

13 October 2016

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2016**

Strong performance across the Group with EPS up 10%

Group Financial Summary

	12 months to		%
	Aug 2016	Aug 2015	change
Group profit before tax	£131m	£121m	8%
Diluted earnings per share	93.9p	85.6p	10%
Travel trading profit ¹	£87m	£80m	9%
High Street trading profit ¹	£62m	£59m	5%
Group profit from trading operations ¹	£149m	£139m	7%
Headline Group profit before tax ²	£132m	£123m	7%
Headline diluted earnings per share ²	94.8p	87.3p	9%
Dividend per share	43.9p	39.4p	11%
	Total	LFL³	
Travel revenue	10%	4%	
High Street revenue	(3)%	(2)%	
Group revenue	3%	1%	

Stephen Clarke, Group Chief Executive, commented:

“We have delivered a good performance across the Group with earnings up 10%.

“Our Travel business continues to perform well with strong sales across all channels and profit up 9%. We have further extended our food to go ranges and during the year we sold over ten million ‘meal deals’. Internationally, we have won a further 32 stores in the year, giving us a total of 232 stores won across 25 countries.

“In the High Street business, our profit focused strategy continues to deliver sustainable growth with profit up 5%. Stationery sales have been strong in the year and in Books we are delighted with the success of the Zoella Book Club which launched during the summer.

“The Board has proposed a 12% increase in the final dividend and we have today announced a further share buyback of up to £50m reflecting the Group’s strong cash flow and our positive outlook for the future.

“This performance is only possible through the ongoing hard work and commitment of our 14,000 colleagues across the business and I am grateful for their continued support.

“Looking ahead, we will continue to focus on profitable growth, cash generation and investing in new opportunities. While the economic environment is uncertain, we are well positioned for the current year and beyond.”

¹ Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before unallocated costs, finance costs and taxation. See Note 3 to the financial statements

² Headline Group profit before tax excludes the non-cash income statement charge for pensions. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 11

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)

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WH Smith PLC's Preliminary Results 2016 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2016 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

GROUP OVERVIEW

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

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

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

Group Summary

Total Group sales were up 3% at £1,212m (2015: £1,178m) with Group LFL sales up 1%.

Group profit from trading operations¹ increased 7% on the prior year to £149m (2015: £139m) with Headline Group profit before tax² of £132m (2015: £123m), up 7%.

Travel

Travel delivered a strong performance across all channels with total sales compared to last year up 10% and LFL sales up 4%, reflecting the impact of our key initiatives as well as improved passenger numbers. Trading profit¹ increased by 9% to £87m which includes £7m (2015: £5m) from our growing International channel. We continue to invest in the business and opened 18 new units in the UK during the year, taking us to a total of 576 units in the UK. We won a further 32 units in our international channel, making a total of 232 units, of which 192 are open. As at 31 August 2016 Travel operated from 768 units.

High Street

High Street delivered another good performance. Trading profit¹ was up 5% to £62m. Compared to last year, total sales were down 3% and down 2% on a LFL basis, as we annualised a strong performance driven by 'colour therapy'. We saw a good gross margin performance and costs were tightly controlled. We were able to accelerate some of our efficiency initiatives in the second half and delivered £6m of cost savings, £2m ahead of plan. In total, cost savings in the year were £11m. An additional £10m of cost savings have been identified over the next three years making a total of £19m of which £10m are planned for 2016/17. As at 31 August 2016 High Street operated from 612 units.

Group

Diluted earnings per share increased by 10% to 93.9p (2015: 85.6p), Headline² diluted earnings per share increased by 9% to 94.8p (2015: 87.3p). This reflects the increase in profit and a lower basic weighted average number of shares in issue following the share buyback.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £7m at 31 August 2016, with a Group free cash flow⁴ of £108m. The Group has a committed revolving credit working capital facility of £93m through to June 2019.

We completed £42m of the share buyback announced on 15 October 2015. Today 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 30.5p per share, a 12% increase on last year, giving a total ordinary dividend per share of 43.9p, an 11% 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.

