WH Smith PLC

ANNUAL REPORT AND ACCOUNTS **2015**

WH Smith Sydney International Airport

CONTENTS

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DISCLAIMER

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

WH SMITH PLC IS ONE OF THE UK'S LEADING RETAILERS AND IS MADE UP OF TWO CORE BUSINESSES – TRAVEL AND HIGH STREET. OUR GOAL IS TO BE:

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

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

ABOUT US

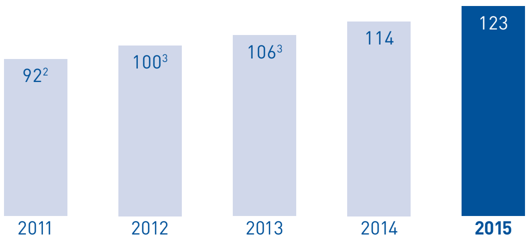
- WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street.
- WHSmith Travel has a presence in a wide range of locations including airports, train stations, hospitals and motorway service areas with a growing international business.
- WHSmith High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

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

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

£123m

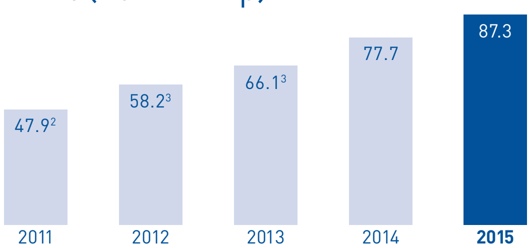
+8% (2014: £114m)



Headline diluted earnings per share (p)

87.3p

+12% (2014: 77.7p)



[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 63.

[2] Restated for adoption of IAS 19 Revised and recognition of IFRIC 14 minimum funding liability.

[3] Restated for adoption of IAS 19 Revised.

Strategic report

GROUP AT A GLANCE

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

TRAVEL

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

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

As at 31 August 2015, the business operated from 736 units (2014: 712 units) mainly in airports, railway stations, motorway service areas, hospitals and workplaces. 163 of these units (2014: 129 units) are outside the UK.

Travel delivered another strong profit[1] performance, up ten per cent year on year. We made good progress in Travel's growing international business, with 200 units now open or won.

HIGHLIGHTS

Sales	Profit[1]	Gross margin growth	Stores
£521m	£80m	50 bps	736
(2014: £477m)	(2014: £73m)	(2014: 100 bps)	(2014: 712)

[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 73.

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 2015, the business operated from 615 High Street stores (2014: 604 stores), located in almost all of the UK's most significant high streets.

High Street delivered a good profit[2] performance, up two per cent year on year.

HIGHLIGHTS

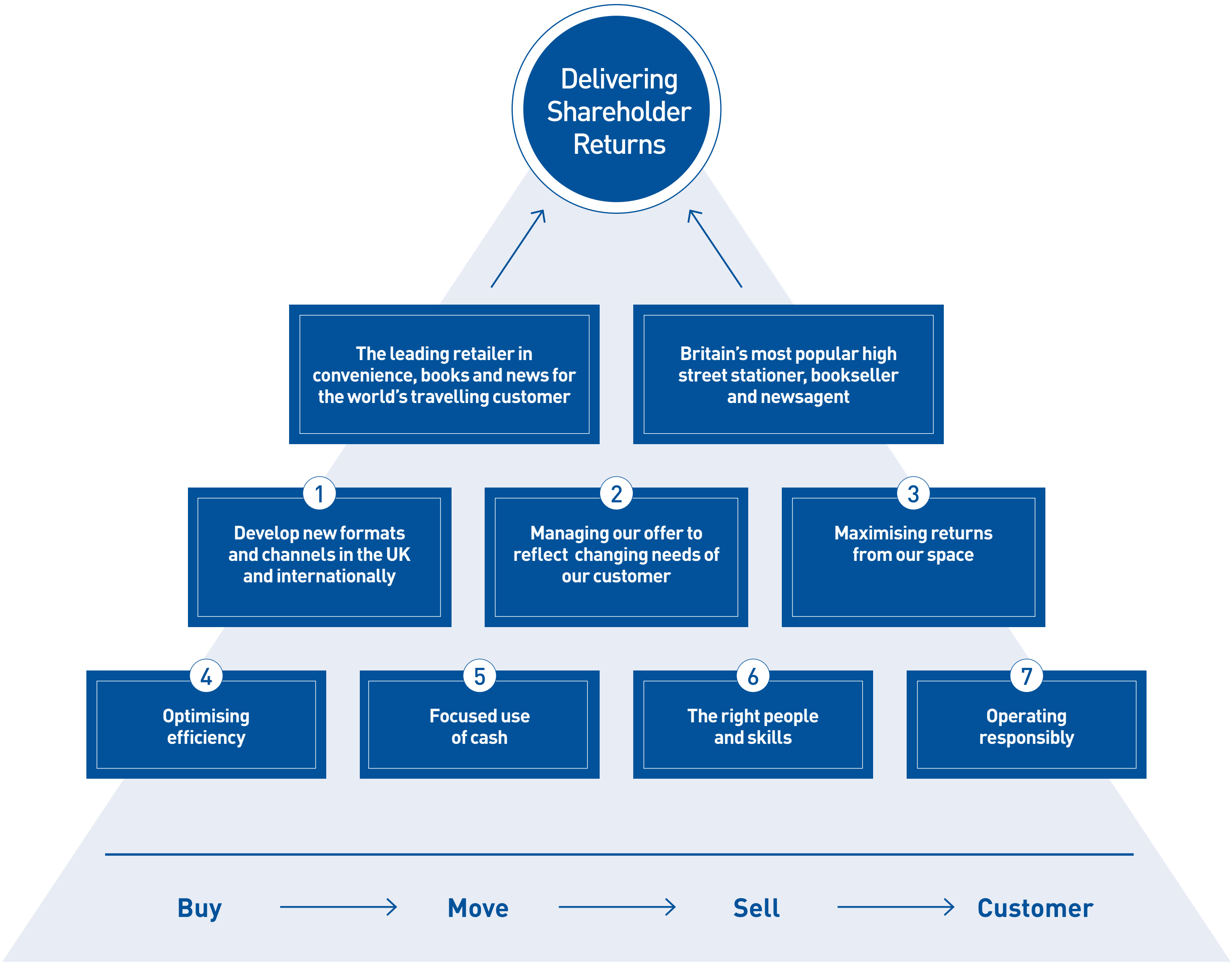
Sales	Profit[2]	Gross margin growth	Stores
£657m	£59m	140 bps	615
(2014: £684m)	(2014: £58m)	(2014: 190 bps)	(2014: 604)

[2] 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 73.

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

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, 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; 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 CUSTOMERS

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 manage the product ranges in each location; and
- using our own label and private labels, such as Gadgetshop, to develop product ranges appropriate for the travelling customer; and to wholesale to our international partners.

For High Street this means:

- continuing to manage the space in our stores to reflect the characteristics of each location. 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;
- developing other private labels such as Gadgetshop where we can benefit from lower costs; and
- providing additional services for our customers, for example, post offices.

3 MAXIMISING RETURNS FROM OUR SPACE

For Travel and High Street this means:

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

4 OPTIMISING EFFICIENCY

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

- identifying efficiencies 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 value accretive acquisitions; and
- returning surplus cash beyond that required to fund organic growth and minor acquisitions to shareholders through a progressive dividend policy and share buybacks.

6 THE RIGHT PEOPLE AND SKILLS

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

7 OPERATING RESPONSIBLY

For Travel and High Street this means acting responsibly to all our stakeholders including customers, suppliers, business partners, employees and the communities in which we operate. You can read more about our approach to corporate responsibility in the Other disclosures section of the Strategic report on pages 22 to 24.

REVIEW OF OPERATIONS

You can read more about our progress in all areas of the strategic priorities in the respective reviews of operations for Travel and High Street on pages 10 to 13. There are areas of risk and uncertainty associated with our strategy which you can read about in the Principal risks and uncertainties section on pages 20 and 21.

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 2015, the Travel business operated from 736 units in airports, railway stations, motorway service areas, hospitals and workplaces, including 163 units in international locations. Of the 736 units, 213 are operated under franchise agreements (including 87 outside of the UK). At 31 August 2015, Travel operated from a total of 0.58m square feet of selling space (2014: 0.55m square feet), with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 573 UK Travel units, 144 are in airports, 121 in railway stations, 127 in motorway service areas (most of which are franchise units), 128 in hospitals and 53 in other locations such as bus stations and workplaces. Travel now operates from 163 international units in Australia, South-East Asia, the Middle East, India and Europe, and a small number of kiosks in China and India.

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

Travel is impacted by macroeconomic trends 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 615 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 2015, High Street operated from a total of 2.89m square feet of selling space (2014: 2.94m 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.

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

Chairman: **Henry Staunton**

THE DISTINCT STRATEGIES FOR EACH OF OUR BUSINESSES CONTINUE TO DELIVER SHAREHOLDER VALUE.

I am very pleased to report another year of good performance. The distinct strategies for each of our businesses continue to deliver shareholder value. Throughout the year we have continued to grow the UK Travel business and further develop our successful international channel, while actively managing space across the High Street business to optimise our core categories.

We have seen an improved sales performance across both Travel and High Street, particularly in the second half of the year, driven by our key initiatives and growth in passenger numbers in Travel. Headline Group profit before tax[1] increased by 8 per cent to £123m.

The Group remains highly cash generative delivering a free cash flow of £109m.

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 26 to 56.

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 continue to build strong links with schools in the local communities in which we operate. This year, as part of the WHSmith Trust Schools Giveaway, we have helped hundreds of schools around the UK to improve their libraries. Many of the school children have written reviews of their favourite books which have made some wonderful displays in our stores. I am also pleased to report on a new partnership this year with Marie Curie as part of a new initiative, the Big Readcycle, where we encouraged customers to donate a book they have read and enjoyed, helping to raise valuable funds for the charity. A more detailed explanation of our approach to CR can be found on pages 22 to 24.

PEOPLE

My sincere thanks extend to our 14,000 employees across the Group. These results would not be possible without the ongoing commitment and hard work of all our employees across our stores, distribution centres and head offices.

OUTLOOK

While we have seen signs of improvement in the wider economy in the year, we continue to manage both businesses tightly. Looking to the year ahead, we will aim to continue to deliver on the distinct strategies for each business in order to maximise the contribution from both and best deliver value for shareholders.

Henry Staunton
Chairman

15 October 2015

[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 63.

Strategic report

CHIEF EXECUTIVE'S REVIEW

Group Chief Executive: Stephen Clarke

BOTH OUR BUSINESSES HAVE DELIVERED GOOD PERFORMANCES OVER THE YEAR.

Both our businesses have delivered good performances over the year. Travel continues to perform well with strong sales across all channels in the UK, reflecting our ongoing investment and growth in passenger numbers. Internationally, we have made good progress in growing our sales and profit. In High Street, we continue to manage the business tightly and our profit focused strategy continues to deliver sustainable growth.

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

GROUP SUMMARY

Group profit from trading operations[1] increased by six per cent on the prior year to £139m and the Group generated Headline Group profit before tax[2] of £123m (2014: £114m), an increase of eight per cent on the prior year. Group profit before tax was £121m (2014: £112m), an increase of eight per cent.

Total Group sales were up one per cent at £1,178m (2014: £1,161m) with like-for-like[3] sales flat. Travel sales were up nine per cent on 2014 at £521m and up four per cent on a like-for-like basis. High Street sales were down four per cent at £657m and down three per cent on a like-for-like basis.

Travel delivered a strong performance across all channels, with trading profit[1] increasing by 10 per cent to £80m, which includes £5m (2014: £3m) from our growing international channel. We continue to invest in the business and we opened 18 new units in the UK during the year, taking us to a total of 573 units in the UK. We won a further 30 units in our international channel in the year, making a total of 200 units won, of which 163 are open.

High Street again delivered a good performance with trading profit[1] up two per cent to £59m and further good cash generation. We saw a strong gross margin performance and costs were tightly controlled with cost savings of £11m delivered in the year, in line with plan. An additional £10m of cost savings have been identified making a total target of £20m over the next three years, of which £11m are planned for 2015/16.

Headline earnings per share[4] increased by 12 per cent to 87.3p (2014: 77.7p). 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 18 per cent to 17 per cent.

[1] Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Notes to the accounts Note 2, Segmental analysis of results on page 73.

[2] 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 63.

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

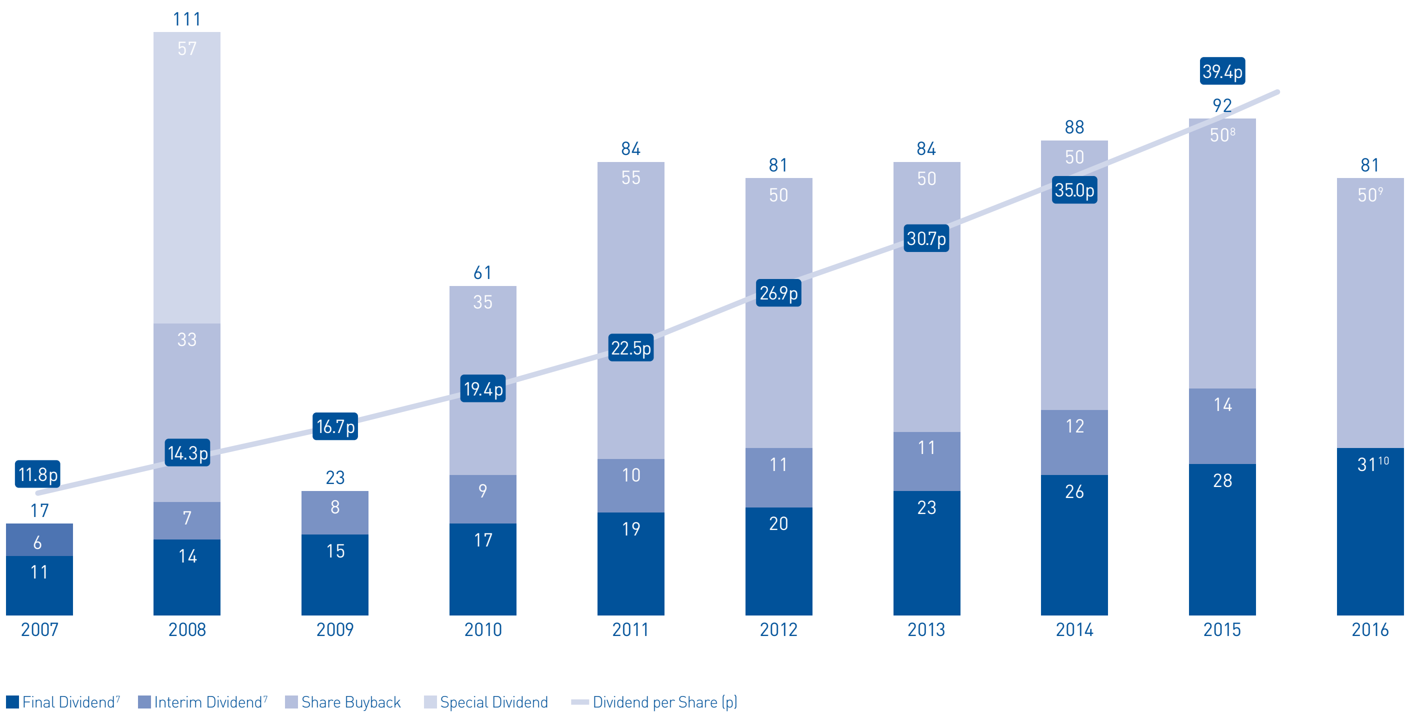
[4] Diluted.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £15m at 31 August 2015 (2014: £22m), with a Group free cash flow[5] of £109m (2014: £98m). We completed the £50m return of cash to shareholders announced in October 2014 on 25 September 2015, and during the year paid dividends totalling £42m. On 15 October 2015 we have announced a further return of cash to shareholders of up to £50m through a rolling on-market share buyback programme.

The Board has proposed a final dividend of 27.3p per share, a 13 per cent increase on last year, giving a total ordinary dividend per share of 39.4p, a 13 per cent increase on the prior year. The proposed increase in final dividend reflects the Board's confidence in the future prospects of the Group, the strong cash generative nature of the business, and our progressive dividend policy. The annual dividend has increased every year since demerger from 11.8p in 2007 to 39.4p for 2015.

Both Travel and High Street are cash generative and we utilise our cash effectively: investing in the business and new opportunities (capital expenditure in the year was £39m), and making appropriate acquisitions whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced on 15 October 2015 and the proposed final dividend, we will have returned £722m[6] of cash to shareholders and reduced our issued share capital by 37 per cent since our 2007 financial year.

RETURN OF CASH TO SHAREHOLDERS (£m)



[5] 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 66 and Notes to the accounts Note 22, Net cash inflow from operating activities on page 88.

[6] Includes buyback announced on 15 October 2015 and proposed final dividend for year ended 31 August 2015.

[7] Cash dividend paid.

[8] Buyback announced on 16 October 2014.

[9] Buyback announced on 15 October 2015.

[10] Proposed final dividend for year ended 31 August 2015.

Strategic report

REVIEW OF OPERATIONS: TRAVEL

PERFORMANCE

Sales		Profit[1]
£521m		£80m
2014: £477m		2014: £73m
Total sales	Like-for-like sales	+10%
+9%	+4%	

PERFORMANCE REVIEW 2014/15

Travel delivered another strong performance during the year with good cash generation. Travel's trading profit[1] increased by ten per cent to £80m (2014: £73m). Total revenue in Travel was up nine per cent with like-for-like sales up four per cent.

We saw a good sales performance across all our channels driven by investment in our growth initiatives and improved passenger numbers. In air, total sales were up seven per cent with like-for-like sales up six per cent; in rail, total sales were up three per cent with like-for-like sales also up three per cent; and in hospitals, total sales were up 19 per cent with like-for-like sales up six per cent. Total sales in hospitals were supported by the opening of nine new stores, including four M&S Simply Food stores. The growth in like-for-like sales in hospitals reflects our active space management and the introduction of new ranges. Gross margin increased by 50 bps during the year, driven by active category mix management. We see further opportunities for growth in our UK and international channels through opening new space, growing passenger numbers and our key growth initiatives.

WE SEE FURTHER OPPORTUNITIES FOR GROWTH IN OUR UK AND INTERNATIONAL CHANNELS THROUGH OPENING NEW SPACE, GROWING PASSENGER NUMBERS AND OUR KEY GROWTH INITIATIVES.

[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 73.

Space in Travel is expensive and complex to manage. It varies substantially by channel, location and within location. Active space management and investment in our stores enables us to evolve the offer in each channel to best meet the changing needs of our customers and landlords. We have a very good understanding of the space and category elasticities for every metre of display space in every store and how they are changing over time. This active space management enables us to improve our customer offer by tailoring our ranges in each specific location.

