

11 October 2018

WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2018

Good performance across the Group with final dividend up 13%

Group Financial Summary

	12 months to		%
	Aug 2018	Aug 2017	Change
Travel trading profit*	£103m	£96m	7%
High Street trading profit*	£60m	£62m	(3)%
Group profit from trading operations*	£163m	£158m	3%
Headline Group profit before tax*	£145m	£140m	4%
Headline earnings per share*	108.2p	103.6p	4%
Group profit before tax	£134m	£140m	(4)%
Diluted earnings per share	98.2p	103.6p	(5)%
Dividend per share	54.1p	48.2p	12%
Revenue performance	Total	LFL*	
Travel revenue	8%	3%	
High Street revenue	(3)%	(3)%	
Group revenue	2%	-%	

Stephen Clarke, Group Chief Executive, commented:

“We have delivered a good performance across the Group.

“Travel accounts for over half our sales and two thirds of our profits and continues to perform strongly with revenue growth of 8% in the year. This performance has been driven by our ongoing investment in stores and growth in passenger numbers. Profit in Travel is up 7% to £103m.

“We have a fast growing international business with 286 units open across 27 countries and 50 airports. We are pleased to have won 42 new units this year including some significant tenders in South America and Europe.

“We had a good year in High Street despite the well documented challenges of the UK high street. During an encouraging second half, the business traded well and we quickly identified the latest trend in the market, becoming a one-stop-shop for all slime related products. Despite this good performance, we are not ignoring the broader challenges on the UK high street and, during the second half, we conducted a business review to ensure our High Street business is fit for purpose now and for the future.

“The Board has proposed a 13% increase in the final dividend and we have today announced a further share buyback of up to £50m reflecting the Group’s cash generation and our confidence in the future prospects of the Group.

“This good performance is only possible through the hard work of all of our colleagues across the business and I am sincerely grateful for their ongoing support.

“While there is some uncertainty in the economic environment, we are pleased with the start to the new year in both businesses, and will continue to focus on profitable growth, cash generation and new opportunities to profitably invest for the future. We are well positioned for the current year and beyond.”

* Denotes first instance of an Alternative Performance Measure (APM) term defined and explained in the Glossary on page 35.

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WH Smith PLC's Preliminary Results 2018 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2018 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 UK 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 retaining existing space; and
- developing new formats

In International Travel, we aim to expand profitably by:

- winning new tenders and retaining existing space;
- building critical mass in our emerging hubs;
- driving like-for-like sales in existing stores; and
- by executing the same retail and operational disciplines and insights as we do in the UK

In High Street, we aim to deliver sustainable profit and, as we do in Travel, good cash generation in a constantly changing consumer environment. We seek to do this by:

- adopting a forensic store by store focus on space management to optimise the returns from our core categories, particularly Stationery, complemented by our online propositions;
- driving margin growth through category mix management;
- reducing our cost base to reflect our changing sales profile and productivity initiatives; and
- creating value from our assets including third party partnerships that enhance our customer offer

Group Summary

Total Group revenue was up 2% at £1,262m (2017: £1,234m) with Group LFL revenue flat compared to last year.

Group profit from trading operations increased 3% on the prior year to £163m (2017: £158m) with Headline Group profit before tax increasing by £5m to £145m (2017: £140m), up 4%. Group profit before tax decreased by 4% to £134m (2017: £140m), reflecting some non-underlying items* primarily from a business review of High Street.

Travel

Travel, which is the largest part of the Group in both revenue and profit, delivered a strong revenue performance across all channels with total revenue up 8% compared to last year and LFL revenue up 3%. This performance reflects our ongoing investment in our key initiatives and growth in passenger numbers. Trading profit increased by 7% to £103m which includes £11m (2017: £9m) from our fast growing international business. Travel now represents 63% of Group profit from trading operations. We continue to invest in the business and opened 20 new units in the UK during the year, taking us to a total of 581 units in the UK.

In International, we won a further 42 units including a number of significant wins in South America and Europe. We opened 58 units in the year taking the total number of units open internationally to 286 (2017: 233 units).

As at 31 August 2018, Travel operated from 867 units (31 August 2017: 815 units) and, excluding franchises, operates from 0.7m square feet.