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

Financial Year	Ordinary Dividend ⁵ £m	Buyback £m	Special Dividend £m	Total £m
2017	49 ⁶	50 ⁷	-	c.99
2016	46	42	-	88
2015	42	50	-	92
2014	38	50	-	88
2013	34	50	-	84
2012	31	50	-	81
2011	29	55	-	84
2010	26	35	-	61
2009	23	-	-	23
2008	21	33	57	111
2007	17	-	-	17
	356	415	57	c.828

⁵ Cash dividend paid

⁶ Proposed final ordinary dividend for year ended 31 August 2016 and for illustrative purposes only assumes interim dividend to be the same as in 2016

⁷ Buyback announced on 13 October 2016

Trading Operations

Travel

During the year Travel delivered a strong performance with trading profit¹ up 9% to £87m. Full year total sales were up 10%, with LFL sales up 4%. Second half LFL sales were up 4%.

We saw a strong sales performance across all our channels driven by investment in our key initiatives and improved passenger numbers. In air, total and LFL sales were up 5%; in rail, total and LFL sales were up 4%; and in hospitals, total sales were up 21% with LFL sales up 6%. Total sales in hospitals were supported by the opening of new stores, including 3 M&S Simply Food stores in the year. The improvement in LFL sales in hospitals reflects the impact of our growth initiatives, particularly focused on food and drink. Gross margin increased by 30 basis points (bps) during the year, driven by mix.

⁴ Free cash flow is cash generated from operating activities adjusted for capital expenditure, repayments to HMRC (see Note 5 to the financial statements), pension funding and net interest paid. See analysis of cash flow (page 7)

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

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

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

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

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

After early trials in Victoria Station, we have rolled out our digital offer to 23 stores. These stores are equipped with new display fixtures, providing customers with the opportunity to try products before making a purchase. In each of these locations we have also invested in additional training to ensure staff have the appropriate product knowledge and are able to assist time-pressed customers with their purchase. In air, we have successfully refitted our existing bookshop stores and opened new dedicated bookshops in addition to existing news, books and convenience (NBC) units in Heathrow T5 and Edinburgh Airport. These dedicated stores provide an enhanced customer experience with a unique look and feel. We now have 7 bookshops open.

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

We have built a successful Travel business based on the different operating models applied in each channel. Our active space management and our focus on providing a compelling offer to customers and landlords enables us to win and retain business. During the year we opened 18 units in the UK, including 4 in air, 7 in rail, 3 M&S Simply Food stores and an M&S Café, making a total of 15 M&S food units now open. Looking forward, we anticipate opening around 15 - 20 stores in the UK over each of the following three years, of which around 8 - 10 each year will be in hospitals.

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

Our international business continues to grow rapidly. However, our share of the global NBC travel market is still very small and we see opportunities to grow using our three operating models of directly-run, joint venture and franchise. Total sales were £79m (2015: £57m), up 39% versus the

previous year, as we opened more directly run stores, and up 8% on a like-for-like basis. Trading profit¹ for the year was £7m, an increase of £2m on the previous year.

During the year we won a further 32 new units outside of the UK, including a number of important tenders in Europe. Following the success of tenders in Dusseldorf and Alicante airports in the first half of the financial year, we have won a further two European tenders: 7 stores at Athens Airport with an existing franchise partner and 4 stores at Helsinki Airport. The majority of these new stores are due to open by the end of 2017. In addition, we have also renewed our contract at Melbourne International Airport for a further five years. This is an important step as Melbourne was our first major win in Australia and demonstrates the strength of our relationship with the landlord.

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

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

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

High Street

High Street delivered a good performance with an increase in trading profit¹ to £62m (2015: £59m), up 5% on the prior year.

High Street total sales were down 3% and down 2% on a LFL basis, as we annualised a strong performance last year driven by 'colour therapy'. Gross margin improved by around 130 bps, through rebalancing the mix of our business, better buying and markdown management.

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

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

During the year space changes have included extending our Stationery category and installing more Post Offices within our stores. Stationery has benefitted from more and better located space towards the front of store. This additional space combined with an increased focus on design, fashion and product quality has helped us deliver an improved performance. We now have 140 stationery 'Brights' stores.

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

Going forward, we will continue to manage space in this way.

