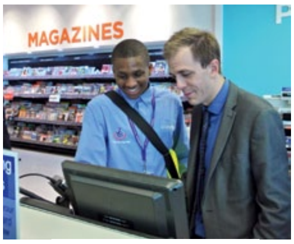
WH Smith PLC

Annual report and accounts 2014



funkypigeon.com

Find out more at
www.whsmithplc.co.uk

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Disclaimer

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

WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street. Our goal is to be the leading retailer in convenience, books and news for the world's travelling customer and Britain's most popular high street stationer, bookseller and newsagent.

About us

> WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street.

> WHSmith has a presence in a wide range of locations including airports, train stations, motorway service areas, hospitals and UK high streets, with a growing international business.

> WHSmith reaches customers online via www.whsmith.co.uk and its specialist personalised greetings cards and gifts websites, www.funkypigeon.com and www.funkypigeon.ie.

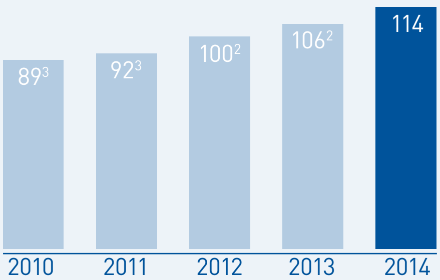
> Overall WHSmith employs approximately 14,000 staff.

> 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 focal point for WHSmith. We continue to be ranked highly in the Business in the Community's Corporate Responsibility Index in recognition of our performance.

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

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



Headline diluted earnings per share (p)

[1] Headline Group profit before tax excludes the non-cash income statement charge for pensions and pension service credit. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 52.
[2] Restated for adoption of IAS 19 Revised. See Note 1 on page 57.
[3] Restated for adoption of IAS 19 Revised and recognition of IFRIC 14 minimum funding liability.

Strategic report

Group at a glance

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

Travel

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

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

As at 31 August 2014, the business operated from 725 units (2013: 675 units) mainly in airports, railway stations, motorway service areas, hospitals and workplaces. 129 of these units (2013: 94 units) are outside the UK.

Travel delivered another strong profit[1] performance, up 11 per cent year on year. We made good progress in Travel's growing international business, with 165 units now open or won.

Highlights

Sales
£477m
(2013: £460m)

Profit[1]
£73m
(2013: £66m)

Gross margin growth
100 bps
(2013: 180 bps)

Stores
725
(2013: 675)

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.

High Street

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

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

As at 31 August 2014, the business operated from 604 High Street stores (2013: 615 stores), located in almost all of the UK's major high streets.

High Street delivered a good profit[1] performance, up 4 per cent year on year. We delivered £14m of cost savings during the year from across the business.

Highlights

Sales

£684m

(2013: £726m)

Profit[1]

£58m

(2013: £56m)

Gross margin growth

190 bps

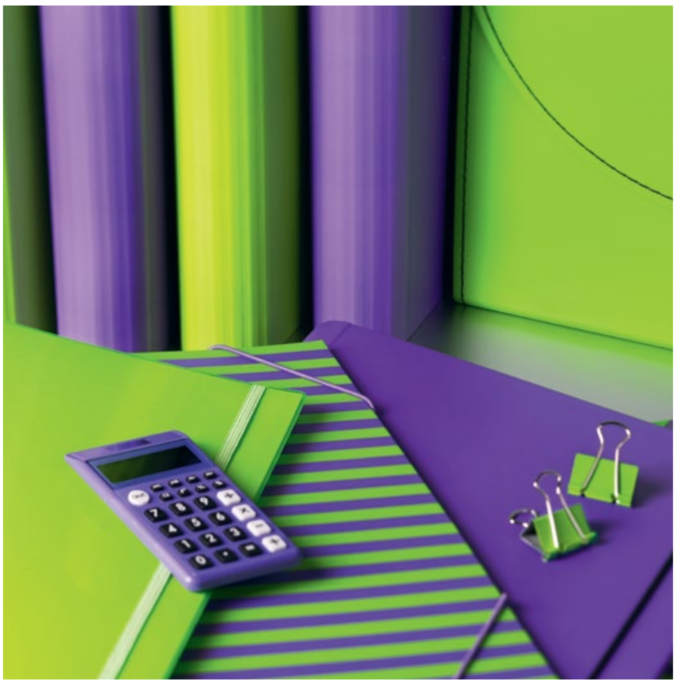
(2013: 200 bps)

Stores

604

(2013: 615)

[1] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.



Strategic report

Business model and strategy

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

Our goals

Our two businesses have different goals and different strategic plans, although there are some common elements, for example, the WHSmith brand and some services are shared. Travel and High Street are run by different management teams reflecting the different customers, strategies and operating models.

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

In High Street, our goal is to be Britain's most popular high street stationer, bookseller and newsagent.

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

1 Develop new formats and channels in the UK and internationally

For Travel this means:

- working closely with our landlords and franchise and joint-venture partners;
- renewing existing contracts and concessions;
- identifying new locations, building on the strength of the WHSmith brand;
- developing new formats which leverage our existing expertise, for example, WHSmith Express; and
- continuing to grow our international business through different operating models: direct lease, joint-venture and franchise.

For High Street this means:

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

2 Managing our offer to reflect the changing needs of our customer

For Travel this means:

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

For High Street this means:

- continuing to manage the space in our stores to reflect the characteristics of each location, for example, competition, affluence, and store size and layout;
- identifying changes in trends in our markets and managing our space accordingly;
- developing new products and ranges including building on our strong heritage in own-brand education and stationery, and developing other private labels such as Gadgetshop where we benefit from lower costs;
- providing additional services for our customers, for example, post offices; and
- developing our partnership with Kobo for our eBook business.

3 Maximising returns from our space

For Travel and High Street this means:

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

4 Optimising efficiency

In both Travel and High Street we have a strong track record of optimising efficiency and continue to focus on delivering cost savings from across the businesses by:

- identifying efficiencies in our store operating models, distribution centres and supply chain as our product assortment and volumes change over time;
- utilising technology and other innovations; and
- ongoing cost reduction programmes including occupancy costs.

5 Focused use of cash

Both Travel and High Street are cash generative and the focused use of cash is a key part of our strategy. We see three uses for cash:

- investing in the business where we believe we can achieve a rate of return on investments greater than our cost of capital;
- making low risk, value accretive acquisitions; and
- returning surplus cash, beyond that required to fund organic growth and minor acquisitions, to shareholders through dividends and share buybacks.

6 The right people and skills

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

Our core values of customer focus, value our people, accountability and drive for results are key to our performance.

7 Operating responsibly

For Travel and High Street this means acting responsibly to all our stakeholders including customers, suppliers, business partners, employees and the communities in which we operate. You can read more about our approach to corporate responsibility in the Other disclosures section of the Strategic report on pages 20 to 22.

Review of operations

You can read more about our progress in all areas of the strategic priorities in the respective reviews of operations for Travel and High Street on pages 9 to 12. There are areas of risk and uncertainty associated with our strategy which you can read about in the Principal risks and uncertainties section on pages 18 and 19.

Strategic report

Our markets

Travel

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

As at 31 August 2014, the Travel business operated from 725 units in airports, railway stations, motorway service areas, hospitals and workplaces, including 129 units in international locations. Of the 725 units, 187 are operated under franchise agreements (including 69 outside of the UK). At 31 August 2014, Travel operated from a total of 0.55m square feet of selling space (2013: 0.52m of square feet), with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 596 UK Travel units, 159 are in airports, 126 in railway stations, 126 in motorway service areas (most of which are franchise units), 126 in hospitals and 59 in locations such as bus stations, workplaces and also our Funky Pigeon stores. Travel now operates from 138 international units in the Middle East, Australia, South-East Asia, India and Europe, and an additional 15 small kiosks in China, and 32 small kiosks in India.

Travel stores are typically located in higher footfall locations than High Street stores, resulting in higher average rents, with 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 and other factors which influence the number of travelling customers, levels of employment and investment, as well as specific category trends such as the impact of digitalisation on printed products. Where we have reliable data on passenger trends, we see a correlation between changes in passenger numbers and our sales. Travel faces competition in its product categories primarily from other retailers in air, rail, motorways, hospitals and workplaces. The growth of these retailers may take market share from Travel.

High Street

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

The High Street business operates 604 stores with an extensive reach across the UK and a presence on nearly every significant UK high street with high levels of customer footfall. As at 31 August 2014, High Street operated from a total of 2.94m square feet of selling space (2013: 3.00m square feet), with stores ranging in size from 777 square feet to more than 23,000 square feet.

The digital retail business is operated by High Street and sells a range of Stationery, Books, Magazines and Gifts at www.whsmith.co.uk. We participate in the personalised greetings cards and gifts market through www.funkypigeon.com and www.funkypigeon.ie, and eBooks through our partnership with Kobo at www.kobobooks.com.

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

Chairman's statement

The Group has grown its profit once again, demonstrating the continued success of our strategy.

Henry Staunton
Chairman

I am delighted to report another year of good performance to 31 August 2014. The Group has grown its profit once again, demonstrating the continued success of our strategy. We continue to grow the Travel business, both in the UK and internationally, while actively managing space across the High Street business to optimise our core categories.

The Group remains highly cash generative with a strong balance sheet and we remain focused on profitable growth, cash generation and creating value for shareholders, while investing for future growth.

Corporate governance

Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy. A more detailed explanation of our approach to corporate governance can be found in our Corporate governance report on pages 23 to 28.

Corporate responsibility

Good corporate responsibility (CR) remains a key focal point for the business and we are making good progress towards our 2020 sustainability targets. We have ongoing partnerships with a wide range of stakeholders to achieve our CR objectives, for example, working with the Woodland Trust, where our carrier bag reduction policy has funded the planting of over 150,000 trees, and with the National Literacy Trust where we are helping thousands of children discover a love of reading. We continue to receive recognition from Business in the Community for our CR performance, with a Platinum ranking in their CR Index, a ranking we have now held for seven years. A more detailed explanation of our approach to CR can be found on pages 20 to 22.

> My sincere thanks extend to our 14,000 employees across the Group.

People

My sincere thanks extend to our 14,000 employees across the Group. We could not have achieved these results without their continued focus on our strategy and the ongoing hard work and support of our management teams and suppliers.

Outlook

While we have seen some signs of improvement in the wider economy, we continue to manage both businesses tightly and remain cautious with our plans. We are however well-positioned for the year ahead and are extremely focused on driving both businesses forward to maximise their contribution and best deliver value for shareholders.

Henry Staunton
Chairman

16 October 2014

Strategic report

Chief Executive's review

The distinct strategies for each of our businesses continue to deliver shareholder value.

Stephen Clarke
Group Chief Executive

We have delivered a strong performance across the Group with another year of profit growth and good cash generation. The distinct strategies for each of our businesses continue to deliver shareholder value as we manage each business tightly and focus on profitable growth, cash generation and optimal use of cash, while investing for the future.

The strong balance sheet and cash generation of the Group enabled us to announce on 16 October 2014 our intention to return up to £50m of cash to shareholders via a further share buyback programme. Additionally, in line with our progressive dividend policy, we are recommending a final dividend of 24.2p, an increase of 14 per cent, making a full year dividend of 35.0p, an increase of 14 per cent on last year. Through the combination of ordinary dividends, buybacks and special dividends, we will have returned £627m[1] to shareholders since the 2007 financial year, with over £80m returned in each of our last four financial years. Since 2006, we have reduced our issued share capital by 35 per cent through the buyback programme and the 2008 special dividend. Going forward, the cash generative nature of the Group will continue to be a key driver of shareholder value.

As ever, it is important to acknowledge that this performance would not be possible without the ongoing support and commitment of all of our colleagues across the business and I would like to thank each and every employee for their valued contribution throughout the year.

Group summary

Group profit from trading operations[2] increased seven per cent on the prior year to £131m and the Group generated Headline[3] Group profit before tax of £114m (2013: £106m), an increase of eight per cent on the prior year. Group profit before tax was £112m (2013: £103m), an increase of nine per cent.

Total Group sales were £1,161m (2013: £1,186m) with like-for-like sales down three per cent. Travel sales were up four per cent on 2013 at £477m and flat on a like-for-like basis. High Street sales were down six per cent at £684m and down five per cent on a like-for-like basis.

Travel delivered another record performance, with trading profit[2] increasing by 11 per cent to £73m, further improvement in gross margin and good cash generation. We continue to invest in the business and we opened 30 new units in the UK during the year, taking us to a total of 596 units in the UK. We won a further 30 units in our international business, making a total of 165 units won, of which 138 are open.

High Street again delivered a good performance with trading profit[2] up four per cent to £58m and further good cash generation. We saw a strong gross margin performance and costs were tightly controlled with cost savings of £14m delivered in the year, in line with plan. An additional £11m of cost savings have been identified making a total target of £21m over the next three years, of which £11m are planned for 2014/15.

Headline earnings per share[4] increased by 18 per cent to 77.7p (2013: 66.1p[5]). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback, and a decrease in the effective tax rate from 21 per cent[5] to 18 per cent.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £22m at 31 August 2014 (2013: £31m), with a Group free cash flow[6] of £98m (2013: £95m). We completed the £50m return of cash to shareholders announced in October 2013 on 13 October 2014, and during the year paid dividends totalling £38m.

[1] Includes proposed final dividend of 24.2p and £50m share buyback announced on 16 October 2014.

[2] 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 central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.

[3] Headline Group profit before tax excludes the non-cash income statement charge for pensions and pension service credit. A reconciliation of Headline Group profit before tax to statutory Group profit before tax is provided in the Group income statement on page 52.

[4] Diluted.

[5] Restated: See Notes to the accounts Note 1, Accounting policies on page 57.

[6] Free cash flow is net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest. See Group cash flow statement on page 55 and Notes to the accounts Note 21, Net cash inflow from operating activities on page 76.

Review of operations: Travel

Performance

Sales		Trading profit[1]
£477m		£73m
(2013: £460m)		(2013: £66m)
+4% Total sales	Flat Like-for-like sales	+11%

Performance review 2013/14

Travel delivered another strong performance during the year with good cash generation demonstrating the strength of the business model. Travel's trading profit[1] increased by 11 per cent to £73m (2013: £66m) as a result of an increase in revenue, further improvement in gross margin and cost efficiencies. Total revenue in Travel was up four per cent with like-for-like sales flat, reflecting an improvement in passenger numbers and our continued focus on space management and range development. Gross margin increased by around 100 bps during the year, driven by better buying and active category mix management.

We continue to identify opportunities for growth in Travel. We are investing in new space while at the same time evolving our offer to meet the changing needs of both our customers and landlords. Category mix can vary substantially by channel and even by location within a channel, so actively focusing on our category mix management enables us to best meet customer and landlord needs, improve service and efficiency, grow market share and drive margins. Following investment in our space management systems we are able to better understand the space and category elasticities in our stores and how they change over time. This has resulted in further changes to our customer offer as we evolve our formats and trial new initiatives in each of our key channels.

In our airport stores we saw like-for-like sales up two per cent. We have invested in improving store layouts and design by creating product zones and improving navigation, while also allocating additional space to growth areas such as souvenirs, travel accessories and digital and electronic accessories. In our major airport stores, we have increased the range of phone chargers and battery packs, reflecting the new security regulations for smart phones and tablets. We have also extended the range and space for other digital and electronic accessories, reflecting the growing market. Much of this has been done under our own Gadgetshop brand. In addition, as a result of the growth in overseas passengers through airports such as Heathrow, we have extended our range of souvenirs in those locations. This includes new ranges, for example, t-shirts, hoodies and an increased range of gift food and pocket money souvenirs. These types of initiatives demonstrate our continued investment and leading position in the market, which helps us to continue to win new space.

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.

Strategic report – Review of operations

In Rail, like-for-like sales were down two per cent overall, with London mainline stations flat and regional rail down three per cent. Customer needs in Rail are quite different to those we see in airports, and our space and category mix management reflect this. We had positive results from our Food to go trial in Rail stores, with the meal deal promotion proving to be particularly successful. Following the success of this trial we have extended the Food to go offer into all our key rail, airport and hospital stores across the country. As we have rolled out our Food to go offer we have upgraded the fabric and layout of a number of Rail stores, for example, Liverpool Street. Here we have focused on getting the right space and category mix, adjusting the layout to help customer flow and balancing the mix of self and staffed checkouts to optimise queue management at busy periods.

We have established a strong presence in the Hospital channel and continue to expand our store base, with further scope to grow this channel. Like-for-like sales in Hospitals were up two per cent. We continue to offer our operating expertise to partners, such as M&S Simply Food, where there is a mutually beneficial opportunity. During the year, we opened four M&S Simply Food units in locations such as Blackpool Hospital and Royal Free Hospital. We now have six M&S Simply Food units open, with further openings planned.

In our other channels, including workplaces, like-for-like sales were flat.

We continue to open new space and see opportunities for further space growth in Travel.

In the UK we opened 30 new units during the year including seven in Air, seven in Rail and eight in Hospitals. In Air, this included four new units in the new Terminal 2 at Heathrow which incorporates all of our latest initiatives on store layout, product zones, category mix and use of space as well as our latest efficiency initiatives such as rear fill chillers and newspaper stands, which enable replenishment from behind the scenes rather than on the shop floor, as well as full use of our self checkouts. We plan to open a similar number of units in the current year. Looking forward, we anticipate opening around 20 stores each year over the following three years, with around 10 each year in hospitals.

While our international business is profitable and growing fast it still remains a small part of our overall business and we see opportunities to grow this business further. The WHSmith brand and offer continue to be well received by customers and landlords and we have demonstrated that we can add value and deliver improved performance. Where we have opened new stores, sales per passenger continue to outperform previous incumbents.

Similar to the UK Travel business, there is a broad mix of store formats internationally, with units ranging from small units in hospitals to large units in international airports. We have made further progress in our main hubs of Australia, Asia, the Middle East, India and Europe, and we have now won 165 units, of which 138 units are open across four channels (Air, Rail, Hospitals and Malls). On 16 October 2014, we announced we had won a further 15 new units, including four new units in Melbourne Domestic Airport. This now gives us a total of nine units in that airport and units in the International and Domestic terminals in Bali; units in Pudong Airport, Shanghai; and further Fresh Plus cafés in Australia. In total we won 30 new units in the year. Additionally, in the year we acquired a small cards and gift franchisor in Australia, *Wild Cards and Gifts*, which has 40 franchisees enabling us to offer an additional brand to landlords in Australia and to develop our international wholesaling.

We will continue to grow our international business utilising our different operating models: direct lease, franchise and joint-venture. Of the 165 units won, 58 per cent are franchise, 34 per cent are directly-run and the remainder are joint-venture.

As at 31 August, the Travel business operated from 725 units, including motorway service areas, international franchise units and coffee shops. 15 UK units were closed during the year, primarily due to landlord redevelopment and we renewed 21 contracts and completed 29 refits.

Review of operations: High Street

Performance

Sales	Trading profit[1]
£684m	£58m
(2013: £726m)	(2013: £56m)
(6)% Total sales; (5)% Like-for-like sales	+4%

Performance review 2013/14

High Street delivered a good performance with profit[1] growing by £2m to £58m (2013: £56m), up four per cent on the prior year. This was achieved by continuing to actively manage our space to optimise our core categories, gross margin growth and tight cost control thereby delivering sustainable profit and good cash generation.

High Street sales were down six per cent in total and down five per cent on a like-for-like basis, reflecting our profit focused strategy, the evolving nature of some of our markets and the quality of publishing in the year. Gross margin improved by around 190 bps, through rebalancing the mix of our business to focus on higher margin categories such as Stationery, better buying terms and improved sourcing and markdown management. We grew margins in Stationery and Books while the margin in News and Impulse was flat year on year.

Optimal use of space remains key to our strategy. We consider space as a strategic asset, as we look to maximise profitability in the current year in ways that are sustainable for future years. We work our space to maximise return on every metre drop in every store through improving margins, reducing costs and driving third party income opportunities, such as the Post Office. Each individual store has a specific space reconfiguration twice a year driven by detailed space and product elasticity data. During the year, space changes have included the addition of a further 21 Post Offices, giving us 105 in total in our stores; more space for new stationery ranges; and the installation of self-checkouts. Going forward, we will continue to manage space in this way.