High Street

High Street delivered a good performance despite the well documented challenges of the UK high street. As expected, trading profit was £60m (2017: £62m). This is the third highest profit delivered by High Street over the last 15 years and follows the past two record years which were driven by exceptional publishing trends. Second half profit was up £1m on last year. Total revenue was down 3% with LFL revenue also down 3% compared to the prior year. We saw a good gross margin* performance and costs were tightly controlled. Cost savings of £12m were delivered in the year. An additional £10m of cost savings have been identified over the next three years making a total of £19m of which £9m are planned for 2018/19.

Despite the good performance from our High Street business, we are not ignoring the challenging conditions being experienced on the high street more generally. As such, we have undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we have made the following decisions: to increase the focus on our core categories; wind down non core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around 6 High Street stores, particularly those impacted by onerous leases. The costs of these changes were £9m in the year (see Note 3 on page 22) with around £5m expected in the current financial year.

As at 31 August 2018 High Street operated from 607 stores (31 August 2017: 611 stores) and occupied 2.8m square feet (31 August 2017: 2.8m square feet).

Group

Headline earnings per share increased by 4% to 108.2p (2017: 103.6p). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback and a higher tax rate*, as expected, of 18%. Diluted earnings per share decreased by 5% to 98.2p (2017: 103.6p), reflecting some non-underlying items primarily from a strategic review of High Street.

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

We completed £26m of the share buyback announced on 12 October 2017 and 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 38.1p per share, a 13% increase on last year, giving a total ordinary dividend per share of 54.1p, a 12% increase on the prior year. The proposed increase in final dividend reflects our progressive dividend policy, the Board's confidence in the future prospects of the Group and the strong cash generative nature of the business.

Both the Travel and High Street businesses are cash generative and we allocate our capital efficiently: investing in the business and new opportunities (capital expenditure in the year was £53m), and making appropriate acquisitions whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders.

Including the share buyback announced on 11 October 2018 and the declared final dividend, since our 2007 financial year, we will have returned over £1.0bn of cash to shareholders, increased the dividend each year and reduced our issued share capital by 40%.

Financial Year	Ordinary Dividend ¹ £m	Buyback ³ £m	Special Dividend £m	Total £m
2019	59 ²	50 ⁴		c. 109
2018	54	26	-	80
2017	50	41	-	91
2016	46	47	-	93
2015	42	54	-	96
2014	38	41	-	79
2007 - 2013	181	223	57	461
	470	482	57	c. 1,009

¹ Cash dividend paid

² Proposed final ordinary dividend for year ended 31 August 2018 and for illustrative purposes only assumes 2019 interim dividend to be the same as in 2018

³ Buyback in financial year

⁴ Buyback of up to £50m announced on 11 October 2018

Trading Operations

Travel

Travel delivered another strong performance in the year with trading profit up 7% to £103m. Total revenue in the year was up 8% with LFL revenue up 3% on a constant currency basis.

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

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

Travel - UK

During the year we delivered a strong revenue performance across all our key channels as a result of growth in passenger numbers and our initiatives in managing space, ranges and customer service. In air, total revenue was up 7% with LFL revenue up 4%; in rail, total revenue was up 1% with LFL revenue also up 1%; and in hospitals, total revenue was up 6% with LFL revenue up 3%. Gross margin increased by 120 bps, driven by mix.

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

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

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

extended store in Heathrow Terminal 4 over the coming weeks and we believe this new compelling offer will be attractive to landlords as they reconfigure their space going forward.

We continue to invest in rail and during the year we have further developed our book offer and our 'Tech Express' format with enhanced departments in existing stores, including larger footprints, new fixtures, improved ranges and specialist staff. We opened a new standalone bookshop in the second half at London Bridge Station. Customer, publisher and landlord feedback has been positive. We now have 13 standalone bookshops open across air and rail and 4 standalone 'Tech Express' units.

Our hospital business is an increasingly important channel and it continues to grow. As a result of our ongoing investment and initiatives we expect it to become our second largest channel in the current financial year. Food and drinks are a very large part of the mix in hospitals and increasingly landlords are looking for a customer offer that meets their healthy eating guidelines. Over the last two years, we have worked hard to create an improved and healthier sandwich range, the largest in the market, specifically for our hospital stores. Around 80% of our sandwiches are now under 400 calories. This has been very well received by both the hospital trusts and NHS England as we continue to support their healthy eating programmes.

