LTIP and CIP amounts above are the maximum potential awards that may vest subject to the performance conditions described on pages 56 and 57.

b) The performance conditions for the October 2015 LTIP will be substantially met with 79.2 per cent of the shares subject to awards due to vest on 22 October 2018. As a result, the outstanding number of LTIP awards for Stephen Clarke will reduce to 52,917 and for Robert Moorhead to 35,329.

c) The performance conditions for the October 2015 CIP will be partially met with 31 per cent of the shares subject to awards due to vest on 22 October 2018. As a result, the outstanding number of CIP awards for Stephen Clarke will reduce to 16,570 and for Robert Moorhead to 8,988.

d) There has been no further change in the directors' interests shown above between 1 September 2018 and 11 October 2018.

e) The middle market price of an ordinary share at the close of business on 31 August 2018 was 2064p (31 August 2017: 1849p).

4.17 Voting at Annual General Meeting

Statement of voting at 2016 AGM

As disclosed in the previous Annual report, the table below shows the voting outcome at the Annual General Meeting on 27 January 2016 for approval of the remuneration policy:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration policy	80,375,087	98.53	1,195,511	1.47	81,570,598	179,767

Statement of voting at 2018 AGM

The table below shows the voting outcome at the Annual General Meeting on 24 January 2018 for approval of the annual Directors' remuneration report:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration report	70,341,431	96.66	2,431,299	3.34	72,772,730	70,127

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.

On behalf of the Board

Drummond Hall
Chair of the Remuneration Committee
11 October 2018

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2018. 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
Employment of disabled persons	28
Employee involvement	28

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 to 38
Directors' biographies	39
Statement of directors' responsibilities	63
Information on use of financial instruments	99 to 102

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	45 Directors' remuneration report/ Note 25 on page 102 of the financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/future dividends	58 Directors' remuneration report

Profit and dividends

The Headline Group profit before taxation[1] for the financial year ended 31 August 2018 was £145m (2017: £140m). The directors recommend the payment of a final dividend for the year of 38.1p per ordinary share on 31 January 2019 to members on the Register at the close of business on 11 January 2019. This final dividend and the interim dividend of 16.0p per ordinary share paid on 2 August 2018 make a total dividend of 54.1p per ordinary share for the year ended 31 August 2018 (2017: 48.2p).

Share capital

WH Smith PLC is a public company limited by shares. The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 25 to the financial statements on page 102.

The issued share capital of the Company as at 31 August 2018 was 109,385,804 ordinary shares of 22⁶⁄₆₇p 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.

[1] Headline Group profit before tax excludes non-underlying items as explained in the Financial review on page 15. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Group income statement on page 71. See Glossary on page 116 for an explanation of the Group's alternative performance measures.

Purchase of own shares

At the 2018 AGM, authority was given for the Company to purchase, in the market, up to 11,049,893 ordinary shares of $22\frac{6}{67}$p each, renewing the authority granted at the 2017 AGM. The Company used this authority to facilitate its ongoing strategy of returning surplus cash to shareholders by way of dividends and share buybacks, thereby increasing total shareholder returns and the net asset value per share. The total return of cash to shareholders since 2009 is shown in the chart on page 9. The directors will only exercise the authority when satisfied that it is in the best interests of shareholders generally and that it would result in an increase in earnings per share. The Company purchased 1,297,022 of its own shares during the financial year, representing 1.2 per cent of the issued share capital as at 31 August 2018, at an average price of £20.16. The aggregate amount of consideration (including costs) paid by the Company for the purchases during the financial year was £26m. All shares purchased by the Company were cancelled. During the period 1 September 2018 to 10 October 2018, the Company purchased and subsequently cancelled a further 289,585 of its own shares, representing 0.3 per cent of the issued share capital, at an average price of £20.86. All shares purchased by the Company were cancelled. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2019 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2018, 144,575 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 1147.20p and 1434.40p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

Significant agreements – change of control

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

The Company has an unsecured £140m multicurrency revolving credit facility with Barclays Bank PLC, HSBC Bank PLC, Santander UK PLC and BNP Paribas for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties, any lender may cancel the commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.

Directors' conflicts

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

Directors' indemnities

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

Company's shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2018, the following information had been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Holder	Number	% as at date of notification	Nature of holding
Aberdeen Asset Managers Limited	5,608,298	4.95	Indirect
Blackrock Inc.	5,535,683	5.02	Indirect
Marathon Asset Management LLP	5,448,186	4.95	Indirect
Prudential Plc Group	5,514,930	5.03	Indirect
Royal London Asset Management Ltd	3,383,867	3.03	Direct

The Company received no other notifications in the period between 31 August 2018 and the date of this report.

Political donations

It is the Company's policy not to make political donations and no political donations, contributions or EU political expenditure were made in the year (2017: £nil).

Directors' report continued

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 21 to 24 of the financial statements on pages 98 to 102. In addition, Note 24 of the financial statements on page 99 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report on pages 20 to 25 also highlights the principal risks and uncertainties facing the Group.

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

Independent auditors

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

Disclosure of information to the auditors

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

Annual general meeting

The AGM of the Company will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on 23 January 2019 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 11 October 2018.

By order of the Board

Ian Houghton
Company Secretary
11 October 2018

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

Directors' confirmations

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

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

By order of the Board

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer
11 October 2018

Independent auditors' report to the members of WH Smith PLC

Report on the audit of the group financial statements

Opinion

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

- give a true and fair view of the state of the Group's affairs as at 31 August 2018 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, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report 2018 (the 'Annual report'), which comprise: the Group balance sheet as at 31 August 2018; the Group income statement, the Group statement of comprehensive income, the Group cash flow statement and the Group statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

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

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in the Notes to the financial statements, we have provided no non-audit services to the Group in the period from 1 September 2017 to 31 August 2018.

Our audit approach

Overview

Materiality

- Overall Group materiality: £7.2 million (2017: £6.8 million), based on five per cent of profit before tax.
- The WH Smith PLC Group operates under five components: High Street, Travel UK, Travel International, Central and the Company.

Audit scope

- We performed a full scope audit on the High Street and Travel UK components, while performing specific procedures over balances within the Central and Company ledgers based on their overall size and values of their specific financial statement line items.
- Our audit scoping gave us coverage of 95 per cent of profit before tax, with 91 per cent coverage of revenue.

Key audit matters

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

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, a review of the financial statement disclosures and agreement to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisees, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Property related provisions Refer to Note 1 (p) 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 WH Smith, the Group has an extensive property portfolio of both existing and former WH Smith properties (now sublet or vacant) held under operating leases, which requires the directors to make significant judgements and estimates relating to the need to provide for dilapidation costs and onerous leases when the store is making losses or when stores are earmarked for closure. These judgements include assessing: the duration of the lease, estimations of costs and future income potential and as such, remains a key audit matter for us	We obtained management's assessment of properties requiring provisions and obtained an understanding of the rationale, including the basis for the calculation. We agreed a sample of the properties to underlying documents including lease agreements and written communications from third parties for onerous lease provisions. In doing so, we agreed the lease costs incurred by the Group and any amounts being received as income from lessees where the Group is sub-letting properties at a shortfall. For dilapidations provisions, we compared management's estimates to either; correspondence of amounts to be paid (where stores have been vacated); or in the case of stores yet to be vacated, historical amounts incurred by the group for similar stores previously vacated. This confirmed management's estimates were in line with previous experience, or were supported by communication from landlords or property consultants. We performed an independent assessment of provisions required through review of the schedule of leases and comparing these to the individual store's current and previous year contribution. The work we performed indicated that management have sufficient provisions held for property matters at 31 August 2018.

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

Key audit matter	How our audit addressed the key audit matter
Impairment review of store assets Refer to Note 1 (p) Accounting policies for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and note 14 and 15 (other intangible assets and property, plant & equipment). As at 31 August 2018 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, this testing did not highlight any significant issues. We also reviewed the results for all stores to ensure that management's identification of loss making stores was complete. This did not identify any further stores for which an impairment should be recognised.
Inventory valuation Refer to Note 1 (p) 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 outright purchases such as stationery. Inventory is initially valued using a weighted average cost (WAC) method. Provisions are then recognised against inventory for estimated losses related to shrinkage and slow moving or obsolete inventory. We focused on the valuation of inventory due to the magnitude of the inventory balance, the range and age of the inventory considering the nature of the business, and the judgements made by management when assessing the level of provision required. Inventory is counted by the Group throughout the year. As such, the shrinkage provision at 31 August 2018 is based on historical shrinkage rates and contains a degree of estimation.	We attended a number of stock counts across High Street and Travel stores and distribution centres. In addition to performing sample test counts, we 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 reviewed the shrink results from the counts performed in the year and compared them against historical shrink rate data to identify any significant unusual fluctuations which may indicate a different provision is required. A substantive test was performed to ensure stock was held at the lower of cost versus its net realisable value. The obsolescence provision is calculated by applying a judgemental percentage to the year end stock levels, based on historical obsolescence data, as well as management's view of the current stock profile and forecast sales by product line. We performed an analysis of the provision applied per stock category against the previous period, in the light of trading results and the stock ageing profile. We also tested the ageing of the stock and validated the source stock balances upon which the provision is based. Furthermore, we considered write-offs in the year as an indicator of a requirement for further or less provision. In performing the above assessment, we concluded the valuation of the stock balance is appropriate as at 31 August 2018.