Driving cost efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. We have delivered savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. We have made good progress again this year and accelerated some of our efficiency initiatives in the second half to deliver £6m of cost savings, £2m ahead of plan. We have therefore delivered cost savings for the year of £11m. These came from right across

the business, including rent savings at lease renewal, the store operating model and productivity improvements in our distribution centres. We have identified an additional £10m of new cost savings, taking the target to £19m over the next three years. Of these, £10m are planned for 2016/17.

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

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

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

Category Performance

Stationery:

We saw a good performance in Stationery driven by a number of initiatives, with LFL sales up 3% in the year. The gross margin was slightly below last year reflecting our successful promotional offers. We are able to differentiate ourselves in this category through our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; the ability to source competitively through our Far East sourcing office; our strong promotional offers and our scale. During the year, Stationery has continued to benefit from additional space towards the front of store and further range improvements. This additional space combined with our range development initiatives was a key driver of our strong Christmas performance, with diaries and decorations, Christmas cards and wrap all showing year on year growth. We will make further changes to the location of stationery space in our stores during the current financial year.

Books:

In Books, we continue to see some stability in the General Retail Market, however the quality of publishing is still the biggest driver of market performance. Kids book sales remain our most resilient category and our space allocation reflects this. In the first half of the financial year, 'colour therapy' books were a key driver of sales. However in the second half we started to annualise the strong publishing from last year. Like-for-like sales for the year were down 2% with gross margin up compared to last year. The penetration of eBooks is showing no growth.

Our approach to the Books business is to focus on areas of market growth, build on our areas of strength and drive the overall net profitability of the category. We saw good sales from the launch of the Zoella Book Club. Alongside the Richard and Judy Book Club and our Fresh Talent promotion in Travel, the Zoella Book Club further strengthens our recommendation credentials which is key for WHSmith books customers in both Travel and High Street.

News and Impulse:

News and Impulse like-for-like sales were flat for the full year and we saw a further improvement in gross margin. The newspaper and magazine market continues to be challenging but we held our market share through a number of successful promotions across key titles. Our 'Food to Go' offer in Travel continues to be well received and we have further extended our range with the introduction of new healthy eating brands, such as BOL, and premium meal deals. The success of our meal deal has meant we have been able to launch our own brand, 'Munch', which was successfully rolled out in the second half.

Group profit

The Group generated profit before tax of £131m (2015: £121m), an increase of 8% on the prior year.

£m	2016	2015	Growth %
Travel trading profit ¹	87	80	9%
High Street trading profit ¹	62	59	5%
Group profit from trading operations¹	149	139	7%
Unallocated costs	(16)	(15)	
Group operating profit	133	124	7%
Net finance costs ⁸	(1)	(1)	
Headline Group profit before taxation	132	123	7%
Non-underlying items ⁹	(1)	(2)	
Profit before taxation	131	121	8%

⁸ Excluding IAS 19 (R) pension interest charge

⁹ Non-underlying items include the non-cash income statement charge for pensions

Tax

The effective tax rate was 17% (2015: 17%), reflecting the statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate also to be around 17%. 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.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.7 times (2015: 1.6 times) by profit before tax and fixed charges.

Dividends

The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis. The Board has proposed a final dividend of 30.5p per share, an increase of 12% on the prior year, giving a total ordinary dividend per share of 43.9p, an 11% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the continuing cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 2 February 2017 to shareholders registered at the close of business on 13 January 2017.

Cash Flow

The Group generated free cash flow⁴ of £108m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2016	2015
Group operating profit	133	124
Depreciation, amortisation and impairment of fixed assets	41	38
Working capital and provisions	(6)	5
Employers payroll tax on exercised share awards	(2)	(1)
Capital expenditure	(42)	(39)
Net tax paid ¹⁰	(23)	(23)
Net interest paid	(1)	(1)
Non cash items	8	6
Free cash flow	108	109

¹⁰ Excluding £13m repayment to HMRC (see Note 5 to the financial statements)

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

Capital expenditure was £42m in the year and is analysed below. This was £3m higher than the prior year and includes higher investment in Travel. This year we expect capex spend to be around £48m.

This reflects further investment opportunities through the relocation of up to 61 Post Offices into High Street stores, new stores in the UK and internationally, and further investment in the store operating model. Going forward after this year, we expect capex to be around £40m per annum although this will depend on the number of new stores we open. Net corporation tax paid on trading profits was £23m, compared to £23m last year.