Our strategy to build on our strong position in Stationery remains unchanged. Our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; the ability to source competitively through our Far East sourcing office and our scale enable us to differentiate ourselves in this category. During the year, we stepped up our focus on new range development, quality and latest design in order to further differentiate the WHSmith stationery offer from that of our competitors. Stationery has continued to benefit from additional space with range development in areas such as fashion stationery and filing. As a result of our new ranges, we saw a strong performance over the key 'back to school' period.

[1] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.

Strategic report – Review of operations

Funkypigeon.com, our online personalised greetings card and gifting website, continues to grow its profit and performed well over the key seasons in the year. Following further investment in the website and apps, we saw increased conversion across all devices. Looking forward we continue to see investment opportunities in the website, apps, marketing and customer offer to grow the business further.

On 16 October 2014, we announced our intention to trial a small number of standalone greeting cards stores, branded 'cardmarket'. In contrast to our existing greeting cards offer, which is at the premium end of the market, these stores will provide customers with a value based proposition in this growing part of the market. The first stores opened in October 2014 with all stores in relatively low rent, short-term leases in non-prime pitch locations.

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

> We continue to develop the strongly-growing bookazine category, which now includes over 400 titles and helps improve our margins.

In Books, the market continues to be challenging and vary by category, with the quality of publishing still the biggest driver of market performance. Kids book sales have been more resilient than Adult books, helped by the successful *Minecraft* series, and we continue to adapt our space in this category to optimise market dynamics. Our approach is to focus on areas of market growth, build on areas of relative strength and drive the overall net profitability of the category. An example of this is the recent improvements to our books operating model which helps us to deliver margin improvements and efficiency savings.

While the eBooks market continues to see growth, it is evolving as we had expected with rates of growth and value penetration slowing. eBooks remain a relatively small proportion of the consumer books market with the biggest penetration in Fiction. Over 75 per cent of our book sales are Non-Fiction and Kids, reflecting our core book customers who are lighter, less affluent book buyers.

According to publishers the rate of growth and penetration of eBooks has slowed with value penetration estimated to be around 15 per cent to 18 per cent, with growth closer to 20 per cent than the 100 per cent we have seen in recent years. Our partnership with Kobo continues to develop with the Kobo shops performing well. As a result, we have extended our contract with Kobo to 2018. As the focus of eReading moves towards multi-function tablets through apps, our plans with Kobo reflect this.

We have made further progress in the year with our trial of franchising to local newsagents under the brand WHSmith LOCAL. In exchange for a franchise fee, the franchisee benefits from our brand, space management, sourcing and stationery ranges. We initially trialled the concept with five stores and, following encouraging results, we have extended the trial to 30 stores.

Cost efficiency remains a core part of our strategy and we focus on all areas of cost in the business. We have made good progress again this year, delivering cost savings of £14m. These came from right across the business, including the books operating model, more targeted marketing spend and productivity improvements in our distribution centres. We have a number of savings planned for the year ahead which include renegotiating marketing contracts, extending energy efficient lighting to stores' back office space, and investing in technology to improve operational efficiency and enable more time to be spent on the shop floor. We have identified an additional £11m of new cost savings, taking the target to £21m over the next three years. Of these, £11m are planned for 2014/15.

The High Street business now operates from 604 stores[1], which occupy 2.94m square feet (2013: 3.00m square feet). 11 stores were closed in the year.

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

Financial review

Group sales

Total Group sales were £1,161m, down two per cent with like-for-like sales down three per cent. In the first half like-for-like sales were down four per cent and in the second half down two per cent, reflecting an improved performance in both businesses. Travel like-for-like sales were up one per cent and High Street like-for-like sales were down four per cent in the second half.

	H1 %	H2 %	Year to August 2014 %
Travel	**(1)**	1	–
High Street	**(6)**	(4)	(5)
Group	**(4)**	(2)	(3)

By category, Stationery like-for-likes were down one per cent, News and Impulse like-for-likes were also down one per cent and Books were down seven per cent, with an improved performance in the second half for all three categories.

Category like-for-like sales	H1 %	H2 %	Year to August 2014 %
Stationery	**(2)**	1	(1)
Books	**(8)**	(6)	(7)
News and Impulse	**(2)**	–	(1)
Group	**(4)**	(2)	(3)

Group profit

The Group generated Headline[1] profit before tax of £114m (2013: £106m), an increase of eight per cent on the prior year. Profit from trading operations[2] increased to £131m, up seven per cent on the prior year.

	2014 £m	2013 £m	Growth %
Travel trading profit[2]	**73**	66	11
High Street trading profit[2]	**58**	56	4
Group profit from trading operations[2]	**131**	122	7
Unallocated central costs	**(15)**	(15)	
Group operating profit[3]	**116**	107	8
Net finance cost[4]	**(2)**	(1)	
Headline Group profit before taxation	**114**	106	8
Pension past service credit	**1**	–	
IAS19 (R) pension interest charge	**(3)**	(3)	
Profit before taxation	**112**	103	9

[1] Headline Group profit before tax excludes the non-cash income statement charge for pensions and pension service credit. A reconciliation of Headline Group profit before tax to statutory group profit before tax is provided in the Group income statement on page 52.

[2] Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 62.

[3] Headline, excludes £1m pension past service credit.

[4] Excluding £3m pension interest charge.

Taxation

The effective tax rate was 18 per cent (2013: 21 per cent[5]), reflecting the lower statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year, we expect the effective tax rate to be around 18 per cent. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

In the year ended 31 August 2014, WHSmith contributed £252m 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	86
Taxes collected	166
Total tax contribution	252

Earnings per share

Headline earnings per share[6] increased by 18 per cent to 77.7p (2013: 66.1p[5]), reflecting the increase in profit, the lower basic weighted average number of shares in issue following the share buyback and a decrease in the effective tax rate from 21 per cent[5] to 18 per cent.

Dividends

The Board has proposed a final dividend of 24.2p per ordinary share, an increase of 14 per cent on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on the 16 October 2014, reflects the 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 29 January 2015 to shareholders registered at the close of business on 9 January 2015. 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.

Balance sheet and cash flow

As at 31 August 2014, the Group had net assets of £146m (2013: £152m), before the net effect of the pension liability and associated deferred tax asset, reflecting the cash generated during the year and the £41m return of cash to shareholders through the share buyback. After recognising the IFRIC 14 minimum funding requirement net of deferred tax, the Group had net assets of £101m (2013: £102m).

[5] Restated: See Notes to the accounts Note 1, Accounting policies on page 57.

[6] Diluted.

Strategic report – Financial review

Cash flow

The Group generated £98m (2013: £95m) of free cash flow during the period. The cash generative nature of the Travel and High Street businesses is one of the strengths of the Group.

	2014 £m	2013 £m
Group operating profit[1]	**116**	107
Depreciation, amortisation and amounts written off fixed assets	**36**	37
Working capital	**2**	1
Employers payroll tax on exercised share awards	**(5)**	–
Capital expenditure	**(32)**	(38)
Tax paid	**(21)**	(19)
Net interest paid	**(1)**	–
Net provisions	**(2)**	–
Share-based payments	**5**	7
Free cash flow	**98**	95

Cash inflows from working capital were £2m through focus on working capital management and capital expenditure was £32m in the year (analysed below).This was £6m lower than the prior year which included spend on new tills. In the current year, we expect capital expenditure to be around £38m.

	2014 £m	2013 £m
New stores and store development	**11**	9
Refurbished stores	**12**	12
Systems	**7**	14
Other	**2**	3
Total capital expenditure	**32**	38

Net corporation tax paid was £21m, compared to £19m last year, following the increase in Group profit. During the year, we also paid the employers' payroll tax on the MIP and LTIP grants following the vesting of the 2010 MIP and LTIP awards. We do not anticipate a similar level of cost this year.

The movement in net funds is as follows:

	2014 £m	2013 £m
Opening net funds	**31**	36
Free cash flow	**98**	95
Equity dividends paid	**(38)**	(34)
Pension deficit funding	**(14)**	(12)
Net purchase of own shares for employee share schemes	**(10)**	(1)
Purchase of own shares for cancellation	**(41)**	(50)
Acquisitions and earnout payments	**(3)**	(3)
Other	**(1)**	–
Closing net funds	**22**	31

In addition to the £98m of free cash flow generated in the year, the Group has seen a net cash outflow of £66m in relation to non-trading operations. This includes £38m of ordinary dividend payments (2013: £34m), £14m pension funding (2013: £12m) and net ESOP Trust purchases of £10m (2013: £1m). The £50m return of cash to shareholders announced in October 2013 was completed on 13 October 2014; £41m of this buyback was completed at 31 August 2014. A further share buyback of up to £50m was announced on 16 October 2014.

During the year, the Group announced that it has agreed a new five year committed revolving credit working capital facility of £93m, which will expire in June 2019. The facility is provided equally by the Group's four relationship banks: Barclays Bank PLC, HSBC, Lloyds Banking Group and Santander UK PLC.

Return on capital employed

Total capital employed and ROCE were as follows:

	Operating capital employed £m[2]	ROCE %[3]	ROCE % with operating leases capitalised[4]
Travel	69	106%	28%
High Street	108	54%	19%
Retail	**177**	**74%**	**23%**
Unallocated central liabilities	(53)		
Operating assets employed	**124**	**94%**	**23%**

For the prior year, comparable ROCE was 88 per cent (20 per cent – after capitalised operating leases).

Pensions

On 15 October 2014, the Group agreed a revised deficit funding schedule for the main defined benefit pension scheme, the WH Smith Trust, based on an actuarial revaluation at 31 March 2014. This was a year earlier than under the triennial regime to reflect the improvement in the scheme's position since the last revaluation at 31 March 2012. As at 31 March 2014, the Group had an actuarial deficit of £24m compared to £75m at 31 March 2012. A new schedule of contributions has been agreed with the Trustees from October 2014 of around £3m per annum for nine years.

For the current financial year the revised schedule of contributions will result in a contribution of approximately £4m, compared to £14m last year, a net reduction after tax of approximately £8m.

[1] Headline, excludes £1m pension service credit

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

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

[4] Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted 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.

The scheme has been closed to new members since 1996 and closed to defined benefit service accrual since 2007. The Trustees have 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 and inflation rates. The scheme continues to perform well with around 85 per cent of the inflation and interest rate risks hedged.

As at 31 August 2014, the Group has an IFRIC 14 minimum funding requirement of £55m (2013: £62m) and an associated deferred tax asset of £10m (2013: £12m). This was based on the funding requirement in place at the balance sheet date. The revised schedule of contributions based on the 31 March 2014 revaluation will be used to calculate the current year IFRIC 14 liability which is anticipated to be around £20m net of deferred tax.

As at 31 August 2014, the scheme had an IAS 19(R) surplus of £155m (2013: surplus of £108m) which the Group has not recognised. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19(R).

The adoption of IAS 19(R) in the financial year ending 31 August 2014, is a mandatory change in accounting policy to require pension interest in the Income statement to be calculated on the net balance sheet position at the beginning of the period. The resulting non-cash pension charge is £3m. The comparatives for the year ending 31 August 2013 have been restated and also reflect a non-cash charge of £3m following this required change in accounting policy. We anticipate the pension interest charge for the current year to be around £2m.

In addition, in the year ended 31 August 2014 we have recognised a credit of £1m (2013: £nil) relating to a trivial commutation exercise, which represents a settlement of liabilities and is accounted for as a past service credit under IAS 19(R). We have excluded this amount from Headline Group profit before tax as this is a one-off gain and is unrelated to the underlying performance of the Group.

The IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £nil (2013: £nil).

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 £165m (2013: £167m) (net of £2m of external rent receivable (2013: £2m)). The total future rental commitment at the balance sheet date amounted to £881m (2013: £987m) with the leases having an average life of five years.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Connect Group PLC (formerly Smiths News PLC) in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Connect Group PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £7m (2013: £12m).

Outlook

The distinct strategies for each of our businesses continue to deliver strong profit growth. We had another record year in Travel, with profit up 11 per cent to £73m, driven by an increase in total sales of four per cent and continued improvement in like-for-like sales. In our High Street business profit increased by four per cent to £58m, demonstrating the continued success of our profit focused strategy here.

We have seen some signs of improvement in Travel sales trends while High Street continues to be highly cash generative, resilient and able to adapt to changing market dynamics. Looking to the year ahead, our focus will remain on profitable growth, cash generation and investing in new opportunities that position us well for the future. WHSmith has a strong and consistent record of both profit growth and cash generation with clearly identified growth opportunities going forward. We will continue to drive both businesses, with their distinct strategies to maximise their contributions to delivering value for shareholders.

Stephen Clarke
Group Chief Executive

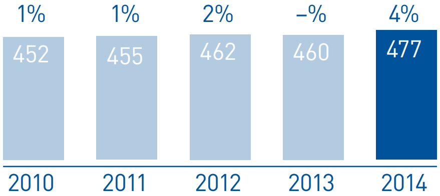
16 October 2014

Strategic report

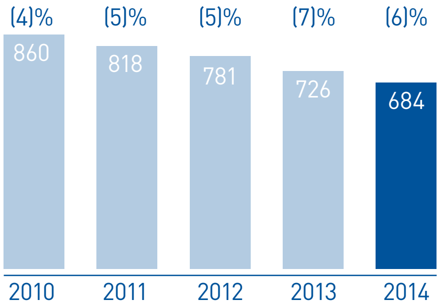
Key performance indicators

Revenue[1] (£m)

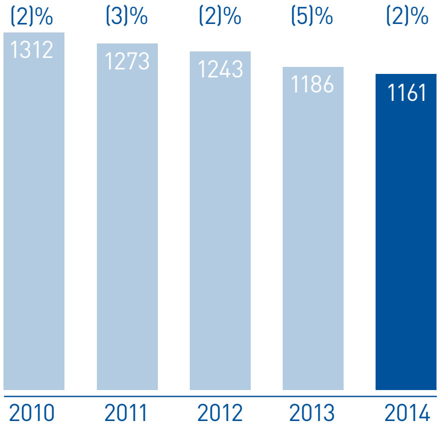
Travel



High Street



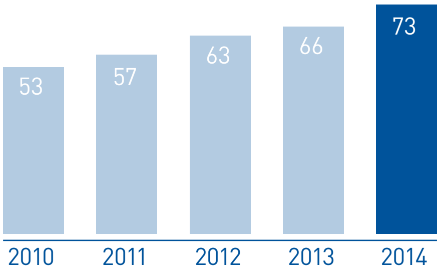
Group



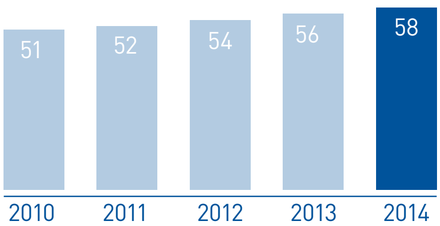
[1] Income receivable for goods and services, commission and fee income, and concession and franchise income.

Trading profit (£m)

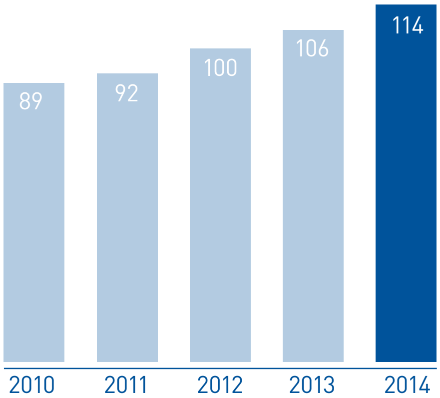
Travel[2]



High Street[2]



Group Headline Profit[3]

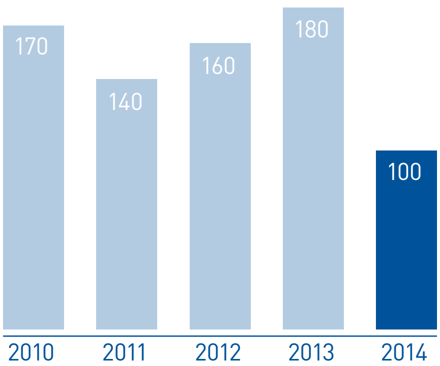


[2] Operating profit stated after attributable share-based payment and pension service charges.

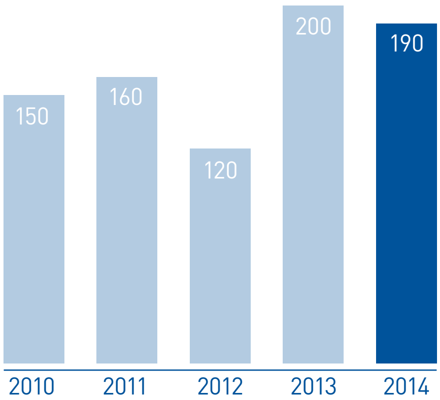
[3] Group Headline profit is Group profit before tax excluding the non-cash income statement charge for pensions and other non-underlying operating items. See Group income statement on page 52.

Gross margin growth (basis points)

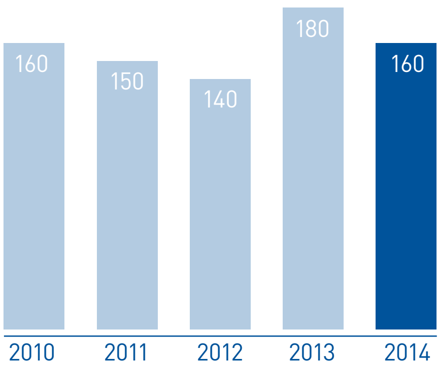
Travel



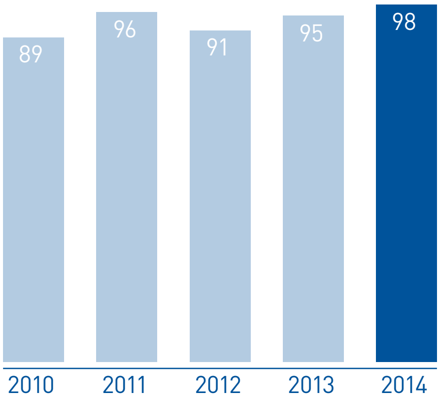
High Street



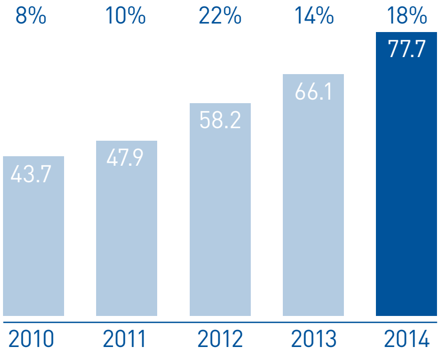
Group



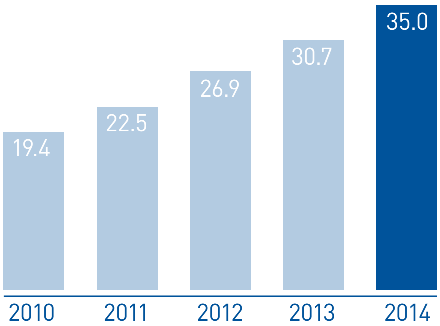
Free cash flow[4] (£m)



Headline earnings per share[5] (p)



Dividend per share[6] (p)



[4] Free cash flow is net cash flow from operating activities adjusted for net capital expenditure, pension deficit funding, net interest received or paid and settlement of contingent consideration provisions.

[5] Headline earnings per share is diluted earnings per share adjusted for the post tax impact of the non-cash pension charge and other non-underlying operating items. See Group income statement on page 52.

[6] Dividend per share is the ordinary dividend attributable to the relevant year. For 2014, this includes the proposed final dividend of 24.2p.