Key audit matter	How our audit addressed the key audit matter
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 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.	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 accurately and in the period. Where responses were not received, we performed alternative procedures including agreement to contracts and cash receipts. We found accounting for these amounts did not require significant levels of judgement or estimation as income such as volume based discounts are calculated based on actual sales data rather than future forecasts. No significant issues were identified through the testing performed. Furthermore, we analysed supplier income by type recognised each month and compared it to the previous period to identify 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 year end receivables to be confirmed. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of supplier income and the value of the accrued and deferred balances. Our cut-off work involved testing a sample of supplier income amounts by reference to documentation from suppliers to confirm the timing of recognition was appropriate. Our credit note testing focused on credit notes raised after the year end in order to identify instances of supplier income being subsequently reversed. We did not identify any exceptions from this work. In respect of the Supplier Income balances (set out in Note 15 to the financial statements) we tested the recoverability and appropriateness of recognition through direct confirmation with suppliers for the invoiced amounts and corroboration to contracts and assessment of assumptions made for the uninvoiced amounts. We assessed the ageing of both outstanding supplier income and promotional funding supplier income debtors, together with our understanding of details of any disputes.

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

Key audit matter	How our audit addressed the key audit matter
Pension scheme valuation Refer to Note 1 (n) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 5 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 £1,277m and total pension liabilities of £983m which are significant in the context of the overall balance sheet of the Group. The valuation of the schemes' liabilities requires significant level of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions can have a material impact on the position as disclosed in Note 5 of the financial statements. We focused on this area because of the impact of the judgements inherent in the actual assumptions involved in the valuation of the schemes' liabilities.	We obtained the actuarial report for the WH Smith Pension Trust Retail Section for the scheme as at 31 August 2018. We reviewed the pension assumptions, including discount rates, salary increases, inflation and mortality, utilising our specialist knowledge of pensions. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used against our internally developed benchmark ranges, finding them to be within an acceptable range. Other assumptions were also assessed and considered to be reasonable. The most recent triennial valuation was completed in March 2017, therefore, census data supporting the actuarial report has been updated during the prior year.
Non-underlying items The group has classified £11 million as non-underlying costs in the current period. These items are not considered part of the normal operating costs of the business and are non-recurring. These costs are attributable to the business review of High Street and costs related to an aborted transaction. We focused on this area because of the magnitude of the amount of costs classified as non-underlying in the current period and the element of judgement involved in determining whether an item should be classified as a non-underlying item or included within the underlying results.	We evaluated the assessment of management covering the nature of the item, cause of occurrence and the scale of the impact of that item on reported performance. Our testing noted that management were able to demonstrate the nature of the expenses were non-recurring and related to the aborted transaction and business review. We reviewed the disclosures given in both the notes to the financial statements and in the strategic and directors' reports to ensure the disclosure of non-underlying items was sufficient for users of the accounts to understand the nature of and reasons for the costs.

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed 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.

Materiality

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

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

Overall Group materiality	£7.2 million (2017: £6.8 million).
How we determined it	Five per cent of profit before tax.
Rationale for benchmark applied	This is a profit orientated business and profit is one of the primary measures used by the shareholders in order to assess performance and this is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5.2 million and £7.1 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £360k (2017: £340k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 August 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The directors' confirmation on page 20 of the Annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 24 and 25 of the Annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

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

- The statement given by the directors, on page 35, that they consider the Annual report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual report on page 33 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 63, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Other required reporting

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

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the members on 21 January 2015 to audit the financial statements for the year ended 31 August 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 August 2015 to 31 August 2018.

Other matter
We have reported separately on the company financial statements of WH Smith PLC for the year ended 31 August 2018 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

11 October 2018

Group income statement

For the year ended 31 August 2018

£m		2018			2017
	Note	Headline	Non-underlying items[1]	Total	Total
Continuing operations					
Revenue	2	**1,262**	**–**	**1,262**	1,234
Group operating profit /(loss)	2, 3	**147**	**(11)**	**136**	142
Finance costs	9	**(2)**	**–**	**(2)**	(2)
Profit /(loss) before tax		**145**	**(11)**	**134**	140
Income tax expense	10	**(26)**	**–**	**(26)**	(24)
Profit/(loss) for the year		**119**	**(11)**	**108**	116
Earnings per share					
Basic	12			**99.1p**	104.5p
Diluted	12			**98.2p**	103.6p
Equity dividends per share[2]				**54.1p**	48.2p
Alternative performance measures[3]					
Headline earnings per share					
Basic	12			**109.2p**	
Diluted	12			**108.2p**	
Fixed charges cover	8			**1.7x**	1.7x

1 See Note 4 for an analysis of Non-underlying items. See Glossary on page 116 for definition of alternative performance measures.

2 Equity dividends per share is the final proposed dividend of 38.1p (2017: 33.6p) and the interim dividend of 16.0p (2017: 14.6p).

3 The Group has defined and outlined the purpose of its alternative performance measures in the Glossary on page 116.

Group statement of comprehensive income

For the year ended 31 August 2018

£m	Note	2018	2017
Profit for the year		**108**	116
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	5	**(1)**	(2)
		(1)	(2)
Items that may be reclassified subsequently to the income statement:			
Gains/(losses) on cash flow hedges			
– Net fair value gains/(losses)		**–**	–
– Reclassified and reported in the income statement		**1**	(2)
Exchange differences on translation of foreign operations		**(4)**	2
		(3)	–
Other comprehensive loss for the year, net of tax		**(4)**	(2)
Total comprehensive income for the year		**104**	114

Group balance sheet

As at 31 August 2018

£m	Note	2018	2017
Non-current assets			
Goodwill	13	**41**	38
Other intangible assets	14	**31**	29
Property, plant and equipment	15	**179**	164
Investments in joint ventures		**3**	1
Deferred tax assets	20	**7**	8
Trade and other receivables	16	**7**	6
		268	246
Current assets			
Inventories		**154**	150
Trade and other receivables	16	**60**	54
Derivative financial assets	24	**1**	–
Cash and cash equivalents	21	**45**	38
		260	242
Total assets		**528**	488
Current liabilities			
Trade and other payables	17	**(238)**	(232)
Bank overdrafts and other borrowings	21	**(33)**	(22)
Retirement benefit obligations	5	**(1)**	(1)
Obligations under finance leases	18	**(5)**	(4)
Current tax liabilities		**(9)**	(12)
Short-term provisions	19	**(1)**	(1)
		(287)	(272)
Non-current liabilities			
Retirement benefit obligations	5	**(3)**	(5)
Long-term provisions	19	**(5)**	(4)
Obligations under finance leases	18	**(9)**	(8)
Other non-current liabilities		**(12)**	(12)
		(29)	(29)
Total liabilities		**(316)**	(301)
Total net assets		**212**	187

£m	Note	2018	2017
Shareholders' equity			
Called up share capital	25	**24**	24
Share premium		**8**	6
Capital redemption reserve		**13**	13
Revaluation reserve		**2**	2
ESOP reserve		**(4)**	(9)
Hedging reserve		**1**	–
Translation reserve		**(2)**	2
Other reserve		**(267)**	(257)
Retained earnings		**437**	406
Total equity		**212**	187

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 71 to 108 were approved by the Board of Directors and authorised for issue on 11 October 2018 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 2018

£m	Note	2018	2017
Operating activities			
Cash generated from operating activities	23	**144**	149
Interest paid		**(1)**	(1)
Net cash inflow from operating activities		**143**	148
Investing activities			
Purchase of property, plant and equipment		**(43)**	(39)
Purchase of intangible assets		**(10)**	(9)
Acquisition of businesses		**(3)**	–
Acquisition of investments in joint ventures		**(2)**	–
Net cash outflow from investing activities		**(58)**	(48)
Financing activities			
Dividend paid	11	**(54)**	(50)
Issue of new shares for employee share schemes		**2**	–
Purchase of own shares for cancellation	25	**(26)**	(40)
Purchase of own shares for employee share schemes		**(5)**	(9)
Proceeds from borrowings	21	**11**	4
Revolving credit facility arrangement fees		**–**	(1)
Repayments of obligations under finance leases	21	**(5)**	(4)
Net cash outflow from financing activities		**(77)**	(100)
Net increase in cash and cash equivalents in year		**8**	–
Opening cash and cash equivalents		**38**	38
Effect of movements in foreign exchange rates		**(1)**	–
Closing cash and cash equivalents		**45**	38

Reconciliation of net cash flow to movement in net (debt) / funds

£m	Note	2018	2017
Net funds at beginning of the year		**4**	7
Increase in cash and cash equivalents		**8**	–
Increase in debt		**(11)**	(4)
Net movement in finance leases		**(2)**	1
Effect of movements in foreign exchange rates		**(1)**	–
Net (debt) / funds at end of the year	21	**(2)**	4