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

Net Funds

The movement in net funds is as follows:

£m	2016	2015
Opening net funds	15	22
Free cash flow generated	108	109
Dividends paid ¹¹	(46)	(42)
Pension funding	(3)	(4)
Net purchase of own shares for employee share schemes	(6)	(4)
Purchase of own shares for cancellation	(47)	(54)
Return of payment on account to HMRC	(13)	-
Acquisitions	-	(3)
Proceeds from the sale and leaseback of property, plant and equipment	3	3
Repayments of obligations under finance leases	(3)	(1)
Other	2	(1)
	10	25
Net movement in finance leases	(3)	(10)
Closing net funds	7	15

¹¹ Dividends paid include current year interim and prior year final dividends paid.

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

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

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

Balance Sheet

The Group had net assets of £168m (2015: £147m) at the end of the year. The increase in net assets reflects the cash generation of the business and the return of cash to shareholders.

£m	2016	2015
Goodwill and other intangible assets	63	59
Property plant and equipment	158	155
	221	214
Inventories	146	141
Payables less receivables	(188)	(191)
Working capital	(42)	(50)
Derivative financial asset	2	-
Net current and deferred tax liability	(8)	(23)
Provisions	(6)	(4)
Operating assets employed	167	137
Net funds	7	15
Net assets excluding pension liability	174	152
Pension liability	(7)	(6)
Deferred tax asset on pension liability	1	1
Total net assets	168	147

Return on Capital Employed (ROCE)

Operating capital employed and ROCE were as follows:

	Operating capital employed £m ¹²	ROCE ¹³ %	ROCE% with operating leases capitalised ¹⁴
Travel	75	116	36
High Street	114	54	22
Trading operations	189	79	29
Unallocated central items	(22)		
Operating assets employed	167	80	27

For the prior year, comparable ROCE was 91% (Travel 111% and High Street 56%) and 24% after capitalised operating leases (Travel 30% and High Street 21%).

¹² Net assets adjusted for net funds and retirement benefit obligations (and associated deferred tax asset).

¹³ Return on capital employed is calculated as the trading profit as a percentage of operating capital employed.

¹⁴ Return on capital employed after capitalised net operating leases is calculated as the adjusted trading profit as a percentage of operating assets after capitalising operating leases. Adjusted trading profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

Pensions

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

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

As at 31 August 2016, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £5m (2015: £5m) and an associated deferred tax asset of £1m (2015: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2016, the scheme had an IAS 19(R) surplus of £164m (2015: surplus of £214m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19(R).

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

Operating leases

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

The business has an annual minimum net rental commitment of £159m (2015: £167m) (net of £2m of external rent receivable (2015: £2m)). The total future rental commitment at the balance sheet date amounted to £769m (2015: £856m) with the leases having an average life of 5 years.

Contingent liabilities

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

Principal risks and uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's financial performance and position. These include: economic, political, competitive and market risks; brand and reputation; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; international expansion; treasury, financial and credit risk management; and cyber risk and data security. A full description of these risks and our mitigating actions will be provided in the Annual Report and Accounts 2016.

This announcement contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this announcement should be construed as a profit forecast. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Trading update

The Group will issue its next trading update on 25 January 2017.

WH Smith PLC
Group Income Statement
For the year ended 31 August 2016

£m	2016				2015		
	Note	Headline	Non-underlying items ¹	Total	Headline	Non-underlying items ¹	Total
Continuing operations							
Revenue	3	1,212	–	1,212	1,178	–	1,178
Group operating profit	2, 3	133	–	133	124	–	124
Finance costs	4	(1)	(1)	(2)	(1)	(2)	(3)
Profit before tax		132	(1)	131	123	(2)	121
Income tax expense	5	(23)	–	(23)	(20)	–	(20)
Profit for the year		109	(1)	108	103	(2)	101
Earnings per share							
Basic	6			95.6p			87.1p
Diluted	6			93.9p			85.6p
Non GAAP measures							
Headline earnings per share							
Basic	6			96.5p			88.8p
Diluted	6			94.8p			87.3p
Equity dividends per share²				43.9p			39.4p
Fixed charges cover	10			1.7x			1.6x

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

² Dividend per share is the final proposed dividend of 30.5p (2015: 27.3p) and the interim dividend of 13.4p (2015: 12.1p).