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

Travel[7]

Retail selling space

2010	2011	2012	2013	2014
422	481	510	522	547

Number of stores

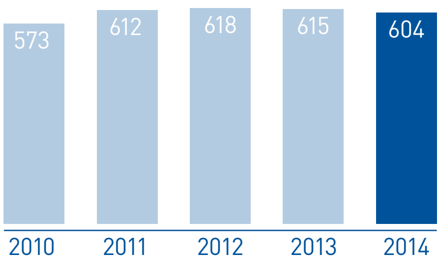
[7] Travel units include motorway and international franchise units and exclude kiosks in China and India, and *Wild Cards and Gifts* franchisees in Australia.

High Street

Retail selling space

2010	2011	2012	2013	2014
3,020	3,087	3,045	3,000	2,940

Number of stores



Performance indicators relating to operating responsibly can be found in the Corporate responsibility and environment section of the Strategic report set out on pages 20 and 21 and in our full CR report, available at www.whsmithplc.co.uk/cr.

Strategic report

Principal risks and uncertainties

The Board considers the risks described below to represent the Group's principal risks and uncertainties. These are presented together with the mitigating actions that are taken in order to ensure that the risks are appropriately monitored and controlled. WHSmith's management team recognise 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.

Following careful consideration, the Board decided that the Pensions Risk heading that was previously included in the summary of Principal Risks and Uncertainties should be removed. This reflects the significant progress made in managing this risk, through a combination of the Liability Driven Investment structure, the performance of the scheme's assets and the Company's contributions to the scheme, as evidenced from the latest Actuarial Revaluation. Further information regarding the current status of the Group's Pension Scheme can be found in Note 4 to the Financial statements on page 64.

Risk/description	Mitigation
Economic, political, competitive and market risks	
The Group operates in highly competitive markets and our failure to compete effectively with travel, convenience and other retailers may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. In each country in which the Group operates, the Group may also be impacted by regulatory and tax changes, increasing scrutiny by competition authorities, political developments, the economic climate and the general condition of retail and travel markets. Factors such as household disposable income, seasonality of sales, changing demographics and customer shopping patterns, and raw material costs could impact profit performance.	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 is a member of key industry bodies which help maintain awareness of developments in standards and legislation. The Group also utilises external consultants to conduct reputational due diligence on potential new business partners and to monitor developments that may impact our operations in overseas territories.
Reliance on the WHSmith brand	
The WHSmith brand is an important asset. Failure to protect it from an event that materially damages its reputation could have an adverse effect on revenues.	The Group regularly monitors brand standards and key service and compliance measures to ensure that brand and operating standards are maintained in the UK and internationally.
Key suppliers and supply chain management	
The Group has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade.	The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. All suppliers have to comply with the conditions laid out in our Supplier Code of Conduct which covers areas such as production methods, employee working conditions and quality control. The Group has contractual and other arrangements with numerous third parties in support of its business activities. None of these arrangements 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 at commercially reasonable rates remains critical to the performance of the Group. All of High Street's stores are held under operating leases, and consequently the Group is exposed to the extent that any store becomes unviable as a result of rental costs. Most Travel stores are held under concession agreements on average for five to ten years, although there is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts. The majority of Travel's airport and railway concession agreements contain change of control clauses, giving various rights to the grantor of the concession, such as termination of the contract, in the event of a successful takeover bid for the Group.	The Group undertakes research of key markets and demographics to ensure that we continue to occupy prime locations and identify appropriate locations to acquire new space. We maintain regular dialogue and good relationships with all our key landlords.

Risk/description	Mitigation
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 IT security controls, operational procedures and business continuity plans that are regularly reviewed, updated and tested. The Group's IT systems receive ongoing investment to ensure that they are able to respond to the needs of the business. Back-up facilities and contingency plans are in place and are tested regularly to ensure that business interruptions are minimised and that data is protected from corruption or unauthorised use.
Reliance on key personnel	
The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment.	The 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.
Treasury, financial and credit risk management	
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 22 of the accounts. 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 rate, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a committed facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. This facility matures in June 2019.

Strategic report

Other disclosures

Corporate responsibility programme

We continue to operate a robust corporate responsibility (CR) programme that is closely aligned to the Group's strategy. The management of social and environmental matters is embedded into day-to-day operations across the business. This year we were delighted to retain a Platinum ranking in the annual Business in the Community CR Index.

We operate our CR programme through four key areas: Marketplace, Environment, Workplace and Community. Our CR strategy is based on ensuring that we effectively manage the environmental and social issues which are material to the Group and to each business unit. The Board carry out annual reviews to ensure the successful implementation of the CR strategy and to approve our targets for the years ahead. The following pages provide an introduction to our CR work during the year. More detailed information, including performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/cr.

Customers

Customer service standards remain a key focus for our business. We review our performance through an independently conducted Customer Satisfaction Monitor which assesses performance in areas such as friendliness and helpfulness of staff, time spent queuing, and store cleanliness and tidiness. In the latest survey, our High Street stores achieved an overall customer satisfaction score of 8.27 out of 10. We use the findings of these surveys to ensure that we continue to focus on the key elements of service that are most important to our customers.

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

Ethical trading and human rights

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

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

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

Against the background of our rigorous audit programme, we continue to engage with our key suppliers to support them as they seek to improve their performance. This engagement continues to focus on improving worker representation in factories. We are working with our largest 12 suppliers to help improve worker representation and thereby staff satisfaction and retention rates.

All of the participating factories now have an elected worker representative committee in place and WHSmith is working with the factories to ensure that the committees are structured properly to give workers the level of representation they seek. A copy of our Ethical Trading Code of Conduct and Human Rights Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Forest sourcing

It is our continuing objective that all virgin (i.e. non-recycled) material used in our own-brand products is from known, legal, well-managed and credibly certified forests. In line with the requirements of the March 2013 EU Timber Regulations, we have implemented a strengthened due diligence system and now require that suppliers provide a far greater level of documentary evidence to prove the forest source for timber used in own-brand products. We have set Forest Stewardship Council-certification as a minimum standard for Far East imported timber which gives a high level of assurance that pulp is from low risk sources. Our forestry work continues to be supported by extensive supplier training and engagement.

We continue to focus on making our forest sourcing work visible to customers by labelling own-brand stationery products with the Forest Stewardship Council logo. We have made further strong progress this year, including marking some high volume core products lines such as A4 notepads. We have also started to measure the number of FSC-marked books we sell, recognising the great efforts that publishers have made to improve the sustainability of their supply chain. Since 2010, WHSmith has sold over 44m FSC-marked units of books and stationery. A copy of our Forest Sourcing Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Environment

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

Greenhouse gas emissions

The active management of our carbon footprint is a priority for the business. During the year, we have continued to focus on more efficient lighting opportunities, with the installation of LED lighting in further Travel stores. Following the roll-out of temperature controlled timers on drinks fridges in Travel we have completed a similar exercise in High Street. We have also continued to upgrade air conditioning systems, where appropriate, to achieve further efficiencies. These initiatives are supported by central monitoring of energy usage in stores through a new building management system and site visits to address energy issues. Since 2007, we have been able to cut Group energy consumption per square foot by 38 per cent.

Our transport operations continue to be planned to optimise routing and delivery frequency, for example, moving to better-located delivery hubs to achieve more efficient stem mileage and also more efficient radial deliveries. We continue to share vehicles with third parties in more remote areas of the United Kingdom, again to maximise efficiencies. This continued focus on a leaner transport network has enabled us to reduce CO_2e emissions per pallet by 19.8 per cent each year since 2007.

Global greenhouse gas emissions data for period 1 September 2013 to 31 August 2014 in tonnes of CO_2e

	2013/14	Percentage of carbon footprint	2012/13
Scope 1 emissions			
Combustion of fuel for the transport of WHSmith products from distribution centre to store using vehicles owned by third parties. Also combustion of gas to heat WHSmith stores, offices and distribution centres	**8,191**	19.2%	9,243
Scope 2 emissions			
Electricity purchased for WHSmith's own use (used to power, light and heat stores, offices or distribution centres)	**33,418**	78.4%	32,616
Scope 3 emissions			
WHSmith employee business travel (by air, rail and owned and non-owned motor vehicles)	**1,028**	2.4%	1,011
Total	**42,637**	100%	42,870
Intensity measurement			
Total emissions reported above normalised per 1,000 square feet	**8.19**		7.89

Scope and methodology

In the above table we have reported on all of the emission sources required under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. These sources fall within our consolidated financial statements. This data covers the continuing activities undertaken by our retailing operation in the UK and Ireland. The impacts resulting from franchise operations are excluded from this report as we are not responsible for the operations of these stores. The impacts resulting from international stores are also excluded from this report.

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

Waste management

Waste created by inefficient use of resources and rising landfill tax represents a significant cost to the business. Our dry mix recycling system we operate in our High Street stores allows us to recycle most forms of waste, including plastics and metals. This system is enabling us to achieve recycling rates of around 92 per cent, with close monitoring of store compliance to ensure we maintain these levels.

Compulsory carrier bag levies are now in place in Wales, Northern Ireland and Scotland and are due to be introduced in England in 2015. We now charge for all single-use carrier bags and promote a range of reusable bags. Across the whole of our business our staff habitually ask customers whether they need a bag. The donations from sales of reusable carrier bags continue to fund the Woodland Trust's tree planting programme for schools. Through our partnership with the Woodland Trust, we have planted over 157,000 trees since 2010.

Health and safety

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

Social and community matters

As a leading bookseller and stationer we focus our community investment on supporting education and life-long learning. Over the year we invested a total of £1,006,569 into local communities (2013: £967,886). Included in this figure are cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report, available at www.whsmithplc.co.uk/cr.

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

Our store teams are active members in their communities, with many store managers and staff giving their time to support local councils, town centre management and high street security groups to promote a positive business environment on their high streets. Our store community awards reward those stores taking an active role in their local communities and help showcase good practice for others to follow.

Promoting literacy and a love of reading is a natural fit for WHSmith's business and also helping to tackle a key social issue. This year we embarked on a new three-year project with the National Literacy Trust – a 'Whole School' literacy programme using peer learning to change the literacy culture in 21 schools in deprived areas, involving around 2,500 children each year and building close ties with the local WHSmith store. Children earn badges and certificates as 'peer reading champions'. The children also get the chance to have their book reviews displayed in their local WHSmith store and visit the store to take part in fun activities and to choose a free book to keep. Participating stores have enjoyed building long-term ties with local schools and the children have been delighted to see their own book reviews displayed in store. Participating schools report children reading more with each other and at home as a result of their involvement with the programme.

In addition, we continued our popular Schools Giveaway where 131 stores with a strong track record of community engagement were given WHSmith vouchers to donate to a local school with the objective of developing stronger links between stores and schools. We also continue to work with partners to promote literacy, this year working on events with British Land, Manchester Airport Group and Qatar Airport.

Many of our products continue to raise funds for charity partners. This year, we tripled the size of our charity Christmas cards range, helping us to raise more for our partner charities. A copy of our Community Engagement Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Strategic report

Employees and diversity

Employees

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

Equal opportunities

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

Training and development

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

Employee involvement

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

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 720 employees participate in the scheme.

Diversity

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

To support our commitment, an action plan has recently been agreed to take further steps to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity, as well as focused initiatives to better understand the challenges faced by under-represented groups within the business.

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

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

Tenure		Male/Female	
0–1 year	0%	Male	4 (67%)
1–3 years	50%	Female	2 (33%)
3–6 years	50%	**Executive/non-executive**	
		Executive	2 (33%)
		Non-executive	4 (67%)

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

Senior Management team*	
Women	2 (13%)
Men	14 (87%)

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

Management team**	
Women	326 (42%)
Men	450 (58%)

** 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	8,866 (65%)
Men	4,836 (35%)

The Strategic report on pages 1 to 22 of the Annual report has been approved and signed on behalf of the Board.

Stephen Clarke
Group Chief Executive

16 October 2014

Corporate governance

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 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 2012 (the 'Code'). A copy of the Code is available publicly from www.frc.org.uk.

The information that is required by Disclosure 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 30 to 44 and in the Directors' report on pages 45 to 47.

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 29. There is a clear division of responsibility at the head of the Company; Henry Staunton (Chairman) being responsible for running the Board and Stephen Clarke (Group Chief Executive) being responsible for implementing strategy. Drummond Hall is the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All the directors whose biographies are on page 29 served throughout the period. The Chairman was appointed as the Chairman of BrightHouse Group PLC on 8 July 2014. In advance of this, the Board reviewed the Chairman's existing commitments and the time commitment required for the new role, and had no objection to the Chairman taking up the appointment.

All of the non-executive directors who served during the year and up to the date of this report are considered by the Board to be independent.

The Board met eight 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. Suzanne Baxter, the Chair of the Audit Committee, did not attend the AGM in January 2014 due to a long-standing commitment which pre-dated her appointment to the Board. In Suzanne Baxter's absence, Henry Staunton (who had been a member of the Audit Committee prior to his appointment as Chairman) and the other members of the Audit Committee were available at the AGM to answer questions on the work of the Audit Committee. 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 2014 and the attendance record of individual directors.

Board membership	Number of meetings attended
Henry Staunton	8 of 8
Suzanne Baxter	8 of 8
Stephen Clarke	8 of 8
Annemarie Durbin	8 of 8
Drummond Hall	8 of 8
Robert Moorhead	8 of 8

The Board has met twice since 31 August 2014 and all the directors attended both meetings.

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

The Board has overall responsibility for the Company'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 review of its effectiveness during the year, to ensure that management has implemented its policies on risk and control. The Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying matters requiring approval by the Board. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas that require improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including those risks relating to social, environmental and ethical matters. The principal risks and uncertainties facing the Group can be found in the Strategic report on pages 18 and 19. This process was in place throughout the year under review and up to the date of approval of the Annual report and meets the requirements of the guidance entitled 'Internal Control – Revised Guidance for Directors' produced by the Financial Reporting Council (the 'Turnbull Guidance').

Further information on internal controls and risk management can be found in the Audit Committee report on pages 25 to 27.

Corporate governance – Corporate governance report

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

The performance of the Board and its Committees is a fundamental component of the Company's success. The Board regularly reviews its own performance and carried out a formal evaluation in August 2014. The evaluation was conducted externally by Equity Communications Limited ('Equity Communications'), which provides board evaluation services and has no other connection with the Company. The scope of the evaluation was broad and included Board effectiveness, Board structure and diversity, decision making processes, corporate strategy and business model, risk, succession planning, investor relations and Board Committees.

The findings of Equity Communications were presented to the Board in October 2014. The results of the assessment were considered by the Board, and confirmed the strength of the management of the Company, a sound governance framework and practices compliant with the Code. As a result of the review, the Board agreed an action plan which will be implemented in the financial year ending 31 August 2015 and which includes continuing to build relationships between members of the Board and with senior management, undertaking a review of the format and timing of the Board strategy days, continuing to improve the quality of papers submitted to the Board and being given greater access to other members of the senior management team. In addition to the Board and Committee evaluation process, the Group Chief Executive reviews the performance of the CFO/COO and other senior executives. The Chairman reviews the performance of the Group Chief Executive and each non-executive director. The Chairman conducted a thorough review with Drummond Hall, because he has served on the Board for six years, to assess his independence and contribution to the Board and confirmed that he continues to be an effective non-executive director who demonstrates commitment to the role and remains independent in character and judgement. 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 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 21 January 2015. Biographies of all the directors are set out on page 29 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 options and awards, are contained in the Remuneration report on pages 30 to 44.

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

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 25 to 27, of the Nominations Committee on page 28 and of the Remuneration Committee on pages 30 to 44. 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.

Board Committees

Audit Committee

Chair: Suzanne Baxter

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 2014. 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. At the invitation of the Committee, the Chairman of the Board, the Chief Executive, the CFO/COO, the Director of Audit and Risk and representatives of the external auditor attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

The Committee met four times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2014 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 four meetings of the Audit Committee.

The Audit Committee has met once since 31 August 2014 and all the Committee members attended the meeting.

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

- conducting a full tender of the external audit contract and recommending to the Board that PricewaterhouseCoopers LLP should be appointed as the external Auditors of the Company and its subsidiaries;
- monitoring the integrity of the Group's Financial Statements and Interim Management Statements;
- considering papers from management on the key financial reporting judgements;
- reviewing the Annual report and accounts including compliance with the Code and statutory reporting requirements;
- reviewing the assumptions and deficit recovery plan relating to the revaluation of the WHSmith defined benefit pension scheme as at 31 March 2014;
- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security, tax, and in respect of the Company's international businesses;
- 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;
- 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;
- agreeing the scope of Deloitte LLP's annual audit plans and reviewing the output;
- assessing the effectiveness of the audit process and considering the accounting, financial control and audit issues reported by Deloitte LLP that flowed from the audit work;
- approving the Audit fee;
- reviewing Auditor independence and the policy on the engagement of Deloitte LLP to supply non-audit services;
- undertaking a performance review of Internal Audit and the Company's external Auditor, Deloitte LLP; and
- monitoring the role and effectiveness of Internal Audit.

Corporate governance – Corporate governance report

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 judgments made by management are reasonable and appropriate. In order to assist in this evaluation, the CFO/COO presents an accounting paper to the Committee twice a year, setting out the key financial reporting judgements, and other papers as required. The main areas of judgement that have been considered by the Committee in the preparation of the financial statements are as follows:

Accounting for inventory

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

Recognition of supplier income

The Committee considered the Company's policy for the recognition of income receivable from suppliers and received a specific paper from management which set out details of, and basis for, income recognised in the year. The Committee challenged management's assumptions around the recognition and accounting treatment for supplier income and are satisfied that the treatment adopted by management is appropriate.

Pensions

The Committee assessed the accounting treatment adopted by management and the adoption of IAS 19 (revised) in relation to the WHSmith defined benefit pension scheme. The Committee, having also received a paper on pensions from the external Auditor, and considered the current guidance and requirements in respect of pensions accounting, reviewed the judgements made in respect of the assumptions used in the valuation of the Company's obligations under the scheme and the recognition of future liabilities in respect of committed scheme contributions on the balance sheet.

Taxation

The Committee considered the judgements made by management and a paper from the external Auditor in respect of provisions made for historical taxation liabilities, including the nature, estimation uncertainties and age of the taxation liabilities of the Group.

Property

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

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

Fair, balanced and understandable assessment

As required by the Code, the Directors confirm that they consider the Annual report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual report and accounts is drafted by senior management with overall co-ordination by the Finance Director, Group 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 is reviewed by the Audit Committee prior to consideration by the Board. The Committee advised the Board that the Annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Risk management and internal controls

The Committee monitors and regularly reviews the effectiveness of the Company'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 an annual risk assessment based on identified business objectives which are reviewed and agreed by the executive management of each business. Risks are considered in respect of strategic, reputational, operational, 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 senior executives who are required to complete a formal certification of the effectiveness of the internal controls in their respective areas. These certificates are provided by the risk committees to the Committee, to assist the Board in conducting its annual review of internal controls in compliance with the Turnbull Guidance. As part of its annual review the Board discusses and agrees the principal risks that are included within the Annual report;

- the Board is responsible for approving revenue and capital budgets and plans, 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 Company's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external Auditor through regular meetings;
- the Internal Audit team advises and assists business 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

Last year we informed shareholders that in light of the changes to the Code on the appointment of auditors, the Committee intended to conduct a tender for the audit in 2014. The tender process was initiated in April 2014 and concluded following a decision by the Board on the appointment of the new auditors in July 2014.

Audit tender

The tender was led by me as Chair of the Audit Committee and transacted in conjunction with the CFO/COO and the Group Finance team; and overseen by the Committee. The audit tender team held discussions with five audit firms, excluding the incumbent auditors Deloitte LLP, as part of the tender process. Deloitte LLP, as a matter of their internal policy and in light of developing EU legislation on audit firm rotation, elected not to participate in the tender in view of their already long service, having been the Company's auditors since it was first listed on the London Stock Exchange in 1949.

After discussions, it was agreed that the Company should receive formal tenders from Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP, as these candidate firms had more relevant retail and listed company experience than the other candidate firms. The audit tender team developed a scoring matrix for each tender to assess the quality of each candidate firm and the deliverability of its proposals, with a clear emphasis being placed on the quality and experience of the proposed audit team and partner, the extent of firm-wide retail experience and a clear and practical knowledge of listed company audits, governance and reporting environments. The Chairman of the Company also attended the presentations of the proposals by each tendering auditor.