During the year we made further investments in our Travel stores, including store design; extending opening hours; improving layouts and introducing clearer product zoning, particularly in our larger air, rail and hospital stores. In air, for example, we have made improvements to 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 accessories. During the second half of the year, a number of these initiatives were rolled out to our smaller stores. In addition, we have focused on staff training and customer service in all our stores. These improvements meant we were well positioned for peak summer trading and helped drive the strong sales performance over the summer months.

A key initiative across all our channels is our 'Food to Go' range which has been extended to include additional healthy eating options and has been very popular with customers. We have seen a high penetration of the 'meal deal' promotion. During the second half we also extended our digital and headphone ranges into a number of rail stores.

WE CONTINUE TO IDENTIFY OPPORTUNITIES TO OPEN NEW SPACE IN TRAVEL.

We continue to identify opportunities to open new space in Travel. In the year, we opened 18 new units in the UK including two in air, seven in rail and nine in hospitals. In hospitals, we offer our operating expertise to partners and now operate 10 M&S Simply Food stores. Looking forward, we anticipate opening around 20 stores each year over the following three years, of which around 10 each year will be in hospitals.

Our international business is still relatively small but is profitable and growing rapidly. Total sales for the year were £57m, up 33 per cent versus the previous year and up four per cent on a like-for-like basis. Profit for the year was £5m, an increase of £2m on the previous year.

We have built a successful Travel business in the UK based on the different operating models in each channel, our active space management and our focus on providing a compelling offer to customers and landlords. We have been successful in exporting this overseas where the WHSmith brand has been well received and we have consistently demonstrated we can deliver improved performance and add value. Where we have replaced existing operators our sales per passenger have outperformed the previous incumbents by up to 25 per cent. For example, in Sydney International Airport, we saw an immediate increase in sales per passenger versus the previous operator of approximately 10 per cent following the rebrand and reconfiguration to WHSmith.

WHERE WE HAVE REPLACED EXISTING OPERATORS OUR SALES PER PASSENGER HAVE OUTPERFORMED THE PREVIOUS INCUMBENTS BY UP TO 25 PER CENT.

During the year we won 30 new units, including units at Sydney International Airport, Brisbane Airport and a number of franchise stores in the Middle East. In addition, we made a small acquisition in Australia of a news, books and convenience retailer, *Supanews*, whose main asset is a large store at Brisbane railway station. In total, excluding the Australian franchisees, we have 163 stores open across four channels: air, rail, hospitals and malls, of which 39 per cent are directly run, 53 per cent franchised and the remainder joint venture.

We are now present in 20 countries and 28 airports outside of the UK. However, our share of the news, books and convenience travel market is still very small. We continue to see opportunities to grow using our three operating models of directly-run, joint venture and franchise.

As at 31 August 2015, the Travel business operated from 736 units (2014: 712 units), including motorway service area franchise units. 28 UK units were closed in the year, primarily due to landlord redevelopment and we renewed 21 contracts and completed 25 refits during the year.

Strategic report

REVIEW OF OPERATIONS: HIGH STREET

1

PERFORMANCE

Sales		**Profit**[2]
£657m		£59m
2014: £684m		2014: £58m
Total sales	Like-for-like sales	**+2%**
(4)%	**(3)%**	

PERFORMANCE REVIEW 2014/15

High Street delivered a good performance with an increase in trading profit[2] to £59m (2014: £58m), up two per cent on the prior year. Our strategy of actively managing our space to optimise our core categories, gross margin growth and tight cost control continues to deliver sustainable profit growth and good cash generation.

High Street sales were down four per cent in total and down three per cent on a like-for-like basis, reflecting our profit focused strategy, the evolving nature of some of our markets and better publishing in the year. Gross margin improved by around 140 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.

> **OPTIMAL USE OF SPACE IS A FUNDAMENTAL PART OF THE STRATEGY FOR HIGH STREET.**

Optimal use of space is a fundamental part of the strategy for High Street. We consider space as a strategic asset and we work our space to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we work our space to maximise the return on every metre of display space in every store through improving margins, reducing costs and driving third party concession income opportunities.

During the year, space changes have included extending our Stationery category, by giving more and better located space in our larger stores to new Stationery ranges and installing a further five Post Offices (giving us a total of 108 Post Offices in our stores). Going forward, we will continue to manage space in this way.

We saw a good performance in Stationery in the year. Strong promotional offers; 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 Stationery has continued to benefit from additional space with range development in key areas such as pens and fashion stationery. As a result of our new ranges, we saw a strong performance over the key 'back to school' period. Our new 'Brights' initiative, which brings together new product in new fixturing at the front of store has been very popular with our customers and has now been rolled out to 75 of our largest 100 High Street stores.

[1] Schools literacy project with National Literary Trust. With thanks to British Land and the National Literacy Trust.

[2] 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 73.

In Books, the market continues to evolve with the quality of publishing still the biggest driver of market performance. Kids book sales remain the most resilient category and our space allocation reflects market dynamics. Fiction has benefitted from better publishing versus last year, with strong titles such as EL James' *'Grey'* and Harper Lee's *'Go Set a Watchman'*. 'Colour therapy' (colouring for adults) has driven our Non-Fiction performance, particularly in the second half, with illustrators such as Millie Marotta and Johanna Basford performing well. Like-for-like sales in physical books were down two per cent for the year with the second half flat to last year. Our approach in Books is to 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. During the year we renewed our contract for the Richard and Judy Book Club, the UK's biggest Book Club.

In eBooks, market growth of eBook content has slowed as eBook consumption continues to migrate to apps on tablets rather than dedicated eReading devices. The latest data in both the US and UK suggests eBook share of the total book market is static or declining a little. Whilst there is no official data, UK publisher estimates suggest the eBook market share of the total book market is around 15 per cent.

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 bookazine category which helps improve our margins and our range now includes over 400 titles, including a number of very successful 'colour therapy' titles.

Cost savings remain a core part of our strategy and we continue to focus on all areas of cost in the business. We have made good progress again this year, delivering cost savings of £11m. These came from right across the business, including rent savings at lease renewal, the store operating model, renegotiated marketing contracts and productivity improvements in our distribution centres. We have identified an additional £10m of new cost savings, taking the target to £20m over the next three years. Of these, £11m are planned for 2015/16.

WE HAVE IDENTIFIED AN ADDITIONAL £10M OF NEW COST SAVINGS, TAKING THE TARGET TO £20M OVER THE NEXT THREE YEARS.

WE HAVE MADE FURTHER PROGRESS WITH OUR FRANCHISE INITIATIVE UNDER THE BRAND WHSMITH LOCAL.

We have made further progress with our franchise initiative under the brand WHSmith LOCAL. We now have a total of 40 stores converted to WHSmith LOCAL and a further 40 contracts signed. There are a large number of small independent newsagents and, whilst the signing up process is slow, we believe this initiative has long-term potential to grow further.

Our online personalised greetings card and gifting website, funkypigeon.com, continued its good performance, particularly over the key events in the year. As a consequence, we saw good profit growth versus last year. We continue to invest in the customer experience and apps and saw increased levels of traffic from mobile devices. Looking forward we continue to see investment opportunities in the website, apps, marketing and customer offer to grow this business further. During the year we launched funkyparty.com, a new website with over 20,000 products ranging from themed tableware, balloons and decorations to fancy dress and accessories. This is the first extension of the funkypigeon.com brand.

We opened 20 *Cardmarket* stores in the first quarter of the financial year. Sales are still building and performance continues to vary by store. We plan to open an additional 10 trial stores before Christmas 2015 to test the concept further and we aim to make a decision on whether there is rollout potential by spring 2016.

The High Street business now operates from 615 stores[3], which occupy 2.89m square feet (2014: 2.94m square feet). Ten stores were closed in the year.

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

Strategic report

FINANCIAL REVIEW

GROUP SALES

Total Group sales were up one per cent at £1,178m and flat on a like-for-like basis. In the first half like-for-like sales were down two per cent and in the second half like-for-like sales were up one per cent reflecting an improved performance in both businesses: Travel second half like-for-like sales were up five per cent and High Street second half like-for-like sales were down three per cent.

Like-for-like sales	H1 %	H2 %	Year to August 2015 %
Travel	3	5	4
High Street	(4)	(3)	(3)
Group	(2)	1	–

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

Category like-for-like sales	H1 %	H2 %	Year to August 2015 %
Stationery	1	3	2
Books (excluding eReaders)	(4)	–	(2)
News and Impulse	–	1	–
Group	(2)	1	–

GROUP PROFIT

The Group generated Headline Group profit before tax[1] of £123m (2014: £114m), an increase of eight per cent on the prior year. Profit from trading operations[2] increased to £139m, up six per cent on the prior year.

	2015 £m	2014 £m	Growth %
Travel trading profit[2]	**80**	73	10
High Street trading profit[2]	**59**	58	2
Group profit from trading operations[2]	**139**	131	6
Unallocated central costs	**(15)**	(15)	
Group operating profit[3]	**124**	116	7
Net finance cost[4]	**(1)**	(2)	
Headline Group profit before taxation	**123**	114	8
IAS19 (R) pension interest charge	**(2)**	(3)	
Pension past service credit	**–**	1	
Profit before taxation	**121**	112	8

[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 63.

[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 73.

[3] Excludes £1m pension past service credit in 2014.

[4] Excluding pension interest charge, £2m (2014: £3m).

[5] Diluted.

TAXATION

The effective tax rate was 17 per cent (2014: 18 per cent), 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 also be around 17 per cent. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

In the year ended 31 August 2015, WHSmith contributed £239m 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	83
Taxes collected	156
Total tax contribution	**239**

EARNINGS PER SHARE

Diluted earnings per share was 85.6p (2014: 76.0p), an increase of 13 per cent. Headline earnings per share[5] increased by 12 per cent to 87.3p (2014: 77.7p). This reflects 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 18 per cent to 17 per cent.

DIVIDENDS

The Board has proposed a final dividend of 27.3p per ordinary share, an increase of 13 per cent on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on the 15 October 2015, 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 4 February 2016 to shareholders registered at the close of business on 15 January 2016. The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

THE BOARD HAS PROPOSED A FINAL DIVIDEND OF 27.3p PER ORDINARY SHARE, AN INCREASE OF 13 PER CENT ON THE PRIOR YEAR.

BALANCE SHEET AND CASH FLOW

As at 31 August 2015, the Group had net assets of £147m (2014: £101m). The increase in net assets reflects the cash generation of the business, capital spend, return of cash to shareholders with the biggest impact being the reduction in the pension liability to £6m (2014: £55m) and deferred tax asset to £1m (2014: £10m) following the actuarial revaluation of the main defined benefit pension scheme. Following the actuarial revaluation we have agreed a revised schedule of contributions with the Trustees (see Note 4 and section on Pensions on page 16).

CASH FLOW

The Group generated £109m (2014: £98m) 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.

THE CASH GENERATIVE NATURE OF THE TRAVEL AND HIGH STREET BUSINESSES IS ONE OF THE STRENGTHS OF THE GROUP.

	2015 £m	2014 £m
Group operating profit[1]	**124**	116
Depreciation, amortisation and amounts written off fixed assets	**38**	36
Working capital	**6**	2
Employers' payroll tax on exercised share awards	**(1)**	(5)
Capital expenditure	**(39)**	(32)
Tax paid	**(23)**	(21)
Net interest paid	**(1)**	(1)
Net provisions	**(1)**	(2)
Other items	**6**	5
Free cash flow	**109**	98

[1] Headline, 2014 excludes £1m pension service credit.

Cash inflows from working capital were £6m which reflects some timing and also our ongoing focus on working capital management. Payments relating to employers' payroll tax were £1m compared to £5m in 2014 when the 2010 MIP and LTIP awards were exercised. Capital expenditure was £39m in the year and is analysed in the following table. This was £7m higher than the prior year and includes higher investment in both Travel and High Street. We expect capex spend to be around £38m in the current year reflecting additional new stores and further investment in the store operating model. Net corporation tax paid was £23m, compared to £21m last year, following the increase in Group profit.

Analysis of capex:

	2015 £m	2014 £m
New stores and store development	**12**	11
Refurbished stores	**13**	12
Systems	**12**	7
Other	**2**	2
Total capital expenditure	**39**	32

The movement in net funds is as follows:

	2015 £m	2014 £m
Opening net funds	**22**	31
Free cash flow	**109**	98
Equity dividends paid[2]	**(42)**	(38)
Pension deficit funding	**(4)**	(14)
Net purchase of own shares for employee share schemes	**(4)**	(10)
Purchase of own shares for cancellation	**(54)**	(41)
Acquisitions	**(3)**	(3)
Proceeds from the sale and leaseback of equipment	**3**	–
Other	**(2)**	(1)
Closing net funds before finance leases	**25**	22
Net movement on finance leases	**(10)**	–
Closing net funds	**15**	22

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

In addition to the £109m of free cash flow generated in the year, the Group has seen a net cash outflow of £52m in relation to non-trading operations. This includes £42m of dividend payments, £4m pension funding and net ESOP trust purchases of £4m. We also spent £3m in the first half on the acquisition of *Supanews* in Australia.

As at 31 August 2015 net funds were £15m. In total for the year we returned £54m to shareholders via an on-market share buyback of which £45m related to the up to £50m buyback announced on 14 October 2014. This buyback was completed on 25 September 2015. A further buyback of up to £50m was announced on 15 October 2015.

A FURTHER BUYBACK OF UP TO £50M WAS ANNOUNCED ON 15 OCTOBER 2015.

Strategic report

FINANCIAL REVIEW CONTINUED

RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE for the Group after capitalising operating leases has increased to 24 per cent (2014: 23 per cent) with Travel at 30 per cent (2014: 28 per cent) and High Street at 21 per cent (2014: 19 per cent).

	Operating capital employed £m[1]	ROCE %[2]	ROCE with operating leases capitalised %[3]
Travel	72	111%	30%
High Street	106	56%	21%
Retail	**178**	**78%**	**25%**
Unallocated central liabilities	(41)	–	–
Operating assets employed	**137**	**91%**	**24%**

For the prior year, comparable ROCE was 94 per cent (Travel 106 per cent and High Street 54 per cent).

PENSIONS

On 15 October 2014, the Group agreed a revised deficit funding schedule for the main defined benefit pension scheme, the WHSmith Trust, based on an actuarial revaluation at 31 March 2014. At that date, the Group had an actuarial deficit of £24m compared to £75m as at 31 March 2012. A new schedule of contributions was agreed with the Trustees from October 2014 of around £3m per annum for nine years. The Group has agreed to pay pension investment management fees directly. From 1 September 2015, the annual payment to the Trustees will be approximately £1m and approximately £3m in total in relation to the scheme.

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

As at 31 August 2015, the Group has an IFRIC 14 minimum funding requirement of £5m (2014: £55m) and an associated deferred tax asset of £1m (2014: £10m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2015, the scheme had an IAS 19(R) surplus of £214m (2014: surplus of £155m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19(R).

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

The IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2014: £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 £167m (2014: £165m) (net of £2m of external rent receivable (2014: £2m). The total future rental commitment at the balance sheet date amounted to £856m (2014: £881m) with the leases having an average life of five years.

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

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

[3] 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.

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 £4m (2014: £7m).

NATIONAL LIVING WAGE

In July, the Government announced the introduction of the national living wage from April 2016. We anticipate the impact of it in the 2015/16 financial year to be slightly over £1m for the Group, with around two thirds of the cost impacting the High Street business. While identifying the impact is complex, we have calculated that without any actions to offset the impact, the additional annual cost across the Group would be around £2m/£3m, or around 0.5 per cent of the Group's total cost base each year. As with all inflationary pressures, we will look to offset these increases through our existing pipeline of initiatives as well as identifying further opportunities for improved productivity and efficiency.

WE WILL CONTINUE TO DRIVE BOTH BUSINESSES, WITH THEIR DISTINCT STRATEGIES TO MAXIMISE THEIR CONTRIBUTIONS TO DELIVERING VALUE FOR SHAREHOLDERS.

THE DISTINCT STRATEGIES FOR EACH OF OUR BUSINESSES CONTINUE TO DELIVER A GOOD PERFORMANCE.

OUTLOOK

The distinct strategies for each of our businesses continue to deliver a good performance. We are now seeing some good like-for-like sales growth in Travel and there are further opportunities to drive this business forward as a result of our continued investment and growth in passenger numbers. In addition, our international channel is making good progress in growing sales and profit. In our High Street business, our strategy continues to deliver sustainable growth. Our cost and margin initiatives are on track; funkypigeon.com is profitable and growing; and the prospects for WHSmith LOCAL look encouraging. We will therefore continue to drive both businesses, with their distinct strategies to maximise their contributions to delivering value for shareholders.

Stephen Clarke
Group Chief Executive

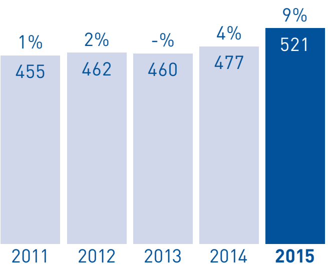
15 October 2015

Strategic report

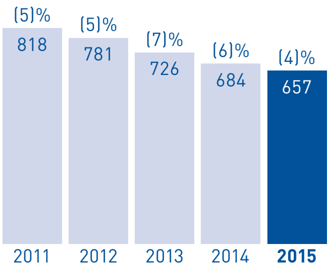
KEY PERFORMANCE INDICATORS

REVENUE[1] (£m)

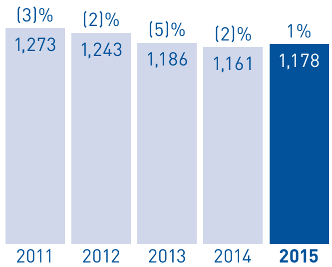
Travel



High Street



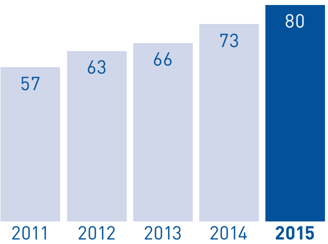
Group



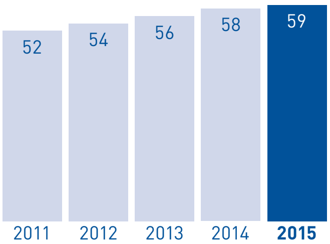
[1] Income receivable for goods and services, commission and fee income, and concession and franchise income.

TRADING PROFIT (£m)

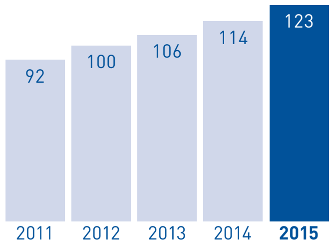
Travel[2]



High Street[2]



Group Headline Profit[3]

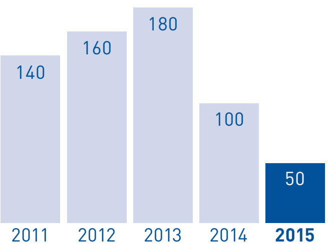


[2] High Street and Travel trading profit is stated after directly attributable share-based payment and pension service charges, and before central costs, interest and taxation.