WH Smith PLC
Group Statement of Comprehensive Income
For the year ended 31 August 2016

£m	Note	2016	2015
Profit for the year		108	101
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to the income statement:			
Actuarial (losses)/gains on defined benefit pension schemes	11	(3)	47
Tax on defined benefit pension schemes		–	(9)
		(3)	38
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges		2	–
Exchange differences on translation of foreign operations		5	(2)
		7	(2)
Other comprehensive income for the year, net of tax		4	36
Total comprehensive income for the year		112	137

WH Smith PLC
Group Balance Sheet
As at 31 August 2016

£m	Note	2016	2015
Non-current assets			
Goodwill		38	36
Other intangible assets		25	23
Property, plant and equipment		158	155
Deferred tax assets		9	10
Trade and other receivables		4	2
		234	226
Current assets			
Inventories		146	141
Trade and other receivables		50	52
Current tax asset		–	3
Derivative financial assets		2	–
Cash and cash equivalents	8	38	34
		236	230
Total assets		470	456
Current liabilities			
Trade and other payables		(229)	(231)
Bank overdrafts and other borrowings	8	(18)	(9)
Retirement benefit obligations	11	(1)	(1)
Obligations under finance leases	8	(3)	(2)
Current tax liabilities		(16)	(35)
Short-term provisions		(1)	(1)
		(268)	(279)
Non-current liabilities			
Retirement benefit obligations	11	(6)	(5)
Deferred tax liabilities		–	–
Long-term provisions		(5)	(3)
Obligations under finance leases	8	(10)	(8)
Other non-current liabilities		(13)	(14)
		(34)	(30)
Total liabilities		(302)	(309)
Total net assets		168	147

WH Smith PLC
Group Balance Sheet (continued)
As at 31 August 2016

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

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 11 to 28 were approved by the Board of Directors and authorised for issue on 13 October 2016 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

WH Smith PLC
Group Cash Flow Statement
For the year ended 31 August 2016

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

Reconciliation of net cash flow to movement in net funds

£m	Note	2016	2015
Net funds at beginning of the year		15	22
Increase in cash and cash equivalents		2	1
(Increase)/decrease in debt		(9)	3
Net movement in finance leases		(3)	(10)
Effect of movements in foreign exchange rates		2	(1)
Net funds at end of the year	8	7	15

WH Smith PLC
Group Statement of Changes in Equity
For the year ended 31 August 2016

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

1. Preparation of the preliminary announcement

a) Basis of preparation

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary announcement for the 12 months to 31 August 2016 has been prepared on a consistent basis with the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2015 except as described below.

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

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

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. With the exception of IFRS 9, IFRS 15 and IFRS 16, the directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's financial statements. IFRS 9 may impact on the measurement and disclosure of financial instruments and IFRS 15 may impact on the timing of recognition of revenue. IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019, but is not yet endorsed by the EU. The Group anticipates that the adoption of IFRS 16 will have a material impact on the Income statement and Balance sheet including operating profit, profit before tax, property plant and equipment and net debt. There is no cash impact of adoption of this standard. The Group will assess the full impact in due course.

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

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.

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 Group Overview. The Group Overview describes the Group's financial position, cash flows and borrowing facilities and 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 buy backs, 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 these reasons, the going concern basis has been adopted in preparing the financial statements.

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2016 and 12 months to 31 August 2015 does not comprise statutory financial statements for the purpose of the Companies Act 2006, but is derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2015 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2016 will be filed following the Company's annual general meeting.

The auditor's reports on the accounts for both the 12 months to 31 August 2016 and 12 months to 31 August 2015 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in November 2016.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

2. Group operating profit

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

¹ During the period there was a £3m (2015: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

² Other income is profit attributable to property and the sale of plant and equipment.