While the Committee acknowledges that all three firms had the capability to provide a high quality audit service, the Committee, after deliberation, agreed to recommend to the Board that PricewaterhouseCoopers LLP should be appointed as the Company's Statutory Auditor following completion of the 2014 year end process and that the appointment would be subject to shareholder approval at the AGM in January 2015.

Auditor independence

During the year the external Auditor reported to the Committee on their independence from the Company. The Committee and the Board are satisfied that Deloitte LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the audit provided by Deloitte LLP. 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 and discussed with Deloitte LLP.

The Committee has a formal policy on the Company's relationship with its auditor in respect of non-audit work to ensure that auditor objectivity and independence are maintained. The policy is reviewed annually by the Committee. The majority of non-audit work undertaken by Deloitte LLP in 2013/14 related to turnover certificates, required by the Company's landlords, and tax advice. The auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. As Chair of the Audit Committee, my approval is required before the Company uses non-audit services that exceed £25,000 per matter. For the financial year ended 31 August 2014 the non-audit fees were £227,128 and the audit fee was £316,063.

The Committee would like to thank Deloitte LLP for their significant contribution to the Company over the years.

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

16 October 2014

Corporate governance – Corporate governance report

Nominations Committee

Chair: Henry Staunton

Nominations Committee report

Dear Shareholder

As Chairman 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 2014. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

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

The Committee met twice during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives and the recruitment of Carl Cowling, the new MD of WH Smith Travel who is due to join the Company in November 2014.

All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2014 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Henry Staunton	2 of 2
Suzanne Baxter	2 of 2
Stephen Clarke	2 of 2
Annemarie Durbin	2 of 2
Drummond Hall	2 of 2

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

During the year the Committee reviewed the Company's succession plans and the ongoing structure and capability of the Board.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity in the boardroom. Information on diversity, including gender, in respect of the Board and the Company is set out in the Diversity section of the Strategic report on page 22. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. The Committee believes in providing mentoring for women in senior roles and women who are identified as having the potential to reach senior roles to help them maximise their careers at the Company. An action plan has been agreed to take further steps to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity within the Executive management team, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company.

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

Henry Staunton
Chairman of the Nominations Committee

16 October 2014

Remuneration Committee

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 30 to 44.

Anti-corruption

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

Compliance with the Code

Throughout the year ended 31 August 2014 the Company has been in compliance with the provisions of the Code.

Henry Staunton
Chairman

16 October 2014

Directors' biographies

1: **Henry Staunton**

2: **Stephen Clarke**

3: **Robert Moorhead**

4: **Suzanne Baxter**

5: **Annemarie Durbin**

6: **Drummond Hall**

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

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

3. Robert Moorhead is Chief Financial Officer and Chief Operating Officer ('CFO/COO') and joined the Board of WHSmith in December 2008. He is a Chartered Accountant and joined WHSmith in 2004 as Retail Finance Director. Previously, he was Group Finance Director at Specsavers Optical Group and Finance and IT Director of World Duty Free Europe. He also held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse.

4. Suzanne Baxter is a non-executive director and joined the Board of WHSmith in February 2013. She is Chair of the Audit Committee. Suzanne is a Chartered Accountant and was appointed Group Finance Director of Mitie Group Plc in April 2006. She is Deputy Chair of the Opportunity Now Leadership Board, a part of the Business in the Community (BitC) charity with a focus on gender diversity and Deputy Chair of the Council of British Services Association, a policy and research centre of excellence for the support services industry.

5. Annemarie Durbin is a non-executive director and joined the Board of WHSmith in December 2012. Annemarie is Group Head, Independent Governance, Assurance and Workplace at Standard Chartered. She has previously held senior roles in Wholesale Banking, including Head of Financial Institutions for Europe and Africa, and had global responsibility for the Development Organisation client segment. She has held Consumer Banking head roles in the Philippines and Thailand and has been Chief Executive Officer in both countries. Currently she is responsible for internal audit, property, security, business continuity globally and corporate governance at Standard Chartered.

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

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

Board Committees

Audit Committee

Suzanne Baxter – Chair
Annemarie Durbin
Drummond Hall

Nominations Committee

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

Remuneration Committee

Drummond Hall – Chairman
Suzanne Baxter
Annemarie Durbin
Henry Staunton

Corporate governance

Directors' remuneration report

Annual statement from the Remuneration Committee Chairman

Chair: Drummond Hall

Dear Shareholder

I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2014. We have made some changes to the order in which this year's remuneration report is presented, in line with the new regime for the reporting of executive pay in the UK.

Accordingly, 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 2015 AGM as set out on pages 31 to 37; and
- our Annual remuneration report setting out the details of the implementation of our reward policy in 2013/14 and how the proposed remuneration policy will be implemented in 2014/15 as set out on pages 37 to 44. This section of the report is subject to an advisory vote at our 2015 AGM.

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 the required formal caps which we have set at higher levels than we envisage needing and which should be regarded as the caps which they are and not an aspiration. It also retains appropriate, but limited, flexibility to address changing circumstances during the period in which the policy will operate. The other members of the Committee are Suzanne Baxter, Annemarie Durbin and Henry Staunton. At the invitation of the Committee, the Group Chief Executive and representatives of the Committee's external independent remuneration adviser regularly attend meetings.

The Committee met nine 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 2014 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Drummond Hall	9 of 9
Suzanne Baxter	9 of 9
Annemarie Durbin	9 of 9
Henry Staunton	8 of 9

a) Stephen Clarke was invited to and attended eight meetings of the Remuneration Committee.
b) Henry Staunton did not attend the meeting of the Committee at which the increase in his remuneration was approved.

The Committee has met twice since 31 August 2014 and all the current Committee members attended the meetings.

Key decisions and changes

The key decisions and changes made by the Committee during the financial year ended 31 August 2014 are highlighted as follows:

- The Committee decided that following the changes made to the executive directors' remuneration in 2013 it was not appropriate to award them a salary increase in March 2014.
- As previously indicated in the 2013 Remuneration report and agreed on his appointment as Chief Executive, the bonus potential for Stephen Clarke increased from 150 per cent to 160 per cent of base salary from 1 September 2014.
- Increased shareholding requirements to 200 per cent of base salary for executive directors.
- The Committee undertook a review of the fee paid to the Chairman and, after taking advice from FIT Remuneration Consultants LLP ('FIT'), its external independent remuneration adviser, increased the fee with effect from 1 February 2014 from £165,000 to £200,000 per annum.

In January 2014 the Chairman and the executive members of the Board undertook a review of non-executive pay. As a consequence, it was agreed that the fees paid to non-executive directors should be increased from 1 February 2014. The basic annual fee increased from £40,000 to £46,000 per annum; the additional fee paid to the Senior Independent Director increased from £5,000 to £9,000 per annum and the additional fee paid to the Committee Chairman of the Audit and Remuneration Committees increased from £6,000 to £9,000 per annum.

Outcome 2013/14

The Company delivered another strong 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 increasing by eight per cent to £114m. As a result of this good performance, the Company has increased Headline diluted EPS by 18 per cent to 77.7p per share and dividends by 14 per cent to 35.0p per share. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 1 to 22.

The Company's good performance has resulted in the maximum bonus potential being awarded to Stephen Clarke and Robert Moorhead, being £720,000 and £468,000 respectively. The 2011 LTIP vesting percentage is determined by the growth in the Company's EPS and TSR over the three-year performance period which ended on 31 August 2014. The 2011 LTIP vested in full as the Company's EPS increased by 62 per cent during the performance period and the Company's TSR ranked 4.8 out of 24 companies in the comparator group.

Looking forward to 2015

The current LTIP was adopted in 2006 and will, therefore, expire on its tenth anniversary in 2016. In considering the terms of its renewal, the Committee wishes to consider the wider remuneration arrangements against developments in best practice. While the current bias to variable pay has served the Company well for some years, it is conscious that some investors may prefer to see the arrangements simplified and more in line with current industry norms. The review will consider all such matters, together with more detailed developments such as the continuing evolution of holding periods. The Committee envisages undertaking this review over the coming months and will then proactively seek the views of the Company's largest shareholders and shareholder representatives before finalising any proposals for submission to the Company's shareholders at the 2016 AGM.

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

Drummond Hall
Chairman of the Remuneration Committee

1. Information subject to audit

The following information has been audited by Deloitte LLP:

- Section 4.3 – Summary of Non-Executive Directors Remuneration 2014;
- Section 4.4 – Summary of Executive Remuneration 2014;
- Section 4.5 – Payments made to former Directors;
- Section 4.6 – Payments for loss of office;
- Section 4.10 – Annual bonus targets;
- Section 4.11 – Share Plans; and
- Section 4.15 – Directors' interests in shares.

2. Background to remuneration policy

The Company has a well-established and clear remuneration policy which, in the view of the Committee, has made an important contribution to the success of the Company over a sustained period. This 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 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; and
- take into account Company-wide pay and employment conditions.

3. The Directors' remuneration policy

The Remuneration Committee presents the Directors' remuneration policy, which will be put to a binding vote at the Annual General Meeting to be held on 21 January 2015 and, subject to shareholder approval, will take immediate effect. The Directors' remuneration policy has been prepared in accordance with Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (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	– 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 those for other head office staff, given the need for a formal cap, the Committee has limited the maximum salary which it may award to the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark	– Base salary is paid monthly in cash – Base salaries are reviewed annually with any changes normally taking effect from 1 March

Corporate governance – Directors' remuneration report

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

Element and purpose	Policy and opportunity	Operation and performance measures
Long-term incentives		
To motivate and incentivise delivery of sustained performance over the long-term, the Group operates the Long-Term Incentive Plan ('LTIP') and the Co-Investment Plan ('CIP')	– The policy is to award executive directors with shares with an initial face value equal to 200 per cent of base salary each year under the LTIP – In addition, the policy is to give executive directors the opportunity to invest in (or deposit) shares with a maximum value of 50 per cent of their annual bonus opportunity which are matched on a two-to-one basis (applying the market normal gross: net approach) under the CIP. The maximum matching award which Stephen Clarke may receive is 160 per cent of his base salary and the maximum matching award which Robert Moorhead may receive is 130 per cent of his base salary – The LTIP and CIP do not credit participants with the benefit of accrual for dividends paid over the performance period so, in that respect, are less generous than normal market practice – Clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP and the CIP	– The Committee may set such performance conditions on LTIP and CIP awards 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 30 per cent of the award for threshold performance under the LTIP and a minimum of 25 per cent of the award for threshold performance under the CIP – Although not currently envisaged, the Committee has the right to lengthen the performance period or to add an additional holding or retention period or to make similar additional changes, not to the benefit of participants – The Committee intends to ask shareholders for authority to renew the LTIP rules before the expiry of the current rules on 30 August 2016 – The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards
Shareholding guidelines		
To encourage share ownership by the executive directors and ensure interests are aligned	– Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP/CIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares – Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans	– 200 per cent of base salary for executive directors (increased from 175 per cent for the Chief Executive and 150 per cent for the CFO/COO) – 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 – The Committee intends to ask shareholders for authority to renew the Sharesave Scheme rules before the expiry of the current rules on 30 August 2016 – In line with market practice, no performance conditions are attached to options granted under the Sharesave Scheme

Notes to the policy table

Stating maximum amounts for each element of remuneration

While market practice has been mixed, the Company has received clear advice that the Regulations require caps on each element of pay to be included within each element of the policy and has prepared the report on that basis. 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 detailed in this report. Details of these awards can be found in the Annual remuneration report on page 42.

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 prior to the start of the financial year.

Under the annual bonus plan, participants can earn a bonus based on the achievement of a profit before tax and after interest 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. No 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 and CIP 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. The current performance targets for any awards made under the LTIP are: 40 per cent is based on relative TSR; 30 per cent is based on EPS growth and 30 per cent is based on relative dividend growth. The Committee believes that EPS is the most appropriate performance target for awards made to participants under the CIP as it focuses senior managers on real profit growth which is strongly aligned with value creation and the Company's strategic priorities. The performance targets for awards to be made in 2014/15 will be made on a similar basis and with the same target ranges as the performance targets for awards made in 2013/14 as fully set out on page 41.

Clawback

The bonus plan, LTIP and CIP rules include a provision for clawback (before or within a period of two years following payment or vesting) of a bonus or award if the Committee discovers information which leads it to conclude that any bonus or award was 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.

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

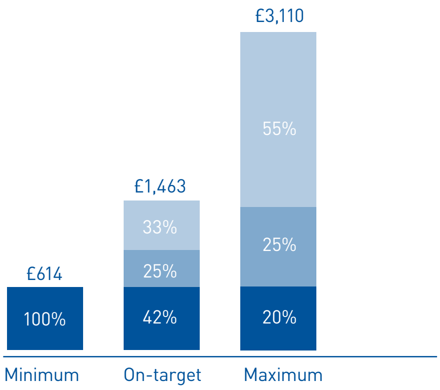
The salaries of executive directors and other employees are reviewed annually in March. Following the March 2014 review most head office employees were awarded a 2 per cent pay increase. It is intended that, in the future, executive directors will normally receive the same level of salary increase awarded to head office employees. However, Stephen Clarke and Robert Moorhead did not receive a salary increase in March 2014.
All head office employees are eligible to participate in the Annual Bonus Plan with similar performance measures to those of the executive directors, with business-specific performance measures included where relevant. The bonus opportunity varies by seniority. Participation in the Company's long-term executive incentive schemes applies to approximately the Company's top 90 senior managers who participate on broadly similar terms as the executive directors although award sizes and targets may vary. The Committee does not consider it appropriate to consult directly with employees when formulating the Company's executive director remuneration policy. However, it does take into account information provided by the Group HR Director and FIT, the Committee's independent remuneration consultants, on the appropriateness and competitiveness of the Company's remuneration structures.

Substantially all UK employees are eligible to participate in the Company's Sharesave Scheme on identical terms.

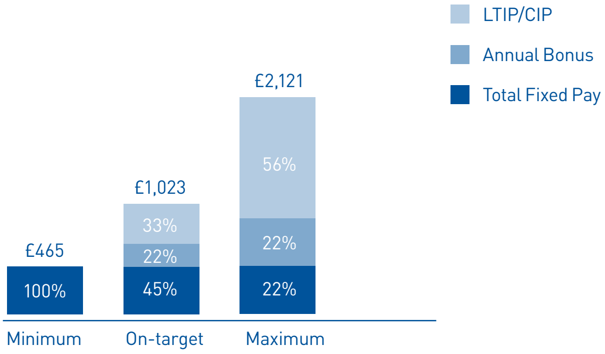
3.3 Potential rewards under various scenarios

The graphs below provide an estimate of the potential total rewards available to the executive directors for the financial year ending 31 August 2015, ignoring any change in share price and the potential split between the different elements of remuneration under 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.
2. The on-target scenario reflects fixed remuneration as above, plus the threshold award opportunity for the CIP at 40 per cent of base salary for Stephen Clarke and 32.5 per cent of base salary for Robert Moorhead; the threshold award opportunity for the LTIP is 60 per cent of base salary (we have assumed that TSR performance and dividend growth are at median); and the target level of performance for the annual bonus plan is 48 per cent of maximum annual bonus.
3. The maximum scenario reflects fixed remuneration as above, plus the maximum award opportunity for the CIP at 160 per cent of base salary for Stephen Clarke (160 per cent has been used as it will be the ongoing level, the proposed grant in October 2014 will be set at 150% as it is based on the bonus opportunity for the preceding year) and 130 per cent of base salary for Robert Moorhead; the maximum award opportunity for the LTIP is 200 per cent of base salary; and the maximum level of performance for the annual bonus plan is 160 per cent of base salary for Stephen Clarke and 130 per cent of base salary for Robert Moorhead.

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 a recruitment, 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 Executive directors on pages 31 to 34.
- 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 to be 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 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, CIP 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.

Corporate governance – Directors' remuneration report

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 appropriate 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. With effect from 1 September 2014, Robert Moorhead no longer has the benefit of a change of control clause in his contract.

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 except that, in exceptional circumstances, the initial notice period required from the Company may be up to 18 months provided this reduces to 12 months within 12 months of appointment.

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 the CIP and LTIP. The potential treatments on termination under these plans are summarised below.

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
CIP/ 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 (in the case of the LTIP only), redundancy, sale of a division or subsidiary or any other reason that the Committee determines in its absolute discretion	At the end of the relevant performance period	Generally, awards vest over the original timescales, subject to the original performance conditions. Awards normally pro-rated for time
Death	At the end of the relevant performance period or as soon as possible after date of death, at the discretion of the Committee	The Committee has discretion to disapply performance conditions and may allow immediate vesting. Awards may be pro-rated for time
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

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 Committee undertook a review of the fee paid to the Chairman in January 2014 and, after taking advice from FIT, its external independent remuneration adviser, agreed that the Chairman's annual fee should be increased from £165,000 to £200,000 with effect from 1 February 2014. 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 Chairman and the executive members of the Board undertook a review of non-executive pay in January 2014 and it was agreed that the fees paid to non-executive directors should be increased from 1 February 2014. The current fees payable to the Chairman and the non-executive directors are set out on page 38.

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 21 January 2015.

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-executives) 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 £500,000 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 February 2014) – 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 – It is not the policy of the Company to provide benefits to the Chairman or the non-executive directors. 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

The directors also have the benefit of directors' and officers' liability insurance which gives them appropriate cover for any legal action brought against them.

Annual remuneration report

4. Annual remuneration report

The Remuneration Committee presents the annual report on remuneration (the 'Implementation report') which, together with the introductory letter by the Chairman of the Committee on page 30, will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 21 January 2015.

4.1 Remuneration Committee

During the year the Committee continued to receive advice from FIT, which is a member of the Remuneration Consultants Group (the professional body) and adheres to its code of conduct. FIT has no other relationship with the Company and the Committee is satisfied that it continues to provide objective and independent advice. FIT was appointed by the Committee in 2011 following the establishment of that firm by the Company's previous lead adviser. FIT's fees in respect of the year under review were £72,845 (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 Chief Executive attends the Committee but excludes himself in relation to discussion of his own remuneration, as does the Chairman.

Corporate governance – Directors' remuneration report

4.2 Implementation of remuneration policy in the financial year ended 31 August 2014

Executive directors

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2014.

Element of pay	Implementation of policy
Base salary	The executive directors did not receive a salary increase in the financial year ended 31 August 2014 The current salary of Stephen Clarke is £480,000 and the current salary of Robert Moorhead is £360,000
Benefits	No changes were made to this element of remuneration within the financial year ended 31 August 2014 (although the cost of providing benefits may change without any action by the Company)
Pension	No changes were made to these elements of remuneration within the financial year ended 31 August 2014 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 2014, Stephen Clarke received a pension contribution equal to 5 per cent of his base salary and Robert Moorhead received a pension contribution equal to 3.7 per cent of his base salary; with the balance being received as a salary supplement. In respect of the current financial year, Robert Moorhead will receive all of his contribution as a salary supplement after applying for fixed protection
Annual bonus	The bonus out-turn for the financial year ended 31 August 2014 in respect of Stephen Clarke and Robert Moorhead was £720,000 and £468,000 respectively Bonus is primarily assessed against a sliding scale target of profit before tax but after interest and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives The target range for the year ended 31 August 2014 is set out on pages 40 and 41
Long-term incentives	Annual LTIP and CIP awards set at the policy level The terms of and the performance measures applicable to the LTIP and the CIP awards made in the financial year ended 31 August 2014 are described on page 41 Vesting of new LTIP awards is determined based on the following three measures: 40 per cent is based on relative TSR; 30 per cent is based on EPS growth and 30 per cent is based on relative dividend growth. The CIP is entirely subject to an EPS growth measure. All performance periods are for three years The Committee approved these performance measures as they are directly linked to the objectives set out in the Group's strategy; there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward
Shareholding guidelines	Stephen Clarke and Robert Moorhead comply with the guidelines

Non-executive directors

This section sets out how the policy report set out at Section 3.6 Chairman and non-executive director fees on pages 36 and 37 has been implemented.