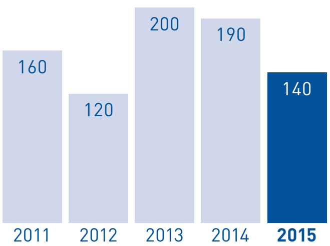
[3] Group Headline profit is Group profit before tax excluding the non-cash income statement charge for pensions and other non-underlying operating items. See Group income statement on page 63.

GROSS MARGIN MOVEMENT (BASIS POINTS)

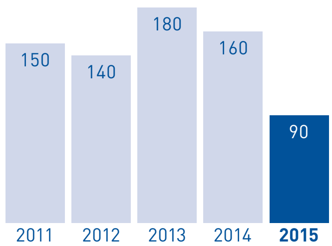
Travel



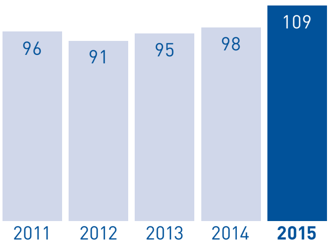
High Street



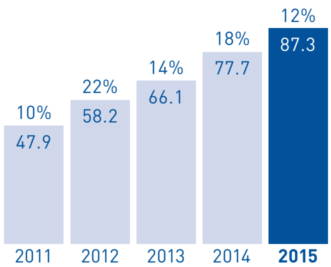
Group



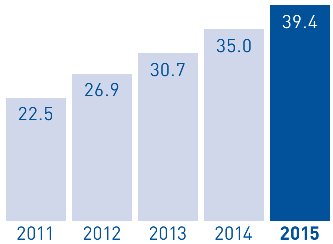
FREE CASH FLOW[4] (£m)



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 63.

[6] Dividend per share is the total ordinary dividend attributable to the relevant year. For 2015, this includes the proposed final dividend of 27.3p.

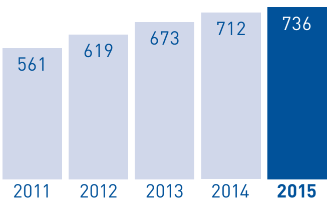
RETAIL SELLING SPACE[7] AND NUMBER OF STORES (sq ft '000s)

Travel

Retail selling space

481	510	522	554	579

Number of stores

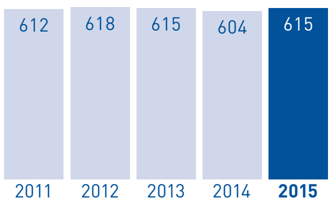


High Street

Retail selling space

3,087	3,045	3,000	2,940	2,892

Number of stores



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

Performance indicators relating to operating responsibly can be found in the Corporate responsibility and environment section of the Strategic report set out on pages 22 to 24 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 further review this year, we have introduced cyber risk and data security as an additional identified principal risk and uncertainty to the business.

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 countries.
Brand and reputation	
The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business thereby adversely effecting revenues. Such risks would include, for example, product and service quality, food hygiene, health and safety procedures, environmental or ethical failure, and non-compliance with legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all of our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. Our corporate responsibility programme monitors our performance in respect of our key themes of Marketplace, Workplace, Environment and impact on the Community.
Key suppliers and supply chain management	
The Group has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade.	The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. All suppliers have to comply with the conditions laid out in our Supplier Code of Conduct which covers areas such as production methods, employee working conditions and quality control. The Group has contractual and other arrangements with numerous third parties in support of its business activities. None of these arrangements alone are individually considered to be essential to the business of the Group.
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 23 on page 88 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.
Cyber risk and data security	
The Group is subject to the risk of systems breach or data loss from various sources including external hackers or the infiltration of computer viruses. In the event of the theft or loss of Company or customer data or potential damage to any systems from viruses or other malware, this could result in reputational damage to the business that could negatively impact our sales.	The Group employs a framework of IT controls to protect against unauthorised access to our systems and data that are monitored by the Cyber Risk Steering Committee. These controls include the maintenance of firewalls and intruder detection, encryption of data, and regular penetration testing conducted by our appointed external Quality Assurance provider. As part of this risk monitoring framework we have a Steering Group that oversees our programme of compliance with the Payment Card Industry Data Security Standard.

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. Our CR programme is divided into four key areas: Marketplace, Environment, Workplace and Community.

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

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

CUSTOMER SERVICE STANDARDS REMAIN A KEY FOCUS FOR OUR BUSINESS.

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 8.3 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.

We want to ensure that the food range we offer has healthy choices for our customers. We have launched the 'Eat Better' range of salads and sandwiches and have reviewed our snacking ranges to introduce more low salt, low fat and low sugar options. The portion sizes within our confectionery range are also smaller year on year, and the proportion of sugary carbonated drinks in our drinks range has also been reduced. We are also working closely with our hospital landlords to develop product ranges which meet the NHS healthy eating guidelines.

ETHICAL TRADING AND HUMAN RIGHTS

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

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

WHSmith is a member of the Ethical Trading Initiative (ETI), an alliance of companies, trade unions and NGOs that promote respect for workers' rights around the world. During the year, we have worked closely with the ETI to agree our new strategic plan for ethical trade. This focuses on labour standards issues identified in our audits and where we know that improved performance will address a risk area for WHSmith and help the factory manage issues like quality, efficiency and worker retention. Objectives are focused on issues such as improving factory health and safety standards, improving worker representation, and providing confidential worker hotlines to help WHSmith and factory management to identify any worker concerns over labour standards.

We have systems in place to monitor and manage the risks around modern slavery within our supply chain and our workforce. We note the forthcoming Modern Slavery Act legislation and plan to report on our approach in more detail next year.

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. We operate a rigorous due diligence system and require that suppliers provide detailed documentary evidence of the forest sources for timber used in own-brand products. We have set Forest Stewardship Council (FSC)certification as a minimum standard for Far East imported timber which gives a high level of assurance that pulp is from low risk sources. In the year ahead, our focus will turn to engagement with UK suppliers to ensure that products are on papers from certified sustainable sources. As at 31 August 2015, 69 per cent of the own-brand stationery units sold were made from timber from certified or recycled sources. Our objective is that, by 2020, 95 per cent of own-brand stationery units sold will come from these sources.

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. The FSC-labelling process can be complex, but we have a good number of products in the pipeline and should see new FSC-marked products in-store prior to Christmas 2015, including fashion stationery, notebooks, and some boxed Christmas cards. We also measure the number of the books we sell which are FSC-marked. Overall, since 2010, WHSmith has sold over 56m 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

Good energy management is an established part of the business culture, especially amongst our store teams, and we are making good progress towards our 2020 target. We have cut CO_2e emissions per square foot from stores and distribution centres by 41 per cent, from our 2007 baseline. Over the last year, we have consolidated savings from our LED lighting replacement work and extended the project to fit LED lighting back of house, mainly in stockrooms and back offices. In addition, we have continued to install time clocks on chillers that turn off fridges containing non perishable products out of hours. Our energy consultants carry out a weekly review of exception reports to monitor and identify inefficient use of energy. Our focus is on making improvements in the 50 least efficient stores.

We continue to achieve efficiencies in our transport operations through better route planning and delivery frequency. Better-located delivery hubs have also helped us reduce unnecessary fuel consumption, as has our initiative to share vehicles with third parties in more remote areas. During the year, we have introduced a new transport management system which provides real-time data to monitor driver behaviour. All full-time drivers have been trained on defensive driving to reduce harsh braking and acceleration and reduce time spent with the engine idling. The new system has seen fuel consumption reduced by four per cent year on year. Overall, CO_2e emissions per pallet are down by seven per cent year on year.

Global greenhouse gas emissions data for period 1 September 2014 to 31 August 2015 in tonnes of CO_2e

	2014/2015	Percentage of carbon footprint	2013/2014
Scope 1 emissions			
Combustion of fuel for the transport of WHSmith products from distribution centre to store using vehicles owned by third parties. Also combustion of gas to heat and cool WHSmith stores, offices and distribution centres	**8,700**	22%	8,191
Scope 2 emissions			
Electricity purchased for WHSmith's own use (used to power, light and heat stores, offices or distribution centres)	**30,544**	76%	33,418
Scope 3 emissions			
WHSmith employee business travel (by air, rail and owned and non-owned motor vehicles)	**882**	2%	1,028
Total	**40,126**	100%	42,637
Intensity measurement			
Total emissions (Scopes 1,2 and 3) reported above normalised per 1,000 square feet	**9.16**		9.71

Scope and methodology

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

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

Strategic report

OTHER DISCLOSURES CONTINUED

Waste management

Waste created by inefficient use of resources and rising landfill tax represents a significant cost to the business. In High Street, we recycle around 93 per cent of our waste using our dry mix recycling system which can accept most forms of waste, including plastics and metals. As we expand our food offer in Travel, we are working closely with our suppliers to minimise waste through improved forecasting and markdown policies. Unsold chilled food is then returned to the supplier for anaerobic digestion.

With the introduction of the English single use plastic bag levy in October, compulsory charges are now in place for single use bags across the UK. We have seen customer usage of single use bags down 30 per cent in Wales and 60 per cent in Scotland and we would expect a similar drop in England. We will divide the proceeds of the charges between a number of charitable causes. High Street will continue to support the Woodland Trust as we have done for many years, working towards our target to fund the planting of 250,000 trees in the decade to 2020. Our Travel business has chosen to support Shelter, a charity with strong links to Travel's rail locations. In addition we are establishing a fund for community grants which will be open to members of the public who are looking for funding for a charity or school in their local community.

HEALTH AND SAFETY

We are committed to maintaining high standards of health and safety. The management team, supported by professional safety advisers, monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a Health and Safety Committee that comprises 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 £1,161,504 into local communities (2014: £1,006,569). Included in this figure are cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report, available at www.whsmithplc.co.uk/cr.

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

“OUR STORE TEAMS ARE ACTIVE MEMBERS IN THEIR COMMUNITIES, WITH MANY STORE MANAGERS AND STAFF GIVING THEIR TIME TO SUPPORT LOCAL COUNCILS, TOWN CENTRE MANAGEMENT AND HIGH STREET SECURITY GROUPS TO PROMOTE A POSITIVE BUSINESS ENVIRONMENT ON THEIR HIGH STREETS.

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. We support Business in the Community's High Street Champions programme, which has identified 25 towns where high street regeneration is most needed. Each year, the WHSmith Community Awards celebrate those store teams which have built strong relationships in the communities they operate in.

Promoting literacy and a love of reading is a natural fit for WHSmith's business and also helping to tackle a key social issue. We are two years into a three-year literacy project with the National Literacy Trust which aims to use peer learning to change the literacy culture in 25 schools in deprived areas. To date, 5,000 children have taken part, earning badges and certificates as 'peer reading champions'. The schools also partner with their local WHSmith store which hosts class visits and displays the childrens' book reviews. We have been delighted to see the project already having a measurable impact on children's attitudes to reading, with 73 per cent of all participating children reading more frequently as a result of the peer reading scheme, and 91 per cent of teachers having observed better overall reading attainment against expected reading levels.

Our Schools Giveaway is another initiative which supports local schools by helping them build their library resources. Over 160 High Street stores took part in the Giveaway this year with each store receiving WHSmith vouchers to donate to one or more local schools. This year, the schoolchildren were also invited to write book reviews for display in store. The children were excited to see their work on display, and the reviews also provided a great focal point in store for other customers.

Charity Christmas cards continue to be popular with our customers as well as raising valuable funds for our charity partners. This year we expanded our range, increasing the charity donations by 54 per cent year on year. We also encourage charity fundraising by staff and customers. This year, we launched a new fundraising initiative supporting Marie Curie called the 'Big Readcycle', which saw over 30,000 pre-loved books donated to the charity. A copy of our Community Engagement Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

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. We were delighted to be ranked second in the Glassdoor 2015 Top 10 UK Friendliest Workplaces survey, based on reviews by UK employees. 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 helps 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 890 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, during the year, we have focused on understanding the challenges faced by women within our business and how WHSmith can better support them in their careers. We have also held employee focus groups to look at ways to further develop our policies around flexible working.

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

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

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

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

Senior Management team[1]	
Women	3 (19%)
Men	13 (81%)

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

Management team[2]	
Women	331 (41%)
Men	472 (59%)

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

Employee mix across the Group	
Women	8,521 (64%)
Men	4,749 (36%)

The Strategic report on pages 1 to 25 of the Annual report has been approved and signed on behalf of the Board.

Stephen Clarke
Group Chief Executive

15 October 2015

Corporate governance

CORPORATE GOVERNANCE REPORT

INTRODUCTION FROM THE CHAIRMAN

Chairman: Henry Staunton

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 35 to 52 and in the Directors' report on pages 53 to 55.

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 34. 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 34 served throughout the period. The Chairman was appointed as the Chairman of Phoenix Group Holdings on 1 September 2015. In advance of this, the Board reviewed the Chairman's existing commitments and the time commitment required for the new role, and had no objection to the Chairman taking up the appointment.

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

The Board met nine times during the year. It is expected that all directors attend Board meetings, Committee meetings and the Annual General Meeting ('AGM') unless they are prevented from doing so by prior commitments. The minimum time commitment expected from the non-executive directors is one day per month attendance at meetings, together with attendance at the AGM, Board away days and site visits, plus adequate preparation time. Where directors are unable to attend meetings, they receive the papers for that meeting giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting the Chairman briefs any director not present on the discussions and any decisions taken at the meeting. The following table shows the number of Board meetings held during the year ended 31 August 2015 and the attendance record of individual directors.

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

The Board has met twice since 31 August 2015 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 20 and 21. 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 28 to 31.

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 2015. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The scope of the evaluation was broad and included Board effectiveness, Board structure and diversity, decision-making processes, corporate strategy and business model, risk, succession planning, investor relations and Board Committees.

The findings were presented to the Board in October 2015. 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 2016 and which includes continuing to build relationships between members of the Board and senior management, to further improve the quality of papers submitted to the Board to ensure the papers provide high quality data in a timely and concise manner 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 Chief Financial Officer and Chief Operating Officer ('CFO/COO') and other senior executives. The Chairman reviews the performance of the Group Chief Executive.

The Chairman also undertook a rigorous review with each of the non-executive directors to assess their effectiveness and commitment to the role. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to maintain the best possible team. The Board is satisfied that each of the non-executive directors 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 27 January 2016. Biographies of all the directors are set out on page 34 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. It is proposed to adopt new Articles of Association at the AGM to be held on 27 January 2016. Details of the proposed amendments can be found in the Notice of Annual General Meeting which accompanies this report.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share awards, are contained in the Remuneration report on pages 35 to 52.

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

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 28 to 31, of the Nominations Committee on page 32 and of the Remuneration Committee on pages 35 to 52. 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.

Corporate governance

CORPORATE GOVERNANCE REPORT CONTINUED

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 2015. 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. On 1 October 2014, changes were made to the Code in relation to the identification and management of principal risks of the Company, within an agreed risk appetite, and provision of a longer term viability statement of the Company. These changes to the Code are applicable to the financial year ending 31 August 2016 and the Committee is now applying those changes as required by the Code and will provide the necessary disclosure in this report next year.

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 Group Chief Executive, the CFO/COO, the Director of Audit and Risk and representatives of the Group's senior management team and of the external Auditor attend meetings. The Committee has regular private meetings with the external and internal Auditors during the year.

The Committee met four times during the year. All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2015 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 2015 and all the Committee members attended the meeting.

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

- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security, tax and in respect of the Company's international businesses;
- monitoring the integrity of the Group's Financial Statements and Trading Statements;
- considering papers from management on the key financial reporting judgements, including the Company's approach to recognising supplier incomes;
- reviewing the Interim report and the Annual report and accounts including compliance with the Code and statutory reporting requirements and recommending those documents for Board approval;
- discussing the 2014 UK Corporate Governance Code and reporting requirements;
- considering the Company's principal risks and uncertainties and reviewing the mitigating actions that management has taken to ensure that these risks are appropriately monitored and controlled;
- monitoring the role and effectiveness of Internal Audit;
- receiving reports and presentations from the business risk committees;
- receiving and reviewing reports from the Internal Audit and Risk teams;
- holding private meetings with the external and internal Auditors;
- following the audit tender process carried out in 2014, overseeing the transition from Deloitte LLP ('Deloitte') to PricewaterhouseCoopers LLP ('PwC') as the Company's Auditors;
- agreeing the scope of PwC's annual audit plans, assessing the effectiveness of the external audit process and considering the accounting, financial control and audit issues reported by the Auditors that flowed from their work;

- reviewing Auditor independence and the policy on the engagement of PwC to supply non-audit services;
- agreeing the Audit fee;
- undertaking a performance review of Internal Audit and the Company's outgoing external Auditor, Deloitte; and
- considering the CSR report prepared by Corporate Citizenship.

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

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

Pensions

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

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, PwC, 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 a member of the Group Finance team to ensure consistency across the relevant sections;
- an internal verification process is undertaken to ensure factual accuracy;
- an independent review is undertaken by the Director of Audit and Risk to assess whether the Annual report and accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information and investor communications);
- comprehensive reviews of drafts of the Annual report and accounts are undertaken by the executive directors and other senior management;
- an advanced draft is reviewed by the Board and the Company's Legal Director and, in relation to certain sections, by external legal advisers; and
- the final draft of the Annual report and accounts was reviewed by the Audit Committee prior to consideration by the Board. The Committee advised the Board that the Annual report and accounts taken as a whole was considered to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

Corporate governance

CORPORATE GOVERNANCE REPORT CONTINUED

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

As previously reported, the Company conducted a tender of the external audit contract in 2014. The tender process was initiated in April 2014 and concluded in July 2014. The Audit Committee recommended the appointment of PwC as Statutory Auditor. The Board accepted this recommendation and PwC were formally appointed at the 2015 AGM.

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, as part of the tender process. Deloitte, 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 long historic relationship as external Auditor to the Company.

The Company received formal tenders from three 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. After deliberation, the Committee recommended to the Board that PwC should be appointed as the Company's Statutory Auditor following completion of the 2014 year-end process.

PwC shadowed Deloitte, the previous Statutory Auditor, during the 2014 year-end audit process, enabling them to build a good knowledge and understanding of the business. Since their appointment, PwC have undergone a thorough induction programme to further enhance their understanding of the business. This has included meetings with management and staff and site visits including stores and distribution centres across the Group. Throughout the year the Audit Committee has overseen and helped to facilitate a smooth transition from Deloitte to PwC. The Committee has recommended to the Board the re-appointment of the external Auditor for the 2016 financial year and the directors will be proposing the re-appointment of PwC at the 2016 AGM. The Committee will continue to review the external Auditor's appointment and the need to tender the audit, ensuring the Group's continued compliance with the Code.

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 PwC has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The Committee and the Board were also satisfied that Deloitte, the Company's previous Auditor, had adequate policies and safeguards in place to ensure that their objectivity and independence were maintained.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2014 year-end audit provided by Deloitte, the Company's previous Auditor. 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. As this is PwC's first year with the Company, the Committee was only able to assess their work up until the end of the financial period and not the year-end audit itself. The Committee will undertake a thorough assessment of the effectiveness and independence of PwC following the 2015 year-end audit.