Following a successful trial during the year of an M&S food to go range within the main WHSmith store in hospitals, we have recently agreed to convert a further 11 stores to this format in the current financial year. We continue to see opportunities to open stores in hospitals and expect to open c. 8 new hospital stores this year.

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

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

Travel - International

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

Compared to last year, total revenue for the year was £132m (2017: £108m), up 22%. LFL revenue was up 4% on a constant currency basis. Trading profit for the year was £11m, an increase of £2m on the previous year.

Our international business is growing rapidly with 42 new units won during the year and 58 units opened making a total of 286 units open as at 31 August 2018. However, our share of the global news, books and convenience (NBC) travel market is still very small and we continue to see opportunities to grow using our three economic models of directly-run, joint venture and franchise.

Of the 42 new units won in the year, 13 are in Europe, 13 are in South East Asia, 5 are in Australia and 11 are in South America, including 4 units won in São Paulo Airport in the second half. Including the stores won in Galeão airport in Rio de Janeiro, we have now won 11 units in South America through our joint venture with Duty Free Americas. We were pleased to win our first stores at Schiphol Airport, Amsterdam, the third busiest airport in Europe, which we will run directly ourselves as we do with our stores in Spain and Italy.

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

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

High Street

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

Given the exceptional and well documented challenges on the UK high street, we have undertaken a detailed review of our High Street businesses to ensure we remain fit for purpose now and the future. The result of this review confirmed our successful strategy of actively managing our space to optimise our core categories, gross margin growth and good cost control remains unchanged. We have created a plan that enables us to better structure the business for the future: by focusing on the core business; winding down our non core initiatives of Cardmarket and WHSmith Local; restructuring some operational activities; and dealing with around 6 loss making stores which will now close at lease end.

Total revenue in High Street was down 3%, with LFL revenue also down 3%, as expected. In the second half, LFL revenue was down 2% reflecting strong sales of slime products which helped offset the impact of the hot weather and the World Cup. Gross margin improved by around 70 bps, through rebalancing the mix of our business, better buying and markdown management.

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

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

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

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

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

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

Over the years as part of our strategy of actively managing our space, we have developed a number of key partnerships, including our partnership with Post Office Limited.

- Today, we are pleased to announce that we have further extended our relationship with Post Office Limited and signed a new agreement including franchising a further 40 Post Offices, bringing the total number of franchised Post Offices within WHSmith High Street stores to 208. Subject to public consultation, we anticipate that the new Post Offices will open over the course of 2019 and will further confirm our position at the heart of the communities in which we operate.
- During the second half of the year, we have also developed further our partnership with InComm, whom we have a very longstanding and successful partnership with through our in-store giftcard mall. InComm are the leading distributor for Playstation, Xbox and Nintendo giftcards and this latest agreement has seen us install digital gaming hubs within all of our High Street stores. These hubs will sell prepaid gift cards for the latest games releases as well as prepaid software giftcards for digital downloads.

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

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

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

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

Category Performance

Stationery:

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like revenue was up 3%, with gross margin slightly lower than last year reflecting mix. Stationery remains an attractive category for us with good economics and growth potential. During the year, Stationery has continued to be the main beneficiary of space with more stores benefitting from additional space towards the front of store and further range improvements. This additional space, combined with our range development initiatives drove good like-for-like revenue growth over the Christmas period (in categories such as calendars, single Christmas cards, wrap, diaries and decorations) and at back to school. In the second half, we responded quickly to the latest slime phenomenon with stores hosting a number of slime events and demonstrations.

Books:

In Books, the General Retail Market remains fairly stable however the quality of publishing is still the biggest driver of market performance. We had a challenging Christmas period in books, particularly given the success of colour therapy titles and spoof humour books over the past two Christmas periods. There was no new publishing trend for Christmas 2017. Like-for-like revenue was down 6%. During the second half however, our books performance improved, driven by a good performance from titles such as David Walliams *'Worlds Worst Children 3'* and Dan Brown's *'Origin'* where we were the number one retailer at launch. In addition, we continue to make improvements to our customer proposition through ease of browsing and on-shelf book recommendations. Our approach to the books business goes unchanged. We will continue to build on our areas of relative strength to make WHSmith High Street the home for lighter readers, kids and educational books while at the same time driving the overall net profitability of the category by improving the efficiency of our books operating model. In Travel, we are making good progress with our standalone bookshops and customer feedback has been excellent. Ebooks continue to decline across the market.