Group statement of changes in equity

For the year ended 31 August 2018

£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 2017	**30**	**13**	**2**	**(9)**	**2**	**(257)**	**406**	**187**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**108**	**108**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(1)	(1)
Cash flow hedges	–	–	–	–	1	–	–	1
Exchange differences on translation of foreign operations	–	–	–	–	(4)	–	–	(4)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(3)**	**–**	**107**	**104**
Recognition of share-based payments	–	–	–	–	–	–	4	4
Current tax on share-based payments	–	–	–	–	–	–	1	1
Deferred tax on share-based payments	–	–	–	–	–	–	(1)	(1)
Premium on issue of shares (Note 25)	2	–	–	–	–	–	–	2
Dividends paid (Note 11)	–	–	–	–	–	–	(54)	(54)
Employee share schemes	–	–	–	5	–	(10)	–	(5)
Purchase of own shares for cancellation (Note 25)	–	–	–	–	–	–	(26)	(26)
Balance at 31 August 2018	**32**	**13**	**2**	**(4)**	**(1)**	**(267)**	**437**	**212**

£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 2016	**31**	**12**	**2**	**(10)**	**2**	**(247)**	**378**	**168**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**116**	**116**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(2)	(2)
Cash flow hedges	–	–	–	–	(2)	–	–	(2)
Exchange differences on translation of foreign operations	–	–	–	–	2	–	–	2
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**114**	**114**
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 25)								
Dividends paid (Note 11)	–	–	–	–	–	–	(50)	(50)
Employee share schemes	–	–	–	1	–	(10)	–	(9)
Purchase of own shares for cancellation (Note 25)	(1)	1	–	–	–	–	(41)	(41)
Balance at 31 August 2017	**30**	**13**	**2**	**(9)**	**2**	**(257)**	**406**	**187**

1 Included within the Hedging and translation reserves is a cumulative loss of £2m (2017: gain of £2m) 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 £10m (2017: £10m).

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 62 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:

Amendments to IAS 12	Income taxes: Recognition of deferred tax assets for unrealised losses
Amendments to IAS 7	Statement of cash flows
IFRS 12	Disclosure of interests in other entities

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
Amendments to IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 4	Amendments regarding implementation of IFRS 9
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IAS 40	Transfers of Investment Property
Amendment to IFRS 9	'Financial instruments', on general hedge accounting
IFRS 16	Leases
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendment to IFRS 1	'First-time Adoption of IFRS' regarding short-term exemptions covering transition provisions of IFRS 7, IAS 19, and IFRS 10
Amendment to IAS 28	Investments in associates and joint ventures' regarding measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL)

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

IFRS 15 'Revenue from Contracts with Customers' is effective from periods beginning on or after 1 January 2018 and will be effective in the Group financial statements for the year ended 31 August 2019. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods and services is transferred. It applies to all contracts with customers, except those in the scope of other standards. During the year ended 31 August 2018, the Group has substantially completed an assessment of the impact of IFRS 15 and it is expected that adoption will not materially impact the recognition and measurement of the Group's revenue streams. The majority of Group sales are for standalone products made direct to customers at standard prices either through franchisees, in-store or online, where there is a single performance obligation and revenue is recognised at the point of sale or, where later, delivery to the end customer.

IFRS 9 'Financial Instruments' is a new standard which enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the various rules in IAS 39, and also introduces a new expected loss impairment model.

This standard is effective for accounting periods commencing on or after 1 January 2018 and will be adopted for the Group's 2018/19 financial year. The new standard is not expected to have a material impact on the Group's financial statements.

IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019. 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 is in the process of assessing the impact of IFRS 16 and has invested in additional resource and systems in order to assess the impact on its existing lease estate, which comprises approximately 1,300 property leases, as well as equipment leases. The Group has established a project group to lead the implementation and work is ongoing in respect of assessment of the accounting impacts of the change, collection of the required data from across the business, and changes to systems and processes.

A reliable estimate of the financial impact on the Group's consolidated results is dependent on a number of unresolved areas, including; the choice of transition method, completion of discount rate data gathering and the refinement of the incremental borrowing rate determination for each lease, estimates of lease-term for leases with options to break and renew, and conclusion of lease attribute data gathering across the Group. In addition, the financial impact is dependent on the facts and circumstances at the time of transition. For these reasons, it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

1. Accounting policies (continued)

a) Basis of preparation (continued)

New standards (continued)

The undiscounted amount of the Group's operating lease commitments at 31 August 2018 disclosed under IAS 17, the current leasing standard was £824 million (see Note 7).

Alternative performance measures ('APMs')

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

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

The key APMs that the Group uses include: Headline profit before tax, Headline earnings per share, High Street and Travel trading profit, Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Net funds, Return on capital employed and free cash flow. These APMs are set out in the Glossary on page 116 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

Non-underlying items

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

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

Accounting convention

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

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 (which is the most significant revenue stream), sale of wholesale goods to franchisees, and commission and fee income on concession and franchise arrangements.

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

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. Revenue on wholesale sale of goods to franchisees is recognised on delivery. Franchise and concession fees and commission are recognised in revenue as earned based on the terms of the contracts.

Notes to the financial statements continued

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

f) Intangible assets (continued)

Goodwill

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

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to 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. The useful life and residual value of all intangible assets are determined at the time of acquisition and reviewed annually for appropriateness.

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

g) Property, plant and equipment

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

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

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

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

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

h) Investments in joint ventures

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

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

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

Additions to joint ventures in the year represent new investments in joint ventures in Oman and Brazil.

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

Notes to the financial statements continued

1. Accounting policies (continued)

i) Inventories

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

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

Provisions are made for obsolescence, markdown and shrinkage.

j) Provisions

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

Onerous contracts – property provisions

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

k) Foreign currencies

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

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

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

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

l) Taxation

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

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

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

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

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

m) Financial instruments

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.

1. Accounting policies (continued)

m) Financial instruments (continued)

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.

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.

n) Share schemes

WHSmith Employee Benefit Trust

The shares held by the WHSmith Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve.

Share-based payments

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability is recognised at the current fair value determined at each balance sheet date, taking into account performance conditions and the extent to which employees have rendered service to date, with any changes in fair value recognised in the profit or loss for the year.

o) Dividends

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

p) 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.

Notes to the financial statements continued

1. Accounting policies (continued)

p) Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical accounting judgements

Non-underlying items

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

The classification of items as non-underlying requires significant management judgement. The definition of non-underlying items has been applied consistently year on year. Further details of non-underlying items are provided in Note 4.

Sources of estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19, 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further information in respect of the Group's retirement benefit obligation is included in Note 5.

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

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates. Further information in respect of the Group's goodwill and other intangible assets is included in Notes 13 and 14 respectively.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. Further information in respect of the Group's property, plant and equipment is included in Note 15.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made. A description of the Group's accounting policy in respect of inventories is included in Note 1(i).

Provisions

Provisions have been estimated for taxation, onerous leases and contingent consideration. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made. Further information in respect of the Group's onerous lease provision is included in Note 19 and further information in respect of the Group's tax provisions is included in Note 10.

2. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments - Travel and High Street.

The Group's operating segments are based on the reports reviewed by the Board of Directors (who are collectively considered to be the chief operating decision maker) to make strategic decisions and allocate resources.

IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources.

a) Group revenue

£m	2018	2017
Travel	**672**	624
High Street	**590**	610
Group revenue	**1,262**	1,234

b) Group results

£m	2018			2017
	Headline	Non-underlying items	Total	Total
Travel trading profit	**103**	**–**	**103**	96
High Street trading profit	**60**	**–**	**60**	62
Group Profit from trading operations	**163**	**–**	**163**	158
Unallocated costs	**(16)**	**–**	**(16)**	(16)
Non-underlying items (Note 4)	**–**	**(11)**	**(11)**	–
Group operating profit	**147**	**(11)**	**136**	142
Finance costs	**(2)**	**–**	**(2)**	(2)
Income tax expense	**(26)**	**–**	**(26)**	(24)
Profit for the year	**119**	**(11)**	**108**	116

Included within Travel revenue and trading profit is International revenue of £132m (2017: £108m) and International trading profit of £11m (2017: £9m).

c) Balance sheet

	2018		
£m	Travel	High Street	Group
Assets			
Segment assets	**206**	**273**	**479**
Unallocated assets	**–**	**–**	**49**
Consolidated total assets	**206**	**273**	**528**
Liabilities			
Segment liabilities	**(114)**	**(138)**	**(252)**
Unallocated liabilities	**–**	**–**	**(64)**
Consolidated total liabilities	**(114)**	**(138)**	**(316)**
Net assets	**92**	**135**	**212**

Notes to the financial statements continued

2. Segmental analysis of results (continued)

£m	2017 Travel	High Street	Group
Assets			
Segment assets	180	266	446
Unallocated assets	–	–	42
Consolidated total assets	180	266	488
Liabilities			
Segment liabilities	(105)	(136)	(241)
Unallocated liabilities	–	–	(60)
Consolidated total liabilities	(105)	(136)	(301)
Net assets	75	130	187

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 £30m (2017: £27m).

d) Other segmental items

£m	2018 Travel	High Street	Group
Capital additions	**33**	**30**	**63**
Depreciation and amortisation of non-current assets	**(18)**	**(25)**	**(43)**
Impairment losses	**–**	**(2)**	**(2)**