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 in 2014/15 related to turnover certificates, required by the Company's landlords, and tax advice. The majority of non-audit work undertaken by PwC in 2014/15 related to pensions and tax advice. The Auditor may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. As Chair of the Audit Committee, my approval is required before the Company uses non-audit services that exceed £25,000 per matter. For the financial year ended 31 August 2015 the non-audit fees paid to PwC were £67,200 and the audit fees payable to PwC were £314,200.

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

15 October 2015

Corporate governance

CORPORATE GOVERNANCE REPORT CONTINUED

NOMINATIONS COMMITTEE

Chair: Henry Staunton

NOMINATIONS COMMITTEE REPORT

Dear Shareholder

As Chair of the Nominations Committee I am pleased to present my report on the activities of the Nominations Committee for the financial year ended 31 August 2015. 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, the results of the employee satisfaction survey and the stability of the workforce.

All Committee members are expected to attend meetings. The following table shows the number of meetings held during the year ended 31 August 2015 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. Information on diversity, including gender, in respect of the Board and the Company is set out in the Employees and Diversity section of the Strategic report on page 25. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. The Board is committed to strengthening the pipeline of women in senior roles across the business and continues to take steps to ensure there are no barriers to women succeeding at the highest level of the Company. An action plan has been agreed to take further steps to improve workplace diversity. Actions include the appointment of a 'Diversity and Inclusion' sponsor to champion diversity within the Senior Management team, and the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company.

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

Henry Staunton
Chair of the Nominations Committee

15 October 2015

REMUNERATION COMMITTEE

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 35 to 52.

ANTI-CORRUPTION

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

COMPLIANCE WITH THE CODE

Throughout the year ended 31 August 2015 the Company has been in compliance with the provisions of the Code.

The Board acknowledges the changes to the Code that were announced in September 2014 and apply to the Company's financial year ending 31 August 2016. These changes will be an area of focus for the Board and the relevant committees over the next year and the Company will report on compliance against the revised Code in the 2016 Annual report.

This report was approved by the Board on 15 October 2015.

Signed on behalf of the Board

Henry Staunton
Chairman

15 October 2015

Corporate governance

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 Chair 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 Chairman of BrightHouse Group PLC and Phoenix Group Holdings. He was previously the Finance Director of Granada and ITV, Chairman of Ashtead Group and Vice Chairman of Legal and General PLC.

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

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

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

5. Annemarie Durbin is a non-executive director and joined the Board of WHSmith in December 2012. 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 Chair of the Remuneration Committee. He is a non-executive director and Chair of the Remuneration Committee of The Sage Group plc and is the Senior Independent Director of First Group plc. He spent the early part of his career with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC.

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

BOARD COMMITTEES

Audit Committee

Suzanne Baxter – Chair
Annemarie Durbin
Drummond Hall

Nominations Committee

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

Remuneration Committee

Drummond Hall – Chair
Suzanne Baxter
Annemarie Durbin
Henry Staunton

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

Chair: Drummond Hall

Dear Shareholder

I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2015. 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 2016 AGM as set out on pages 37 to 44; and
- our Annual remuneration report setting out the details of the implementation of our reward policy in 2014/15 and how the proposed remuneration policy will be implemented in 2015/16 as set out on pages 45 to 52. This section of the report is subject to an advisory vote at our 2016 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 seven 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 2015 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Drummond Hall	7 of 7
Suzanne Baxter	7 of 7
Annemarie Durbin	7 of 7
Henry Staunton	6 of 7

1. Henry Staunton did not attend one meeting of the Remuneration Committee which was held in Dublin as his flight was cancelled on the day.
2. Stephen Clarke was invited to and attended seven meetings of the Remuneration Committee but excludes himself in relation to any discussion in respect of his own remuneration.

The Committee has met twice since 31 August 2015 and all the Committee members attended the meetings.

KEY DECISIONS AND CHANGES

The key decisions and changes made by the Committee during the financial year ended 31 August 2015 are highlighted as follows:

- the Committee decided that the salary of the CEO and CFO/COO should increase by two per cent from 1 March 2015 in line with the general annual pay rise of two per cent for all head office employees.
- the Committee undertook a comprehensive review of executive remuneration structures at the Company. The Committee sought the views of the Company's largest shareholders and shareholder representatives before finalising the proposals. Details of the review are set out on page 36. Following this review, the Committee agreed to increase Stephen Clarke's salary by 12.3 per cent to £550,000 per annum with effect from 1 September 2015.
- the Committee agreed to submit a new LTIP and Sharesave Scheme for approval by the Company's shareholders at the 2016 AGM as the existing schemes will expire in 2016. Although the LTIP will continue to be operated in line with the Remuneration Policy approved by shareholders at the 2015 AGM, the Remuneration Committee has taken the opportunity to review the rules and to modernise a number of provisions. These include the consolidation of the LTIP and CIP into a single plan, a reduction in the headline grant levels made to executives, the ability, consistent with institutional guidelines, to allow for dividend equivalents and the introduction of a holding period. A full summary of the rules is provided in the Notice of Meeting for the 2016 AGM.

OUTCOME 2014/15

The Company delivered another good performance during the year. The Travel and High Street businesses remain highly cash generative and continue to deliver good profit growth with profit before tax increasing by eight per cent to £121m. As a result of this good performance, the Company has increased Headline diluted EPS by 12 per cent to 87.3p per share and dividends by 13 per cent to 39.4p per share. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 1 to 25.

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

The Company's good performance has resulted in the maximum bonus potential being awarded to Stephen Clarke and Robert Moorhead, being £783,000 and £477,000 respectively.

The 2012 LTIP vesting percentage is determined by the growth in the Company's EPS, relative dividend growth and TSR over the three-year performance period which ended on 31 August 2015. The 2012 LTIP vested in full as the Company's EPS increased by 41 per cent during the performance period, the Company's relative dividend growth ranked 5.3 out of 21 companies in the comparator group and the Company's TSR ranked 3.73 out of 21 companies in the comparator group. The 2012 CIP vesting percentage is determined by the growth in the Company's EPS over the three-year performance period which ended on 31 August 2015. The 2012 CIP vested in full as the Company's EPS increased by 41 per cent during the performance period.

2015 REMUNERATION REVIEW

As stated in my report last year, the Committee has during the year reviewed the overall remuneration, incentive and retention arrangements for the Company's executives with a particular focus on whether it would be appropriate to move to a more normalised fixed versus variable remuneration package. The Committee also considered that the continued use of the CIP is not consistent with evolving best practice which is for the Company to only operate one long-term incentive scheme. Together with FIT, the Committee's independent remuneration consultants, the Committee considered various alternatives taking appropriate account of the need to continue to incentivise a proven management team, the Code and evolving best practice. The Committee sought the views of the Company's largest shareholders and shareholder representatives on the proposed new remuneration arrangements for executives.

Following the review and consultation, the Committee concluded that no change to the overall structure of executive director remuneration is necessary as it (and, indeed, the wider Board) remains fully committed to a performance-related pay culture which has served both the Company and shareholders well over many years. However, the Committee agreed that the LTIP and the CIP should, consistent with best practice, be consolidated into a single plan. The Committee also concluded that given the strong performance of the Company since Stephen Clarke was appointed as CEO in July 2013, his current package had fallen to an uncompetitive level, both relative to suitable external benchmarks and to the size of the role. The Committee decided that this should be addressed by increasing the CEO's salary within the current approved Remuneration Policy. The key changes made to executive remuneration, for which there was strong support from the Company's largest shareholders and shareholder representatives, are as follows:

- Stephen Clarke received a one-off 12.3 per cent salary increase with effect from 1 September 2015. Stephen Clarke's new salary is £550,000 per annum. While he will be eligible to be considered for future salary increases, these are not automatic and the Committee has pre-agreed with Stephen Clarke that he will not receive any annual increase in March 2016.
- Following the introduction of the new LTIP, which is being submitted to shareholders for approval at the 2016 AGM, the Company will only operate one long-term incentive plan and will cease making awards under the CIP.
- The performance measures for awards made under the new LTIP will be based 60 per cent on EPS and 40 per cent on relative TSR. The Company will no longer use the dividend growth measure. The new performance measures will apply to awards made in October 2016.
- Awards granted under the new LTIP will be subject to a two year holding period. The holding period will be introduced from October 2016 as follows:
  - (i) October 2016 grant – 50 per cent released at the end of the three year performance period and the remaining 50 per cent after a two year holding period;
  - (ii) October 2017 grant – 50 per cent released at the end of the three year performance period and the remaining 50 per cent after a two year holding period; and
  - (iii) October 2018 grant – 100 per cent subject to a two year holding period.
- The Company's share ownership guidelines will require Stephen Clarke to hold 300 per cent of his base salary in shares and Robert Moorhead to hold 250 per cent of his base salary in shares (in each case an increase from 200 per cent).

While the increase in the CEO's salary to £550,000 was a 12.3 per cent increase, this still leaves Stephen Clarke's salary at approximately 80 per cent of the relevant mid-market benchmark level. However, as the Committee decided that it wished to maintain the current focus on variable pay, it was only appropriate to increase the CEO's salary to this lower level. The Committee believes that this approach will maintain the correct environment to create value for shareholders. The Committee noted that as the two executive directors' shareholdings are significantly higher than the current guideline levels it was not necessary to defer a proportion of the annual bonus into shares.

As part of the review, the Committee also considered the structure of directors' remuneration packages from a risk perspective. It is satisfied that the packages, which include a market-competitive base salary, an annual bonus and substantial long-term incentives, do not encourage inappropriate risk-taking.

All of these changes are permitted within the scope of the policy approved by shareholders at the 2015 AGM. However, as the Company's approach is to apply its practices consistently over a number of years and due to the scale of the review, the Committee considers it appropriate to give shareholders the opportunity to vote on the new arrangements which will apply over the next three years.

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

Drummond Hall
Chair of the Remuneration Committee

1. INFORMATION SUBJECT TO AUDIT

The following information has been audited by PwC:

- Section 4.3 – Summary of non-executive directors' remuneration 2015;
- Section 4.4 – Summary of executive remuneration 2015;
- 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's remuneration policy can be summarised as providing 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;
- include robust malus/clawback provisions and holding periods which permit the recoupment of variable pay either if the payout was based on a material error or if the recipient commits gross misconduct; and
- take into account Company-wide pay and employment conditions.

The key changes being proposed are:

- increase the formal salary cap from median to 110 per cent of median of the top half of the FTSE 250 reflecting the 25 per cent increase in the Company's market cap over the last year; and
- the introduction of the new LTIP.

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 27 January 2016 and, subject to shareholder approval, will take immediate effect. The Directors' remuneration policy has been prepared in accordance with the Companies Act 2006 and on the basis prescribed in the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 (the 'Regulations').

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

FUTURE POLICY TABLE

3.1 Executive directors

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

Element and purpose	Policy and opportunity	Operation and performance measures
Base salary		
This is the basic element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution. Base salary is used to attract and retain executives who can deliver our strategic objectives and create shareholder value	• While base salaries are reviewed each year, the Company's policy is not automatically to award an inflationary increase. When reviewing salaries, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group • Base salaries are benchmarked against both FTSE 250 companies and other leading retailers. While the Committee applies judgement rather than setting salaries by reference to a fixed percentile position, its general approach is to constrain base salaries to a median or lower level • While the Committee's general approach is to keep salaries to a relatively low level, and, in the normal course, would not expect salary increases to be higher than the average for other head office staff, given the need for a formal cap, the Committee has limited the maximum salary which it may award to 110 per cent of the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark	• Base salary is paid monthly in cash • Base salaries are reviewed annually with any changes normally taking effect from 1 March. Following the March 2015 salary review, the CEO and CFO/COO were awarded a two per cent pay increase in line with the general annual pay rise of two per cent for head office employees • Following the review of executive remuneration the CEO was awarded a 12.3 per cent pay increase on 1 September 2015. The Committee has agreed with Stephen Clarke that he will not receive any annual increase in March 2016
Benefits		
To provide other benefits valued by the recipient which assist them in carrying out their duties effectively. Competitive benefits assist in attracting and retaining executives	• Provide market competitive benefits in kind • The Company may periodically amend the benefits available to staff. The executive directors would normally be eligible to receive such amended benefits on similar terms to all senior staff • During the policy period the value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £80,000. In addition, the Committee reserves the right to pay relocation costs in any year or any ongoing costs incurred as a result of such relocation to an executive director if considered appropriate to secure the better performance by an executive director of their duties	• Benefits received by executive directors comprise a car allowance, staff discount, private medical insurance and life assurance • While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement	• Provide a competitive employer-sponsored pension plan or equivalent cash allowance with a total value of up to 25 per cent of base salary	• All executive directors are eligible to participate in the Company's defined contribution pension plan and/or receive a salary supplement in lieu (which is not taken into account as salary for calculation of bonus, LTIP/CIP or other benefits) • Although the mix may change, currently five per cent of salary is paid into a registered pension and 20 per cent by way of a salary supplement. If the individual elects to receive the five per cent direct (e.g. to avoid breaching HMRC limits), employers' NICs are deducted from that element

Element and purpose	Policy and opportunity	Operation and performance measures
Annual bonus		
To motivate employees and incentivise delivery of annual performance targets	• During the policy period the bonus potential is 160 per cent of base salary for Stephen Clarke (or any replacement) and 130 per cent of base salary for Robert Moorhead (or any other executive director), with target levels at 48 per cent of their respective maxima and threshold bonus levels at 16 per cent of their respective maxima • Clawback provisions apply to the annual bonus plan • Bonuses are all currently paid in cash in one tranche although the Committee has discretion to defer part of the bonus (either in cash or shares)	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate • The appropriateness of performance measures is reviewed annually to ensure they continue to support the Company's strategy • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to ensure they operate as originally intended and to take account of events which were not foreseen when the performance targets were originally set
Long-term incentives		
To motivate and incentivise delivery of sustained performance over the long-term, the Group will operate the new Long-Term Incentive Plan ('LTIP'). Awards delivered in shares to provide further alignment with shareholders	• The policy is to award executive directors with shares with an initial face value of up to 350 per cent of base salary each year under the LTIP • In practice awards of 335 per cent are envisaged for the CEO and 310 per cent for any other executive director • The LTIP will credit participants with the benefit of accrual for dividends paid over the performance and any holding period • Malus and Clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP • Awards are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant. For awards made in October 2016 and October 2017 the holding period will apply to 50 per cent of any shares which vest in order to transition the pay-out schedule from the current basis • Legacy awards under the previous LTIP and the Co-Investment Plan ('CIP') will be honoured although no further awards will be made after the adoption of this new policy	• The Committee may set such performance conditions as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) over a period of at least three financial years • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition • Executive directors can earn a minimum of 25 per cent of the award for threshold performance. Although not currently envisaged, the Committee has the right to lengthen the performance period or to make similar additional changes, not to the benefit of participants • The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Element and purpose	Policy and opportunity	Operation and performance measures
Shareholding guidelines		
To encourage share ownership by the executive directors and ensure interests are aligned with shareholders	• Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP/CIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares • Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans • To the extent that an executive director is not meeting the guidelines, he or she will be expected to use half of any after-tax bonus to buy shares and to achieve compliance within six years of joining the Board or any significant promotion	• 300 per cent of base salary for Stephen Clarke (increased from 200 per cent) and 250 per cent of base salary for Robert Moorhead (or any other executive director) (increased from 200 per cent) • Once the shareholding guidelines have been met, individuals are expected to maintain these levels as a minimum. The Committee will review shareholdings annually in the context of this policy. The Committee will review compliance with the policy as awards approach maturity • The Committee reserves the right to alter the shareholding guidelines during the period of this policy but any such alterations will not make the guidelines less onerous
All-employee share plans		
To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders	• Executive directors are able to participate in all-employee share plans on the same terms as other Group employees	• Sharesave – individuals may save up to such limit as permitted by the relevant legislation (currently £500 each month) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20 per cent of the market price set at the launch of each scheme • In line with market practice, no performance conditions are attached to options granted under the Sharesave Scheme

NOTES TO THE POLICY TABLE

Stating maximum amounts for each element of remuneration

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

Payments from existing awards

Stephen Clarke and Robert Moorhead are eligible to receive payment from awards made before the approval and implementation of the remuneration policy detailed in this report. Details of these awards can be found in the Annual remuneration report on page 50. The Company will similarly honour pre-existing commitments made to any other new Board members.

PERFORMANCE MEASURE SELECTION AND APPROACH TO TARGET SETTING

Annual bonus plan

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

Under the annual bonus plan, participants can earn a bonus based on the achievement of a statutory 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 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 performance targets for awards made under the LTIP in the financial year ended 31 August 2015 were: 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. Similarly, awards under the CIP were wholly based on EPS growth.

The Committee is also proposing that any awards made in the financial year ending 31 August 2016 will have the same target ranges as the performance targets for awards made in the financial year ended 31 August 2015 as fully set out on pages 48 and 49.

Following discussions with shareholders as part of the review of remuneration undertaken during the year, the Committee is proposing that the performance targets for any awards to be made from October 2016 under the new LTIP will be: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR.

Malus/Clawback

The bonus plan and LTIP rules include a provision for clawback (before or within a period of three years following payment or vesting or earlier change of control) of a bonus or award if the Committee discovers information which leads it to conclude that any bonus or award was made, paid or vested to a greater extent than it should have been or if it concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned (before or within a period of two years in respect of the legacy bonus, LTIP and CIP awards).

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 normally reviewed annually in March. Following the March 2015 salary review, the CEO and CFO/COO were awarded a two per cent pay increase in line with the annual pay rise of two per cent for all head office employees. Following the review of executive remuneration the CEO was awarded a further 12.3 per cent pay increase on 1 September 2015. It is intended that, in the future, executive directors will normally be considered for the same level of salary increase awarded to head office employees although, in view of the September 2015 increase, Stephen Clarke will not receive any annual increase in March 2016.

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 100 senior managers who participate on broadly similar terms as the executive directors although award sizes, targets and the inclusion of a holding period 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.

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

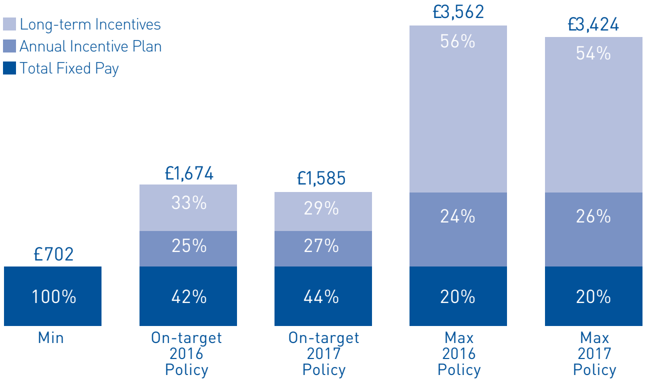
Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

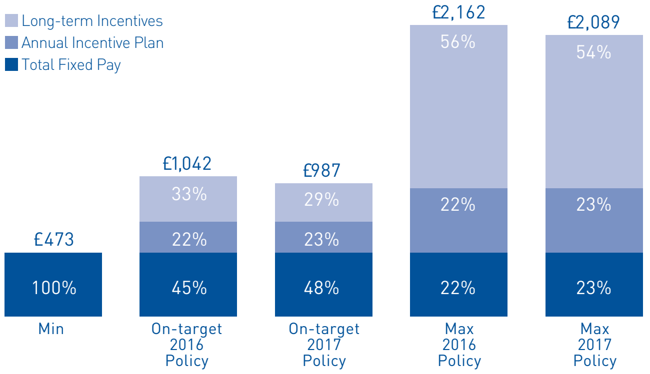
3.3 Potential rewards under various scenarios

The graphs below provide an estimate of the potential total rewards available to the executive directors for the financial year ending 31 August 2016, ignoring any change in share price and the potential split between the different elements of remuneration under the various scenarios. The potential total rewards are based on the Company's remuneration policy.