News and Impulse:

News and Impulse like-for-like revenue was up 1% for the full year and we saw a further improvement in gross margin. The newspaper and magazine market continues to be challenging however the second half was supported by good sales of Royal Wedding titles and World Cup stickers. Across both businesses we continue to extend our healthy eating ranges.

Group

The Group generated Headline profit before tax of £145m (2017: £140m), an increase of 4% on the prior year. Group profit before tax (after non-underlying items primarily from a business review of High Street) was £134m (2017: £140m).

£m	2018	2017	Change %
Travel trading profit	103	96	7%
High Street trading profit	60	62	(3)%
Group profit from trading operations	163	158	3%
Unallocated costs	(16)	(16)	
Group operating profit⁵	147	142	4%
Net finance costs	(2)	(2)	
Headline Group profit before taxation	145	140	4%
Non-underlying items*	(11)	-	
Group profit before taxation	134	140	(4)%

⁵ Headline, 2018 excludes £11m non-underlying items.

Non-underlying items

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

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

	£m
High Street business review	
- Restructuring	(3)
- Cardmarket and store closure costs, onerous lease charges	(6)
Costs relating to an uncompleted transaction	(2)
	(11)
Cash flow impact in year ended 31 August 2018	(3)

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

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

Tax

The effective tax rate was 18% (2017: 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 to be around 19%. 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 (2017: 1.7 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 38.1p per share, an increase of 13% on the prior year, giving a total ordinary dividend per share of 54.1p, a 12% 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 31 January 2019 to shareholders registered at the close of business on 11 January 2019. The final dividend will be paid gross.

Cash Flow

The Group generated free cash flow of £96m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2018	2017
Group operating profit ⁵	147	142
Depreciation, amortisation and impairment of fixed assets ⁶	44	42
Non cash items	4	5
Working capital ⁶	(14)	(7)
Employers payroll tax on exercised share awards	(2)	(2)
Capital expenditure	(53)	(48)
Net tax paid	(27)	(25)
Net interest paid	(1)	(1)
Movement in provisions ⁶	(2)	(1)
Free cash flow	96	105

⁶ Headline, excludes cash flow impact of non-underlying items, explained on page 8.

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

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

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

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

Net debt

The movement in net debt is as follows:

£m	2018	2017
Opening net funds	4	7
Free cash flow generated	96	105
Dividends paid ⁷	(54)	(50)
Pension funding	(3)	(3)
Net purchase of own shares for employee share schemes	(3)	(9)
Purchase of own shares for cancellation	(26)	(40)
Return of payment on account to HMRC ⁸	-	(2)
Acquisitions/investments in JVs	(5)	-
Repayments of obligations under finance leases	(5)	(4)
Other	(1)	(1)
Non-underlying items ⁹	(3)	-
Closing net funds before net movement in finance leases	-	3
Net movement in finance leases	(2)	1
Closing net (debt)/funds	(2)	4

⁷ Dividends paid include current year interim and prior year final dividends paid.

⁸ £2m in 2017 relates to the interest on the £13m repayment to HMRC made in 2016.

⁹ Cash flow effect of Non-underlying items explained on page 8 and Note 3 to the financial statements.

In addition to the £96m of free cash flow generated in the year, the Group has seen a net cash outflow of £60m in relation to non-trading operations. This includes £54m of dividend payments, £3m pension funding and the net purchase of own shares for employee share schemes of £3m. During the year, we also invested £2m in Cultpens.com and £3m in international businesses, including £2m in joint ventures. The cash flow impact of non-underlying items was £3m. Further detail is provided on page 8.

We returned £26m to shareholders through an on-market buyback. A further buyback of up to £50m has been announced today.

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

Balance Sheet

The Group had net assets of £212m (2017: £187m) at the end of the year. The increase in net assets reflects the cash generation of the business, offset by the return of cash to shareholders and capex investment.