£m	2017 Travel	High Street	Group
Capital additions	22	28	50
Depreciation and amortisation of non-current assets	(17)	(24)	(41)
Impairment losses	(1)	–	(1)

3. Group operating profit

£m	2018 Headline	2018 Non-underlying items	2018 Total	2017 Total
Revenue	**1,262**	**–**	**1,262**	1,234
Cost of sales	**(501)**	**–**	**(501)**	(501)
Gross profit	**761**	**–**	**761**	733
Distribution costs[1]	**(532)**	**–**	**(532)**	(509)
Administrative expenses	**(88)**	**–**	**(88)**	(87)
Other income[2]	**6**	**–**	**6**	5
Non-underlying items (Note 4)	**–**	**(11)**	**(11)**	–
Group operating profit	**147**	**(11)**	**136**	142

1 During the year there was a £2m (2017: £1m) 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.

3. Group operating profit (continued)

£m	2018	2017
Cost of inventories recognised as an expense	**501**	501
Write-down of inventories in the year	**5**	5
Depreciation and amounts written off property, plant and equipment	**38**	36
Amortisation and amounts written off intangible assets	**7**	6
Net operating lease charges		
– land and buildings	**212**	200
– equipment and vehicles	**–**	1
Other occupancy costs	**66**	67
Staff costs (Note 6)	**216**	212
Auditors' remuneration (see below)		
Audit services		
Fees payable to the Group's auditors, included in the income statement, relate to:		
Fees payable to the Group's auditors for the audit of the Group's financial statements	**0.3**	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	**0.4**	0.3
Non-audit services		
Fees payable to the Group's auditors for other services:		
Taxation compliance services	**–**	–
Taxation advisory services	**–**	–
Due diligence services relating to an uncompleted transaction	**0.6**	–
All other non-audit services	**–**	0.1
Non-audit fees including taxation and other services	**0.6**	0.1
Total auditors' remuneration	**1.0**	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. Non-underlying items

Items which are not considered part of the normal operating costs of the business are non-recurring and are considered exceptional because of their size, nature and incidence, are treated as non-underlying items and disclosed separately. Further details of non-underlying items are included in Note 1, Accounting policies and in the Strategic report on page 15.

£m	2018	2017
High Street business review		
– restructuring	**3**	–
– Cardmarket and store closure costs, and onerous lease charge	**6**	–
Costs relating to an uncompleted transaction	**2**	–
	11	–

Despite the good performance from our High Street business, we are not ignoring the challenging conditions being experienced on the high street more generally. As such, we have undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we have made the following decisions: to increase the focus on our core categories; wind down non core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around six High Street stores. The costs relating to the business review will be incurred in both our year ended 31 August 2018 and 31 August 2019. Costs of £3m were incurred in the year relating to the restructuring of central costs. Closure costs of £6m (including onerous lease charges) were incurred relating to Cardmarket and around six High Street stores which we will now close. We expect the costs of this review to cover both our year ended 31 August 2018 and 31 August 2019, with a non-underlying charge in 2019 of around £5m and a cash flow impact of around £5m.

We also incurred £2m relating to fees on an acquisition outside of the UK which we chose not to complete.

Notes to the financial statements continued

5. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 5 a) i).

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

£m	2018	2017
WHSmith Pension Trust	**(3)**	(4)
United News Shops Retirement Benefits Scheme	**(1)**	(2)
Retirement benefit obligation recognised in the balance sheet	**(4)**	(6)
Recognised as:		
Current liabilities	**(1)**	(1)
Non-current liabilities	**(3)**	(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.

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 £1,277m as at 31 August 2018, managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

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

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

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

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

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2017 by independent actuaries using the projected unit credit method. At 31 March 2017 the deficit was £11m. The Group had agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs of just under £3m. During the year ending 31 August 2018, the Group made a contribution of £3m to the WHSmith Pension Trust (2017: £3m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2019 to be £3m. The weighted average duration of the defined benefit obligation is 19 years.

5. Retirement benefit obligations (continued)

Amounts recognised in the financial statements

Balance Sheet

The amounts recognised in the balance sheet under IAS 19 in relation to this plan are as follows:

£m	2018	2017
Present value of the obligations	**(983)**	(1,071)
Fair value of plan assets	**1,277**	1,340
Surplus before consideration of asset ceiling	**294**	269
Amounts not recognised due to effect of asset ceiling	**(294)**	(269)
Additional liability recognised due to minimum funding requirements	**(3)**	(4)
Retirement benefit obligation recognised in the balance sheet	**(3)**	(4)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £3m (2017: £4m). The defined benefit pension schemes are closed to further accrual and the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £294m (2017: £269m) available on a reduction of future contributions is £nil (2017: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet. There is an ongoing actuarial deficit primarily due to the different assumptions and calculation methodologies used compared to those on interpretation of IAS 19.

Income Statement

The amounts recognised in the income statement were as follows:

£m	2018	2017
Net interest cost on the defined benefit liability	–	–
	–	**–**

The net interest cost has been included in finance costs (Note 9). Actuarial gains and losses have been reported in the statement of comprehensive income.

Statement of comprehensive income

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

£m	2018	2017
Actuarial (loss)/gain on defined benefit obligations arising from experience	**(7)**	111
Actuarial gain on defined benefit obligations arising from changes in financial assumptions	**70**	28
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	**6**	11
Total actuarial gain before consideration of asset ceiling	**69**	150
Return on plan assets excluding amounts included in net interest cost	**(54)**	(51)
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	**(18)**	(101)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	**1**	–
Total actuarial loss recognised in other comprehensive income	**(2)**	(2)

In addition, a credit of £1m (2017: nil) was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

5. Retirement benefit obligations (continued)

Movements in the present value of the WHSmith Pension Trust defined benefit scheme assets, obligations and minimum funding requirement in the current year were as follows:

	2018				2017			
£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	**1,340**	**(1,071)**	**(273)**	**(4)**	1,424	(1,260)	(169)	(5)
Current service cost	**–**	**–**	**–**	**–**	–	–	–	–
Interest income/(expense)	**33**	**(26)**	**(7)**	**–**	28	(25)	(3)	–
Past service credit	**–**	**–**	**–**	**–**	(12)	12	–	–
Actuarial gains/(losses)	**(54)**	**69**	**(17)**	**(2)**	(51)	150	(101)	(2)
Contributions from the sponsoring companies	**3**	**–**	**–**	**3**	3	–	–	3
Benefits paid	**(45)**	**45**	**–**	**–**	(52)	52	–	–
At 31 August	**1,277**	**(983)**	**(297)**	**(3)**	1,340	(1,071)	(273)	(4)

The actual return on scheme assets was a loss of £21m (2017: loss of £23m) due to a decrease in the value of the bonds held to match the pension scheme liabilities. The reduction in the value of the scheme liabilities as a result of decreases in the value of bonds, as well as a slight decrease in future inflation expectations, was greater than the reduction in scheme assets, resulting in an increase in the IAS 19 surplus of £25m.

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

	2018				2017			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	**795**	**–**	**795**	**62**	721	–	721	54
– Corporate bonds								
UK	**223**	**–**	**223**	**17**	164	–	164	12
Non-UK	**187**	**–**	**187**	**15**	135	–	135	10
Investment funds[1]		**47**	**47**	**4**	–	16	16	1
Derivatives								
– Interest rate swaps	**–**	**(294)**	**(294)**	**(23)**	–	(345)	(345)	(26)
– Inflation swaps	**–**	**199**	**199**	**16**	–	256	256	19
– Other	**–**	**2**	**2**	**–**	–	(272)	(272)	(20)
Cash and cash equivalents	**118**	**–**	**118**	**9**	665	–	665	50
Total	**1,323**	**(46)**	**1,277**	**100**	1,685	(345)	1,340	100

1 These actively managed pooled funds seek to provide long-term positive returns through diversified assets and strategies.

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

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

%	2018	2017
Rate of increase in pension payments	**3.17**	3.26
Rate of increase in deferred pensions	**2.15**	2.25
Discount rate	**2.80**	2.50
RPI inflation assumption	**3.25**	3.35
CPI inflation assumption	**2.15**	2.25

5. Retirement benefit obligations (continued)

The mortality assumptions in years underlying the value of the accrued liabilities for 2018 and 2017 are:

	2018		2017	
Years	**Male**	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**23.1**	**24.5**	23.2	24.6
Member currently aged 45	**24.1**	**26.1**	24.2	26.1

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2018, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

£m	Effect on liabilities at 31 August 2018
Discount rate + / - 0.1% per annum	**-18/+18**
Inflation assumptions + / - 0.1% per annum	**+16/-16**
Life expectancy + / - 1 year	**+41/-41**

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.

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

£m	2018	2017
Present value of the obligations	**(7)**	(8)
Fair value of plan assets	**6**	6
Retirement benefit obligation recognised in the balance sheet	**(1)**	(2)

There was a credit of £1m (2017: no adjustments) 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 £4m for the year ended 31 August 2018 (2017: £4m).

6. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2018	2017
Wages and salaries	**194**	189
Social security costs	**14**	13
Other pension costs	**4**	4
Share-based payments	**4**	6
Total Group	**216**	212

b) Employee numbers

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

	2018	2017
Total retailing	**13,796**	13,743
Support functions	**32**	30
Total Group	**13,828**	13,773

Notes to the financial statements continued

7. Operating lease commitments

Amounts recognised in operating profit:

£m	2018	2017
Minimum lease payments	196	182
Contingent rent payments	17	20
Total rent paid	213	202
Sublease rentals received on operating leases	(1)	(1)
Net operating lease charges	**212**	201

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

	2018			2017		
£m	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Within one year	183	1	184	182	–	182
Within two to five years	464	2	466	465	1	466
In more than five years	174	–	174	191	2	193
	821	3	824	838	3	841

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 £2m (2017: £2m). The average remaining lease length across the Group is 4.5 years.

Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are discussed in Note 22.

8. Fixed charges cover

£m	2018	2017
Net finance charges (Note 9)	2	2
Net operating lease rentals (Note 7)	212	201
Total fixed charges	**214**	203
Headline profit before tax	**145**	140
Headline profit before tax and fixed charges	**359**	343
Fixed charges cover – times	**1.7x**	1.7x

An explanation of alternative performance measures, including fixed charges cover is provided in the Glossary on page 116.

9. Finance costs

£m	2018	2017
Interest payable on bank loans and overdrafts	2	2
Net interest cost on defined benefit pension liabilities	–	–
	2	2

10. Income tax expense

£m	2018	2017
Tax on profit	**29**	29
Standard rate of UK corporation tax 19.00% (2017: 19.58%)		
Adjustment in respect of prior year UK corporation tax	**(3)**	(5)
Total current tax charge	**26**	24
Deferred tax – current year (Note 20)	**(1)**	(1)
Deferred tax – prior year (Note 20)	**1**	1
Tax on profit	**26**	24

Reconciliation of the taxation charge

£m	2018	2017
Tax on profit at standard rate of UK corporation tax 19.00% (2017: 19.58%)	**25**	27
Tax effect of items that are not deductible or not taxable in determining taxable profit	**4**	2
Adjustment in respect of prior years	**(3)**	(5)
Total income tax expense	**26**	24

The effective tax rate, before non-underlying items, was 18% (2017: 17%). The UK corporation tax rate has been 19 per cent with effect from 1 April 2017 and will reduce to 17 per cent from 1 April 2020.

The Group provides against known tax exposures, on a reasonable basis, until we have received formal agreement from the relevant tax authority that an inquiry into a particular tax return has been closed.

11. Dividends

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

£m	2018	2017
Dividends		
Interim dividend of 16.0p per ordinary share (2017: 14.6p per ordinary share)	**17**	16
Final dividend of 33.6p per ordinary share (2017: 30.5p per ordinary share)	**37**	34
	54	50

The proposed dividend of 38.1p per share, amounting to a final dividend of £42m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 31 January 2019 to shareholders on the register at the close of business on 11 January 2019. The final dividend will be paid gross.

Notes to the financial statements continued

12. Earnings per share

a) Earnings

£m	2018	2017
Earnings attributable to shareholders	**108**	116
Non-underlying items (Note 4)	**11**	–
Headline Earnings attributable to shareholders	**119**	116

b) Weighted average share capital

Millions	2018	2017
Weighted average ordinary shares in issue	**110**	112
Less weighted average ordinary shares held in ESOP Trust	**(1)**	(1)
Weighted average shares in issue for earnings per share	**109**	111
Add weighted average number of ordinary shares under option	**1**	1
Weighted average ordinary shares for diluted earnings per share	**110**	112

c) Basic and diluted earnings per share

Pence	2018	2017
Basic earnings per share	**99.1**	104.5
Adjustment for non-underlying items	**10.1**	–
Headline Basic earnings per share	**109.2**	104.5

Pence	2018	2017
Diluted earnings per share	**98.2**	103.6
Adjustment for non-underlying items	**10.0**	–
Headline Diluted earnings per share	**108.2**	103.6

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

13. Goodwill

	£m
Cost	
At 1 September 2017	38
Additions (Note 28)	3
At 31 August 2018	**41**
Accumulated impairment	
At 1 September 2017	–
Impairment charge	–
At 31 August 2018	**–**
Net book value at 31 August 2018	**41**
Cost	
At 1 September 2016	38
At 31 August 2017	**38**
Accumulated impairment	
At 1 September 2016	–
Impairment charge	–
At 31 August 2017	**–**
Net book value at 31 August 2017	**38**

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

£m	2018	2017
Travel	**28**	27
High Street	**13**	11
	41	38

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 (2017: £nil). All goodwill relates to the acquisitions of groups of retail stores (which are considered to be CGUs) 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 (2017: 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

14. Other intangible assets

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment) 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 2017	102
Additions	9
At 31 August 2018	**111**
Accumulated amortisation	
At 1 September 2017	73
Amortisation charge	7
Impairment charge	–
At 31 August 2018	**80**
Net book value at 31 August 2018	**31**

Cost	
At 1 September 2016	92
Additions	10
At 31 August 2017	**102**
Accumulated amortisation	
At 1 September 2016	67
Amortisation charge	6
Impairment charge	–
At 31 August 2017	**73**
Net book value at 31 August 2017	**29**

Included in the net book value of other intangible assets are software costs of £26m (2017: £23m), tenancy agreements of £4m (2017: £5m), and brands and franchise contracts of £1m (2017: £1m). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2017: £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 2018 was £nil (2017: £1m).

15. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2017	22	189	130	98	439
Additions	–	21	21	12	54
Disposals	–	(3)	(1)	–	(4)
Foreign exchange differences	–	–	(1)	–	(1)
At 31 August 2018	**22**	**207**	**149**	**110**	**488**
Accumulated depreciation:					
At 1 September 2017	14	122	85	54	275
Depreciation charge	1	14	9	12	36
Impairment charge	–	1	–	1	2
Disposals	–	(3)	(1)	–	(4)
Foreign exchange differences	–	–	–	–	–
At 31 August 2018	**15**	**134**	**93**	**67**	**309**
Net book value at 31 August 2018	**7**	**73**	**56**	**43**	**179**
Cost or valuation:					
At 1 September 2016	22	182	126	117	447
Additions	–	17	13	10	40
Disposals	–	(11)	(10)	(29)	(50)
Foreign exchange differences	–	1	1	–	2
At 31 August 2017	**22**	**189**	**130**	**98**	**439**
Accumulated depreciation:					
At 1 September 2016	13	120	85	71	289
Depreciation charge	1	13	9	12	35
Impairment charge	–	–	1	–	1
Disposals	–	(11)	(10)	(29)	(50)
Foreign exchange differences	–	–	–	–	–
At 31 August 2017	**14**	**122**	**85**	**54**	**275**
Net book value at 31 August 2017	**8**	**67**	**45**	**44**	**164**

The net book value of assets held under finance leases included within these balances as at 31 August 2018 was £14m (2017: £12m), being £2m short-term leasehold (2017: £2m), £3m fixtures and fittings (2017: £1m), and £9m equipment and vehicles (2017: £9m).

16. Trade and other receivables

£m	2018	2017
Current debtors		
Trade debtors	**27**	28
Other debtors	**8**	3
Prepayments and accrued income	**25**	23
	60	54
Non-current debtors		
Prepayments and accrued income	**7**	6
Total trade and other receivables	**67**	60

Included in prepayments and accrued income is £9m (2017: £8m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income that has been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against trade payables balances is included in trade payables where the Group has a right to offset.

Notes to the financial statements continued

16. Trade and other receivables (continued)

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

£m	2018	2017
Trade and other receivables gross	**38**	34
Allowance for doubtful debts	**(1)**	(1)
Trade and other receivables net	**37**	33
Of which:		
Amounts neither impaired nor past due on the reporting date	**28**	25
Amounts past due but not impaired:		
Less than one month old	**6**	5
Between one and three months old	**1**	1
Between three and six months old	**1**	1
Between six months and one year old	**1**	1
Trade and other receivables net carrying amount	**37**	33

An allowance has been made for estimated irrecoverable amounts from sales at 31 August 2018 of £1m (31 August 2017: £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.

Ageing analysis of bad and doubtful debt provisions:

£m	2018	2017
Less than one month old	**–**	–
Between one and three months old	**–**	–
Between three and six months old	**–**	–
Between six months and one year old	**1**	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.

17. Trade and other payables – current

£m	2018	2017
Trade payables	**96**	100
Other tax and social security	**19**	24
Other creditors	**76**	64
Accruals and deferred income	**47**	44
	238	232

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2017: 61 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables is stated net of £12m (2017: £15m) amounts receivable from suppliers in relation to supplier income, that has been invoiced, for which the Group has the right to set off against amounts payable at the balance sheet date.