Group CEO – Stephen Clarke (£'000)



CFO and COO – Robert Moorhead (£'000)



Valuation assumptions

As the current year involves the final awards under the legacy LTIP and CIP, with the first awards under the new policy expected to be made in October 2016, the above scenarios show the position in respect of both the financial year ending 31 August 2016 and the financial year ending 31 August 2017.

1. The minimum scenario reflects base salary, pension and benefits, being the only elements of the remuneration package not linked to performance. No salary increase has been assumed in respect of the March 2016 and March 2017 salary reviews.
2. The on-target scenario reflects fixed remuneration as above, plus the target level of performance for the annual bonus plan which is 48 per cent of maximum annual bonus; and for the 2016 LTIP/CIP awards and 2017 LTIP awards, threshold vesting levels have been assumed.
3. The maximum scenario reflects fixed remuneration as above, plus the maximum level of performance for the annual bonus plan of 160 per cent of base salary for Stephen Clarke and 130 per cent of base salary for Robert Moorhead; and for the 2016 LTIP/CIP awards and 2017 LTIP awards, maximum vesting levels have been assumed.
4. Consistent with market practice, the impact of share price appreciation and dividend reinvestment has been ignored in the above scenarios.

3.4 Recruitment remuneration policy

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

- The starting point for the Committee will be to look at the general policy for executive directors as set out above and structure a package in accordance with that policy. Although the Regulations provide that, technically, the caps on fixed pay within the general policy will not apply on the recruitment of an executive, the Committee would seek not to exceed those caps in practice. In addition, ignoring any special buy-out arrangements which may prove to be necessary, the annual bonus and long-term incentive compensation arrangements will operate consistently (including the maximum award levels) within the limits as set out in the Future policy table in Section 3.1 for executive directors on pages 38 to 40.
- For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.
- For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses and legal fees as it considers to be appropriate.
- Where it is necessary to make a recruitment-related pay award to an external candidate to buy-out entitlements under a previous employers' plan, the Company will not pay more than the Committee considers necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing incentive pay structure. It may, however, be necessary in some cases to make such buy-out awards on terms that are more bespoke than the existing annual and equity-based pay structures at the Company in order to secure a candidate.
- Any buy-out awards for external appointments, whether under the bonus plan, LTIP or otherwise, will be capped at the commercial value of the amount forfeited and will take account of the nature, time-horizons and performance requirements of those awards. In particular, the Committee will seek to ensure that any awards being forfeited which were subject to outstanding performance requirements (other than where substantially complete) are bought out with replacement requirements and any awards with service requirements are, again, bought out with similar terms. However, exceptionally the Committee may relax those obligations where it considers it to be in the interests of shareholders and those factors are, in the view of the Committee, equally reflected in some other way, for example through a significant discount to the face value of the awards forfeited.

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

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

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

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

It is envisaged that any new executive director would join with a contract which is no more favourable than that summarised in respect of Stephen Clarke other than, 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 legacy CIP and LTIP and the new 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	Vesting: At the end of the relevant performance period Payment: At the end of any relevant holding period	Generally, awards vest over the original timescales, subject to the original performance conditions. Awards are normally pro-rated for time
Death	Vesting: At the end of the relevant performance period or as soon as possible after the date of death, at the discretion of the Committee	The Committee has discretion to 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. Awards may be exchanged for awards over shares in the acquiring company in some circumstances

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

3.6 Chairman and non-executive director fees

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

The fees paid to non-executive directors are determined by the Chairman and the executive directors (being the Board excluding the non-executive directors themselves) and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. Non-executive directors do not participate in any bonus or share plans. The current fees payable to the Chairman and the non-executive directors are set out on page 46.

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 27 January 2016.

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 but shareholder approval is being sought to increase this to £750,000 at the 2016 AGM) • 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) with the next review due in February 2016 • The Company reserves the right to change how the elements and weightings within the overall fees are paid and to pay a proportion of the fees in shares within this limit if it is considered appropriate to do so
Benefits		
	• In line with other employees, the Chairman and the non-executive directors receive an employee staff discount	• It is not the policy of the Company to provide benefits to the Chairman or the non-executive directors. However, while the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies and within the overall limits

4. ANNUAL REMUNERATION REPORT

The Remuneration Committee presents the annual report on remuneration (the 'Implementation Report') which, together with the introductory letter by the Chair of the Committee on pages 35 and 36, will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 27 January 2016.

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 £91,623 (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.

4.2 Implementation of remuneration policy in the financial year ended 31 August 2015

Executive directors

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2015.

Element of pay	Implementation of policy
Base salary	The executive directors, in line with other head office staff, received a two per cent salary increase in March 2015 Following the review of executive remuneration, Stephen Clarke was awarded a 12.3 per cent pay increase on 1 September 2015 and it was agreed that he would not be considered for an increase as part of the March 2016 review The current salary of Stephen Clarke is £550,000 and the current salary of Robert Moorhead is £367,200
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2015 (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 2015 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 2015, Stephen Clarke received a pension contribution equal to five per cent of his base salary with the balance being received as a salary supplement. Robert Moorhead received all of his pension contribution as a salary supplement after applying for fixed protection in 2014 so the amount otherwise paid to the Company's defined contribution scheme was reduced to reflect the requirement to pay employers' National Insurance
Annual bonus	The bonus out-turn for the financial year ended 31 August 2015 in respect of Stephen Clarke and Robert Moorhead was £783,000 and £477,000 respectively The bonus is primarily assessed against a sliding scale target of profit before tax but after interest and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives The target range for the year ended 31 August 2015 is set out on page 48
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 2015 are described on pages 48 and 49 Vesting of LTIP awards is determined based on the following three measures: 40 per cent is based on relative TSR; 30 per cent is based on EPS growth and 30 per cent is based on relative dividend growth. The CIP is entirely subject to an EPS growth measure. All performance periods are for three years The Committee approved these performance measures as they are directly linked to the objectives set out in the Group's strategy; there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward. A similar approach will be adopted for the October 2015 awards with the new policy applying to subsequent grants
Shareholding guidelines	Stephen Clarke and Robert Moorhead were required to hold 200 per cent of salary in shares and both comply with the guidelines

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-executive directors

This section sets out how the policy report set out at Section 3.6 (Chairman and non-executive director fees) on page 44 has been implemented.

Element of pay	Implementation of policy
Annual fees	Current fee levels are £200,000 for the Chairman of the Board and £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 2015 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2015:

	Base fee £'000	Committee/ SID fee £'000	Total £'000	2014 £'000
Henry Staunton	200	–	**200**	185
Suzanne Baxter	46	9	**55**	51
Annemarie Durbin	46	–	**46**	43
Drummond Hall	46	18	**64**	58

The Chairman and non-executive director fees were increased with effect from 1 February 2014.

4.4 Summary of executive remuneration 2015 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2015:

	Salary £'000		Benefits £'000		Annual bonus £'000		LTI £'000		Pension £'000		Total £'000	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Stephen Clarke	**485**	480	**14**	14	**783**	720	**2,568**	1,212	**121**	120	**3,971**	2,546
Robert Moorhead	**364**	360	**14**	14	**477**	468	**2,592**	1,432	**89**	89	**3,536**	2,363

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

b) For the year under review, Stephen Clarke had the opportunity to receive an annual bonus up to a maximum of 160 per cent of his base salary and Robert Moorhead had the opportunity to receive an annual bonus up to a maximum of 130 per cent of his base salary. The financial measure applied to the financial year ended 31 August 2015's annual bonus was statutory 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 statutory profit before tax of £121m 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 2015. Stephen Clarke received an annual bonus equivalent to 160 per cent of his base salary, and Robert Moorhead received an annual bonus equivalent to 130 per cent of his base salary.

c) The 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 CIP. The 2015 LTIP and CIP values are the estimated value of the awards that will vest for the performance period ended on 31 August 2015, based on the average share price for the Company over the last financial quarter of 1550p. The performance measures for the LTIP and CIP are set out on pages 48 and 49. The 2014 figures have been updated to the actual values of the LTIP awards that vested in respect of performance periods ending in that financial year.

e) 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 2015 was £2,712,000 and in the financial year ended 31 August 2014 was £2,602,000.

4.5 Payments made to former directors (audited)

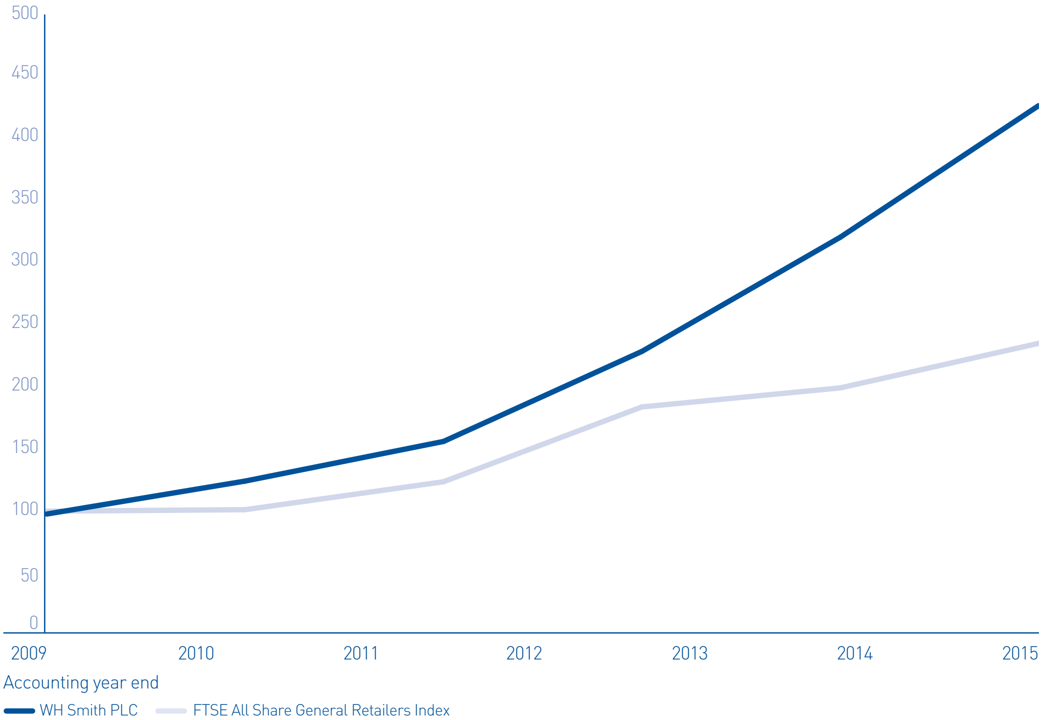
During the financial year ended 31 August 2015, Kate Swann (who resigned as a director of the Company in 2013) received £1,509,300.28 following the exercise of her 2011 LTIP on 20 November 2014. No other payments have been made in the financial year ended 31 August 2015 to former directors of the Company.

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 2015.

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 six 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.

The table below summarises the CEO's remuneration and how the Company's variable pay plans have paid out over the past six years. This can be compared with the historic TSR performance over the same period which indicates a TSR for the Company of 324 per cent over the period compared with a TSR for the Index of 133 per cent, indicating consistently superior performance in line with the achievements under the variable pay plans.

Financial year ended 31 August	CEO	Single figure of total remuneration £'000	Annual bonus (vesting versus maximum opportunity) %	Long-term incentive (vesting versus maximum opportunity) %
2015	Stephen Clarke	3,971	100	100
2014	Stephen Clarke	2,546	100	100
2013 – from 1 June	Stephen Clarke	4,067	100	97
2013 – until 31 May	Kate Swann	9,192	100	98
2012	Kate Swann	3,147	100	90
2011	Kate Swann	3,313	100	92
2010	Kate Swann	6,966	100	97

The 2014 single figure of total remuneration has been updated to reflect the actual value of the LTIP award that vested in respect of the performance period ending in that financial year.

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

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 2014 and the financial year ended 31 August 2015 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	1.0	8.8	(2.0)
UK employees (average per FTE)	3.8	22.3	3.3

4.9 Relative spend on pay

The table below shows the total cost of remuneration in the Group as well as dividends/share buybacks made during the financial year ended 31 August 2015.

Total Cost of Remuneration			Distribution to shareholders		
2014 £m	**2015 £m**	% change	2014 £m	**2015 £m**	% change
183	**189**	3.3%	90	**95**	5.6%

4.10 Annual bonus targets (audited)

Bonuses for the financial year ended 31 August 2015 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:£119m	100%	80%	60%	40%	0%
Target:£112.3m	80%	64%	48%	32%	0%
Threshold:£107.8m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The out-turn of £121m was above the maximum target set for financial performance. For Stephen Clarke, his personal rating is also based on the achievement of the Group statutory profit before tax target resulting in him receiving a maximum bonus payment of £783,000. 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 £477,000.

No changes in the measures or weightings have been made in respect of the annual bonus for the financial year ending 31 August 2016. 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 (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 year ended 31 August 2015 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 All Share General 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; 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 and the FTSE Food and Drugs 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 year to 31 August 2014 (i.e. the financial year ended prior to grant), the interim dividend paid on 7 August 2014 together with the final dividend declared on 16 October 2014 and paid on 29 January 2015 of 35p in total will be compared with the equivalent dividends paid in respect of the financial year ending three years later and the percentage increase compared and ranked with dividends paid by the same companies in the TSR comparator group, except that any company which paid no dividend in respect of the base year will be excluded and companies within the FTSE All Share Food and Drugs retailers will be added to replace them. The Committee has discretion to assess whether a company's dividend is paid otherwise than out of operating profits, or otherwise than supported by its normal levels of cover, and therefore should be excluded. The Committee will report any adjustments in subsequent Remuneration reports.

It is envisaged that the 2015 awards which are likely to be made in October 2015, will be made on a similar basis and with the same target ranges as the 2014 awards. 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 2014 as follows:

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

Following the review of remuneration, the Company does not intend to grant any future awards to executives under the CIP after the grant of awards in October 2015. It is envisaged that the 2015 awards, which are likely to be made in October 2015, will be made on a similar basis and with the same target ranges as the 2014 awards.

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Outstanding awards

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

	Date of grant	Number of shares subject to awards at 31 August 2014	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 2015	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Stephen Clarke									
WH Smith CIP	05.11.12	65,241	–	–	–	**65,241**	627.67	409	05.11.15 – 05.11.22
	17.10.13	79,882	–	–	–	**79,882**	901.33	720	17.10.16 – 17.10.23
	23.10.14	–	66,055	–	–	**66,055**	1090.00	720	23.10.17 – 23.10.24
WH Smith LTIP	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
	23.10.14	–	88,073	–	–	**88,073**	1090.00	960	23.10.17 – 23.10.24
Total		**492,855**	**154,128**	**97,564**	**–**	**549,419**			
Robert Moorhead									
WH Smith CIP	05.11.12	65,863	–	–	–	**65,863**	627.67	413	05.11.15 – 05.11.22
	17.10.13	51,923	–	–	–	**51,923**	901.33	468	17.10.16 – 17.10.23
	23.10.14	–	42,936	–	–	**42,936**	1090.00	468	23.10.17 – 23.10.24
WH Smith LTIP	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
	23.10.14	–	66,055	–	–	**66,055**	1090.00	720	23.10.17 – 23.10.24
Total		**414,342**	**108,991**	**115,347**	**–**	**407,986**			

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 66,055 shares granted to Stephen Clarke on 23 October 2014 represents 150 per cent of base salary (using the share price at grant of 1090p being the average share price for the three dealing days prior to grant). The LTIP award of 88,073 shares granted to Stephen Clarke on 23 October 2014 represents 200 per cent of base salary (using the share price at grant of 1090p being the average share price for the three dealing days prior to grant). 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 42,936 shares granted to Robert Moorhead on 23 October 2014 represents 130 per cent of base salary (using the share price at grant of 1090p being the average share price for the three dealing days prior to grant). The LTIP award of 66,055 shares granted to Robert Moorhead on 23 October 2014 represents 200 per cent of base salary (using the share price at grant of 1090p being the average share price for the three dealing days prior to grant). 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 100 per cent of its performance targets for awards granted under the LTIP in November 2011. The performance conditions comprised 60 per cent being dependent on an EPS growth condition of five to ten per cent per annum and the remaining 40 per cent dependent on a median to upper quartile TSR scale versus the FTSE All Share General Retailers Index constituents over the period between 13 October 2011 and the announcement of the Company's results on 16 October 2014.

e) In respect of the award granted on 15 November 2011 under the LTIP held by Stephen Clarke, 97,564 shares vested. The value of the 97,564 shares on the date of vesting was £1,211,559.51 (1241.81p per ordinary share).

f) In respect of the award granted on 15 November 2011 under the LTIP held by Robert Moorhead, 115,347 shares vested. The value of the 115,347 shares on the date of vesting was £1,432,391.16 (1241.81p per ordinary share).

g) The aggregate value of shares which vested and were received by the executive directors under the LTIP during the financial year ended 31 August 2015 was £2,643,950.67.

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

i) No awards have been granted to directors or have vested between 1 September 2015 and 15 October 2015.

j) The awards granted in the financial years ended 31 August 2014 and 31 August 2015 under the LTIP will only vest to the extent that the performance targets as set out on pages 48 and 49 are satisfied. These disclosures set out the threshold vesting levels for awards granted in these years.

k) The performance conditions for LTIP awards granted in the financial year ended 31 August 2013 are set out on pages 48 and 49. The performance conditions were met with 100 per cent of the shares subject to the awards vesting. The EPS performance target excluded 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.

l) Matching awards granted in the financial years ended 31 August 2014 and 31 August 2015 under the CIP will only vest to the extent that the performance targets as set out on pages 48 and 49 are satisfied and related investment shares are held until the end of the performance period.

m) The performance condition for matching awards granted in the financial year ended 31 August 2013 under the CIP is set out on page 49. The performance condition was met with 100 per cent of the shares subject to the awards vesting. The EPS performance target excluded the benefit of changes in Government tax policy during the performance period. The Committee, therefore, ensured that the performance target was no less challenging to achieve than originally intended.

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 that the ordinary shares in the Trust will be used to satisfy all outstanding awards and options made under the Company's share plans. The Trustee has agreed to waive its rights to all dividends payable on the ordinary shares held in the Trust.