£m	2018	2017
Goodwill and other intangible assets	72	67
Property plant and equipment	179	164
Investments in joint ventures	3	1
	254	232
Inventories	154	150
Payables less receivables	(183)	(184)
Working capital	(29)	(34)
Derivative financial asset	1	-
Net current and deferred tax liability	(3)	(5)
Provisions	(6)	(5)
Operating assets employed	217	188
Net (debt) / funds	(2)	4
Net assets excluding pension liability	215	192
Pension liability	(4)	(6)
Deferred tax asset on pension liability	1	1
Total net assets	212	187

Return on Capital Employed* (ROCE)

Operating capital employed and ROCE were as follows:

	Operating capital employed £m ¹⁰	ROCE ¹¹ %	ROCE% with operating leases capitalised ¹²
Travel	135	112	31
High Street	92	44	23
Trading operations	227	72	28
Unallocated central items	(10)		
Operating assets employed	217	68	26

For the prior year, comparable ROCE was 76% (Travel 128% and High Street 48%) and 25% after capitalised operating leases (Travel 29% and High Street 23%).

¹⁰ Net assets adjusted for net debt and retirement benefit obligations (and associated deferred tax asset).

¹¹ Return on capital employed is calculated as the trading profit as a percentage of operating capital employed.

¹² 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

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

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

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

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

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, 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 £184m (2017: £182m) (net of £1m of external rent receivable (2017: £1m)). The total future rental commitment at the balance sheet date amounted to £824m (2017: £841m) with the leases having an average life of 4.5 years.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Connect Group PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Connect Group PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £2m (2017: £3m).

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain primarily those detailed on pages 20 to 24 of the Group's Annual Report and Accounts 2017, a copy of which is available on the Group's website at www.whsmithplc.co.uk. 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; and cyber risk and data security.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations.

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 23 January 2019.

WH Smith PLC
Group Income Statement
For the year ended 31 August 2018

£m	2018			2017	
	Note	Headline	Non-underlying items ¹	Total	
Continuing operations					
Revenue	4	1,262	–	1,262	1,234
Group operating profit	2, 4	147	(11)	136	142
Finance costs	5	(2)	–	(2)	(2)
Profit before tax		145	(11)	134	140
Income tax expense	6	(26)	–	(26)	(24)
Profit for the year		119	(11)	108	116
Earnings per share					
Basic	7			99.1p	104.5p
Diluted	7			98.2p	103.6p
Equity dividends per share²				54.1p	48.2p
Alternative Performance Measures³					
Headline earnings per share					
Basic	7			109.2p	
Diluted	7			108.2p	
Fixed charges cover	11			1.7x	1.7x

¹ See Note 3 for an analysis of Non-underlying items. See Glossary on page 35 for definition of alternative performance measures.

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

³ The Group has defined and outlined the purpose of its alternative performance measures in the Glossary on page 35.

WH Smith PLC
Group Statement of Comprehensive Income
For the year ended 31 August 2018

£m	Note	2018	2017
Profit for the year		108	116
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	12	(1)	(2)
		(1)	(2)
Items that may be reclassified subsequently to the income statement:			
Gains / (losses) on cash flow hedges			
- Net fair value gains / (losses)		-	-
- Reclassified and reported in the income statement		1	(2)
Exchange differences on translation of foreign operations		(4)	2
		(3)	-
Other comprehensive (loss)/income for the year, net of tax		(4)	(2)
Total comprehensive income for the year		104	114

WH Smith PLC
Group Balance Sheet
As at 31 August 2018

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

WH Smith PLC
Group Balance Sheet (continued)
As at 31 August 2018

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

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 13 to 34 were approved by the Board of Directors and authorised for issue on 11 October 2018 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

WH Smith PLC
Group Cash Flow Statement
For the year ended 31 August 2018

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

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

£m	Note	2018	2017
Net funds at beginning of the year		4	7
Increase in cash and cash equivalents		8	–
Increase in debt		(11)	(4)
Net movement in finance leases		(2)	1
Effect of movements in foreign exchange rates		(1)	–
Net (debt) / funds at end of the year	9	(2)	4

WH Smith PLC
Group Statement of Changes in Equity
For the year ended 31 August 2018