18. Obligations under finance leases

£m	2018 Minimum lease payments	2018 Present value of minimum lease payments	2017 Minimum lease payments	2017 Present value of minimum lease payments
Amounts payable under finance leases:				
Within one year	**6**	**5**	4	4
Within two to five years	**9**	**9**	9	8
After five years	**–**	**–**	–	–
Total	**15**	**14**	13	12
Less: future finance charges	**(1)**	**–**	(1)	–
Present value of lease obligations	**14**	**14**	12	12
Less: amount due for settlement within 12 months (shown under current liabilities)	**(5)**		(4)	
Amount due for settlement after 12 months	**9**		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 to their carrying amount.

19. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2017	5	–	5
Charge in the year	1	1	2
Utilised in year	(1)	–	(1)
Unwinding of discount	–	–	–
At 31 August 2018	**5**	**1**	**6**

£m	Property provision	Total
At 1 September 2016	6	6
Charge in the year	–	–
Utilised in year	(1)	(1)
Unwinding of discount	–	–
At 31 August 2017	**5**	**5**

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

£m	2018	2017
Included in current liabilities	**1**	1
Included in non-current liabilities	**5**	4
	6	5

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

Notes to the financial statements continued

20. Deferred tax

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

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2017	3	–	4	1	–	8
Credited/(charged) to income	1	–	(1)	–	–	–
Charged to equity	–	–	(1)	–	–	(1)
At 31 August 2018	**4**	**–**	**2**	**1**	**–**	**7**
At 1 September 2016	2	–	5	1	1	9
Credited/(charged) to income	1	–	–	–	(1)	–
Charged to equity	–	–	(1)	–	–	(1)
At 31 August 2017	**3**	**–**	**4**	**1**	**–**	**8**

Changes to UK corporation tax rates reduced the tax rate to 19 per cent from 1 April 2017 and will reduce the tax rate to 17 per cent from 1 April 2020. The effects of these changes are included in these financial statements.

Other gross deductible temporary differences of £87m (2017: £95m) in respect of capital losses carried forward have not been recognised on the basis that their future economic benefit is uncertain.

All deferred tax assets and liabilities are offset as there is considered to be a legally enforceable right to do so. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

£m	2018	2017
Deferred tax liabilities (non-current liabilities)	**–**	–
Deferred tax assets	**7**	8
	7	8

21. Analysis of net debt

Movements in net debt / funds can be analysed as follows:

£m	2017	Cash flow	Non cash	Currency translation	2018
Cash and cash equivalents	38	8	–	(1)	**45**
Borrowings					
– Revolving credit facility	(22)	(11)	–	–	**(33)**
– Obligations under finance leases	(12)	5	(7)	–	**(14)**
Net funds / (debt)	**4**	**2**	**(7)**	**(1)**	**(2)**

£m	2016	Cash flow	Non cash	Currency translation	2017
Cash and cash equivalents	38	–	–	–	**38**
Borrowings					
– Revolving credit facility	(18)	(4)	–	–	**(22)**
– Obligations under finance leases	(13)	4	(3)	–	**(12)**
Net funds	**7**	**–**	**(3)**	**–**	**4**

An explanation of alternative performance measures, including net debt is provided in the Glossary on page 116.

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

The Group has in place a five-year committed multi-currency revolving credit facility of £140m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2022. The utilisation is interest-bearing at LIBOR plus 85 basis points. As at 31 August 2018, the Group has drawn down £33m (2017: £22m) on this facility.

22. Contingent liabilities and capital commitments

£m	2018	2017
Bank guarantees and guarantees in respect of lease agreements	**19**	16

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 2018 of £2m (2017: £3m). 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 (2017: £8m).

£m	2018	2017
Commitments in respect of property, plant and equipment	**6**	7
Commitments in respect of other intangible assets	**2**	1
	8	8

23. Cash generated from operating activities

£m	2018	2017
Group operating profit	**136**	142
Depreciation of property, plant and equipment	**36**	35
Impairment of property, plant and equipment	**2**	1
Amortisation of intangible assets	**7**	6
Share-based payments	**4**	5
Increase in inventories	**(4)**	(4)
Increase in receivables	**(8)**	(5)
Decrease in payables	**1**	–
Pension funding	**(3)**	(3)
Income taxes paid	**(27)**	(27)
Movement on provisions	**–**	(1)
Cash generated from operating activities	**144**	149

24. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2018	2017
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**1**	–
Loans and receivables (including cash and cash equivalents)[2]	**98**	85
Financial liabilities		
Amortised cost[3]	**(297)**	(278)

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

2 Included within loans and receivables are trade and other receivables (excluding prepayments) and cash and cash equivalents.

3 Included within amortised cost are trade and other payables, borrowings, finance lease obligations and other non-current liabilities.

Comparison of carrying values and fair values

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

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

24. 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 21 for the value of the Group's net debt/funds and refer to the Group statement of changes in equity for the value of the Group's equity.

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

As at 11 October 2018, the Group has in place a £140m 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:

2018 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	**33**	**–**	**–**	**–**	**33**
Trade and other payables	**246**	**–**	**–**	**–**	**246**
Finance leases	**5**	**4**	**5**	**–**	**14**
Total cash flows	**284**	**4**	**5**	**–**	**293**

2017 (£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	22	–	–	–	22
Trade and other payables	244	–	–	–	244
Finance leases	4	4	5	–	13
Total cash flows	270	4	5	–	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 short-term credit rating of P-1.

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

24. Financial instruments (continued)

Interest rate risk

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

At 31 August 2018, the Group had drawn down £33m (2017: £22m) 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.

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 2018 the Group had no material un-hedged currency exposures.

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

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

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

£m	2018	2017
Fair value of derivative assets	1	–

At 31 August 2018, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$37m (2017: US$40m) and £3m (2017: £6m). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Losses of £nil (2017: gains of £2m) have been transferred to the income statement and losses of £nil (2017: gains of £1m) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2018. In the year to 31 August 2018 the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £1m (2017: £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 2018

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 1.2988/1 (2017: 1.2905/1), EUR/GBP 1.1157/1 (2017: 1.0860/1) and AUD/GBP 1.7982/1 (2017: 1.6306/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2018 and 31 August 2017 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.

Notes to the financial statements continued

24. Financial instruments (continued)

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

£m	2018 Income gains/(loss)	2018 Equity gains/(loss)	2017 Income gains/(loss)	2017 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)**	**1**	–	1
AUD/GBP exchange rates 10% increase	**–**	**–**	–	–
GBP LIBOR/base rate interest rates 1% decrease	**–**	**–**	–	–
USD/GBP exchange rates 10% decrease	**–**	**4**	–	4
EUR/GBP exchange rates 10% decrease	**1**	**–**	–	–
AUD/GBP exchange rates 10% decrease	**–**	**–**	–	(1)

25. Called up share capital

Allotted and fully paid

£m	2018 Number of shares (millions)	2018 Nominal value £m	2017 Number of shares (millions)	2017 Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	**110**	**24**	111	24
Total	**110**	**24**	111	24

During the year the Company repurchased 1,297,022 of its own shares in the open market for an aggregate consideration of £26m. In total, 1,297,022 shares were cancelled during the year and 40,000 shares were purchased prior to 31 August 2018, but the settlement of £1m took place after 31 August 2018.

During the year, 144,575 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £2m (2017: £nil).

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 £4m (2017: £9m) 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 265,062 (2017: 673,726).

26. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2012 CIP	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2017	415,930	14,686	662,971	996,117	395,292	42,759	2,527,755
Options and awards granted	–	–	–	376,715	170,831	4,898	552,444
Options and awards exercised	(144,575)	(14,686)	(265,481)	(293,122)	(100,014)	(12,983)	(830,861)
Options and awards lapsed	(31,130)	–	(120,791)	(33,185)	(33,068)	–	(218,174)
Outstanding at 31 August 2018	**240,225**	**–**	**276,699**	**1,046,525**	**433,041**	**34,674**	**2,031,164**
Exercisable at 31 August 2018	**48,219**	**–**	**4,079**	**–**	**20,160**	**–**	**72,458**
Outstanding at 1 September 2016	262,691	52,744	1,077,400	837,938	359,775	97,497	2,688,045
Options and awards granted	217,311	–	–	431,865	227,141	33,526	909,843
Options and awards exercised	(41,005)	(38,058)	(385,933)	(269,292)	(130,352)	(88,264)	(952,904)
Options and awards lapsed	(23,067)	–	(28,496)	(4,394)	(61,272)	–	(117,229)
Outstanding at 31 August 2017	**415,930**	**14,686**	**662,971**	**996,117**	**395,292**	**42,759**	**2,527,755**
Exercisable at 31 August 2017	**–**	**14,686**	**4,199**	**4,088**	**17,341**	**–**	**40,314**

26. Share-based payments (continued)

Pence	2018	2017
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**216.26**	111.76
– Granted in the year	**–**	342.60
– Exercised in the year	**208.83**	41.13
– Lapsed in the year	**194.39**	224.25
– Outstanding at the end of the year	**162.83**	216.26
– Exercisable at the end of the year	**763.43**	187.47

Detail of movements in options and awards

2012 Co-Investment Plan (CIP)

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

Outstanding awards granted under the CIP are as follows:

	Number of shares			
Date of grant	2018	2017	Exercise price (pence)	Exercise period
17 October 2013	**–**	4,199	Nil	Oct 2016 – Oct 2023
23 October 2014	**4,079**	349,272	Nil	Oct 2017 – Oct 2024
6 November 2014	**–**	31,395	Nil	Nov 2017 – Nov 2024
22 October 2015	**272,620**	278,105	Nil	Oct 2018 – Oct 2025
	276,699	662,971		

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	2018	2017	Exercise price (pence)	Exercise period
15 November 2011	**–**	4,088	Nil	Nov 2014 – 15.11.21
23 October 2014	**–**	290,824	Nil	Oct 2017 – 23.10.24
6 November 2014	**–**	31,395	Nil	Nov 2017 – 06.11.24
22 October 2015	**237,945**	237,945	Nil	Oct 2018 – 22.10.25
20 October 2016	**431,865**	431,865	Nil	Oct 2019 – 20.10.26
26 October 2017	**376,715**	–	Nil	Oct 2020 – 26.10.27
	1,046,525	996,117		

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

Notes to the financial statements continued

26. Share-based payments (continued)

Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board grants options to purchase ordinary shares in the Company to employees with at least six months service who enter into an HM Revenue & Customs approved Save-As-You-Earn (SAYE) savings contract for a term of three or five years. Options are granted at up to a 20 per cent discount to the market price of the shares on the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

Outstanding options granted under the Sharesave Scheme at 31 August 2018 are as follows:

	Number of shares			
Date of grant	2018	2017	Exercise price (pence)	Exercise period
3 June 2015 (3 year)	**48,219**	200,285	1147.20	01.08.18 – 31.01.19
7 June 2017 (3 year)	**192,006**	215,645	1434.40	01.08.20 – 31.01.21
	240,225	415,930		

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	2018	2017	Exercise price (pence)	Exercise period
5 November 2012	**3,841**	7,229	Nil	Nov 2015 – 05.11.22
18 April 2013	**1,980**	1,980	Nil	Apr 2016 – 18.04.23
17 October 2013	**3,939**	8,132	Nil	Oct 2016 – 17.10.23
23 October 2014	**10,400**	103,475	Nil	Oct 2017 – 23.10.24
22 October 2015	**73,262**	76,743	Nil	Oct 2018 – 22.10.25
20 October 2016	**183,207**	197,733	Nil	Oct 2019 – 20.10.26
26 October 2017	**156,412**	–	Nil	Oct 2020 – 26.10.27
	433,041	395,292		

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 2018 are as follows:

	Number of shares			
Date of grant	2018	2017	Exercise price (pence)	Exercise period
5 November 2009	**–**	3,584	497.37	05.11.12 – 04.11.19
15 November 2011	**–**	11,102	520.17	15.11.14 – 14.11.21
	–	14,686		

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 2018 there were 34,674 outstanding nil-cost cash-settled awards (2017: 42,759), which will be settled between 31 August 2018 and October 2026. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2017: £1m).

Fair value information

	2018	2017
Weighted average share price at date of exercise of share options exercised during year – pence	**2027.75**	1,576.41
Weighted average remaining contractual life at end of year – years	**7**	6

26. Share-based payments (continued)

Share options and awards granted

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

£m	2018	2017
	11	10

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:

	2018	2017
Share price – pence	**2,078**	1,577
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**22**	23
Expected life – years	**2.9**	3.0
Risk free rate – per cent	**0.56**	0.27
Dividend yield – per cent	**Nil**	2.80
Weighted average fair value of options – pence	**1,926.69**	1,313.48

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 2017 were measured using a Black Scholes model. None were granted in the year ended 31 August 2018. The input range into the Black Scholes models was as follows:

	2017
Share price – pence	1,762
Exercise price – pence	1,434
Expected volatility – per cent	22
Expected life – years	3.5
Risk free rate – per cent	0.19
Dividend yield – per cent	2.49
Weighted average fair value of options – pence	354.00

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

27. Related party transactions

Transactions between businesses within this Group which are related parties have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the executive and non-executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

Further information about the remuneration of individual directors is provided in the Directors' remuneration report on pages 40 to 59.

£'000	2018	2017
Short-term employee benefits	**2,641**	2,694
Post-employment benefits	**225**	225
Share-based payments	**1,275**	1,686
	4,141	4,605

There are no other transactions with directors.

Notes to the financial statements continued

28. Acquisitions

On 13 December 2017, the Group acquired entire share capital of The SQL Workshop Limited, for a cash consideration of £2m and contingent consideration of £1m, payable over two years based on certain performance and profit target criteria. The business is a leading online specialist pen retailer with over 18,000 products, trading as www.cultpens.com. This acquisition complements our existing stationery ranges in both our High Street stores and online at www.whsmith.co.uk. The fair value of assets acquired was £1m stock and other working capital, resulting in recognition of goodwill of £2m.

29. Events after the balance sheet date

As at 10 October 2018, the Company has repurchased a further 289,585 of its own shares in the open market as part of the Company's share buyback programme for a consideration of £6m.

On 11 October 2018, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.

30. Subsidiary companies

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

Name	Country of incorporation/ registration	Registered address	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
Held directly by WH Smith PLC:						
WH Smith Retail Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
Held indirectly:						
Books & Stationers Limited	England & Wales	1	Ordinary	100	100	Retailing
Card Market Limited	England & Wales	1	Ordinary	100	100	Retailing
funkypigeon.com Limited	England & Wales	1	Ordinary	100	100	Retailing
Lexicon Book Company Limited	England & Wales	1	Ordinary	100	100	Property
Modelzone Limited	England & Wales	1	Ordinary	100	100	Dormant
Sussex Stationers Limited	England & Wales	1	Ordinary	100	100	Dormant
The SQL Workshop Limited	England & Wales	1	Ordinary	100	100	Retailing
The Websters Group Limited	England & Wales	1	Ordinary	100	100	Dormant
WH Smith (Qatar) Limited	England & Wales	1	Ordinary	100	100	Dormant
WH Smith 1955 Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith Asia Limited	Hong Kong	2	Ordinary	100	100	Product sourcing for WH Smith Group companies
WH Smith Australia Pty Limited	Australia	3	Ordinary	100	100	Retailing
WH Smith Austria GmbH	Austria	4	Ordinary	100	100	Retailing
WH Smith - DFA Brasil Cafeteria, Livraria E Conveniencia Eireli	Brazil	18	Ordinary	50	50	Retailing
WH Smith France S.A.S	France	5	Ordinary	100	100	Retailing
WH Smith Germany GmbH	Germany	6	Ordinary	100	100	Retailing
WH Smith Group Holdings (USA) Inc.	USA	7	Ordinary	100	100	Dormant
WH Smith High Street Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith High Street Limited	England & Wales	1	Ordinary & Preference	100	100	Retailing
WH Smith Hospitals Holdings Limited	England & Wales	1	Ordinary & Preference	100	100	Holding Company
WH Smith Hospitals Limited	England & Wales	1	Ordinary	100	100	Retailing
WH Smith Ireland Limited	Ireland	8	Ordinary	100	100	Retailing
WH Smith Italia S.R.L	Italy	9	Ordinary	100	100	Retailing
WH Smith Jersey Limited	Jersey	10	Ordinary	100	100	Retailing
WH Smith LLC	Qatar	11	Ordinary	49	100	Retailing
WH Smith LLC	Oman	12	Ordinary	50	50	Retailing
WH Smith Malaysia SDN BHD	Malaysia	13	Ordinary	50	50	Retailing
WH Smith Music Inc.	USA	7	Ordinary	100	100	Dormant
WH Smith Nederland B.V.	Netherlands	14	Ordinary	100	100	Dormant
WH Smith Nevada Enterprises LLC	USA	7	Ordinary	100	100	Dormant
WH Smith New Zealand Limited	New Zealand	15	Ordinary	100	100	Dormant
WH Smith PLC	England & Wales	1	Ordinary	N/A	N/A	Parent
WH Smith Promotions Limited	England & Wales	1	Ordinary	100	100	Retailing
WH Smith Retirement Savings Plan Limited	England & Wales	1	Ordinary	100	100	Dormant
WH Smith Singapore Pte. Limited	Singapore	16	Ordinary	100	100	Retailing
WH Smith Spain S.L.	Spain	17	Ordinary	100	100	Retailing
WH Smith Travel 2008 Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith Travel Holdings Limited	England & Wales	1	Ordinary	100	100	Holding Company
WH Smith Travel Limited	England & Wales	1	Ordinary & Preference	100	100	Retailing
Wild Retail Group Pty Limited	Australia	3	Ordinary	100	100	Retailing

Notes to the financial statements continued

30. Subsidiary companies (continued)

Registered addresses

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

Independent auditors' report to the members of WH Smith PLC

Report on the Company financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 August 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the 'Annual report'), which comprise: the company balance sheet 31 August 2018 and the company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in the Directors' report, we have provided no non-audit services to the Group and its subsidiaries in the period from 1 September 2017 to 31 August 2018.

Our audit approach

Overview

- Overall materiality: £5.2 (2017: £4.3m), based on one per cent of total assets.
- We performed a full scope audit over the Company ledger, providing us with 100 per cent coverage over the Company accounts.
- We have no key audit matters to report.

The scope of our audit

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

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisees, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the Company to communicate in our report.