Following share purchases of 364,351 shares in the financial year ended 31 August 2015, the number of WHSmith shares held in the Trust at 31 August 2015 was 1,410,608. 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 67.

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

4.15 Directors' interests in shares (audited)

Personal shareholdings
Under the Company's share ownership requirements, executive directors were 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 2015, Stephen Clarke held 290,064 shares with a value of £4,350,960 and Robert Moorhead held 402,676 shares with a value of £6,040,140.

If the proposed new policy is approved by shareholders the share ownership guidelines will require Stephen Clarke to maintain a shareholding in the Company with a value of at least 300 per cent of base salary and Robert Moorhead a shareholding of at least 250 per cent of base salary.

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

	Ordinary shares		LTIP[1]		CIP[1]	
	31 August 2015	31 August 2014	**31 August 2015**	31 August 2014	**31 August 2015**	31 August 2014
Suzanne Baxter	**1,000**	1,000	**–**	–	**–**	–
Stephen Clarke	**290,064**	290,064	**338,241**	347,732	**211,178**	145,123
Annemarie Durbin	**1,000**	1,000	**–**	–	**–**	–
Drummond Hall	**10,000**	10,000	**–**	–	**–**	–
Robert Moorhead	**402,676**	500,391	**247,264**	296,556	**160,722**	117,786
Henry Staunton	**30,000**	10,000	**–**	–	**–**	–

[1] The LTIP and CIP amounts above are the maximum potential awards that may vest subject to the performance conditions described on pages 48 and 49.
[2] There has been no change in the directors' interests shown above between 1 September 2015 and 15 October 2015.
[3] The middle market price of an ordinary share at the close of business on 28 August 2015 was 1500p (29 August 2014: 1155p).

Corporate governance

DIRECTORS' REMUNERATION REPORT CONTINUED

4.16 Voting at the Annual General Meeting

At the Annual General Meeting on 21 January 2015, two proposals were put to shareholders in relation to directors' remuneration: the advisory vote on the annual report on remuneration and the binding vote on the Directors' remuneration policy. The results of the votes are shown in the table below:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Remuneration report	80,842,886	98.58	1,160,391	1.42	82,003,277	112,740
Approval of Remuneration policy	80,679,630	98.58	1,160,663	1.42	81,840,293	275,560

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

On behalf of the Board

Drummond Hall
Chair of the Remuneration Committee

15 October 2015

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2015. 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 17
Branches outside the UK	13
Disclosures concerning greenhouse gas emissions	23
Employment of disabled persons	25
Employee involvement	25

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

Section	Page number
Corporate governance report	26
Directors' biographies	34
Statement of directors' responsibilities	56
Information on use of financial instruments	88

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

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

Subject matter	Page number
Allotment of shares for cash pursuant to the WHSmith employee share incentive plans	40 Directors' remuneration report / Note 24 on page 91 to the consolidated financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/ future dividends	51 Directors' remuneration report

PROFIT AND DIVIDENDS

The Group profit before taxation for the financial year ended 31 August 2015 was £121m (2014: £112m). The directors recommend the payment of a final dividend for the year of 27.3p per ordinary share on 4 February 2016 to members on the Register at the close of business on 15 January 2016. This final dividend and the interim dividend of 12.1p per ordinary share paid on 6 August 2015 make a total dividend of 39.4p per ordinary share for the year ended 31 August 2015 (2014: 35.0p).

SHARE CAPITAL

The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 24 on page 91 to the accounts.

The issued share capital of the Company as at 31 August 2015 was 115,681,111 ordinary shares of $22\frac{6}{67}$p each. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

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

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to 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.

Corporate governance

DIRECTORS' REPORT CONTINUED

PURCHASE OF OWN SHARES

At the 2015 AGM, authority was given for the Company to purchase, in the market, up to 11,808,035 ordinary shares of $22\frac{6}{67}$p each, renewing the authority granted at the 2014 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 4,010,482 of its own shares during the financial year, representing 3.5 per cent of the issued share capital as at 31 August 2015, at an average price of £13.27. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £54m. During the period 1 September 2015 to 14 October 2015, the Company purchased and subsequently cancelled a further 590,000 of its own shares, representing 0.5 per cent of the issued share capital, at an average price of £15.24. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £9m. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2016 to renew the authority for a further year.

ISSUE OF NEW ORDINARY SHARES

During the financial year ended 31 August 2015, 241,236 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 387.00p 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.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

DIRECTORS' CONFLICTS

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

DIRECTORS' INDEMNITIES

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

COMPANY'S SHAREHOLDERS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2015, 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	6,698,196	5.70	Indirect
Royal London Asset Management Limited	5,789,995	4.97	Direct
Norges Bank	3,614,803	3.09	Direct

A disclosure was received from Norges Bank on 23 September 2015 notifying the Company that they no longer held a notifiable interest.

RELATIONS WITH SHAREHOLDERS

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

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

The Notice of Meeting is made available to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the Annual report on the Company's website.

The deadline for appointing a proxy is 48 hours before the time fixed for the meeting (although, in calculating this period, no account is taken of non-working days).

In accordance with best practice all resolutions at the 2016 AGM will be taken on a poll vote. This enables the Company to count all votes, not just those of shareholders who attend the meeting. On a poll, each shareholder has one vote for every share he or she holds. The results of the poll vote on the resolutions put to the meeting will be disclosed to the London Stock Exchange following the end of the meeting and will also be published on the Company's website.

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

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 (2014: £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 25. The Financial review on pages 14 to 17 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 20 to 23 of the accounts on pages 87 to 90. In addition, Note 23 of the accounts on page 88 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report on pages 20 and 21 also highlights the principal risks and uncertainties facing the Group.

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

AUDITOR

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

DISCLOSURE OF INFORMATION TO THE 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 27 January 2016 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 15 October 2015.

By order of the Board

Ian Houghton
Company Secretary

15 October 2015

Corporate governance

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic report and the Directors' report (which incorporates the management report) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- this Annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

By order of the Board

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

15 October 2015

Financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 31 August 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

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

- the Group Balance Sheet as at 31 August 2015;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

Materiality

- Overall Group materiality: £6.0m which represents five per cent of profit before tax.

Audit scope

- WH Smith PLC comprises two operating segments, High Street and Travel, and one central function. Within the two operating segments there are 16 entities, 13 of which are UK and Ireland based and the other three are in France, Qatar and Australia.
- We performed full scope audits on the UK, Ireland and Channel Island entities of the two operating segments.
- The entities where we performed full scope audits accounted for 98 per cent of profit before tax and the entities where we performed full scope audits or specific audit procedures accounted for 97 per cent of revenue.

Areas of focus

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

Financial statements

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

The scope of our audit and our areas of focus

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

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

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

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Recognition of supplier income Refer to Note 1 (c) Accounting policies and page 29 for the views of the Audit Committee. The Group earns supplier income under numerous different arrangements with its suppliers. The arrangements vary in nature and size but include volume based retrospective discounts and payments for space given to marketing campaigns. Supplier income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers. The total income recognised is therefore based on the expected entitlement earned up to the balance sheet date under each supplier agreement. The amount of supplier income recognised in the year resulted from mainly high volume, low value transactions for agreements such as volume based retrospective discounts and payments for guaranteed in-store space dedicated to product and required limited judgement or estimation in determining the amount that the Group is entitled to (as the majority of volume based agreements are based on historical sales as opposed to forecast volumes). Our focus for all types of supplier income was therefore whether an agreement for the income recognised existed, whether income was recognised in accordance with the agreement and whether it was recognised in the correct period.	Our audit work in respect of supplier income comprised substantive testing of a sample of income recognised in the income statement during the period and testing of accrued and deferred amounts in the balance sheet. The main elements of our work are considered in more detail below. **Income statement testing** We requested confirmations directly from a number of different suppliers, in respect of a sample of supplier income transactions. The confirmations allowed us to evaluate whether the income had been appropriately recognised in the period. Where responses were not received, we performed alternative procedures including agreement to contracts and cash receipts. From the work we performed, we noted that accounting for these amounts did not require significant levels of judgement or estimation. Where the period of an agreement spans accounting periods, income is recognised based on forecasts for expected sales or purchase volumes, informed by current and historic performance. No significant issues were identified through the testing performed. We also analysed supplier income by type recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of supplier income recognised in each period. No unusual trends were identified. **Balance sheet testing** In the sample of confirmations detailed above, we included requests for the accrued balance at the year end to also be confirmed. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of supplier income and the accrued and deferred balances at year end. Cut-off work involved testing a sample of supplier income amounts by reference to documentation from suppliers that the timing of recognition was appropriate. Our credit note testing focused on credit notes raised after the year end in order to identify instances of supplier income being subsequently reversed. We did not identify any exceptions from this work. We tested the recoverability of invoiced supplier income (unsettled balances included within trade debtors in Note 15 to the financial statements and where the Group does not have the right of offset against trade creditors). We assessed the ageing of both outstanding supplier income and promotional funding supplier income debtors together with understanding the details of any disputes, and obtained explanations from management to assess whether any provisions were appropriate. Explanations obtained were deemed satisfactory and supported the year-end balance sheet position.

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Inventory valuation Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 29 for the views of the Audit Committee. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and digital. A large proportion of stock is supplied through sale or return arrangements including the majority of books, newspapers and magazines and therefore these are considered to be lower risk than stock acquired through firm purchases such as stationery. Inventory is initially valued using a weighted average cost method. Provisions are then recognised against inventory for estimated losses related to shrinkage and slow moving or obsolete inventory. The valuation of inventory was focused on because of the judgements made by management when assessing the level of provisions required. In calculating the provision for slow moving or obsolete inventory, an assessment of expected future sales of individual product lines is performed by management, taking into account the product category and the level of risk of obsolescence. Inventory is counted by the Group on a cyclical basis throughout the year, rather than in full at the period-end, and as such the shrinkage provision at 31 August 2015 which is based on historical shrinkage rates contains a degree of estimation.	We attended a sample of stock counts performed by the Group during the year across High Street and Travel stores and distribution centres. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation at each site. We also evaluated the results of other cycle counts performed by management and third parties throughout the period to assess the level of count variances. As a result of these procedures we obtained evidence over the accuracy of the quantities of inventory held at the balance sheet date. We tested the shrinkage assumptions determined by the count procedures by comparing them to historical data. The historical data included the results of the previous counts at each location, and our analytical procedures did not identify any significant unusual fluctuations in the data. The obsolescence provision is calculated by applying a judgemental percentage to the period-end stock levels, with this judgement being informed by historical data on the levels of obsolescence as well as management's view of the current stock profile and forecast sales by product line. We assessed this provision by checking the accuracy of the historical data and the explanations provided by management noting no issues.
Impairment review of store assets Refer to Note 1 (o) Accounting policies for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Notes 13 and 14 (other intangible assets and property, plant and equipment). As at 31 August 2015 management assessed the Group's store assets comprising leasehold improvements and fixtures and fittings for indication of impairment. The economic and sector trends facing the Group may adversely impact the recoverable value of assets used within the store portfolio which is considered to be a triggering event for impairment review. Management considers each store to be a cash generating unit ('CGU') and has performed a review of the trading results of the stores for the year. Where a store is loss making and is not expected to return to profitability in the near future, an impairment charge is recognised over the assets that cannot be recycled within the store portfolio as set out in Note 14 (property, plant and equipment). We focused on this area because of the sales and cost pressure that could mean further impairment of the store assets is needed.	Our audit work included obtaining management's impairment assessment and discussing the basis for their decision whether or not to impair store assets. We agreed individual store trading performance to underlying records including trading data and confirmed that those that were loss making were appropriately impaired where an improvement in results could not be expected, and this testing did not highlight any significant issues. We also examined the results for all stores to check that management's identification of loss making stores was complete. This did not identify any further stores requiring impairment to be recognised.

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

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Property-related provisions Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and page 29 for the views of the Audit Committee. Given the long history of WHSmith, the Group has an extensive property portfolio of both existing and former WHSmith properties (now sublet or vacant) held under operating leases, which requires the directors to make significant judgements and estimates relating to the need to provide for dilapidation costs and onerous leases when the store is making losses or when stores are earmarked for closure. These judgements include assessing a number of factors including duration of the lease, estimations of costs and future income potential and as such, was an area of focus for us.	We obtained management's assessment of those properties requiring provisions and gained an understanding of the rationale behind the provision recognised including the basis for the calculations. We agreed a sample of the properties to underlying documents including lease agreements and written communications from third parties for onerous lease provisions. In doing so, we agreed the costs being incurred by the Group and any amounts being received as income from lessees where the Group is sub-letting properties at a shortfall. For dilapidations provisions, we compared management's estimates to either correspondence of amounts to be paid (where stores have been vacated), or in the case of stores yet to be vacated, historical amounts incurred by the Group for similar stores previously vacated and confirmed that management's estimates were in line with previous experience or were supported by communication from landlords or property consultants. We performed an independent assessment of whether provisions were required by examining the schedule of leases and comparing these to the individual store's contribution. The work we performed indicated that management have sufficient provisions held for property matters at 31 August 2015.
Pension scheme valuation Refer to Note 1 (o) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 4 Retirement benefit obligations and page 29 for the views of the Audit Committee. The Group has two defined benefit pension plans which comprise total plan assets of £1,162m and total pension liabilities of £948m. The valuation of the schemes' liabilities requires a significant level of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including inflation, discount rates and mortality) can have a material impact on the position as disclosed in the Note 4 of the financial statements. We focused on this area because of the impact of the judgements inherent in the actuarial assumptions involved in the valuation of the schemes' liabilities.	We examined the pension assumptions, including discount rates, salary increases, inflation, and mortality, utilising our specialist knowledge of pensions. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range.
Taxation Refer to Note 1 (o) Accounting policies and page 29 for the views of the Audit Committee. There is a level of uncertainty regarding the tax treatment of certain exposures relating to current and previous years which requires management to apply their best estimate of the likely outcome. We focused on this area because of the judgemental nature of provisions recognised and their potential impact on the tax charge in the income statement.	We performed detailed testing of the Group tax charge and provision calculations. We examined external evidence to support management's position regarding certain exposures. We found that the judgements made by management were consistent with our views and the audit evidence we had obtained.

How we tailored the audit scope

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

WH Smith PLC comprises two operating segments, High Street and Travel, and one central function. Within the two operating segments there are 16 entities, 13 of which are UK and Ireland based and three are overseas in France, Qatar and Australia.

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

The entities where we performed full scope audits accounted for 98 per cent of profit before tax and the entities where we performed full scope audits or specific audit procedures accounted for 97 per cent of revenue.

Materiality

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

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

Overall Group materiality	£6.0m.
How we determined it	Five per cent of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £300,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 55, in relation to going concern. We have nothing to report having performed our review.

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

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

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement set out as set out on pages 26 to 55 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 29, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 28 to 31, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Financial statements

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

Adequacy of information and explanations received

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

Directors' remuneration

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

Corporate governance statement

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

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 56, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

OTHER MATTER

We have reported separately on the Company financial statements of WH Smith PLC for the year ended 31 August 2015 and on the information in the Directors' remuneration report that is described as having been audited.

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

London, UK

15 October 2015

GROUP INCOME STATEMENT

For the year ended 31 August 2015

		2015			2014		
£m	Note	Headline	Non-underlying items[1]	Total	Headline	Non-underlying items[1]	Total
Continuing operations							
Revenue	2	**1,178**	**–**	**1,178**	1,161	–	1,161
Operating profit	2, 3	**124**	**–**	**124**	116	1	117
Finance costs	8	**(1)**	**(2)**	**(3)**	(2)	(3)	(5)
Profit before tax		**123**	**(2)**	**121**	114	(2)	112
Income tax expense	9	**(20)**	**–**	**(20)**	(20)	–	(20)
Profit for the year		**103**	**(2)**	**101**	94	(2)	92
Earnings per share							
Basic	11			**87.1p**			77.3p
Diluted	11			**85.6p**			76.0p
Non GAAP measures							
Headline earnings per share							
Basic	11			**88.8p**			79.0p
Diluted	11			**87.3p**			77.7p
Equity dividends per share[2]				**39.4p**			35.0p
Fixed charges cover	7			**1.6x**			1.6x

[1] 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).
[2] Dividend per share is the final proposed dividend of 27.3p (2014: 24.2p) and the interim dividend of 12.1p (2014: 10.8p).