Element of pay	Implementation of policy
Annual fees	Current fee levels are £200,000 for the Chairman of the Board, £46,000 for the role of non-executive director with additional fees of: (i) £9,000 payable for the role of SID; and/or (ii) £9,000 payable where an individual also chairs the Audit or Remuneration Committee

4.3 Summary of non-executive directors' remuneration 2014 (audited)

Basic annual fee – £46,000

Committee Chairman – £9,000

Senior Independent Director – £9,000

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2014:

	Base fee £'000	Committee/ SID fee £'000	Total £'000	2013 £'000
Henry Staunton	185	–	**185**	45
Suzanne Baxter	43	8	**51**	27
Annemarie Durbin	43	–	**43**	30
Drummond Hall	43	15	**58**	46

4.4 Summary of Executive Remuneration 2014 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2014:

	Salary £'000		Benefits £'000		Annual bonus £'000		LTI £'000		Pension £'000		Total £'000	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Stephen Clarke	**480**	370	**14**	14	**720**	513	**1,072**	3,078	**120**	92	**2,406**	4,067
Robert Moorhead	**360**	332	**14**	14	**468**	432	**1,267**	4,776	**89**	83	**2,198**	5,637

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 150 per cent of his base salary and Robert Moorhead had the opportunity to receive an annual bonus up to a maximum of 130 per cent of his base salary. The financial measure applied to the financial year ended 31 August 2014's annual bonus was profit before tax and after interest. The calculated outcome under this measure may be moderated (downwards only) by the Committee having regard to personal performance ratings. The Company's profit before tax of £112m was above the maximum target set for financial performance and, therefore, the Committee approved maximum bonus payments under this measure for the financial year ended 31 August 2014. Stephen Clarke received an annual bonus equivalent to 150 per cent of his base salary, and Robert Moorhead received an annual bonus equivalent to 130 per cent of his base salary.

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

d) The LTI figures in the table above include both the WH Smith LTIP and WH Smith 2008 Management Investment Plan ('MIP'). The LTIP values are the estimated value of the awards that will vest for the performance period ended on 31 August 2014, based on the average share price for the Company over the last financial quarter of 1098.32p. The performance measures for the LTIP are set out on page 41. The MIP values are the actual value of awards that have vested and were exercised during the financial year ended 31 August 2014.

e) Robert Moorhead no longer makes contributions into the Company's defined contribution scheme as he has applied for fixed protection.

f) The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

The total aggregate emoluments paid to the Board in the financial year ended 31 August 2014 was £2,602,000 and in the financial year ended 31 August 2013 was £3,652,000.

4.5 Payments made to former directors (audited)

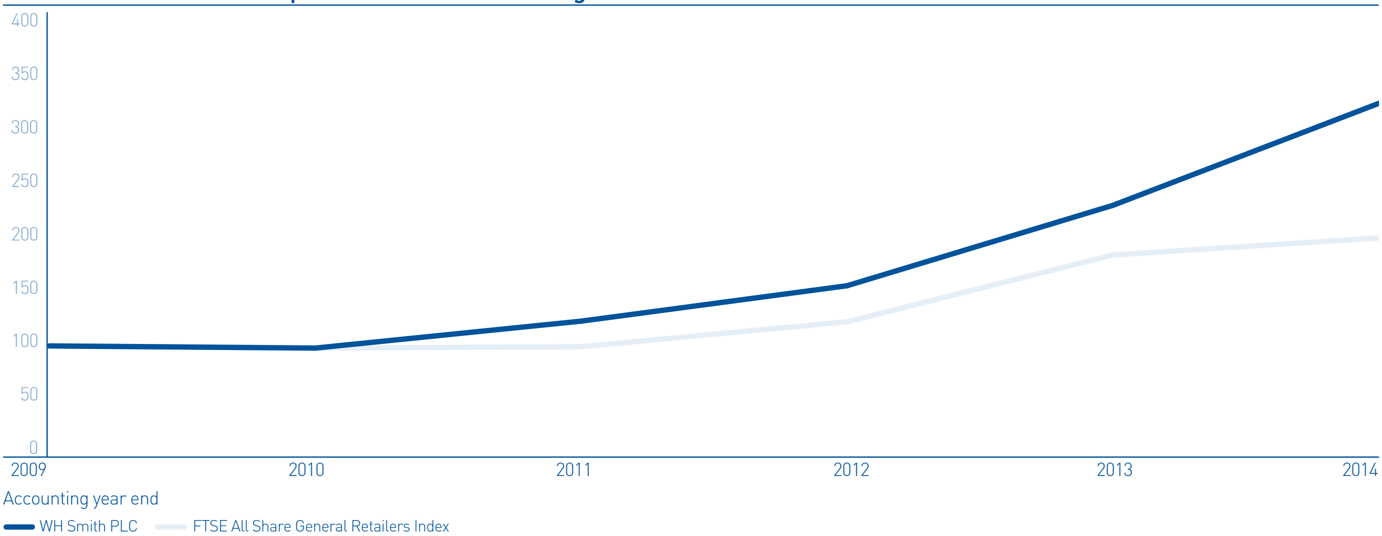
As set out in the 2012 Annual report, Kate Swann resigned as a director of the Company with effect from 30 June 2013. During the financial year ended 31 August 2014, Kate Swann received £6,038,036.94 following the vesting of her 2010 Management Investment Plan Award on 28 November 2013 and £1,683,070.93 following the vesting of her 2010 LTIP on 22 October 2013. It is estimated that Kate Swann will receive £1,354,855 in respect of her 2011 LTIP which will vest for the performance period ended on 31 August 2014, based on the average share price for the Company over the last financial quarter of 1098.32p. No other payments have been made in the financial year ended 31 August 2014 to former directors of the Company.

4.6 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 2014.

4.7 Assessing pay and performance

Total shareholder return performance since 31 August 2009



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

b) WH Smith PLC is a member of the FTSE All Share General Retailers Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

Corporate governance – Directors' remuneration report

The table below summarises the CEO's remuneration and how the Company's variable pay plans have paid out over the past five years. This can be compared with the historic TSR performance over the same period which indicates a TSR for the Company of 218 per cent over the period compared with a TSR for the Index of 97 per cent, indicating consistently superior performance consistent 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) %
2014	Stephen Clarke	2,406	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

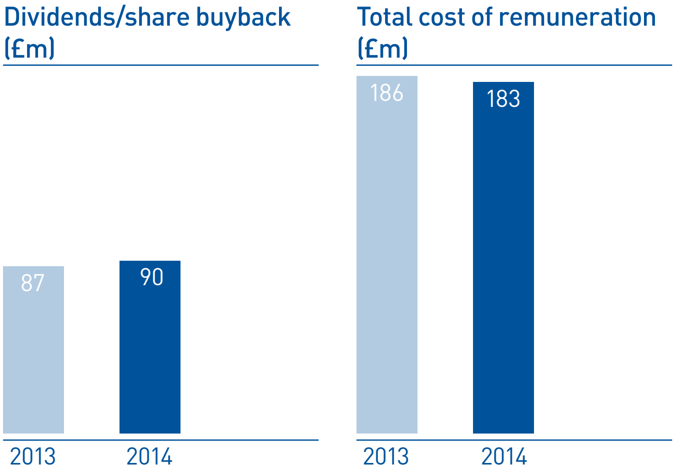
4.8 Change in remuneration of Chief Executive

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 2013 and the financial year ended 31 August 2014 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.

	Salary increase/ decrease %	Annual bonus increase/ decrease %	Taxable benefits increase/ decrease %
Chief Executive	(7.2)	(27.4)	(27.7)
UK employees (average per FTE)	2.7	6.9	0.0

4.9 Relative spend on pay

The graph below shows the total cost of remuneration in the Group as well as dividends/share buybacks made during the financial year ended 31 August 2014.



4.10 Annual bonus targets (audited)

Bonuses for the financial year ended 31 August 2014 were earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against PBT target	Exceptional performance	High performance	Good performance	Progressing	Improvement required
Max:£111.3m	100%	80%	60%	40%	0%
Target:£105m	80%	64%	48%	32%	0%
Threshold:£100.8m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The out-turn of £112m was above the maximum target set for financial performance. For Stephen Clarke, his personal rating is also based on the achievement of the Group profit before tax target resulting in him receiving a maximum bonus payment of £720,000. For Robert Moorhead, his personal rating includes a range of objectives relating to the financial and operational performance of the Company. Following his appraisal Robert Moorhead will receive a maximum bonus payment of £468,000.

No changes in the measures or weightings have been made in respect of the annual bonus for the financial year ending 31 August 2015. The Committee envisages similarly publishing the targets for that financial year in next year's report and, consistent with market practice, has elected not to pre-disclose them upfront (or give numerical personal objectives) on the basis of commercial sensitivity.

4.11 Share plans (audited)

The performance conditions for awards granted under the Company's long-term incentive plans in the financial years ended 31 August 2013 and 31 August 2014 were as follows:

WH Smith LTIP

The performance conditions were as follows:

a) the performance condition applying to 40 per cent of the award shares is based on the Company's TSR performance against the FTSE General Retailers Sector and the FTSE Food and Drugs Retailers Index constituents over the three years commencing with the financial year of grant (the 'Performance Period') and vesting will occur on the following basis:

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

b) the performance condition applying to 30 per cent of the award shares is based on growth in the adjusted diluted EPS of the Company over the performance period and vesting will occur on the following basis:

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

For these purposes EPS will be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency. The Committee will adjust the EPS performance target for awards granted in November 2012 by excluding the impact of any changes in Government tax policy during the performance period to ensure that the target operates as originally intended; and

c) the performance condition applying to the remaining 30 per cent of the award is based on the Company's dividend growth against the FTSE All Share General Retailers Index constituents over the Performance Period and vesting will occur on the following basis:

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

For these purposes the percentage increase in the Company's dividends (in pence) paid in respect of the base year (i.e. the financial year ended prior to grant) so, in respect of the year to 31 August 2013, the interim dividend paid on 8 August 2013 together with the final dividend declared on 10 October 2013 and paid on 30 January 2014 of 30.7p in total will be compared with the equivalent dividends paid in respect of the financial year ending three years later and the percentage increase compared and ranked with dividends paid by the same companies in the TSR comparator group except that any company which paid no dividend in respect of the base year will be excluded and companies within the FTSE All Share Food and Drugs retailers will be added to replace them. The Committee has discretion to assess whether a company's dividend is paid otherwise than out of operating profits or otherwise than supported by its normal levels of cover and therefore should be excluded and will report any such adjustments in subsequent Remuneration reports.

It is envisaged that the 2014 awards which are likely to be made in October 2014 will be made on a similar basis and with the same target ranges. FIT independently carries out the relevant TSR and dividend growth calculations for the Company.

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

The performance conditions require the Company's EPS (determined in the same way as for the LTIP) to increase over the three financial years commencing on 1 September 2013 as follows:

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

The definition of EPS used for CIP awards in 2014 is the same as for the LTIP awards in 2014 as described above. It is envisaged that the 2014 awards which are likely to be made in October 2014 will be made on a similar basis and with the same target range.

Corporate governance – Directors' remuneration report

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 2013	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 2014	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Stephen Clarke									
WH Smith CIP	05.11.12	65,241	–	–	–	**65,241**	627.67	409	05.11.15 – 05.11.22
	17.10.13	–	79,882	–	–	**79,882**	901.33	720	17.10.16 – 17.10.23
WH Smith LTIP	21.10.10	87,240	–	78,516	8,724	**–**	481.43	420	21.10.13 – 21.10.20
	17.11.10	10,875	–	9,788	1,087	**–**	459.77	50	17.11.13 – 17.11.20
	15.11.11	97,564	–	–	–	**97,564**	520.17	507	15.11.14 – 15.11.21
	05.11.12	100,371	–	–	–	**100,371**	627.67	630	05.11.15 – 05.11.22
	18.04.13	43,288	–	–	–	**43,288**	762.33	330	18.04.16 – 18.04.23
	17.10.13	–	106,509	–	–	**106,509**	901.33	960	17.10.16 – 17.10.23
WH Smith 2008 Management Investment Plan	21.10.10	186,761	–	186,761	–	**–**	481.90	900	Nov 2013 – Nov 2015
	17.11.10	40,323	–	40,323	–	**–**	465.00	188	Nov 2013 – Nov 2015
Total		**631,663**	**186,391**	**315,388**	**9,811**	**492,855**			
Robert Moorhead									
WH Smith CIP	05.11.12	65,863	–	–	–	**65,863**	627.67	413	05.11.15 – 05.11.22
	17.10.13	–	51,923	–	–	**51,923**	901.33	468	17.10.16 – 17.10.23
WH Smith LTIP	21.10.10	124,629	–	112,166	12,463	**–**	481.43	600	21.10.13 – 21.10.20
	15.11.11	115,347	–	–	–	**115,347**	520.17	600	15.11.14 – 15.11.21
	05.11.12	101,327	–	–	–	**101,327**	627.67	636	05.11.15 – 05.11.22
	17.10.13	–	79,882	–	–	**79,882**	901.33	720	17.10.16 – 17.10.23
WH Smith 2008 Management Investment Plan	21.10.10	373,521	–	373,521	–	**–**	481.90	1,800	Nov 2013 – Nov 2015
Total		**780,687**	**131,805**	**485,687**	**12,463**	**414,342**			

a) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met. All awards are granted as nil-cost options.

b) The CIP award of 79,882 shares granted to Stephen Clarke on 17 October 2013 represents 150 per cent of base salary (using the share price at grant of 901.33p). The LTIP award of 106,509 shares granted to Stephen Clarke on 17 October 2013 represents 200 per cent of base salary (using the share price at grant of 901.33p). Stephen Clarke can earn a minimum of 25 per cent for threshold performance under the CIP and a minimum of 30 per cent for threshold performance under the LTIP.

c) The CIP award of 51,923 shares granted to Robert Moorhead on 17 October 2013 represents 130 per cent of base salary (using the share price at grant of 901.33p). The LTIP award of 79,882 shares granted to Robert Moorhead on 17 October 2013 represents 200 per cent of base salary (using the share price at grant of 901.33p). Robert Moorhead can earn a minimum of 25 per cent for threshold performance under the CIP and a minimum of 30 per cent for threshold performance under the LTIP.

d) The Company achieved 90 per cent of its performance targets for awards granted under the LTIP and achieved 100 per cent of its performance targets for awards under the 2008 Management Investment Plan (MIP) granted in October and November 2010. The performance condition for awards granted under the LTIP in the financial year ended 31 August 2011 was an EPS growth condition of 5–10 per cent per annum The MIP performance conditions comprised 80% being dependent on an EPS growth condition of 7–12 per cent per annum and the remaining 20 per cent dependent on a median to upper quartile TSR scale versus the FTSE All Share General Retailers Index constituents over the period between 14 October 2010 and the announcement of the Company's results on 10 October 2013.

e) In respect of the awards granted on 21 October and 17 November 2010 under the LTIP held by Stephen Clarke, 88,304 shares vested and 9,811 shares lapsed. The value of the 88,304 shares on the date of vesting was £868,421.19 (983.4449p per ordinary share).

f) In respect of the awards granted on 21 October and 17 November 2010 under the MIP held by Stephen Clarke, 227,084 shares vested. The value of the 227,084 shares on the date of vesting was £2,209,468.96 (972.9743p per ordinary share).

g) In respect of the award granted on 21 October 2010 under the LTIP held by Robert Moorhead, 112,166 shares vested and 12,463 shares lapsed. The value of the 112,166 shares on the date of vesting was £1,103,090.81 (983.4449p per ordinary share).

h) In respect of the award granted on 21 October 2010 under the MIP held by Robert Moorhead, 373,521 shares vested. The value of the 373,521 shares on the date of vesting was £3,673,373.22 (983.4449p per ordinary share).

i) The aggregate value of shares which vested and were received by the executive directors under the MIP and LTIP during the financial year ended 31 August 2014 was £7,854,354.18.

j) No price is payable on either the grant or exercise of any award.

k) No awards have been granted to directors or have vested between 1 September 2014 and 16 October 2014.

l) The awards granted in the financial years ended 31 August 2013 and 31 August 2014 under the LTIP will only vest to the extent that the performance targets as set out on page 41 are satisfied. These disclosures set out the threshold vesting levels for awards granted in these years. Previous awards only vest as follows:

The performance conditions for awards granted in the financial year ended 31 August 2012 were as follows:

(i) the performance condition applying to 60 per cent of the award shares is based on growth in the adjusted diluted EPS of the Company over the three years ending 31 August 2014 (the 'Performance Period') and 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%	30%
10% or more	100%
Between 5% and 10%	On a straight-line basis between 30% and 100%

(ii) the performance condition applying to the remaining 40 per cent of the award shares is based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents over the Performance Period and vesting will occur on the following basis:

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

The performance conditions for awards granted in the financial year ended 31 August 2012 were met with 100 per cent of the shares subject to the awards vesting. As prescribed in the performance condition, the Committee provided that the EPS performance target would exclude the benefit of changes in Government tax policy during the performance period. The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period. The Committee, therefore, ensured that the performance targets were no less challenging to achieve than originally intended.

m) Matching awards under the CIP will only vest to the extent that the performance targets as set out on page 41 are satisfied and related investment shares are held until the end of the performance period.

4.12 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 to use the ordinary shares in the Trust to satisfy all outstanding awards and options made under the Company's share plans.

Following share purchases of 1,004,607 shares in the financial year ended 31 August 2014, the number of WHSmith shares held in the Trust at 31 August 2014 was 1,816,390. The Group's accounting policy with respect to the Trust is detailed within Note 1 of the accounts and movements are detailed in the Group statement of changes in equity on page 56.

4.13 Dilution limits

Awards of long-term share incentives are satisfied using market purchase shares. WHSmith's share plans comply with recommended guidelines on dilution limits, and the Company has always operated within these limits.

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

4.15 Directors' interests in shares (audited)

Personal shareholdings
Under the Company's share ownership requirements, executive directors are required to build and maintain a shareholding in the Company with a value of at least 200 per cent of base salary. The share ownership requirements require executives to retain 50 per cent (net of tax) of any shares acquired under any incentive plans until such time as this requirement is met. The directors have met their required holding given that as at 31 August 2014, Stephen Clarke held 290,064 shares with a value of £3,350,239 and Robert Moorhead held 500,391 shares with a value of £5,779,516.

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

	Ordinary shares		MIP		LTIP[1]		CIP[1]	
	31 August 2014	31 August 2013	31 August 2014	31 August 2013	31 August 2014	31 August 2013	31 August 2014	31 August 2013
Suzanne Baxter	1,000	–	–	–	–	–	–	–
Stephen Clarke	290,064	169,731	–	227,084	347,732	339,338	145,123	65,241
Annemarie Durbin	1,000	–	–	–	–	–	–	–
Drummond Hall	10,000	10,000	–	–	–	–	–	–
Robert Moorhead	500,391	500,391	–	373,521	296,556	341,303	117,786	65,863
Henry Staunton	10,000	10,000	–	–	–	–	–	–

[1] The LTIP and CIP amounts above are the maximum potential awards that may vest subject to the performance conditions described on page 41.
[2] There has been no change in the directors' interests shown above between 1 September 2014 and 16 October 2014.
[3] The middle market price of an ordinary share at the close of business on 29 August 2014 was 1155.00p (31 August 2013: 847.50p).

4.16 Summary of shareholder voting at the Annual General Meeting in January 2014

The following table shows the results of the advisory vote on the 2013 Remuneration report at the Annual General Meeting in January 2014:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Remuneration report	79,316,074	95.95	3,344,561	4.05	82,660,635	452,992

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.

In future years, voting information will be provided in respect of the votes in respect of the Remuneration policy report and the Annual remuneration report.

By order of the Board

Drummond Hall
Chairman of the Remuneration Committee

16 October 2014

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2014. The Company is the ultimate parent company of the WH Smith group of companies (the 'Group').