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

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed 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.

Materiality

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

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

Overall materiality	£5.2 (2017: £4.3m).
How we determined it	1% of total assets.
Rationale for benchmark applied	As the parent entity, WH Smith PLC is essentially a holding Company for the Group, the materiality benchmark has been determined to be based on total assets which is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £260k (2017: £214k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 August 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The directors' confirmation on page 20 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 24 and 25 of the Annual report as to how they have assessed the prospects of the company, 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 company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Other Code Provisions

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

- The statement given by the directors, on page 35, that they consider the Annual report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual report on page 33 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 63, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 21 January 2015 to audit the financial statements for the year ended 31 August 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 August 2015 to 31 August 2018.

Other matter

We have reported separately on the group financial statements of WH Smith PLC for the year ended 31 August 2018.

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

London

11 October 2018

Company balance sheet

As at 31 August 2018

£m	Note	2018	2017
Non-current assets			
Investments	3	**357**	357
		357	357
Current assets			
Cash and cash equivalents		**–**	–
Debtors: amounts falling due within one year	4	**37**	–
		37	–
Current liabilities			
Creditors: amounts falling due within one year	5	**(144)**	(154)
		(144)	(154)
Net current liabilities		**(107)**	(154)
Total net assets		**250**	203
Shareholders' equity			
Called up share capital	8	**24**	24
Share premium account	9	**8**	6
Capital redemption reserve	9	**13**	13
Profit and loss account	9	**205**	160
Total equity		**250**	203

The financial statements of WH Smith PLC, registered number 5202036, on pages 113 to 115 were approved by the Board of Directors and authorised for issue on 11 October 2018 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Company statement of changes in equity

For the year ended 31 August 2018

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2017	24	6	13	160	203
Profit for the financial year	–	–	–	125	125
Purchase of own shares for cancellation	–	–	–	(26)	(26)
Premium on issue of shares	–	2	–	–	2
Equity dividends paid during the year (Note 6)	–	–	–	(54)	(54)
Balance at 31 August 2018	**24**	**8**	**13**	**205**	**250**
Balance at 1 September 2016	25	6	12	171	214
Profit for the financial year	–	–	–	80	80
Purchase of own shares for cancellation	(1)	–	1	(41)	(41)
Equity dividends paid during the year (Note 6)	–	–	–	(50)	(50)
Balance at 31 August 2017	**24**	**6**	**13**	**160**	**203**

Notes to the Company financial statements

1. Accounting policies

a) Basis of preparation

The financial statements are prepared in compliance with the Companies Act 2006 as applicable to companies using FRS 101 'Reduced Disclosure Framework' and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

The Company meets the definition of a qualifying entity under FRS 100 (Application of Financial Reporting Requirements) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101.

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

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

As more fully detailed in the Directors' report on page 62, the Company's financial statements have been prepared on a going concern basis. The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below.

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

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 August 2018 have had a material impact on the Company.

b) Investment in subsidiary undertakings

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

c) Taxation

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

2. Profit for the year

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

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £125m (2017: £80m) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

The Company does not have any employees.

3. Investments

The Company acquired the shares of WH Smith Retail Holdings Limited at a fair value of £357m on 31 August 2006. A full list of the Company's subsidiary undertakings is included in Note 30 of the Notes to the consolidated financial statements. The registered office of WH Smith Retail Holdings Limited is Greenbridge Road, Swindon, Wiltshire SN3 3RX.

4. Debtors – amounts falling due within one year

£m	2018	2017
Amounts owed by subsidiary undertakings	**37**	–
	37	–

5. Creditors – amounts falling due within one year

£m	2018	2017
Amounts owed to subsidiary undertakings	**141**	148
Bank overdrafts	**2**	1
Other creditors	**1**	5
	144	154

6. Dividends

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

£m	2018	2017
Dividends		
Interim dividend of 16.0p per ordinary share (2017: 14.6p per ordinary share)	**17**	16
Final dividend of 33.6p per ordinary share (2017: 30.5p per ordinary share)	**37**	34
	54	50

The proposed dividend of 38.1p per share, amounting to a final dividend of £42m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 31 January 2019 to shareholders on the register at the close of business on 11 January 2019.

7. Contingent liabilities

Contingent liabilities of £1m (2017: £1m) are in relation to insurance standby letters of credit.

8. Called up share capital

Allotted and fully paid

	2018		2017	
	Number of shares (millions)	**Nominal value £m**	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22⁶⁄₆₇p	**110**	**24**	111	24
Total	**110**	**24**	111	24

During the year the Company repurchased 1,297,022 of its own shares in the open market for an aggregate consideration of £26m. In total, 1,297,022 shares were cancelled during the year and 40,000 shares were purchased prior to 31 August 2018, but the settlement of £1m took place after 31 August 2018.

Also during the year, 144,575 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £2m (2017: £nil).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

9. Reserves

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2017	24	6	13	160	203
Profit for the financial year	–	–	–	125	125
Purchase of own shares for cancellation	–	–	–	(26)	(26)
Premium on issue of shares	–	2	–	–	2
Equity dividends paid during the year	–	–	–	(54)	(54)
Balance at 31 August 2018	**24**	**8**	**13**	**205**	**250**

Glossary

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs', which are not defined or specified under the requirements of IFRS.

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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement Measures			
Headline Group profit before tax	Group profit before tax	Non-underlying items	Headline Group profit before tax excludes non-underlying items. A reconciliation from Headline Group profit before tax to Group profit before tax is provided on the Group income statement on page 71.
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	Refer to definition	Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 2 to the financial statements.
Non-underlying items	None	Refer to definition	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance. An explanation of the nature of the items identified as non-underlying is provided in Note 4 to the financial statements.
Headline earnings per share	Earnings per share	Non-underlying items and dilutive effect of shares under option	Profit for the year before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of any potentially dilutive share options. See Note 12.
Effective Tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax. See Note 10.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 8.
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Annual report, gross margin is calculated as gross profit divided by revenue.

Alternative performance measures (continued)

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Reconciling items to IFRS measure</th><th>Definition and purpose</th></tr>
<tr><td>Income Statement Measures</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like revenue</td><td>Movement in revenue per the income statement</td><td>- Revenue change from non like-for-like stores
- Foreign exchange impact</td><td>Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below.
<table>
<tr><th></th><th>Travel</th><th>High Street</th><th>Group</th></tr>
<tr><td>LFL revenue change</td><td>3%</td><td>(3)%</td><td>–%</td></tr>
<tr><td>Net new space impact</td><td>5%</td><td>–%</td><td>2%</td></tr>
<tr><td>Foreign exchange impact</td><td>–%</td><td>–%</td><td>–%</td></tr>
<tr><td>Total revenue change</td><td>8%</td><td>(3)%</td><td>2%</td></tr>
</table></td></tr>
<tr><td>Balance Sheet Measures</td><td></td><td></td><td></td></tr>
<tr><td>Net debt</td><td>None</td><td>Reconciliation of net debt</td><td>Net debt is defined as cash and cash equivalents, less bank overdrafts and other borrowings and both current and non-current obligations under finance leases.
A reconciliation of Net debt is provided in Note 21.</td></tr>
<tr><td>Other measures</td><td></td><td></td><td></td></tr>
<tr><td>Free cash flow</td><td>Net cash inflow from operating activities</td><td>See Financial review</td><td>Free cash flow is defined as the net cash inflow from operating activities before non-underlying items and pension funding, less capital expenditure and repayments to HMRC. The components of free cash flow are shown on page 16, as part of the Strategic report Financial review.</td></tr>
<tr><td>Return on capital employed (ROCE)</td><td>None</td><td>Not applicable</td><td>Return on capital employed is calculated as trading profit expressed as a percentage of operating capital employed. The calculation of ROCE is shown on page 17, as part of the Strategic report Financial review.</td></tr>
</table>

Information for shareholders

Company Secretary and Registered Office
Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (number 5202036).

Company website
This Annual report and accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

Annual General Meeting
The Annual General Meeting will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Wednesday 23 January 2019 at 11.30am. A separate notice convening the meeting is being sent to shareholders and includes explanatory notes on each of the resolutions being proposed.

Shareholder enquiries – the registrars
All enquiries relating to shareholdings should be addressed to the registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline: 0371 495 0100 or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005.

Sharedealing services
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 2018
Preliminary results announced	11 October 2018
Annual report posted	November 2018
Final dividend ex-dividend date	10 January 2019
Final dividend record date	11 January 2019
Christmas trading statement	23 January 2019
AGM	23 January 2019
Final dividend payment date	31 January 2019
Half-year end	28 February 2019
Interim results announced	11 April 2019
Trading statement	June 2019
Interim dividend ex-dividend date	July 2019
Interim dividend record date	July 2019
Interim dividend payment date	August 2019
Financial year end	31 August 2019

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 $2\frac{13}{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Connect Group PLC (formerly Smiths News PLC).

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22\frac{6}{67}$p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2\frac{13}{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2\frac{13}{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55\frac{5}{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55\frac{5}{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	'A' ordinary shares	Arising from an original shareholding of 'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.

Notes

Designed and produced by Radley Yeldar www.ry.com

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