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GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 August 2015

£m	Note	2015	2014
Profit for the year		**101**	92
Other comprehensive income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit pension schemes	4	**47**	(5)
Tax on defined benefit pension schemes	19	**(9)**	1
		38	(4)
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		**–**	(1)
Exchange differences on translation of foreign operations		**(2)**	(1)
		(2)	(2)
Other comprehensive income/(loss) for the year, net of tax		**36**	(6)
Total comprehensive income for the year		**137**	86

GROUP BALANCE SHEET

As at 31 August 2015

£m	Note	2015	2014
Non-current assets			
Goodwill	12	**36**	34
Other intangible assets	13	**23**	22
Property, plant and equipment	14	**155**	147
Deferred tax assets	19	**10**	17
Trade and other receivables	15	**2**	2
		226	222
Current assets			
Inventories		**141**	144
Trade and other receivables	15	**52**	54
Current tax asset		**3**	3
Derivative financial assets		**–**	–
Cash and cash equivalents	20	**34**	34
		230	235
Total assets		**456**	457
Current liabilities			
Trade and other payables	16	**(231)**	(230)
Bank overdrafts and other borrowings	20	**(9)**	(12)
Retirement benefit obligations	4	**(1)**	(11)
Obligations under finance leases	17	**(2)**	–
Current tax liabilities		**(35)**	(39)
Short-term provisions	18	**(1)**	(2)
		(279)	(294)
Non-current liabilities			
Retirement benefit obligations	4	**(5)**	(44)
Deferred tax liabilities	19	**–**	–
Long-term provisions	18	**(3)**	(3)
Obligations under finance leases	17	**(8)**	–
Other non-current liabilities		**(14)**	(15)
		(30)	(62)
Total liabilities		**(309)**	(356)
Total net assets		**147**	101

£m	Note	2015	2014
Shareholders' equity			
Called up share capital	24	**25**	26
Share premium		**5**	4
Capital redemption reserve		**12**	11
Revaluation reserve		**2**	2
ESOP reserve		**(11)**	(11)
Hedging reserve		**–**	–
Translation reserve		**(5)**	(3)
Other reserve		**(239)**	(235)
Retained earnings		**358**	307
Total equity		**147**	101

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 15 October 2015 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

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GROUP CASH FLOW STATEMENT

For the year ended 31 August 2015

£m	Note	2015	2014
Net cash inflow from operating activities	22	**145**	116
Investing activities			
Purchase of property, plant and equipment		**(34)**	(28)
Purchase of intangible assets		**(5)**	(4)
Acquisition of business		**(3)**	(2)
Net cash outflow from investing activities		**(42)**	(34)
Financing activities			
Interest paid		**(1)**	(1)
Dividend paid		**(42)**	(38)
Purchase of own shares for cancellation	24	**(54)**	(41)
Purchase of own shares for employee share schemes		**(4)**	(10)
Repayments of borrowings	20	**(3)**	–
Proceeds from borrowings	20	**–**	12
Repayments of obligations under finance leases		**(1)**	–
Proceeds from sale and leaseback of property, plant and equipment		**3**	–
Net cash used in financing activities		**(102)**	(78)
Net increase in cash and cash equivalents in year		**1**	4
Opening cash and cash equivalents		**34**	31
Effect of movements in foreign exchange rates		**(1)**	(1)
Closing cash and cash equivalents		**34**	34

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

£m	Note	2015	2014
Net funds at beginning of the year		**22**	31
Increase in cash and cash equivalents		**1**	4
Decrease/(increase) in debt		**3**	(12)
Net movement in finance leases		**(10)**	–
Effect of movements in foreign exchange rates		**(1)**	(1)
Net funds at end of the year	20	**15**	22

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2015

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves[1]	Other reserve[2]	Retained earnings	Total
Balance at 1 September 2014	**30**	**11**	**2**	**(11)**	**(3)**	**(235)**	**307**	**101**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**101**	**101**
Other comprehensive income/(expense):								
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	47	47
Tax on defined benefit pension schemes	–	–	–	–	–	–	(9)	(9)
Exchange differences on translation of foreign operations	–	–	–	–	(2)	–	–	(2)
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(2)**	**–**	**139**	**137**
Recognition of share-based payments	–	–	–	–	–	–	5	5
Current tax on share-based payments	–	–	–	–	–	–	1	1
Deferred tax on share-based payments	–	–	–	–	–	–	1	1
Premium on issue of shares (Note 24)	1	–	–	–	–	–	–	1
Dividends paid (Note 10)	–	–	–	–	–	–	(42)	(42)
Employee share schemes	–	–	–	–	–	(4)	–	(4)
Purchase of own shares for cancellation (Note 24)	(1)	1	–	–	–	–	(53)	(53)
Balance at 31 August 2015	**30**	**12**	**2**	**(11)**	**(5)**	**(239)**	**358**	**147**
Balance at 1 September 2013	**31**	**10**	**2**	**(21)**	**(2)**	**(215)**	**297**	**102**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**92**	**92**
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(5)	(5)
Tax on defined benefit pension schemes	–	–	–	–	–	–	1	1
Cash flow hedges	–	–	–	–	–	–	(1)	(1)
Exchange differences on translation of foreign operations	–	–	–	–	(1)	–	–	(1)
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 (Note 24)	–	–	–	–	–	–	–	–
Dividends paid (Note 10)	–	–	–	–	–	–	(38)	(38)
Employee share schemes	–	–	–	10	–	(20)	–	(10)
Purchase of own shares for cancellation (Note 24)	(1)	1	–	–	–	–	(42)	(42)
Balance at 31 August 2014	**30**	**11**	**2**	**(11)**	**(3)**	**(235)**	**307**	**101**

[1] Included within the Hedging and translation reserves is a cumulative loss of £5m (2014: £3m) relating to foreign currency translation.

[2] The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006, as well as movements relating to employee share schemes of £4m (2014: £20m).

Financial statements

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 55 of the Directors' report.

New standards

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

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 IFRS 10,11 and 12	Transition guidance
Amendments to IFRS 10, 12 and IAS 27	Consolidation for Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendment to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

IFRS 9	Financial Instruments
IFRS 14	Regulatory deferral accounts
IFRS 15	Revenue
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative
Annual improvements 2010-2012	
Annual improvements 2011-2013	
Annual improvements 2012-2014	

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.

Accounting convention

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

Basis of consolidation

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Non GAAP measures

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

b) Revenue

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

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

c) Supplier income

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

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

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

Retrospective discounts

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

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

Promotional and marketing activity

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

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

d) Retirement benefit costs

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

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

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

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

e) Leasing

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

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

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

Financial statements

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES (CONTINUED)

f) Intangible assets

Business combinations

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

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

Goodwill

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

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those cash-generating units 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.

g) Property, plant and equipment

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

Freehold properties	– over 20 years
Short-leasehold properties	– shorter of the lease period and the estimated remaining economic life
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.

h) Inventories

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

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

Provisions are made for obsolescence, markdown and shrinkage.

i) Provisions

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

1. ACCOUNTING POLICIES (CONTINUED)

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 unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 8 as 'Unwinding of discount on provisions'.

j) Foreign currencies

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

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

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

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

k) Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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.

l) Financial instruments

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

Financial statements

NOTES TO THE ACCOUNTS CONTINUED

1. ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

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

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

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

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

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

m) Share schemes

WHSmith Employee Benefit Trust

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

Share-based payments

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

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

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

n) Dividends

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

o) Critical accounting judgements and key sources of estimation uncertainty

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

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

Retirement benefit obligation

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

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

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

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

Inventory valuation

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

Provisions

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

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	2015	2014
Continuing operations:		
Travel	**521**	477
High Street	**657**	684
Group revenue	**1,178**	1,161

b) Group results

£m	2015 Headline	2015 Non-underlying items[1]	2015 Total	2014 Headline	2014 Non-underlying items[1]	2014 Total
Continuing operations:						
Travel	**80**	**–**	**80**	73	–	73
High Street	**59**	**–**	**59**	58	–	58
Profit from trading operations	**139**	**–**	**139**	131	–	131
Unallocated costs	**(15)**	**–**	**(15)**	(15)	–	(15)
Group operating profit before non-underlying items	**124**	**–**	**124**	116	–	116
Non-underlying operating items (Note 4)	**–**	**–**	**–**	–	1	1
Group operating profit	**124**	**–**	**124**	116	1	117
Finance costs	**(1)**	**(2)**	**(3)**	(2)	(3)	(5)
Income tax expense	**(20)**	**–**	**(20)**	(20)	–	(20)
Profit for the year	**103**	**(2)**	**101**	94	(2)	92

[1] 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).

Included within Travel revenue and trading profit is International revenue of £57m (2014: £43m) and International trading profit of £5m (2014: £3m).

c) Balance sheet

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

Financial statements

NOTES TO THE ACCOUNTS CONTINUED

2. SEGMENTAL ANALYSIS OF RESULTS (CONTINUED)

£m	Travel	High Street	2014 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

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.

d) Other segmental items

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

£m	Travel	High Street	2014 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)

3. GROUP OPERATING PROFIT

£m	2015	2014
Revenue	**1,178**	1,161
Cost of sales	**(498)**	(502)
Gross profit	**680**	659
Distribution costs[1]	**(479)**	(473)
Administrative expenses[2]	**(79)**	(72)
Other income[3]	**2**	3
Group operating profit	**124**	117

[1] During the period there was a £2m (2014: £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.
[3] Other income is profit attributable to property and the sale of plant and equipment.

3. GROUP OPERATING PROFIT (CONTINUED)

£m	2015	2014
Cost of inventories recognised as an expense	**499**	502
Write-down of inventories in the period	**3**	3
Depreciation and amounts written off property, plant and equipment	**32**	31
Amortisation and amounts written off intangible assets	**6**	5
Net operating lease charges		
– land and buildings	**189**	184
– equipment and vehicles	**1**	1
Other occupancy costs	**67**	66
Staff costs (Note 5)	**189**	183
Auditor's remuneration (see below)		
Audit services		
Fees payable 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 financial statements	**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 and audit-related services	**0.3**	0.3
Non-audit services		
Fees payable to the Group's auditor for other services:		
Taxation compliance services	**–**	–
Taxation advisory services	**–**	0.1
All other non-audit services	**0.1**	0.1
Non-audit fees including taxation and other services	**0.1**	0.2
Total auditor remuneration	**0.4**	0.5

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

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

4. RETIREMENT BENEFIT 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	2015	2014
WHSmith Pension Trust	**(5)**	(55)
United News Shops Retirement Benefits Scheme	**(1)**	–
Retirement benefit obligation recognised in the balance sheet	**(6)**	(55)
Recognised as:		
Current liabilities	**(1)**	(11)
Non-current liabilities	**(5)**	(44)

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.

Financial statements

NOTES TO THE ACCOUNTS CONTINUED

4. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

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 ten Trustee directors of which three are appointed by the Sponsor, four are member-nominated directors, and three are independent. Trustee directors are appointed for a term of six years, and are then eligible for re-appointment.

The WHSmith Pension Trust, has assets valued at £1,162m as at 31 August 2015 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. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2014 by independent actuaries using the projected unit credit method. At 31 March 2014 the deficit was £24m, and a revised deficit funding schedule of approximately £3m per annum, with effect from 1 October 2014 for the following nine years, was agreed with the Trustee. During the year ending 31 August 2015, the Group made a contribution of £4m to the WHSmith Pension Trust (2014: £14m) in accordance with the agreed pension deficit funding schedule. The weighted average duration of the defined benefit obligation is 19 years.

With effect from 1 September 2015 the Group agreed to pay certain investment management costs on behalf of the Trustee. The annual deficit funding agreement is around £1m per annum with effect from 1 September 2015. The minimum funding requirement liability recognised on the balance sheet as at 31 August 2015 reflects this revised deficit funding schedule. The Group expects the cash payments for the year ended 31 August 2016, payable to the Trustee, to be £1m, and approximately £3m in total in relation to the scheme.

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	2015	2014
Present value of the obligations	**(948)**	(932)
Fair value of plan assets	**1,162**	1,087
Surplus before consideration of asset ceiling	**214**	155
Amounts not recognised due to effect of asset ceiling	**(214)**	(155)
Additional liability recognised due to minimum funding requirements	**(5)**	(55)
Retirement benefit obligation recognised in the balance sheet	**(5)**	(55)

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 £214m (2014: £155m) available on a reduction of future contributions is £nil (2014: £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.

4. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

Income Statement

The amounts recognised in the income statement were as follows:

£m	2015	2014
Current service cost	–	–
Administration expenses	–	–
Past service credit[1]	–	1
Net interest cost on the defined benefit liability	(2)	(3)
	(2)	(2)

[1] The past service credit in the prior year was 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.

In the year ended 31 August 2014, 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 in the prior year, 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	2015	2014
Actuarial gain on defined benefit obligations arising from experience	15	2
Actuarial loss on defined benefit obligations arising from changes in financial assumptions	(21)	(80)
Actuarial (loss)/gain on defined benefit obligations arising from changes in demographic assumptions	(12)	5
Total actuarial loss before consideration of asset ceiling	(18)	(73)
Return on plan assets excluding amounts included in net interest cost	67	100
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	(52)	(43)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	51	11
Total actuarial gain/(loss) recognised in other comprehensive income	**48**	(5)

In addition, a £1m debit (2014: £nil) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

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

	2015				2014			
£m	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised
At 1 September	1,087	(932)	(210)	(55)	964	(856)	(170)	(62)
Current service cost	–	–	–	–	–	–	–	–
Interest income/(cost)	41	(35)	(8)	(2)	43	(38)	(8)	(3)
Past service credit	(1)	1	–	–	(6)	7	–	1
Actuarial gains/(losses)	67	(18)	(1)	48	100	(73)	(32)	(5)
Contributions from the sponsoring companies	4	–	–	4	14	–	–	14
Benefits paid	(36)	36	–	–	(28)	28	–	–
At 31 August	**1,162**	**(948)**	**(219)**	**(5)**	1,087	(932)	(210)	(55)

The actual return on scheme assets was a gain of £108m (2014: gain of £143m).

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NOTES TO THE ACCOUNTS CONTINUED

4. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

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

	2015				2014			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	349	–	349	30	307	–	307	28
– Corporate bonds								
UK	44	–	44	4	41	8	49	4
Non-UK	321	–	321	28	43	181	224	21
Investment funds[1]	306	–	306	26	303	–	303	28
Derivatives								
– Interest rate swaps	–	167	167	14	–	83	83	8
– Inflation swaps	–	(94)	(94)	(8)	–	(52)	(52)	(5)
– Other	–	(19)	(19)	(2)	–	(19)	(19)	(2)
Cash and cash equivalents	88	–	88	8	192	–	192	18
Total	1,108	54	1,162	100	886	201	1,087	100

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

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

%	2015	2014
Rate of increase in pension payments	3.22	3.17
Rate of increase in deferred pensions	2.20	2.37
Discount rate	3.75	3.84
RPI inflation assumption	3.30	3.27
CPI inflation assumption	2.20	2.37

The mortality assumptions in years underlying the value of the accrued liabilities for both 2015 and 2014 are:

	2015		2014	
Years	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	22.4	24.7	22.1	24.3
Member currently aged 45	24.1	26.6	23.4	25.8

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2015, while keeping all other assumptions consistent.

£m	Effect on liabilities at 31 August 2015
Discount rate + / - 0.1% per annum	-19/+19
Inflation assumptions + / - 0.1% per annum	-18/+17
Life expectancy + / - 1 year	+30/-30

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme ('UNSRBS') is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members based on salary at the date of closure, with increases based on inflation. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out at 5 April 2015 by independent actuaries. Following this valuation, the deficit was £1m.

The valuation of the UNSRBS used for the IAS 19 disclosures is based on consistent assumptions to those used for valuing the WHSmith Pension Trust. Scheme assets are stated at their market value at the relevant reporting date. The deficit funding contributions are immaterial in the context of these financial statements.

4. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

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

£m	2015	2014
Present value of the obligations	**(6)**	(6)
Fair value of plan assets	**5**	6
Retirement benefit obligation recognised in the balance sheet	**(1)**	–

A £1m debit (2014: £nil) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2015 (2014: £3m).

5. STAFF COSTS AND EMPLOYEES

a) Staff costs

The aggregate remuneration of employees was:

£m	2015	2014
Wages and salaries	**168**	163
Social security costs	**12**	12
Other pension costs	**3**	3
Employee share schemes	**6**	5
Total Group	**189**	183

b) Employee numbers

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

	2015	2014
Total retailing	**13,875**	14,362
Support functions	**28**	29
Total Group	**13,903**	14,391

6. OPERATING LEASE COMMITMENTS

Amounts recognised in operating profit:

£m	2015	2014
Minimum lease payments	**182**	180
Contingent rent payments	**11**	10
Total rent paid	**193**	190
Sublease rentals received on operating leases	**(3)**	(5)
Net operating lease charges	**190**	185

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

	2015			2014
£m	Land and buildings	Equipment and vehicles	Total	Land and buildings
Within one year	**166**	**1**	**167**	165
Within two to five years	**468**	**2**	**470**	473
In more than five years	**219**	**–**	**219**	243
	853	**3**	**856**	881

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 (2014: £6m). The average remaining lease length across the Group is five years with both Travel and High Street at five years. In addition the Group leases various equipment and vehicles which have a total lease commitment of £3m (2014: 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 21.

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NOTES TO THE ACCOUNTS CONTINUED

7. FIXED CHARGES COVER

£m	2015	2014
Net finance charges (Note 8)	**3**	5
Net operating lease rentals (Note 3)	**190**	185
Total fixed charges	**193**	190
Profit before tax and non-underlying operating items	**121**	111
Profit before tax, non-underlying operating items and fixed charges	**314**	301
Fixed charges cover – times	**1.6x**	1.6x

8. FINANCE COSTS

£m	2015	2014
Interest payable on bank loans and overdrafts	**1**	1
Unwinding of discount on provisions	**–**	1
Net interest cost on defined benefit pension liabilities	**2**	3
	3	5

9. INCOME TAX EXPENSE

£m	2015	2014
Tax on profit	**32**	32
Standard rate of UK corporation tax 20.58% (2014: 22.16%)		
Adjustment in respect of prior year UK corporation tax	**(11)**	(12)
Total current tax charge	**21**	20
Deferred tax – current year (Note 19)	**(1)**	–
Tax on profit	**20**	20
Effective tax rate	***17%***	*18%*

Reconciliation of the taxation charge

£m	2015	2014
Tax on profit at standard rate of UK corporation tax 20.58% (2014: 22.16%)	**25**	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	**6**	7
Adjustment in respect of prior years	**(11)**	(12)
Income tax expense	**20**	20

The UK corporation tax rate fell to 20 per cent with effect from 1 April 2015 (previously 21 per cent). Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements.

The Group provides against known tax exposures, on a reasonable basis, until we have received formal agreement from the relevant tax authority that an inquiry into a particular tax return has been closed. Included in the total tax creditor of £35m is a provision of approximately £13m which relates to a commercial structure put in place in the year ended 31 August 2009. This historical structure is the subject of ongoing discussions with HMRC and the Group received a payment on account for £13m, which will be repaid to HMRC during the current financial year, in advance of final resolution of this matter.

10. DIVIDENDS

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

£m	2015	2014
Dividends		
Interim dividend of 12.1p per ordinary share (2014: 10.8p per ordinary share)	**14**	12
Final dividend of 24.2p per ordinary share (2014: 21.3p per ordinary share)	**28**	26
	42	38

The proposed dividend of 27.3p per share, amounting to a final dividend of £31m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2016 to shareholders on the register at the close of business on 15 January 2016.

11. EARNINGS PER SHARE

a) Earnings

£m	2015	2014
Earnings attributable to shareholders	**101**	92
Adjusted for non-headline items (net of taxation):		
Non-cash income statement charge for pensions	**2**	3
Operating exceptional items	**–**	(1)
Headline earnings attributable to shareholders	**103**	94

b) Weighted average share capital

Millions	2015	2014
Weighted average ordinary shares in issue	**118**	121
Less weighted average ordinary shares held in ESOP Trust	**(2)**	(2)
Weighted average shares in issue for earnings per share	**116**	119
Add weighted average number of ordinary shares under option	**2**	2
Weighted average ordinary shares for diluted earnings per share	**118**	121

c) Basic and diluted earnings per share

Pence	2015	2014
Basic earnings per share	**87.1**	77.3
Adjustments for non-headline items	**1.7**	1.7
Basic headline earnings per share	**88.8**	79.0
Diluted earnings per share	**85.6**	76.0
Adjustments for non-headline items	**1.7**	1.7
Diluted headline earnings per share	**87.3**	77.7

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.

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NOTES TO THE ACCOUNTS CONTINUED

12. GOODWILL

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

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**

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

£m	2015	2014
Travel	**25**	23
High Street	**11**	11
	36	34

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 (2014: £nil).

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

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

These cash flows are extrapolated for up to an additional nine years (representing the average length of the lease for the relevant group of stores) based on estimated long-term growth rates of between 0 and 2.5 per cent. The rate used to discount the forecast cash flows is ten per cent pre-tax (2014: 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.

On 24 November 2014, the Group acquired the trade and assets of *Supanews*, a retailer of news, books and convenience products in Australia, for a cash consideration of £3m. The acquisition has been accounted for as a business combination in accordance with IFRS 3. The fair value of net assets acquired was £3m, comprising goodwill of £2m, representing synergies and future growth opportunities, and intangible assets (being the value of the brand and franchise agreements) of £1m. Details of revenues and profits generated have not been disclosed as they are not material in the context of these financial statements.

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

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**

Included in the net book value of other intangible assets are software costs of £15m (2014: £13m), tenancy agreements of £6m (2014: £3m) and brands and franchise contracts of £2m (2014: £1m). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2014: £4m), representing certain rights under tenancy agreements, which include the right to renew leases. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period.