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 15
Branches outside the UK	12
Employment of disabled persons	22
Employee involvement	22
Disclosures concerning greenhouse gas emissions	20

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

Section	Page number
Directors' biographies	29
Corporate governance report	23
Statement of Directors' responsibilities	48
Information on use of financial instruments	77

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.

Profit and dividends

The Group profit before taxation for the financial year ended 31 August 2014 was £112m (2013: £103m)[1]. The directors recommend the payment of a final dividend for the year of 24.2p per ordinary share on 29 January 2015 to members on the Register at the close of business on 9 January 2015. This final dividend and the interim dividend of 10.8p per ordinary share paid on 7 August 2014 makes a total dividend of 35.0p per ordinary share for the year ended 31 August 2014 (2013: 30.7p).

[1] Restated: See Notes to the accounts Note 1, Accounting policies on page 57.

Share capital

The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 23 to the accounts.

The issued share capital of the Company as at 31 August 2014 was 119,450,357 ordinary shares of $22^{6}/_{67}$p each. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

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

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

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

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

Purchase of own shares

At the 2014 AGM, authority was given for the Company to purchase, in the market, up to 18,341,242 ordinary shares of $22^{6}/_{67}$p each, renewing the authority granted at the 2013 AGM. The Company used this authority to facilitate its ongoing strategy of returning surplus cash to shareholders by way of dividends and share buy backs thereby increasing total shareholder returns and the net asset value per share. The directors will only exercise the authority when satisfied that it is in the best interests of shareholders generally and that it would result in an increase in earnings per share. The Company purchased and subsequently cancelled 4,031,226 of its own shares during the financial year, representing 3.4 per cent of the issued share capital as at 31 August 2014, at an average price of £10.32. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £42m. During the period 1 September 2014 to 13 October 2014, the Company purchased and subsequently cancelled a further 734,254 of its own shares, representing 0.6 per cent of the issued share capital, at an average price of £10.97. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £8m. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2015 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2014, 81,965 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 335.60p and 580.80p. 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.

Corporate governance – Directors' report

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, WHSmith High Street Limited and WHSmith Travel Limited, is party, such as commercial trading contracts, banking arrangements, property leases, licence and concession agreements to take effect, alter or terminate. In addition, the service agreements of some senior executives and employee share plans would be similarly affected on a change of control, including, in the case of some employees, in relation to compensation for loss of office.

Directors' conflicts

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

Directors' Indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided 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 and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2014, 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	10,055,645	8.29	Indirect
Royal London Asset Management Limited	6,003,739	5.03	Direct

a) Disclosures were also received from Norges Bank and Scottish Widows Partnership Group Limited during the year notifying the Company that they no longer held a notifiable interest.

b) No notifications have been received by the Company in the period 1 September 2014 to 16 October 2014.

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. Suzanne Baxter, the Chair of the Audit Committee, did not attend the 2014 AGM due to a long-standing commitment which pre-dated her appointment to the Board. In Suzanne Baxter's absence, Henry Staunton and the other members of the Audit Committee were available at the AGM to answer questions on the work of the Audit Committee.

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

It is proposed that the Company will follow best practice and that all resolutions at the 2015 AGM will be taken on a poll vote and not on a show of hands as was previously the case. This enables the Company to count all votes, not just those of shareholders who attend the meeting. On a poll, each shareholder has one vote for every share he or she holds. The results of the poll vote on the resolutions put to the meeting will be disclosed to the London Stock Exchange following the end of the meeting and will also be published on the Company's website.

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

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 (2013: £nil).

Going concern

The Group's business activities, together with the factors that are likely to affect its future developments, performance and position, are set out in the Strategic report on pages 1 to 22. The Financial review on pages 13 to 15 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 19 to 22 of the accounts on pages 76 to 79. In addition, Note 22 of the accounts on page 77 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 18 and 19 also highlights the principal risks and uncertainties facing the Group.

The Group continues to be highly cash generative. In June 2014, the Group entered into a new five-year committed multi-currency revolving credit facility of £93m, replacing the existing £70m facility which was due to mature in January 2016.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and share buyback, and borrowing facilities. 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 the foreseeable future despite the uncertain economic outlook. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Auditor

During the year the Company conducted a tender of the Statutory Auditor contract. More information on the tender process can be found in the Audit Committee report on pages 25 to 27. Following the tender process, the Board took the decision to recommend PricewaterhouseCoopers LLP as the Company's new Statutory Auditor. Resolutions to appoint PricewaterhouseCoopers LLP and to authorise the Audit Committee to determine their remuneration will be proposed at the AGM.

Disclosure of information to the auditor

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 Allen & Overy LLP, One Bishops Square, London E1 6AD on 21 January 2015 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 16 October 2014.

By order of the Board

Ian Houghton
Company Secretary

16 October 2014

Corporate governance

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards and relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report and the Directors' report (which incorporates the management report) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- this Annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's and Group's performance, business model and strategy.

By order of the Board

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

16 October 2014

Independent auditor's report

to the members of WH Smith PLC

Opinion on financial statements of WH Smith PLC
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 August 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated and parent company balance sheets, the Consolidated cash flow statement, the related notes 1 to 27 to the Consolidated financial statements and the related notes 1 to 9 to the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union.

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

Going concern
As required by the Listing Rules we have reviewed the directors' statement on page 47 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

Our assessment of risks of material misstatement
The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Nature of risk	How the scope of our audit responded to the risk
Inventory	
Assessing net realisable value is an area of significant judgement, with specific consideration in relation to the estimate of provision for slow-moving and obsolete inventory.	We have assessed the appropriateness of the inventory provision by initially understanding the methodology and then challenging management on this methodology with reference to the historical accuracy of the provision against actual losses. We assessed the accuracy of the application of the provisioning methodology by recalculation, assessing actual and forecast sales of provisioned inventory lines to check that the provision percentage applied is appropriate and in line with the documented provisioning policy and inventory ageing. We understood and tested the interface between the IT systems in place over inventory and the inventory provisioning system to satisfy ourselves as to the accuracy and integrity of the data.
Property	
The Group has an extensive and diverse property portfolio. As a result, there are several technically complex areas or judgemental aspects to consider when accounting for property and leases across the Group, including: • onerous lease and other property related provisions for non-trading stores and other property across the Group; • impairments for loss making stores; and • the recognition of income from property related transactions.	We assessed the appropriateness and movement of existing provisions based on our understanding of any developments in the period that would be expected to impact on the amounts recognised and through recalculation. In respect of provisions recognised in the year we challenged the nature and amount of the provisions recognised, using our internal property specialists where appropriate to consider significant judgements taken. We tested the basis adopted by management for determining whether an onerous lease or store impairment exists. This involved considering the assumptions used by management in estimating impairments for both loss-making stores and store closures and challenging the timings and recognition of associated provisions. We assessed each property transaction completed in the period by reviewing the associated contract and challenging that the income generated from transactions was appropriately recognised.

Financial statements – Independent auditor's report (continued)

Nature of risk	How the scope of our audit responded to the risk
Revenue recognition	
Under ISAs (UK and Ireland) there is a presumed risk of fraud in revenue recognition because of the pressure management may feel to achieve planned results. As the vast majority of revenue is settled in cash or by credit card we focused on manual adjustments to revenue as they are more susceptible to manipulation. We also focused on the occurrence of transactions and whether they were recorded in the period in which the Group became entitled to record revenue.	We performed controls testing over the revenue cycle to ensure the accuracy and timing of revenue recognised in the financial statements. We tested controls over the recording of revenue in the relevant IT systems and the general ledger, the interface between the point of sale system and the general ledger, and performed substantive testing of revenue recorded during the year. In addition we tested significant manual journal entries posted to revenue to identify and understand unusual or irregular items and obtained evidence to support their recognition.
Supplier income	
Judgement is exercised in respect of assessing the appropriate recognition of income generated from a range of commercial agreements with suppliers, including incentives, rebates and discounts, which is recorded in cost of sales.	We performed analytical procedures for supplier agreements recognised, such as comparing income to the level of purchases and sales made, to assess the completeness of the supplier income in the year. For those agreements open at the year end we obtained a sample of supplier agreements and assessed the appropriateness of the recognition of income by assessing the underlying contractual arrangements and recalculating the amount of income recognised. We reviewed papers prepared by management for the Board which contained a detailed analysis of supplier income and a review of supplier income relationships to assess whether it was consistent with our understanding of and testing of these arrangements, and that the amounts recognised as income were in accordance with the Company's policy in respect to income associated with supplier arrangements.
Taxation	
Given the estimation uncertainty in respect of settlements with taxation authorities tax provisioning has been identified as a risk of material misstatement.	Utilising our tax specialists, we assessed all significant tax exposures across the Group and challenged the estimates and judgements made by management inherent in the provisions recognised. We considered the nature of these provisions and the historical settlements reached between the Group and the tax authorities. In addition we reviewed correspondence with relevant taxation authorities.

The Audit Committee's consideration of these risks is set out on page 26.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £5.4m, which is below 5 per cent of statutory profit before tax and below 1 per cent of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £108,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group operates with two divisions, High Street and Travel, with a head office function providing support to these divisions. Combined, they account for all of the Group's net assets, revenue and profit. These two divisions and the head office function were subject to a full audit, by the same audit team, at levels of materiality applicable to each component which were lower than Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual report is:

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual report is fair, balanced and understandable and whether the Annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

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

Stephen Griggs FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, UK

16 October 2014

Financial statements

Group income statement

For the year ended 31 August 2014

£m	Note	2014 Headline	2014 Non-underlying items[2]	2014 Total	2013 (Restated)[1] Headline	2013 (Restated)[1] Non-underlying items[2]	2013 (Restated)[1] Total
Continuing operations							
Revenue	2	**1,161**	**–**	**1,161**	1,186	–	1,186
Operating profit	2, 3	**116**	**1**	**117**	107	–	107
Investment income		**–**	**–**	**–**	–	–	–
Finance costs	8	**(2)**	**(3)**	**(5)**	(1)	(3)	(4)
Profit before tax		**114**	**(2)**	**112**	106	(3)	103
Income tax expense	9	**(20)**	**–**	**(20)**	(22)	–	(22)
Profit for the year		**94**	**(2)**	**92**	84	(3)	81
Earnings per share							
Basic	11			**77.3p**			66.4p
Diluted	11			**76.0p**			63.8p
Non GAAP measures							
Headline earnings per share							
Basic	11			**79.0p**			68.9p
Diluted	11			**77.7p**			66.1p
Equity dividends per share[3]				**35.0p**			30.7p
Fixed charges cover	7			**1.6x**			1.6x

[1] Restated for adoption of IAS 19 Revised. See Note 1.

[2] Non-underlying items include the non-cash income statement charge for pensions and for 31 August 2014 a one off pension past service credit (Note 4).

[3] Dividend per share is the final proposed dividend of 24.2p (2013: 21.3p) and the interim dividend of 10.8p (2013: 9.4p).

Group statement of comprehensive income

For the year ended 31 August 2014

£m	Note	2014	2013 Restated[1]
Profit for the period		**92**	81
Other comprehensive income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	4	**(5)**	–
Tax on defined benefit pension schemes		**1**	–
		(4)	–
Items that may be reclassified subsequently to the income statement:			
Mark to market valuation of derivative financial assets		**(1)**	1
Exchange differences on translation of foreign operations		**(1)**	–
		(2)	1
Other comprehensive loss for the period, net of tax		**(6)**	1
Total comprehensive income for the period		**86**	82

[1] Restated for adoption of IAS 19 Revised. See Note 1.

Financial statements

Group balance sheet

As at 31 August 2014

£m	Note	2014	2013
Non-current assets			
Goodwill	12	**34**	33
Other intangible assets	13	**22**	22
Property, plant and equipment	14	**147**	149
Deferred tax assets	18	**17**	23
Trade and other receivables	15	**2**	3
		222	230
Current assets			
Inventories		**144**	148
Trade and other receivables	15	**54**	51
Current tax asset		**3**	2
Derivative financial assets		**–**	1
Cash and cash equivalents	19	**34**	31
		235	233
Total assets		**457**	463
Current liabilities			
Trade and other payables	16	**(230)**	(232)
Bank overdrafts and other borrowings	19	**(12)**	–
Retirement benefit obligations	4	**(11)**	(11)
Current tax liabilities		**(39)**	(42)
Short-term provisions	17	**(2)**	(3)
		(294)	(288)
Non-current liabilities			
Retirement benefit obligations	4	**(44)**	(51)
Deferred tax liabilities	18	**–**	(2)
Long-term provisions	19	**(3)**	(4)
Other non-current liabilities		**(15)**	(16)
		(62)	(73)
Total liabilities		**(356)**	(361)
Total net assets		**101**	102
Total equity		**101**	102

£m	Note	2014	2013
Shareholders' equity			
Called up share capital	23	**26**	27
Share premium		**4**	4
Capital redemption reserve		**11**	10
Revaluation reserve		**2**	2
ESOP reserve		**(11)**	(21)
Hedging reserve		**–**	1
Translation reserve		**(3)**	(3)
Other reserve		**(235)**	(215)
Retained earnings		**307**	297
Total equity		**101**	102

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 16 October 2014 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 2014

£m	Note	2014	2013
Net cash inflow from operating activities	21	**116**	119
Investing activities			
Interest received		**–**	–
Purchase of property, plant and equipment		**(28)**	(32)
Purchase of intangible assets		**(4)**	(6)
Acquisition of business		**(2)**	(1)
Net cash outflow from investing activities		**(34)**	(39)
Financing activities			
Interest paid		**(1)**	–
Dividend paid		**(38)**	(34)
Purchase of own shares for cancellation		**(41)**	(50)
Purchase of own shares for employee share schemes		**(10)**	(1)
Proceeds from borrowings		**12**	–
Net cash used in financing activities		**(78)**	(85)
Net increase/(decrease) in cash and cash equivalents in year		**4**	(5)
Opening cash and cash equivalents		**31**	36
Effect of movements in foreign exchange rates		**(1)**	–
Closing cash and cash equivalents		**34**	31

Reconciliation of net cash flow to movement in net funds

£m	Note	2014	2013
Net funds at beginning of the year		**31**	36
Decrease in cash and cash equivalents		**3**	(5)
(Increase)/decrease in debt		**(12)**	–
Net funds at end of the year	19	**22**	31

Financial statements

Group statement of changes in equity

For the year ended 31 August 2014

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve[1]	Retained earnings	Total
Balance at 1 September 2013	**31**	**10**	**2**	**(21)**	**(2)**	**(215)**	**297**	**102**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(1)**	**–**	**87**	**86**
Recognition of share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Premium on issue of shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(38)**	**(38)**
Employee share schemes	**–**	**–**	**–**	**10**	**–**	**(20)**	**–**	**(10)**
Purchase of own shares for cancellation	**(1)**	**1**	**–**	**–**	**–**	**–**	**(42)**	**(42)**
Balance at 31 August 2014	**30**	**11**	**2**	**(11)**	**(3)**	**(235)**	**307**	**101**
Balance at 1 September 2012	32	8	2	(22)	(3)	(212)	290	95
Total comprehensive income for the period	–	–	–	–	1	–	81	82
Recognition of share-based payments	–	–	–	–	–	–	7	7
Deferred tax on share-based payments	–	–	–	–	–	–	3	3
Premium on issue of shares	1	–	–	–	–	–	–	1
Dividends paid	–	–	–	–	–	–	(34)	(34)
Employee share schemes	–	–	–	1	–	(3)	–	(2)
Purchase of own shares for cancellation	(2)	2	–	–	–	–	(50)	(50)
Balance at 31 August 2013	31	10	2	(21)	(2)	(215)	297	102

[1] 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 £20m (2013: £3m).

Notes to the accounts

1. Accounting policies

a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 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 47 of the Directors' report.

New standards

The Group has adopted the following standards and interpretations which became mandatory during the current financial year. With the exception of IAS 19, the impact of which is outlined below, these changes have had no material impact on the Group's financial statements:

IAS 19 (2011)	Employee Benefits
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Amendments to IFRS 1	Government Loans
Annual Improvements 2009-2011	(issued May 2012)

IAS 19 (Revised)

In June 2011 the IASB issued amendments to IAS 19 'Employee Benefits' (IAS 19 (Revised)). The revised standard is effective for the Group for the first time during the year ended 31 August 2014. The impact on the Group's defined benefit pension schemes is to replace the interest expense on retirement benefit obligations and the expected return on plan assets with a single net interest amount that is calculated by applying the discount rate to the net retirement benefit surplus or deficit. In addition, the administration costs of the pension scheme, previously charged against the expected return on plan assets, are now charged within operating costs. The impact of the amendment for the year ended 31 August 2014 has been to reduce profit before tax by £6m and reduce basic and diluted EPS by 3.4p and 3.3p respectively (Headline basic and diluted EPS have been increased by 1.7p). Prior year comparatives have been restated in accordance with IAS 8, and the impact of these restatements is set out below.

	31 August 2013		
£m	Previously reported	Impact of IAS 19 (Revised)	Restated
Headline profit before tax	106	–	106
Non-cash income statement income/(charge) for pensions	2	(5)	(3)
Profit before tax	108	(5)	103
Income tax expense	(21)	(1)	(22)
Profit after tax	87	(6)	81

	31 August 2013		
£m	Previously reported	Impact of IAS 19 (Revised)	Restated
Earnings per share			
Basic	71.3p	(4.9)p	66.4p
Diluted	68.5p	(4.7)p	63.8p
Headline earnings per share			
Basic	69.7p	(0.8)p	68.9p
Diluted	66.9p	(0.8)p	66.1p

£m			
Statement of comprehensive income			
Profit after tax	87	(6)	81
Actuarial (losses)/gains	(5)	5	–
Tax on items taken directly to equity	(1)	1	–
Other items of comprehensive income	1	–	1
Total comprehensive income	82	–	82

There is no impact on net funds, cash flows (including tax payments) or covenants.

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):

IAS 27 (2011)	Separate Financial Statements
IAS 28 (2011)	Investments in Associates and Joint Ventures
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRS 9	Financial Instruments
IFRS 15	Revenue
IFRIC 21	Levies
Annual improvements 2010-2012	
Annual improvements 2011-2013	

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, except that IFRS 9 may impact on the measurement and disclosure of financial instruments and IFRS 15 may impact on the timing of recognition of revenue. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Financial statements – Notes to the accounts

1. Accounting policies (continued)

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting. 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 up to the year end date.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so to obtain benefits from its activities.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination 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 cost of the business combination, 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.

Non GAAP measures

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

b) Revenue

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

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

Supplier incentives, rebates and discounts are recognised within cost of sales as they are earned. The accrued value at the reporting date is included in prepayments and accrued income.

c) Retirement benefit costs

Payments to the WH Smith 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 adjusted for unrecognised past service cost, and 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.

d) 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.

e) Intangible assets

Business combinations

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

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

Goodwill

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

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those cash-generating units that have benefited from the acquisition. The cash-generating units are Travel and High Street. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

Other intangible assets

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

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

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

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

f) Property, plant and equipment

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

Freehold properties	– over 20 years
Short-leasehold properties	– shorter of the lease period and the estimated remaining economic life
In-store fixtures and fittings	– up to ten years
Equipment and vehicles	– eight to ten years
Computer equipment	– up to five 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.

g) 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 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.

h) 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 the Group's weighted average cost of capital.

Onerous contracts – property provisions

The Group's property provisions represent the present value of 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 or currently not planned to be used for ongoing operations. The periodic unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 8 as 'unwinding of discount on provisions'.