£m	Called up share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves ¹	Other reserve ²	Retained earnings	Total equity
Balance at 1 September 2017	30	13	2	(9)	2	(257)	406	187
Profit for the year	–	–	–	–	–	–	108	108
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(1)	(1)
Cash flow hedges	–	–	–	–	1	–	–	1
Exchange differences on translation of foreign operations	–	–	–	–	(4)	–	–	(4)
Total comprehensive income for the year	–	–	–	–	(3)	–	107	104
Recognition of share-based payments	–	–	–	–	–	–	4	4
Current tax on share-based payments	–	–	–	–	–	–	1	1
Deferred tax on share-based payments	–	–	–	–	–	–	(1)	(1)
Dividends paid (Note 8)	–	–	–	–	–	–	(54)	(54)
Employee share schemes	–	–	–	5	–	(10)	–	(5)
Premium on issue of new shares	2	–	–	–	–	–	–	2
Purchase of own shares for cancellation	–	–	–	–	–	–	(26)	(26)
Balance at 31 August 2018	32	13	2	(4)	(1)	(267)	437	212
Balance at 1 September 2016	31	12	2	(10)	2	(247)	378	168
Profit for the year	–	–	–	–	–	–	116	116
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	(2)	(2)
Cash flow hedges	–	–	–	–	(2)	–	–	(2)
Exchange differences on translation of foreign operations	–	–	–	–	2	–	–	2
Total comprehensive income for the year	–	–	–	–	–	–	114	114
Recognition of share-based payments	–	–	–	–	–	–	5	5
Current tax on share-based payments	–	–	–	–	–	–	1	1
Deferred tax on share-based payments	–	–	–	–	–	–	(1)	(1)
Dividends paid (Note 8)	–	–	–	–	–	–	(50)	(50)
Employee share schemes	–	–	–	1	–	(10)	–	(9)
Purchase of own shares for cancellation	(1)	1	–	–	–	–	(41)	(41)
Balance at 31 August 2017	30	13	2	(9)	2	(257)	406	187

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

² The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006, as well as movements relating to employee share schemes of £10m (2017: £10m).

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

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 2018 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 2018 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:

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

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. Except as outlined below, the directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's financial statements.

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

IFRS 9 'Financial Instruments' is a new standard which enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the various rules in IAS 39, and also introduces a new expected loss impairment model. This standard is effective for accounting periods commencing on or after 1 January 2018 and will be adopted for the Group's 2018/19 financial year. The new standard is not expected to have a material impact on the Group's financial statements.

IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019. This standard replaces IAS 17, and will require entities to apply a single lessee accounting model, with lessees recognising right of use assets and lease liabilities on balance sheet for all applicable leases. The Group anticipates that the adoption of IFRS 16 will have a material impact on the Income statement and Balance sheet including operating profit, profit before tax, property plant and equipment and net debt. There is no cash impact of adoption of this standard. The Group is in the process of assessing the impact of IFRS 16 and has invested in additional resource and systems in order to assess the impact on its existing lease estate which comprises approximately 1,300 property leases, as well as equipment leases. The Group has established a project group to lead the implementation and work is ongoing in respect of assessment of the accounting impacts of the change, collection of the required data from across the business and changes to systems and processes.

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

1. Preparation of the preliminary announcement (continued)

a) Basis of preparation (continued)

Alternative Performance Measures

The Group has identified certain alternative performance measures (“APMs”) 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, Fixed charges cover, Gross margin, Like-for-like revenue, Free cash flow, Return on capital employed and Net debt 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, IFRS measures. The Group has defined and outlined the purpose of its APMs in the Glossary on page 35.

Non-underlying items

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

Further details of the non-underlying items are provided in Note 3.

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 2018 and 12 months to 31 August 2017 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 2017 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2018 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 2018 and 12 months to 31 August 2017 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 2018.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

2. Group operating profit

£m	2018			2017
£m	Headline	Non-underlying items	Total	2017
Revenue	1,262	–	1,262	1,234
Cost of sales	(501)	–	(501)	(501)
Gross profit	761	–	761	733
Distribution costs ¹	(532)	–	(532)	(509)
Administrative expenses	(88)	–	(88)	(87)
Other income ²	6	–	6	5
Non-underlying items (Note 3)	–	(11)	(11)	–
Group operating profit	147	(11)	136	142

¹ During the period there was a £2m (2017: £1m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

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

£m	2018	2017
Cost of inventories recognised as an expense	501	501
Write-down of inventories in the year	5	5
Depreciation and amounts written off property, plant and equipment	38	36
Amortisation and amounts written off intangible assets	7	6
Net operating lease charges		
– land and buildings	212	200
– equipment and vehicles	–	1
Other occupancy costs	66	67
Staff costs	216	212

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

3. Non-underlying items

Items which are not considered part of the normal operating costs of the business are non-recurring and are considered exceptional because of their size, nature and incidence, are treated as non-underlying items and disclosed separately. Further details of the non-underlying items are included in Note 1, and in the Group Overview on page 8.