£m	2016	2015
Cost of inventories recognised as an expense	503	499
Write-down of inventories in the period	4	3
Depreciation and amounts written off property, plant and equipment	35	32
Amortisation and amounts written off intangible assets	6	6
Net operating lease charges		
– land and buildings	192	189
– equipment and vehicles	1	1
Other occupancy costs	67	67
Staff costs	202	189

3. Segmental analysis of results

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

a) Group revenue

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

3. Segmental analysis of results (continued)

b) Group results

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

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

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

c) Balance sheet and other segmental information

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

3. Segmental analysis of results (continued)
c) Balance sheet and other segmental information (continued)

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

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

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

4. Finance costs

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

5. Income tax expense

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

Reconciliation of the taxation charge

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

6. Earnings per share

a) Earnings

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

b) Weighted average share capital

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

c) Basic and diluted earnings per share

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

7. Dividends

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

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

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

8. Analysis of net funds

Movements in net funds can be analysed as follows:

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

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

9. Cash generated from operating activities

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

10. Fixed charges cover

£m	2016	2015
Net finance charges (Note 4)	2	3
Net operating lease rentals (Note 2)	193	190
Total fixed charges	195	193
Profit before tax	131	121
Profit before tax and fixed charges	326	314
Fixed charges cover – times	1.7x	1.6x

11. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 11 a) i).

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

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

WH Smith PLC

Notes to the Financial Statements

For the year ended 31 August 2016

11. Retirement benefit obligations (continued)

a) Defined benefit pension schemes

i) The WHSmith Pension Trust

The WHSmith Pension Trust Final Salary Section is a funded final salary defined benefit scheme; it was closed to defined benefit service accrual on 2 April 2007 and has been closed to new members since 1996. Benefits are based on service and salary at the date of closure or leaving service, with increases currently based on CPI inflation in deferment and RPI inflation in payment.

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

The WHSmith Pension Trust, has assets valued at £1,424m as at 31 August 2016 managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges and equity option agreements, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2014 by independent actuaries using the projected unit credit method. At 31 March 2014 the deficit was £24m, and a revised deficit funding schedule of approximately £3m per annum was agreed with the Trustee, with effect from 1 October 2014 for the following nine years. With effect from 1 September 2015 the Group agreed to pay certain investment management costs directly. The annual deficit funding agreement is around £1m per annum with effect from 1 September 2015. During the year ending 31 August 2016, the Group made a contribution of £3m to the WHSmith Pension Trust (2015: £4m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2017, to be on the same basis. The weighted average duration of the defined benefit obligation is 21 years.

Amounts recognised in the financial statements

Balance Sheet

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

£m	2016	2015
Present value of the obligations	(1,260)	(948)
Fair value of plan assets	1,424	1,162
Surplus before consideration of asset ceiling	164	214
Amounts not recognised due to effect of asset ceiling	(164)	(214)
Additional liability recognised due to minimum funding requirements	(5)	(5)
Retirement benefit obligation recognised in the balance sheet	(5)	(5)

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

11. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

Income Statement

The amounts recognised in the income statement were as follows:

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

The charge for the current service cost has been included in Administrative expenses in the Group income statement (Note 2). The net interest cost has been included in finance costs (Note 4). Actuarial gains and losses have been reported in the statement of comprehensive income.

Statement of Comprehensive Income

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

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

In addition, a £1m debit (2015: £1m debit) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

11. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

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

£m	2016				2015			
	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised
At 1 September	1,162	(948)	(219)	(5)	1,087	(932)	(210)	(55)
Current service cost	-	-	-	-	-	-	-	-
Interest income/(expense)	42	(35)	(8)	(1)	41	(35)	(8)	(2)
Past service credit	(1)	1	-	-	(1)	1	-	-
Actuarial gains/(losses)	255	(315)	58	(2)	67	(18)	(1)	48
Contributions from the sponsoring companies	3	-	-	3	4	-	-	4
Benefits paid	(37)	37	-	-	(36)	36	-	-
At 31 August	1,424	(1,260)	(169)	(5)	1,162	(948)	(219)	(5)

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

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

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2016

11. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

Sensitivity to changes in assumptions

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

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

ii) United News Shops Retirement Benefits Scheme

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

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

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

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

A £1m debit (2015: £1m debit) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2016 (2015: £3m).

12. Events after the balance sheet date

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