Financial statements – Notes to the accounts

1. Accounting policies (continued)

i) Foreign currencies

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 overleaf 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.

j) 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 accounts 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.

k) Financial instruments

Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

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.

l) Share schemes

WH Smith Employee Benefit Trust

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

Share-based payments

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

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

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

m) 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.

n) Critical accounting judgements and key sources of estimation uncertainty

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

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

Retirement benefit obligation

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

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

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

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

Inventory valuation

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

Provisions

Provisions have been estimated for taxation, onerous leases and discontinued operation exit costs. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Financial statements – Notes to the accounts

2. Segmental analysis of results

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

a) Group revenue

£m	2014	2013
Continuing operations:		
Travel	**477**	460
High Street	**684**	726
Group revenue	**1,161**	1,186

b) Group results

£m	2014 Headline	2014 Non-underlying items[2]	2014 Total	2013 Restated[1] Headline	2013 Restated[1] Non-underlying items[2]	2013 Restated[1] Total
Continuing operations:						
Travel	**73**	**–**	**73**	66	–	66
High Street	**58**	**–**	**58**	56	–	56
Profit from trading operations	**131**	**–**	**131**	122	–	122
Unallocated costs	**(15)**	**–**	**(15)**	(15)	–	(15)
Group operating profit before non-underlying items	**116**	**–**	**116**	107	–	107
Non-underlying operating items (Note 4)	**–**	**1**	**1**	–	–	–
Group operating profit	**116**	**1**	**117**	107	–	107
Investment income	**–**	**–**	**–**	–	–	–
Finance costs	**(2)**	**(3)**	**(5)**	(1)	(3)	(4)
Income tax expense	**(20)**	**–**	**(20)**	(22)	–	(22)
Profit for the year	**94**	**(2)**	**92**	84	(3)	81

[1] Restated for adoption of IAS 19 Revised. See Note 1.

[2] Non-underlying items include the non-cash income statement charge for pensions and for 31 August 2014 a one off pension past service credit (Note 4).

c) Balance sheet

£m (2014)	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	**135**	**270**	**405**	**–**	**405**
Unallocated assets	**–**	**–**	**52**	**–**	**52**
Consolidated total assets	**135**	**270**	**457**	**–**	**457**
Liabilities					
Segment liabilities	**(66)**	**(162)**	**(228)**	**(3)**	**(231)**
Unallocated liabilities	**–**	**–**	**(125)**	**–**	**(125)**
Consolidated total liabilities	**(66)**	**(162)**	**(353)**	**(3)**	**(356)**
Net assets/(liabilities)	**69**	**108**	**104**	**(3)**	**101**

£m (2013)	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	126	285	411	–	411
Unallocated assets	–	–	52	–	52
Consolidated total assets	126	285	463	–	463
Liabilities					
Segment liabilities	(66)	(166)	(232)	(3)	(235)
Unallocated liabilities	–	–	(126)	–	(126)
Consolidated total liabilities	(66)	(166)	(358)	(3)	(361)
Net assets/(liabilities)	60	119	105	(3)	102

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities.

Discontinued operations include property provisions relating to reversionary leases and provisions for discontinued operations (USA Travel).

d) Other segmental items

£m	2014 Travel	High Street	Continuing operations	Discontinued operations	Group
Capital additions	17	16	33	–	33
Depreciation and amortisation of non-current assets	(11)	(23)	(34)	–	(34)
Impairment losses	–	(2)	(2)	–	(2)

£m	2013 Travel	High Street	Continuing operations	Discontinued operations	Group
Capital additions	14	17	31	–	31
Depreciation and amortisation of non-current assets	(10)	(25)	(35)	–	(35)
Impairment losses	(1)	(1)	(2)	–	(2)

3. Group operating profit

£m	2014	2013
Revenue	1,161	1,186
Cost of sales	(502)	(531)
Gross profit	659	655
Distribution costs[1]	(473)	(475)
Administrative expenses[2]	(72)	(76)
Other income[1]	3	3
Group operating profit	117	107

[1] Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m (2013: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

[2] Includes £1m non-underlying pension past service credit in 2014 which is excluded from Headline profit before tax. See Note 4.

£m	2014	2013
Cost of inventories recognised as an expense	502	531
Write-down of inventories in the period	3	4
Depreciation and amounts written off property, plant and equipment	31	31
Amortisation and amounts written off intangible assets	5	6
Net operating lease charges		
– land and buildings	184	181
– equipment and vehicles	1	1
Other occupancy costs	66	67
Staff costs (Note 5)	183	186
Auditor's remuneration (see below)		
Fees payable to Deloitte LLP, the Group's auditor, included in the income statement relate to:		
Fees payable to the Group's auditor for the audit of the Group's annual accounts	0.2	0.2
Fees payable to the Group's auditor for other services to the Group including the audit of the Company's subsidiaries	0.1	0.1
Total audit fees	0.3	0.3
Non-audit fees including taxation and other services	0.2	0.1
	0.5	0.4

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. Non-audit fees relate to taxation, turnover rent certification and advice in relation to the renewal of bank facilities.

4. Retirement benefit obligation

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 4 a) i).

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

£m	2014	2013
WHSmith Pension Trust	(55)	(62)
United News Shops Retirement Benefits Scheme	–	–
Retirement benefit obligation recognised in the balance sheet	**(55)**	(62)
Recognised as:		
Current liabilities	(11)	(11)
Non-current liabilities	(44)	(51)

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 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 10 Trustee directors of which 3 are appointed by the Sponsor, 4 are member-nominated directors, and 3 are independent. Trustee directors are appointed for a term of 6 years, and are then eligible for re-appointment.

The WHSmith Pension Trust, has assets valued at £1,087m as at 31 August 2014 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 and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges and equity option agreements, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

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

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

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

An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Company is represented on this Committee. Although investment decisions are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently and is an active participant of the investment sub-committee. 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. As at the balance sheet date on 31 August 2014, the latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2012 by independent actuaries using the projected unit credit method. The March 2012 deficit was £75m, and a revised deficit funding schedule of approximately £13m per annum (subject to indexation) over the following seven years was agreed with the Trustee. During the year ending 31 August 2014, the Group made a contribution of £14m to the WHSmith Pension Trust (2013: £12m) in accordance with the agreed pension deficit funding schedule. The weighted average duration of the defined benefit obligation is 18 years.

Since the balance sheet date the Trustees have completed a full actuarial valuation of the WHSmith Pension Trust as at 31 March 2014. As at 31 March 2014 the deficit was £24m. A revised deficit funding schedule of approximately £3m per annum with effect from 1 October 2014, for the following nine years, has been agreed with the Trustee. The expected pension contributions for the year ended 31 August 2015 will be approximately £4m to reflect the higher contribution paid in September 2014 under the previous schedule of contributions. This valuation has not been reflected in the minimum funding requirement recognised at the balance sheet date.

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	2014	2013
Present value of the obligations	**(932)**	(856)
Fair value of plan assets	**1,087**	964
Surplus before consideration of asset ceiling	**155**	108
Amounts not recognised due to effect of asset ceiling	**(155)**	(108)
Additional liability recognised due to minimum funding requirements	**(55)**	(62)
Retirement benefit obligation recognised in the balance sheet	**(55)**	(62)

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £155m (2013: £108m) available on a reduction of future contributions is £nil (2013: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. Scheme assets are stated at their market value at the relevant reporting date.

Income Statement

The amounts recognised in the income statement were as follows:

£m	2014	2013
Current service cost	**–**	–
Administration expenses	**–**	–
Past service credit[1]	**1**	–
Net interest cost on the defined benefit liability	**(3)**	(3)
	(2)	(3)

[1] The past service credit is a one-off non-underlying item and has been excluded from Headline profit before tax.

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

Following a change to the trivial commutation limit from £18,000 to £30,000 announced in the 2014 Budget, members of the WHSmith Pension Trust were given the opportunity to take a trivial commutation payment. The result of this exercise was the recognition of a past service credit of £1m, as a result of £6m of liabilities being removed from the Trust compared to £5m of assets paid out for trivial commutation. This has been disclosed in the Group Income Statement as a non-underlying one-off item and is excluded from Headline Group profit before tax.

Statement of Comprehensive Income

Total income/(expense) recognised in the Statement of Comprehensive Income ('SOCI'):

£m	2014	2013 Restated[2]
Actuarial gain/(loss) on defined benefit obligations arising from experience	**2**	(2)
Actuarial (loss) on defined benefit obligations arising from changes in financial assumptions	**(80)**	(71)
Actuarial gain/(loss) on defined benefit obligations arising from changes in demographic assumptions	**5**	(2)
Total actuarial (loss)/gain before consideration of asset ceiling	**(73)**	(75)
Return on plan assets excluding amounts included in net interest cost	**100**	53
(Loss)/gain resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	**(43)**	10
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	**11**	11
Total actuarial loss recognised in other comprehensive income	**(5)**	(1)

[2] Restated for adoption of IAS 19 Revised. See Note 1.

In the prior year, a £1m credit was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme. In the current year this is £nil.

Financial statements – Notes to the accounts

4. Retirement benefit obligation (continued)

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

£m	2014				2013 (Restated)[1]			
£m	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net defined benefit liability	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net defined benefit liability
At 1 September	964	(856)	(170)	(62)	889	(776)	(183)	(70)
Current service cost	–	–	–	–	–	–	–	–
Interest income/(cost)	43	(38)	(8)	(3)	37	(32)	(8)	(3)
Past service credit	(6)	7	–	1	–	–	–	–
Actuarial gains/(losses)	100	(73)	(32)	(5)	53	(75)	21	(1)
Contributions from the sponsoring companies	14	–	–	14	12	–	–	12
Benefits paid	(28)	28	–	–	(27)	27	–	–
At 31 August	1,087	(932)	(210)	(55)	964	(856)	(170)	(62)

[1] Restated for adoption of IAS 19 Revised. See Note 1.

[2] The actual return on scheme assets was a gain of £143m (2013: gain of £90m).

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

	2014				2013			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	503	–	503	46	357	–	357	37
– Corporate bonds								
UK	41	8	49	5	27	84	111	12
Non-UK	43	181	224	21	44	186	230	24
Investment funds[3]	303	–	303	28	295	–	295	31
Derivatives								
– Interest rate swaps	–	83	83	8	–	(48)	(48)	(5)
– Inflation swaps	–	(51)	(51)	(5)	–	8	8	1
– Other	–	(215)	(215)	(20)	–	(82)	(82)	(9)
Cash and cash equivalents	192	–	192	18	93	–	93	10
Total	1,082	5	1,087	100	816	148	964	100

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

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

%	2014	2013
Rate of increase in pension payments	3.17	3.36
Rate of increase in deferred pensions	2.37	2.59
Discount rate	3.84	4.50
RPI inflation assumption	3.27	3.49
CPI inflation assumption	2.37	2.59

The mortality assumptions in years underlying the value of the accrued liabilities for both 2014 and 2013 are:

	2014		2013	
Years	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	22.1	24.3	22.2	24.5
Member currently aged 45	23.4	25.8	23.6	26.0

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2014, while keeping all other assumptions consistent.

£m	Effect on liabilities at 31 August 2014
Discount rate + / - 0.1% per annum	-18/+19
Inflation assumptions + / - 0.1% per annum	+18/-16
Life expectancy + / - 1 year	+32/-32

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 2012 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	2014	2013
Present value of the obligations	(6)	(5)
Fair value of plan assets	6	5
Retirement benefit obligation recognised in the balance sheet	–	–

In the prior year a £1m credit was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme. In the current year this is £nil.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2014 (2013: £3m).

5. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2014	2013
Wages and salaries	163	164
Social security	12	12
Net pension cost	3	3
Employee share schemes	5	7
Total Group	183	186

b) Employee numbers

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

Number	2014	2013
Total retailing	14,362	14,692
Support functions	29	31
Total Group	14,391	14,723

Financial statements – Notes to the accounts

6. Operating lease commitments

Amounts recognised in operating profit:

£m	2014	2013
Minimum lease payments	180	180
Contingent rent payments	10	7
Total rent paid	190	187
Sublease rentals received on operating leases	(5)	(5)
Net operating lease charges	185	182

Minimum lease payments under non-cancellable operating leases for land and buildings are payable as follows:

£m	2014	2013
Within one year	165	167
Within two to five years	473	526
In more than five years	243	294
	881	987

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 £6m (2013: £6m). The average lease length across the Group is five years with Travel at five years and High Street at six years. In addition the Group leases various equipment and vehicles which have a total lease commitment of less than £1m (2013: less than £1m).

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 20.

7. Fixed charges cover

£m	2014	2013 Restated[1]
Net finance charges	5	4
Net operating lease rentals	185	182
Total fixed charges	190	186
Profit before tax and non-underlying items	111	103
Profit before tax, non-underlying items and fixed charges	301	289
Fixed charges cover – times	1.6x	1.6x

[1] Restated for adoption of IAS 19 Revised. See Note 1.

8. Finance costs

£m	2014	2013 Restated[1]
Interest payable on bank loans and overdrafts	1	–
Unwinding of discount on provisions	1	1
Net interest cost on the defined benefit pension liability	3	3
	5	4

[1] Restated for adoption of IAS 19 Revised. See Note 1.

9. Income tax expense

£m	2014	2013 Restated[1]
Tax on profit from continuing operations	**32**	37
Standard rate of UK corporation tax 22.16% (2013: 23.58%)		
Adjustment in respect of prior year UK corporation tax	**(12)**	(15)
Total current tax charge – continuing operations	**20**	22
Deferred tax – current year	**–**	–
Deferred tax – prior year	**–**	–
Tax on profit – continuing operations	**20**	22
Effective tax rate on continuing activities	***18%***	*21%*
Tax on Headline profit – continuing operations	**20**	22
Effective tax rate on Headline profit – continuing activities	***18%***	*21%*

Reconciliation of the taxation charge

£m	2014	2013 Restated[1]
Tax on profit from continuing operations at standard rate of UK corporation tax 22.16% (2013: 23.58%)	**25**	24
Tax effect of items that are not deductible or not taxable in determining taxable profit	**7**	13
Adjustment in respect of prior years	**(12)**	(15)
Tax charge – continuing operations	**20**	22

[1] Restated for adoption of IAS 19 Revised. See Note 1.

The UK corporation tax rate fell to 21 per cent with effect from 1 April 2014 (previously 23 per cent). The rate of corporation tax will change from 21 per cent to 20 per cent with effect from 1 April 2015.

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. Included in the total tax creditor of £39m is a provision of approximately £13m which relates to a commercial structure put in place in the year ending 31 August 2009. This historical structure is the subject of ongoing discussions with HMRC and the Group has received a payment on account for this £13m which could be repaid to HMRC prior to the conclusion of this matter.

The Group is committed to complying with tax laws, rules, regulations, disclosure requirements and paying the right amount of tax. The Group seeks to work proactively with tax authorities both in the UK and the other overseas jurisdictions in which it operates.

In the year ended 31 August 2014, WH Smith contributed £252m 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 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 purchase and employee payroll related taxes.

£m	2014
Taxes borne	**86**
Taxes collected	**166**
Total tax contribution	**252**

10. Dividends

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

£m	2014	2013
Dividends		
Interim dividend of 10.8p per ordinary share (2013: 9.4p per ordinary share)	**12**	11
Final dividend of 21.3p per ordinary share (2013: 18.6p per ordinary share)	**26**	23
	38	34

The proposed dividend of 24.2p per share, amounting to a final dividend of £28m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 29 January 2015 to shareholders on the register at the close of business on 9 January 2015.

Financial statements – Notes to the accounts

11. Earnings per share

a) Earnings

£m	2014	2013 Restated[1]
Earnings attributable to shareholders	**92**	81
Adjusted for non-headline items (net of taxation):		
Non-cash income statement charge for pensions	**3**	3
Operating exceptional items	**(1)**	–
Headline earnings attributable to shareholders	**94**	84

b) Weighted average share capital

Millions	2014	2013
Weighted average ordinary shares in issue	**121**	127
Less weighted average ordinary shares held in ESOP Trust	**(2)**	(5)
Weighted average shares in issue for earnings per share	**119**	122
Add weighted average number of ordinary shares under option	**2**	5
Weighted average ordinary shares for diluted earnings per share	**121**	127

c) Basic and diluted earnings per share

Pence	2014	2013 Restated[1]
Basic earnings per share	**77.3**	66.4
Adjustments for non-headline items	**1.7**	2.5
Basic headline earnings per share	**79.0**	68.9
Diluted earnings per share	**76.0**	63.8
Adjustments for non-headline items	**1.7**	2.3
Diluted headline earnings per share	**77.7**	66.1

[1] Restated for adoption of IAS 19 Revised. See Note 1.

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

12. Goodwill

	£m
Cost	
At 1 September 2013	33
Additions	1
At 31 August 2014	**34**
Accumulated impairment	
At 1 September 2013	–
Impairment charge	–
At 31 August 2014	**34**
Net book value at 31 August 2014	**34**

Cost	
At 1 September 2012	32
Additions	1
At 31 August 2013	**33**
Accumulated impairment	
At 1 September 2012	–
Impairment charge	–
At 31 August 2013	**–**
Net book value at 31 August 2013	**33**

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

£m	2014	2013
Travel	**23**	22
High Street	**11**	11
	34	33

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 (2013: £nil).

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

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

These cash flows are extrapolated for an additional nine years (representing the average length of the lease for the relevant group of stores) based on long-term growth rates. The long-term growth rates used are between 2.25 per cent and 2.5 per cent, reflecting expected retail price index growth. The rate used to discount the forecast cash flows is ten per cent pre-tax (2013: 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 shows that no impairment would arise under each scenario.

All CGU value-in-use calculations are considered to have been valued using level 3 inputs as defined by the fair value hierarchy of IFRS 13, 'Fair value measurement'.

On 31 January 2014, the Group acquired 100 per cent of the issued share capital of Wild Retail Group Pty Limited, a company incorporated in Australia, for a cash consideration of £2m. The acquired company is a franchisor of cards and gifts. The fair value of assets acquired is £2m and has been allocated as follows; £1m intangible assets (representing the brand and franchise contracts), £1m goodwill, representing synergies and future growth opportunities.

Financial statements – Notes to the accounts

13. Other intangible assets

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

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

	£m
Cost	
At 1 September 2013	72
Additions	4
Acquisitions	1
Disposals	–
At 31 August 2014	**77**
Accumulated amortisation	
At 1 September 2013	50
Amortisation charge	5
Impairment charge	–
Disposals	–
At 31 August 2014	**55**
Net book value at 31 August 2014	**22**

Cost	
At 1 September 2012	69
Additions	6
Disposals	(3)
At 31 August 2013	**72**
Accumulated amortisation	
At 1 September 2012	47
Amortisation charge	6
Impairment charge	–
Disposals	(3)
At 31 August 2013	**50**
Net book value at 31 August 2013	**22**

Included in the net book value of other intangible assets are software costs of £13m (2013: £14m), tenancy agreements of £3m (2013: £4m) and franchise contracts of £1m (2013: £nil). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2013: £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.

14. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2013	21	162	137	91	411
Additions	–	10	9	10	29
Transfers	1	(1)	1	(1)	–
Disposals	–	(6)	(27)	(1)	(34)
At 31 August 2014	**22**	**165**	**120**	**99**	**406**
Accumulated depreciation:					
At 1 September 2013	11	96	105	50	262
Depreciation charge	1	11	8	9	29
Impairment charge	–	1	1	–	2
Disposals	–	(6)	(27)	(1)	(34)
At 31 August 2014	**12**	**102**	**87**	**58**	**259**
Net book value at 31 August 2014	**10**	**63**	**33**	**41**	**147**
Cost or valuation:					
At 1 September 2012	21	165	145	91	422
Additions	–	8	6	11	25
Transfers	–	2	(8)	6	–
Disposals	–	(13)	(6)	(17)	(36)
At 31 August 2013	**21**	**162**	**137**	**91**	**411**
Accumulated depreciation:					
At 1 September 2012	11	97	102	57	267
Depreciation charge	–	12	8	9	29
Impairment charge	–	–	1	1	2
Disposals	–	(13)	(6)	(17)	(36)
At 31 August 2013	**11**	**96**	**105**	**50**	**262**
Net book value at 31 August 2013	**10**	**66**	**32**	**41**	**149**

No assets were held under finance leases in the current or prior year.