£m	2018	2017
High Street business review		–
- restructuring	3	
- Cardmarket and store closure costs, onerous leases	6	–
Costs related to an uncompleted transaction	2	–
	11	–

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

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

4. Segmental analysis of results

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

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

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

a) Group revenue

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

4. Segmental analysis of results (continued)

b) Group results

£m	2018			2017
	Headline	Non-underlying items	Total	Total
Continuing operations:				
Travel trading profit	103	–	103	96
High Street trading profit	60	–	60	62
Group profit from trading operations	163	–	163	158
Unallocated costs	(16)	–	(16)	(16)
Non-underlying items (Note 3)	–	(11)	(11)	–
Group operating profit	147	(11)	136	142
Finance costs	(2)	–	(2)	(2)
Income tax expense	(26)	–	(26)	(24)
Profit for the year	119	(11)	108	116

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

4. Segmental analysis of results (continued)

c) Balance sheet and other segmental information

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

4. Segmental analysis of results (continued)

c) Balance sheet and other segmental information (continued)

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. Included within Travel segment assets are International non-current assets of £30m (2017: £27m).

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

5. Finance costs

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

6. Income tax expense

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

Reconciliation of the taxation charge

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

7. Earnings per share

a) Earnings

£m	2018	2017
Earnings attributable to shareholders	108	116
Non-underlying items	11	–
Headline earnings attributable to shareholders	119	116

b) Weighted average share capital

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

c) Basic and diluted earnings per share

Pence	2018	2017
Basic earnings per share	99.1	104.5
Adjustments for non-headline items	10.1	–
Headline basic earnings per share	109.2	104.5
Diluted earnings per share	98.2	103.6
Adjustments for non-headline items	10.0	–
Headline diluted earnings per share	108.2	103.6

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

8. Dividends

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

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

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

9. Analysis of net debt

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

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

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

An explanation of Alternative Performance Measures, including Net debt is provided in the Glossary on page 35.

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

10. Cash generated from operating activities

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

11. Fixed charges cover

£m	2018	2017
Net finance charges (Note 5)	2	2
Net operating lease rentals (Note 2)	212	201
Total fixed charges	214	203
Profit before tax	145	140
Profit before tax and fixed charges	359	343
Fixed charges cover – times	1.7x	1.7x

An explanation of Alternative Performance Measures, including Fixed charges cover is provided in the Glossary on page 35.

12. 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 12 a) i).

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

£m	2018	2017
WHSmith Pension Trust	(3)	(4)
United News Shops Retirement Benefits Scheme	(1)	(2)
Retirement benefit obligation recognised in the balance sheet	(4)	(6)
Recognised as:		
Current liabilities	(1)	(1)
Non-current liabilities	(3)	(5)

12. 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 £1,277m as at 31 August 2018 managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges 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 2017 by independent actuaries using the projected unit credit method. At 31 March 2017 the deficit was £11m. The Group has agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs, of just under £3m. During the year ending 31 August 2018, the Group made a contribution of £3m to the WHSmith Pension Trust (2017: £3m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2018, to be £3m. The weighted average duration of the defined benefit obligation is 19 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	2018	2017
Present value of the obligations	(983)	(1,071)
Fair value of plan assets	1,277	1,340
Surplus before consideration of asset ceiling	294	269
Amounts not recognised due to effect of asset ceiling	(294)	(269)
Additional liability recognised due to minimum funding requirements	(3)	(4)
Retirement benefit obligation recognised in the balance sheet	(3)	(4)

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

12. 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	2018	2017
Net interest cost on the defined benefit liability	–	–
	–	–

The net interest cost has been included in finance costs (Note 5). Actuarial gains and losses have been reported in the statement of comprehensive income.