The net book value of assets held under finance leases included within these balances as at 31 August 2015 was £2m (2014: £nil).

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NOTES TO THE ACCOUNTS CONTINUED

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 2014	22	165	120	99	406
Additions	–	12	9	20	41
Transfers	–	(1)	–	1	–
Disposals	–	(6)	(7)	(6)	(19)
Foreign exchange differences	–	–	(1)	(1)	(2)
At 31 August 2015	**22**	**170**	**121**	**113**	**426**
Accumulated depreciation:					
At 1 September 2014	12	102	87	58	259
Depreciation charge	–	12	7	11	30
Impairment charge	–	1	1	–	2
Transfers	–	2	(3)	1	–
Disposals	–	(6)	(7)	(6)	(19)
Foreign exchange differences	–	–	(1)	–	(1)
At 31 August 2015	**12**	**111**	**84**	**64**	**271**
Net book value at 31 August 2015	**10**	**59**	**37**	**49**	**155**
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**

The net book value of assets held under finance leases included within these balances as at 31 August 2015 was £8m (2014: £nil).

15. TRADE AND OTHER RECEIVABLES

£m	2015	2014
Current debtors		
Trade debtors	**22**	24
Other debtors	**10**	10
Prepayments and accrued income	**20**	20
	52	54
Non-current debtors		
Prepayments and accrued income	**2**	2
Total trade and other receivables	**54**	56

Included in Trade receivables is £4m (2014: £5m) of supplier income that has been invoiced but not yet settled (where we do not have the right to offset against Trade payables balances). Included in Prepayments and accrued income is £6m (2014: £6m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income, that has been earned but not yet invoiced.

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

£m	2015	2014
Trade and other receivables gross	**33**	36
Allowance for doubtful debts	**(1)**	(2)
Trade and other receivables net	**32**	34
Of which:		
Amounts neither impaired nor past due on the reporting date	**28**	32
Amounts past due but not impaired:		
Less than one month old	**2**	1
Between one and three months old	**2**	1
Between three and six months old	**–**	–
Between six months and one year old	**–**	–
Trade and other receivables net carrying amount	**32**	34

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2015 of £1m (31 August 2014: £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	2015	2014
Less than one month old	**–**	1
Between one and three months old	**–**	–
Between three and six months old	**1**	–
Between six months and one year old	**–**	1
	1	2

16. TRADE AND OTHER PAYABLES – CURRENT

£m	2015	2014
Trade payables	**92**	95
Other tax and social security	**26**	24
Other creditors	**60**	62
Accruals and deferred income	**53**	49
	231	230

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 58 days (2014: 60 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables is stated net of £14m (2014 £10m) amounts receivable from suppliers in relation to supplier income, that has been invoiced, for which we have the right to set off against amounts payable at the balance sheet date.

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NOTES TO THE ACCOUNTS CONTINUED

17. OBLIGATIONS UNDER FINANCE LEASES

£m	2015 Minimum lease payments	2015 Present value of minimum lease payments	2014 Minimum lease payments	2014 Present value of minimum lease payments
Amounts payable under finance leases:				
Within one year	**2**	**2**	–	–
Within two to five years	**8**	**8**	–	–
After five years	**1**	**–**	–	–
Total	**11**	**10**	–	–
Less: future finance charges	**(1)**	**–**	–	–
Present value of lease obligations	**10**	**10**	–	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2)**		–	
Amount due for settlement after 12 months	**8**		–	

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

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

18. PROVISIONS

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

£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**

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

£m	2015	2014
Included in current liabilities	**1**	2
Included in non-current liabilities	**3**	3
	4	5

The 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 two per cent, and this discount will be unwound over the life of the leases.

The contingent consideration provision in the prior year related to the acquisition of Fresh Plus. In the year ended 31 August 2014 additional consideration was paid to the former owners of Fresh Plus, based on certain financial targets which were met during the year.

19. DEFERRED TAX

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

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2014	–	1	4	10	2	17
Credited/(charged) to income	2	–	–	–	(1)	1
Credited/(charged) to equity	–	–	1	(9)	–	(8)
At 31 August 2015	**2**	**1**	**5**	**1**	**1**	**10**
At 1 September 2013	(2)	1	8	12	2	21
Credited/(charged) to income	2	–	(2)	–	–	–
(Charged)/credited to equity	–	–	(2)	(2)	–	(4)
Restatement of deferred tax closing balances to 20%	–	–	–	–	–	–
At 31 August 2014	**–**	**1**	**4**	**10**	**2**	**17**

The rate of corporation tax changed 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. The change of rate in the year decreased the net deferred tax asset by £nil (2014: £nil).

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19 per cent from 1 April 2017 and to 18 per cent from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. If these changes had applied to the deferred tax balance at the balance sheet date, there would have been no effect on the deferred tax asset or the tax expense for the period.

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

£m	2015	2014
Deferred tax liabilities (non-current liabilities)	**–**	–
Deferred tax assets	**10**	17
	10	17

20. ANALYSIS OF NET FUNDS

Movements in net funds can be analysed as follows:

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

£m	2013	Cash flow	Currency translation	2014
Cash and cash equivalents	31	4	(1)	34
Borrowings				
- Revolving credit facility	–	(12)	–	(12)
Net funds	**31**	**(8)**	**(1)**	**22**

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 2015 was £9m (2014: £12m).

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NOTES TO THE ACCOUNTS CONTINUED

21. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

£m	2015	2014
Bank and other loans guaranteed	**6**	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 2015 of £4m (2014: £7m). 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 £5m (2014: £1m).

22. NET CASH INFLOW FROM OPERATING ACTIVITIES

£m	2015	2014
Operating profit from continuing operations	**124**	117
Depreciation of property, plant and equipment	**30**	29
Impairment of property, plant and equipment	**2**	2
Amortisation of intangible assets	**6**	5
Share-based payments	**6**	5
Decrease in inventories	**3**	4
Decrease/(increase) in receivables	**2**	(2)
Decrease in payables	**–**	(5)
Pension funding	**(4)**	(14)
Non-cash pension past service credit	**–**	(1)
Income taxes paid	**(23)**	(21)
Charge to provisions	**–**	1
Cash spend against provisions	**(1)**	(4)
Net cash inflow from operating activities	**145**	116

23. FINANCIAL INSTRUMENTS

Categories of financial instruments

	Carrying value	
£m	2015	2014
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**–**	–
Loans and receivables (including cash and cash equivalents)[2]	**91**	93
Financial liabilities		
Finance lease obligations	**(10)**	–
Amortised cost[3]	**(289)**	(296)

[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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

Capital risk

The Group's objectives with respect to managing capital (defined as net debt/funds plus equity) are to safeguard the Group's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding. Refer to Note 20 for the value of the Group's net debt/funds and refer to the Group Statement of Changes in Equity for the value of the Group's equity.

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

As at 15 October 2015 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:

2015 (£m)	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 5 years**	**Due over 5 years**	**Total**
Non-derivative financial liabilities					
Bank loans and overdrafts	**9**	**–**	**–**	**–**	**9**
Trade and other payables	**262**	**1**	**–**	**–**	**263**
Total cash flows	**271**	**1**	**–**	**–**	**272**

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**

Credit risk

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

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

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

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1 and long-term ratings of A1 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 2015, the Group had drawn down £9m (2014: £12m) 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.

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NOTES TO THE ACCOUNTS CONTINUED

23. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Group's foreign currency exposures are principally to the US dollar, euro and Australian dollar.

The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD/GBP exchange rates. These are designated as cash flow hedges. At 31 August 2015, 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	**2015**	2014
Fair value of derivative assets	**–**	–

At 31 August 2015, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$31m (2014: US$29m). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Gains totalling £nil (2014: £nil) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2015. In the year to 31 August 2015, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £nil (2014: £1m loss).

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 2015

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 1.5391/1 (2014: 1.653/1), EUR/GBP 1.3762/1 (2014: 1.264/1) and AUD/GBP 2.1460/1 (2014: 1.777/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2015 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.

	2015		2014	
£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	**–**	**–**	–	–

24. CALLED UP SHARE CAPITAL

Allotted and fully paid

£m	2015 Number of shares (millions)	2015 Nominal value £m	2014 Number of shares (millions)	2014 Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	**115**	**25**	119	26
Total	**115**	**25**	119	26

During the year the Company repurchased 3,944,759 of its own shares in the open market for an aggregate consideration of £53m. In addition the outstanding amounts in respect of 85,723 shares repurchased during the prior year were settled for an aggregate consideration of £1m. In total 4,010,482 shares were cancelled during the period.

During the year 241,236 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2014: £nil).

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

The ESOP reserve of £11m (2014: £11m) represents the cost of shares in WH Smith PLC purchased in the market and held by the WH Smith Employee Benefit Trust to satisfy awards and options under the Group's executive share schemes. The total shareholding is 1,410,608 (2014: 1,816,390).

25. 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 2014	475,744	302,678	–	830,264	1,235,639	327,020	143,434	3,314,779
Options and awards granted	239,086	–	–	409,351	322,219	136,742	–	1,107,398
Options and awards exercised	(241,236)	(229,231)	–	–	(616,417)	–	(31,351)	(1,118,235)
Options and awards lapsed	(27,988)	–	–	(21,148)	–	(21,608)	–	(70,744)
Outstanding at 31 August 2015	**445,606**	**73,447**	**–**	**1,218,467**	**941,441**	**442,154**	**112,083**	**3,233,198**
Exercisable at 31 August 2015	**10,642**	**73,447**	**–**	**–**	**18,267**	**–**	**–**	**102,356**
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**

	2015	2014
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**108.83**	122.66
– Granted in the period	**247.68**	–
– Exercised in the period	**175.07**	107.47
– Lapsed in the period	**225.69**	76.67
– Outstanding at the end of the year	**130.92**	108.83
– Exercisable at the end of the year	**353.87**	398.87

Detail of movements in options and awards

2012 Co-Investment Plan (CIP)

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

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NOTES TO THE ACCOUNTS CONTINUED

25. SHARE-BASED PAYMENTS (CONTINUED)

Outstanding awards granted under the CIP are as follows:

Date of grant	Number of shares 2015	Number of shares 2014	Exercise price (pence)	Exercise period
5 November 2012	**428,737**	430,709	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	**381,110**	385,778	Nil	Oct 2016 – Oct 2023
23 October 2014	**363,448**	–	Nil	Oct 2017 – Oct 2024
6 November 2014	**31,395**	–	Nil	Nov 2017 – Nov 2024
	1,218,467	830,264		

LTIPs

Under the terms of the LTIP, executive directors and key senior executives may be granted conditional awards to acquire ordinary shares in the Company (in the form of nil cost options) which will only vest and become exercisable to the extent that the related performance targets are met.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares 2015	Number of shares 2014	Exercise price (pence)	Exercise period
15 November 2011	**18,267**	634,684	Nil	Nov 2014 – 15.11.21
5 November 2012	**291,364**	291,364	Nil	Nov 2015 – 05.11.22
18 April 2013	**43,288**	43,288	Nil	Apr 2016 – 18.04.23
17 October 2013	**257,664**	257,664	Nil	Oct 2016 – 17.10.23
20 November 2013	**8,639**	8,639	Nil	Nov 2016 – 20.10.23
23 October 2014	**290,824**	–	Nil	Oct 2017 – 23.10.24
6 November 2014	**31,395**	–	Nil	Nov 2017 – 06.11.24
	941,441	1,235,639		

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 2015 are as follows:

Date of grant	Number of shares 2015	Number of shares 2014	Exercise price (pence)	Exercise period
3 June 2009 (5 year)	**–**	5,009	387.00	01.08.14 – 31.01.15
2 June 2010 (5 year)	**10,558**	49,772	400.40	01.08.15 – 31.01.16
30 November 2011 (3 year)	**84**	204,675	426.80	01.02.15 – 31.07.15
5 June 2013 (3 year)	**197,577**	216,288	580.80	01.08.16 – 31.01.17
3 June 2015 (3 year)	**237,387**	–	1147.20	01.08.18 – 31.01.19
	445,606	475,744		

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.

25. SHARE-BASED PAYMENTS (CONTINUED)

Outstanding awards granted under the PSP are as follows:

Date of grant	Number of shares 2015	Number of shares 2014	Exercise price (pence)	Exercise period
5 November 2012	**165,632**	169,759	Nil	Nov 2015 – 05.11.22
18 April 2013	**10,354**	11,200	Nil	Apr 2016 – 18.04.23
17 October 2013	**137,280**	145,184	Nil	Oct 2016 – 17.10.23
20 November 2013	**877**	877	Nil	Nov 2016 – 20.11.23
23 October 2014	**127,090**	–	Nil	Oct 2017 – 23.10.24
23 April 2015	**921**	–	Nil	Apr 2018 – 23.04.25
	442,154	327,020		

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 2015 are as follows:

Date of grant	Number of shares 2015	Number of shares 2014	Exercise price (pence)	Exercise period
3 November 2004	**–**	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	**3,584**	51,712	497.37	05.11.12 – 04.11.19
21 October 2010	**20,703**	93,255	478.20	21.10.13 – 20.10.20
15 November 2011	**11,102**	42,272	520.17	15.11.14 – 14.11.21
	73,447	302,678		

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 2015 there were 112,083 outstanding nil-cost cash-settled awards (2014: 143,434), which will be settled between November 2015 and October 2023. The carrying amount of liabilities arising from share-based payment transactions is £1m (2014: £nil).

Fair value information

	2015	2014
Weighted average share price at date of exercise of share options exercised during period – pence	**1,260.81**	963.77
Weighted average remaining contractual life at end of period – years	**5**	6

Share options and awards granted

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

£m	2015	2014
	9	7

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:

	2015	2014
Share price – pence	**1,107**	907.5 – 983.5
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**23**	28
Expected life – years	**3.0**	3.0
Risk free rate – per cent	**1.05**	0.87 – 0.89
Dividend yield – per cent	**3.16**	3.12 – 3.38
Weighted average fair value of options – pence	**953.50**	714.84

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

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NOTES TO THE ACCOUNTS CONTINUED

25. SHARE-BASED PAYMENTS (CONTINUED)

The fair values of the Sharesave options granted were measured using a Black Scholes model. The input range into the Black Scholes models was as follows:

	2015
Share price – pence	1,572
Exercise price – pence	1,147.2
Expected volatility – per cent	22
Expected life – years	3.5
Risk free rate – per cent	0.94
Dividend yield – per cent	2.23
Weighted average fair value of options – pence	424.00

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

26. RELATED PARTY TRANSACTIONS

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

Remuneration of key management personnel

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

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

£'000	2015	2014
Short-term employee benefits	2,502	2,393
Post-employment benefits	210	209
Share-based payments	1,826	1,805
	4,538	4,407

There are no other transactions with directors.

27. EVENTS AFTER THE BALANCE SHEET DATE

As at 14 October 2015, the Company has repurchased a further 590,000 of its own shares in the open market as part of the Company's share buyback programme.

On 15 October 2015, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.

28. SUBSIDIARY COMPANIES

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

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

Financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH PLC

REPORT ON THE COMPANY FINANCIAL STATEMENTS

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 August 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Company Balance Sheet as at 31 August 2015; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

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

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

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 56, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

OTHER MATTER

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2015.

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

London, UK

15 October 2015

Financial statements

COMPANY BALANCE SHEET

For the year ended 31 August 2015

£m	Note	2015	2014
Fixed assets			
Investments	3	**357**	357
Total fixed assets		**357**	357
Current assets			
Debtors – amounts due within one year	4	**–**	39
Cash and cash equivalents		**58**	–
		58	39
Current liabilities			
Bank overdraft		**–**	–
Creditors – amounts due within one year	5	**(189)**	(136)
		(189)	(136)
Net current liabilities		**(131)**	(97)
Total net assets		**226**	260
Capital and reserves			
Called up share capital	8	**25**	26
Share premium	9	**5**	4
Capital redemption reserve	9	**12**	11
Profit and loss account	9	**184**	219
Total equity		**226**	260

The financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors on 15 October 2015.

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 £60m (2014: £80m) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

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

4. DEBTORS – AMOUNTS DUE WITHIN ONE YEAR

£m	2015	2014
Amounts owed by subsidiary undertakings	–	39
	–	39

5. CREDITORS – AMOUNTS DUE WITHIN ONE YEAR

£m	2015	2014
Other creditors	–	1
Amounts owed to subsidiary undertakings	**189**	135
	189	136

6. DIVIDENDS

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

£m	2015	2014
Dividends		
Interim dividend of 12.1p per ordinary share (2014: 10.8p per ordinary share)	**14**	12
Final dividend of 24.2p per ordinary share (2014: 21.3p per ordinary share)	**28**	26
	42	38

The proposed dividend of 27.3p per share, amounting to a final dividend of £31m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2016 to shareholders on the register at the close of business on 15 January 2016.

Financial statements

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

7. CONTINGENT LIABILITIES

Contingent liabilities of £3m (2014: £3m) are in relation to insurance standby letters of credit.

8. CALLED UP SHARE CAPITAL

Allotted and fully paid

	2015		2014	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of $22\frac{6}{67}$p	115	25	119	26
Total	**115**	**25**	119	26

During the year the Company repurchased 3,944,759 of its own shares in the open market for an aggregate consideration of £53m. In addition the outstanding amounts in respect of 85,723 shares repurchased during the prior year were settled for an aggregate consideration of £1m. In total 4,010,482 shares were cancelled during the period.

Also during the year 241,236 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m (2014: £nil).

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

9. RESERVES

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

Other information

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 27 January 2016 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: 0371 495 0100 or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005.

Sharedealing services

The Company is offering internet and telephone share dealing services for shareholders (in certain jurisdictions) in conjunction with Computershare. For internet dealing, log on to www.computershare.com/dealing/uk and for telephone dealing call 0370 703 0084. You will need to have your 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 2015
Preliminary results announced	15 October 2015
Annual report posted	December 2015
Final dividend ex-dividend date	14 January 2016
Final dividend record date	15 January 2016
Christmas trading statement	20 January 2016
AGM	27 January 2016
Final dividend payment date	4 February 2016
Half-year end	29 February 2016
Interim results announced	14 April 2016
Trading statement	June 2016
Interim dividend ex-dividend date	July 2016
Interim dividend record date	July 2016
Interim dividend payment date	August 2016
Financial year end	31 August 2016

The dividend dates shown above are in respect of the Company's ordinary shares of $22\frac{6}{67}$p.

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to Shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. Information on how to avoid share fraud or report a scam can be found on our website at www.whsmithplc.co.uk. You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to www.fca.org.uk/scamsmart.

UK CAPITAL GAINS TAX

Demerger 31 August 2006

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

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

Other information

OTHER INFORMATION CONTINUED

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 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 $22\frac{6}{67}$p per ordinary share.

Capital reorganisation 27 September 2004

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

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

Capital reorganisation 26 May 1998

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

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

March 1982 values

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

	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.

NOTES

NOTES CONTINUED

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