Financial statements – Notes to the accounts

15. Trade and other receivables

£m	2014	2013
Current debtors		
Trade debtors	**24**	23
Other debtors	**10**	7
Prepayments and accrued income	**20**	21
	54	51
Non-current debtors		
Prepayments and accrued income	**2**	3
Total trade and other receivables	**56**	54

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

£m	2014	2013
Trade and other receivables gross	**36**	32
Allowance for doubtful debts	**(2)**	(2)
Trade and other receivables net	**34**	30
Of which:		
Amounts neither impaired nor past due on the reporting date	**32**	26
Amounts past due but not impaired		
Less than one month old	**1**	3
Between one and three months old	**1**	1
Between three and six months old	**–**	–
Between six months and one year old	**–**	–
Trade and other receivables net carrying amount	**34**	30

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2014 of £2m (31 August 2013: £2m). The ageing analysis of these receivables is given in the table below. This allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience. No collateral is held for amounts past due but not impaired.

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.

£m	2014	2013
Less than one month old	**1**	1
Between one and three months old	**–**	–
Between three and six months old	**–**	–
Between six months and one year old	**1**	1
	2	2

16. Trade and other payables – current

£m	2014	2013
Trade payables	**95**	99
Other tax and social security	**24**	27
Other creditors	**62**	56
Accruals and deferred income	**49**	50
	230	232

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (2013: 59 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

17. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2013	6	1	**7**
Charge in the year	–	1	**1**
Utilised in year	(2)	(2)	**(4)**
Unwinding of discount	1	–	**1**
At 31 August 2014	**5**	**–**	**5**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2012	5	2	**7**
Charge in the year	1	1	**2**
Utilised in year	(1)	(2)	**(3)**
Unwinding of discount	1	–	**1**
At 31 August 2013	**6**	**1**	**7**

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

£m	2014	2013
Included in current liabilities	**2**	3
Included in non-current liabilities	**3**	4
	5	7

The non-trading property provision is the estimated future cost of the Group's onerous leases based on known and estimated rental subleases. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls. This provision has been discounted at ten per cent, and this discount will be unwound over the life of the leases.

The contingent consideration provision related to the acquisitions Fresh Plus. Additional consideration was paid to the former owners of Fresh Plus based on certain financial targets which were met during the year.

18. Deferred tax

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

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2013	(2)	1	8	12	2	**21**
Charged to income	2	–	(2)	–	–	**–**
Charged to equity	–	–	(2)	(2)	–	**(4)**
Restatement of deferred tax closing balances to 20%	–	–	–	–	–	**–**
At 31 August 2014	**–**	**1**	**4**	**10**	**2**	**17**
At 1 September 2012	(4)	1	5	16	2	**20**
Charged to income	2	–	–	–	–	**2**
Charged to equity	–	–	3	(3)	–	**–**
Restatement of deferred tax closing balances to 20%	–	–	–	(1)	–	**(1)**
At 31 August 2013	**(2)**	**1**	**8**	**12**	**2**	**21**

The rate of corporation tax will change from 21 per cent to 20 per cent with effect from 1 April 2015. The deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, we have restated all deferred tax closing balances using the appropriate rate. The change of rate in the year decreased the net deferred tax asset by £nil (2013: £1m).

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances, after offset, for financial reporting purposes.

£m	2014	2013
Deferred tax liabilities (non-current liabilities)	**–**	(2)
Deferred tax assets	**17**	23
	17	21

Financial statements – Notes to the accounts

19. Analysis of net funds

Movements in net funds can be analysed as follows:

£m	2013	Cash flow	2014
Cash and cash equivalents	31	3	**34**
Borrowings	–	(12)	**(12)**
Net funds	**31**	**(9)**	**22**

£m	2012	Cash flow	2013
Cash and cash equivalents	36	(5)	**31**
Borrowings	–	–	**–**
Net funds	**36**	**(5)**	**31**

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

The Group has in place a five-year committed multi-currency revolving credit facility of £93.3m with Barclays Bank PLC, HSBC, Lloyds Banking Group and Santander UK PLC. The revolving credit facility is due to mature on 9 June 2019. The utilisation is interest-bearing at LIBOR plus 90 basis points. Utilisation at 31 August 2014 was £12m, and the utilisation of the previous facility as at 31 August 2013 was £nil.

20. Contingent liabilities and capital commitments

£m	2014	2013
Bank and other loans guaranteed	**5**	5

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 2014 of £7m (2013: £12m). 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 £1m (2013: £3m).

21. Net cash inflow from operating activities

£m	2014	2013
Operating profit from continuing operations	**117**	107
Depreciation of property, plant and equipment	**29**	29
Impairment of property, plant and equipment	**2**	2
Amortisation of intangible assets	**5**	6
Share-based payments	**5**	7
Decrease in inventories	**4**	3
(Increase)/decrease in receivables	**(2)**	4
Decrease in payables	**(5)**	(6)
Pension funding	**(14)**	(12)
Non-cash pension past service credit	**(1)**	–
Income taxes paid	**(21)**	(19)
Charge to provisions	**1**	1
Cash spend against provisions	**(4)**	(3)
Net cash inflow from operating activities	**116**	119

22. Financial instruments

Categories of financial instruments

£m	Carrying value 2014	2013
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**–**	1
Loans and receivables (including cash and cash equivalents)[2]	**93**	87
Financial liabilities		
Finance lease obligations	**–**	–
Amortised cost[3]	**(296)**	(290)

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

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

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

Comparison of carrying values and fair values

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

Risk management

The Group's treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review.

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.

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 16 October 2014 the Group has in place a £93.3m committed multi-currency revolving credit facility, carrying certain financial covenants which have been met throughout the period. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

Liquidity risk

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

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

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

2014 (£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	12	–	–	–	**12**
Trade and other payables	261	1	–	–	**262**
Total cash flows	**273**	**1**	**–**	**–**	**274**

2013 (£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					
Trade and other payables	268	–	–	–	**268**
Total cash flows	**268**	**–**	**–**	**–**	**268**

Financial statements – Notes to the accounts

22. Financial instruments (continued)

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

The Group has credit risk attributable to its trade and other receivables including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

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

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-2/P-1 and long-term ratings of Baa2 or better.

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

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

At 31 August 2014, the Group had drawn down £12m (2013: £nil) 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 2014, 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 and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

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

£m	2014	2013
Fair value of derivative assets	–	1

At 31 August 2014, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$29m (2013: US$28m). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Gains totalling £nil (2013: £nil) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2014. In the year to 31 August 2014, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £1m (2013: £1m gain).

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 2014
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 1.653/1 (2013: 1.550/1), EUR/GBP 1.264/1 (2013: 1.172/1) and AUD/GBP 1.777/1 (2013: 1.737/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2013 and 31 August 2014 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

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

Using these assumptions, the following table shows the illustrative effect on the Group Income Statement and equity.

	2014		2013	
£m	Income gains/(loss)	Equity gains/(loss)	Income gains/(loss)	Equity gains/(loss)
GBP LIBOR/Base rate interest rates 1% increase	–	–	–	–
USD/GBP exchange rates 10% increase	–	(2)	–	(2)
EUR/GBP exchange rates 10% increase	–	–	–	–
AUD/GBP exchange rates 10% increase	–	–	–	–
GBP LIBOR/Base rate interest rates 1% decrease	–	–	–	–
USD/GBP exchange rates 10% decrease	–	2	–	2
EUR/GBP exchange rates 10% decrease	–	–	–	–
AUD/GBP exchange rates 10% decrease	–	–	–	–

23. Called up share capital

Allotted and fully paid

	2014		2013	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of $22^{6}/_{67}$p	119	26	123	27
Total	119	26	123	27

During the year the Company repurchased 4,031,226 of its own shares in the open market for an aggregate consideration of £41m.

During the year 81,965 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £nil (2013: £1m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

The ESOP reserve of £10m (2013: £21m) 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 1,816,390 (2013: 4,532,695).

Financial statements – Notes to the accounts

24. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2010 MIP	2012 CIP	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2013	602,054	1,184,110	2,670,773	478,421	1,675,729	185,721	–	**6,796,808**
Options and awards granted	–	–	–	411,447	290,711	148,169	143,434	**993,761**
Options and awards exercised	(81,965)	(881,432)	(2,670,773)	–	(580,469)	–	–	**(4,214,639)**
Options and awards lapsed	(44,345)	–	–	(59,604)	(150,332)	(6,870)	–	**(261,151)**
Outstanding at 31 August 2014	**475,744**	**302,678**	**–**	**830,264**	**1,235,639**	**327,020**	**143,434**	**3,314,779**
Exercisable at 31 August 2014	**5,009**	**260,406**	**–**	**–**	**–**	**–**	**–**	**265,415**
Outstanding at 1 September 2012	717,385	2,073,394	2,707,088	–	1,942,165	–	–	**7,440,032**
Options and awards granted	230,835	–	–	483,200	363,329	193,976	–	**1,271,340**
Options and awards exercised	(285,956)	(888,904)	–	–	(479,549)	–	–	**(1,654,409)**
Options and awards lapsed	(60,210)	(380)	(36,315)	(4,779)	(150,216)	(8,255)	–	**(260,155)**
Outstanding at 31 August 2013	**602,054**	**1,184,110**	**2,670,773**	**478,421**	**1,675,729**	**185,721**	**–**	**6,796,808**
Exercisable at 31 August 2013	**52,475**	**181,794**	**–**	**–**	**28,048**	**–**	**–**	**262,317**

	2014	2013
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**122.66**	169.72
– Granted in the period	**–**	105.45
– Exercised in the period	**107.47**	325.97
– Lapsed in the period	**76.67**	91.49
– Outstanding at the end of the year	**108.83**	122.66
– Exercisable at the end of the year	**398.87**	327.11

Detail of movements in options and awards

2010 Management Investment Plan (2010 MIP)

Under the terms of the 2010 Management Investment Plan, executive directors and key senior executives invested their own money to buy ordinary shares in WH Smith PLC and were granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount invested.

Awards granted under the 2010 MIP were as follows:

Date of grant	Number of shares **2014**	Number of shares 2013	Exercise price (pence)	Exercise period
21 October 2010	**–**	2,612,807	Nil	Nov 2013 – Nov 2015
17 November 2010	**–**	40,323	Nil	Nov 2013 – Nov 2015
1 February 2011	**–**	17,643	Nil	Nov 2013 – Nov 2015
	–	2,670,773		

2012 Co-Investment Plan (CIP)

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

Outstanding awards granted under the CIP are as follows:

Date of grant	Number of shares **2014**	Number of shares 2013	Exercise price (pence)	Exercise period
5 November 2012	**430,709**	464,644	Nil	Nov 2015 – Nov 2022
18 April 2013	**11,412**	11,412	Nil	Apr 2016 – Apr 2023
14 May 2013	**2,365**	2,365	Nil	Nov 2015 – Nov 2022
17 October 2013	**385,778**	–	Nil	Oct 2016 – Oct 2023
	830,264	478,421		

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		Exercise price	
Date of grant	2014	2013	(pence)	Exercise period
5 November 2009	–	28,048	Nil	Nov 2012 – 05.11.19
21 October 2010	–	602,927	Nil	Oct 2013 – 21.10.20
17 November 2010	–	10,875	Nil	Nov 2013 – 17.11.20
15 November 2011	**634,684**	670,550	Nil	Nov 2014 – 15.11.21
5 November 2012	**291,364**	320,041	Nil	Nov 2015 – 05.11.22
18 April 2013	**43,288**	43,288	Nil	Apr 2016 – 18.04.23
17 October 2013	**257,664**	–	Nil	Oct 2016 – 17.10.23
20 November 2013	**8,639**	–	Nil	Nov 2016 – 20.10.23
	1,235,639	1,675,729		

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

Sharesave Scheme

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

Outstanding options granted under the Sharesave Scheme at 31 August 2014 are as follows:

	Number of shares		Exercise price	
Date of grant	2014	2013	(pence)	Exercise period
4 June 2008 (5 year)	–	28,108	335.60	01.08.13 – 31.01.14
3 June 2009 (5 year)	**5,009**	42,263	387.00	01.08.14 – 31.01.15
2 June 2010 (3 year)	–	24,367	400.40	01.08.13 – 31.01.14
2 June 2010 (5 year)	**49,772**	55,671	400.40	01.08.15 – 31.01.16
30 November 2011 (3 year)	**204,675**	221,607	426.80	01.02.15 – 31.07.15
5 June 2013 (3 year)	**216,288**	230,038	580.80	01.08.16 – 31.01.17
	475,744	602,054		

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		Exercise price	
Date of grant	2014	2013	(pence)	Exercise period
5 November 2012	**169,759**	172,029	Nil	Nov 2015 – 05.11.22
18 April 2013	**11,200**	13,692	Nil	Apr 2016 – 18.04.23
17 October 2013	**145,184**	–	Nil	Oct 2016 – 17.10.23
20 November 2013	**877**	–	Nil	Nov 2016 – 20.11.23
	327,020	185,721		

Financial statements – Notes to the accounts

24. Share-based payments (continued)

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 2014 are as follows:

Date of grant	Number of shares 2014	Number of shares 2013	Exercise price (pence)	Exercise period
3 November 2004	**77,381**	77,381	247.00	03.11.07 – 02.11.14
17 October 2007	**38,058**	38,058	381.00	17.10.10 – 16.10.17
5 November 2009	**51,712**	66,355	497.37	05.11.12 – 04.11.19
21 October 2010	**93,255**	960,044	478.20	21.10.13 – 20.10.20
15 November 2011	**42,272**	42,272	520.17	15.11.14 – 14.11.21
	302,678	1,184,110		

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 2014 there were 143,434 outstanding nil-cost cash-settled awards (2013: nil), which will be settled between November 2014 and October 2023. The carrying amount of liabilities arising from share-based payment transactions is £nil (2013: £nil).

Fair value information

£m	2014	2013
Weighted average share price at date of exercise of share options exercised during period – pence	**963.77**	687.65
Weighted average remaining contractual life at end of period – years	**6**	5

Share options and awards granted

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

£m	2014	2013
	7	6

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:

	2014	2013
Share price – pence	**907.5 – 983.5**	625.50 – 741.00
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**28**	29 – 31
Expected life – years	**3.0**	3.0
Risk free rate – per cent	**0.87 – 0.89**	0.29 – 0.35
Dividend yield – per cent	**3.12 – 3.38**	3.63 – 4.30
Weighted average fair value of options – pence	**714.84**	525.55

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

25. Related party transactions

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

Remuneration of key management personnel

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

Further information about the remuneration of individual directors is provided in the Directors' Remuneration report.

£'000	2014	2013
Short-term employee benefits	**2,393**	3,480
Post-employment benefits	**209**	175
Share-based payments	**1,805**	3,377
	4,407	7,032

There are no other transactions with directors.

26. Events after the balance sheet date

As at 13 October 2014, the Company has repurchased a further 734,254 million of its own shares in the open market as part of the Company's share buyback programme.

On 16 October 2014, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.

Since the balance sheet date the Trustees of the WHSmith Pension Trust have completed a full actuarial valuation of the scheme, as at 31 March 2014, and the Company has agreed a revised schedule of contributions with the Trustees. Further information is given in Note 4.

27. Principal companies

The principal companies included within the financial statements, which are all wholly-owned, are disclosed below. A schedule of interests in all subsidiary undertakings is filed with the Annual Return.

Name	Country of incorporation/registration
WH Smith PLC	England and Wales
WH Smith Retail Holdings Limited	England and Wales
WH Smith High Street Holdings Limited	England and Wales
WH Smith Travel Holdings Limited	England and Wales
WH Smith High Street Limited	England and Wales
WH Smith Travel Limited	England and Wales
WH Smith Hospitals Holdings Limited (formerly UNS Group Limited)	England and Wales
WH Smith Hospitals Limited (formerly UNS Hospitals Limited)	England and Wales
Spilt Ink Studio Limited	England and Wales
WH Smith Australia Limited	Australia
WH Smith France S.A.S	France
WH Smith Ireland Limited	Ireland
WH Smith Jersey Limited	Jersey
WH Smith Asia Limited	Hong Kong

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

Financial statements

Company balance sheet

For the year ended 31 August 2014

£m	Note	2014	2013
Fixed assets			
Investments	3	**357**	357
Total fixed assets		**357**	357
Current assets			
Debtors – amounts due within one year	4	**39**	43
Current liabilities			
Bank overdraft		**–**	(4)
Creditors – amounts due within one year	5	**(136)**	(136)
		(136)	(140)
Net current liabilities		**(97)**	(97)
Total net assets		**260**	260
Capital and reserves			
Called up share capital	8	**26**	27
Share premium	9	**4**	4
Capital redemption reserve	9	**11**	10
Profit and loss account	9	**219**	219
Total equity		**260**	260

The financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors on 16 October 2014.

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Notes to the Company balance sheet

1. Accounting policies

a) Basis of preparation

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

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.

d) Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement.

e) Related parties

The Company has taken advantage of paragraph 3 (c) of Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with Group entities or interests of the Group qualifying as related parties.

2. Profit for the year

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

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £80m (2013: £100m) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

3. Investments in subsidiary undertakings

The Company acquired the shares of WH Smith Retail Holdings Limited at a fair value of £357m on 31 August 2006.

4. Debtors – amounts due within one year

£m	2014	2013
Amounts owed by subsidiary undertakings	**39**	43
	39	43

5. Creditors – amounts due within one year

£m	2014	2013
Other creditors	**1**	–
Amounts owed to subsidiary undertakings	**135**	136
	136	136

6. Dividends

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

£m	2014	2013
Dividends		
Interim dividend of 10.8p per ordinary share (2013: 9.4p per ordinary share)	**12**	11
Final dividend of 21.3p per ordinary share (2013: 18.6p per ordinary share)	**26**	23
	38	34

The proposed dividend of 24.2p per share, amounting to a final dividend of £28m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 29 January 2015 to shareholders on the register at the close of business on 9 January 2015.

Financial statements – Notes to the Company balance sheet

7. Contingent liabilities

Contingent liabilities of £3m (2013: £3m) are in relation to insurance standby letters of credit.

8. Called up share capital

Allotted and fully paid

	2014		2013	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22⁶/₆₇p	**119**	**26**	123	27
Total	**119**	**26**	123	27

During the year the Company repurchased 4,031,226 of its own shares in the open market for an aggregate consideration of £41m.

Also during the year 81,965 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £nil (2013: £1m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

9. Reserves

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2013	27	4	10	219	260
Profit for the financial year	–	–	–	80	80
Purchase of own shares for cancellation	(1)	–	1	(42)	(42)
Premium on issue of shares	–	–	–	–	–
Equity dividends paid during the period	–	–	–	(38)	(38)
Balance at 31 August 2014	**26**	**4**	**11**	**219**	**260**

Other information

Information for shareholders

Company Secretary and Registered Office

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (Number 5202036).

Company website

This Annual report and accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

Annual General Meeting

The Annual General Meeting will be held at Allen & Overy LLP, One Bishops Square, London E1 6AD on Wednesday 21 January 2015 at 11.30am. A separate notice convening the meeting is sent to shareholders, which includes an explanation of the items of special business to be considered at the meeting.

Shareholder enquiries – the registrars

All enquiries relating to shareholdings should be addressed to the registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline: 0871 495 0100 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary) or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0870 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 0870 703 0084. You will need to have your 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 tax voucher.

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 a single, consolidated tax voucher 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 2014
Preliminary results announced	16 October 2014
Interim management statement	12 November 2014
Annual report posted	December 2014
Final dividend ex-dividend date	8 January 2015
Final dividend record date	9 January 2015
Christmas trading statement	21 January 2015
AGM	21 January 2015
Final dividend payment date	29 January 2015
Half-year end	28 February 2015
Interim results announced	April 2015
Interim dividend ex-dividend date	July 2015
Interim dividend record date	July 2015
Interim management statement	July 2015
Interim dividend payment date	August 2015
Financial year end	31 August 2015

The dividend dates shown above are in respect of the Company's ordinary shares of $22^{6}/_{67}$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'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (which has now become two separate authorities, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority) reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the name of the person and organisation contacting you.
- Check whether the firm is properly authorised by the FCA before getting involved by visiting: www.fca.org.uk/register

Other information

– If you are concerned as to their authenticity, report the matter to the FCA by calling 0800 111 6768.
– If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

If you deal with an unauthorised firm, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Connect Group PLC (formerly Smiths News PLC).

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22^{6}/_{67}$p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.

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