Statement of Comprehensive Income

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

12. 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	2018				2017			
	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised
At 1 September	1,340	(1,071)	(273)	(4)	1,424	(1,260)	(169)	(5)
Current service cost	-	-	-	-	-	-	-	-
Interest income/(expense)	33	(26)	(7)	-	28	(25)	(3)	-
Past service credit	-	-	-	-	(12)	12	-	-
Actuarial gains/(losses)	(54)	69	(17)	(2)	(51)	150	(101)	(2)
Contributions from the sponsoring companies	3	-	-	3	3	-	-	3
Benefits paid	(45)	45	-	-	(52)	52	-	-
At 31 August	1,277	(983)	(297)	(3)	1,340	(1,071)	(273)	(4)

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

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

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

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

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

12. 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 2018, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

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

ii) United News Shops Retirement Benefits Scheme

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

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

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

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

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

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £4m for the year ended 31 August 2018 (2017: £4m).

13. Operating lease commitments

Amounts recognised in operating profit:

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2018

13. Operating lease commitments (continued)

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

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

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £2m (2017: £2m). The average remaining lease length across the Group is 4.5 years.

14. Acquisitions

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

15. Events after the balance sheet date

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

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

WH Smith PLC

Glossary

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures, “APMs”, which are not defined or specified under the requirements of IFRS.

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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose																				
Income Statement Measures																							
Headline Group profit before tax	Group profit before tax	Non-underlying items	Headline Group profit before tax excludes non-underlying items. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Income Statement on page 13.																				
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	Refer to definition	Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 3 to the financial statements.																				
Non-underlying items	None	Refer to definition	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence are treated as non-underlying items and disclosed separately. The Group believes the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group’s underlying financial performance. An explanation of the nature of the items identified as non-underlying is provided in Note 3 to the financial statements.																				
Headline earnings per share	Earnings per share	Non-underlying items and dilutive effect of shares under option	Profit for the year before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of any potentially dilutive share options. See Note 7.																				
Effective tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax. See Note 6.																				
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 11.																				
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Preliminary Announcement, gross margin is calculated as gross profit divided by revenue.																				
Like-for-like revenue	Movement in revenue per the income statement	- Revenue change from non like-for-like stores - Foreign exchange impact	Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below.																				
			<table border="1"> <thead> <tr> <th></th> <th>Travel</th> <th>High Street</th> <th>Group</th> </tr> </thead> <tbody> <tr> <td>LFL revenue change</td> <td>3%</td> <td>(3)%</td> <td>-%</td> </tr> <tr> <td>Net new space impact</td> <td>5%</td> <td>-%</td> <td>2%</td> </tr> <tr> <td>Foreign exchange impact</td> <td>-%</td> <td>-%</td> <td>-%</td> </tr> <tr> <td>Total revenue change</td> <td>8%</td> <td>(3)%</td> <td>2%</td> </tr> </tbody> </table>		Travel	High Street	Group	LFL revenue change	3%	(3)%	-%	Net new space impact	5%	-%	2%	Foreign exchange impact	-%	-%	-%	Total revenue change	8%	(3)%	2%
	Travel	High Street	Group																				
LFL revenue change	3%	(3)%	-%																				
Net new space impact	5%	-%	2%																				
Foreign exchange impact	-%	-%	-%																				
Total revenue change	8%	(3)%	2%																				
Balance Sheet Measures																							
Net debt	None	Reconciliation of net debt	Net debt is defined as Cash and cash equivalents, less Bank overdrafts and other borrowings and both current and non-current Obligations under finance leases. A reconciliation of Net debt is provided in Note 9.																				

WH Smith PLC
Glossary (continued)

Alternative Performance Measures (continued)

Other measures			
Free cash flow	Net cash inflow from operating activities	See Group Overview	Free cash flow is defined as the net cash inflow from operating activities before non-underlying items and pension funding, less capital expenditure and repayments to HMRC. The components of free cash flow are shown on page 9, as part of the Group Overview.
Return on capital employed (ROCE)	None	Not applicable	Return on capital employed is calculated as trading profit expressed as a percentage of operating capital employed. The calculation of ROCE is shown on page 11, as part of the Group Overview.