



# WH Smith PLC Corporate Responsibility Report 2006

# Contents

<b>1</b>	Introduction	Page 3
<b>2</b>	Governance and management	Page 4
<b>3</b>	Marketplace	Page 5
<b>4</b>	Environment	Page 9
<b>5</b>	Workplace	Page 13
<b>6</b>	Community	Page 17
<b>7</b>	Contacts and feedback	Page 21

# Introduction



Welcome to WHSmith's first stand-alone Corporate Responsibility (CR) Report and also, following the demerger of our News and Retail businesses, our first report as a company solely focused on retail operations.

A commitment to the principles of corporate responsibility has always been at the heart of the WHSmith brand. This year, we have continued our work to address the environmental and social impacts of our business. This report includes an update on progress, illustrating the way we work with suppliers to promote better labour and forestry standards, what we do to manage our impact on the environment, and how we support our employees and

build strong links with local communities, through initiatives such as the WHSmith Community Awards and our partnership with the National Literacy Trust.

Last year we published objectives and targets in all CR areas outlining the improvements we were planning to make during the year. This report includes an update on our performance in meeting these targets; together with those we have set for the year ahead.

This year, we are delighted to have received external recognition of our achievements in this area, notably through our improved ranking in the Business in the Community Corporate Responsibility Index where we moved from 74th to 44th place. At the same time we have delivered increases in profitability, confirming our firmly held belief that improvements in financial performance and corporate responsibility performance can go hand in hand.

A handwritten signature in black ink, appearing to read 'K Swann'. The signature is fluid and cursive, written on a light-colored background.

**Kate Swann, Group Chief Executive, WH Smith PLC**

# Governance and management

Accountability for corporate responsibility sits at the highest levels within the business, with a named Board director responsible for each of the four key CR areas (marketplace, environment, workplace, community). From an operational perspective, senior executives are tasked with ensuring that we deliver our CR objectives. These individuals are identified under the relevant headings within this report.

Each year we review the impacts of our business on our customers, on our employees, on the environment, on the communities in which we operate and on our suppliers and business partners. As part of this process we identify key risks and opportunities for the next 12 months and further into the future. This review shapes our CR strategy and the improvement targets we set, as well as the environmental and social issues we report on annually. The Executive team is fully involved in this process and the final strategy and targets are agreed by the Board each year. Progress is reviewed quarterly by the Risk Committee.

## Stakeholder engagement

Our approach to corporate responsibility is shaped by the views and expectations of our stakeholders and actively seek their feedback on our CR programme. We respond to comments on an individual basis. Some examples are set out below:

- **Investors** - we meet with investors to discuss our CR strategy and answer their questions on specific elements of our CR programme.
- **Non-Governmental Organisations** - we are members of the WWF-UK Forest and Trade Network and the Ethical Trading Initiative. We submit annual performance reports to both groups and use their feedback to inform our management of forestry and ethical trading issues.
- **Suppliers** - we engage with our suppliers in a number of forums including workshops, conferences and meetings.
- **Customers** - customers often contact us to let us know their views on aspects of our corporate responsibility programme. We respond to each customer individually and take their comments into account as we develop our approach going forward.
- **Employees** - we communicate regularly on CR issues in our weekly employee newsletter and we provide detailed information on CR on a dedicated intranet site. A summary of the CR Review has also been produced for our staff and for our customers. This year, several staff used the Director's Breakfast forum (see *Workplace* section of this report for more information) as an opportunity to comment on specific aspects of our CR programme.

## Benchmarking our performance

### *Business in the Community*

In September 2005 we participated in Business in the Community's annual Corporate Responsibility Index.



The Index captures the extent to which corporate responsibility is translated into strategy and business

practice, benchmarking leading companies against each other. We were pleased to continue the good progress we had made in 2004, moving from 74th to 44th position in the Index. Business in the Community recognised our outstanding performance in two areas: marketplace management and social impact.

Over the last three years, we have improved our ranking in the Index, moving from the fifth quintile, well outside the Top 100, to a position within the Top 50. At the same time we have delivered sustained increases in profitability. These results reinforce our view that improvements in financial performance and corporate responsibility performance can go hand in hand.

### *FTSE4Good*



FTSE4Good

FTSE4Good has been set up to measure the financial performance of companies that meet globally recognised standards on corporate responsibility. This allows socially responsible investors to invest in companies demonstrating good

standards in CR and reduce exposure to social, ethical and environmental risks. WHSmith meets FTSE4Good's selection criteria and continues to be included in the FTSE4Good Index.



# Marketplace

<i>Board accountability:</i>	<b>Kate Swann</b> Group Chief Executive
<i>Executive accountability:</i>	<b>Stephen Clarke</b> Commercial & Marketing Director
<i>Relevant policies:</i>	Ethical Trading Code of Conduct Forest Sourcing Policy Marketing Code of Practice

Marketplace issues are all about how we manage the environmental and social impacts of the products we sell and how we interact with our customers and our suppliers. We have a responsibility to make sure that customers receive the level of service and the quality of product that they have come to expect from WHSmith. We also have a duty to ensure that the people making our products work in decent conditions and are treated fairly and that the impact of our products on the environment is minimised.

## Forest sourcing

WHSmith offers a wide range of wood and paper products that come from forests located all over the world. It is our ultimate objective that all virgin (i.e. non-recycled) material used in our products be from known, legal, well-managed and credibly certified forests. The issues are complex and it will take us time to get to this position. As a minimum we expect our suppliers to know where forest material used in their products comes from and to be able to provide evidence that it has been legally harvested.



We continue to be members of the WWF UK's Forest Trade Network (FTN). Members have committed to tracing timber and

paper products back to the forest source and report this annually to the FTN.

Each year we contact our largest suppliers of paper and wood-based products requesting information on every forest-based product that they supplied to us in the previous twelve months. We have developed guidance documents to help them understand the risks around forest sourcing and what we are looking for in terms of sound forestry sourcing policies. The report helps us to identify the risks in our supply chain, notably timber from illegal sources, and also highlights those suppliers making good progress with forest sourcing, perhaps providing us with recycled or Forest Stewardship Council-certified material, which we can in turn highlight to our customers.

This year we increased the coverage of our report from 71% to 78% of the total volume of own-brand paper and wood based products sold in our stores. Furthermore, material coming from recycled sources and certified\* forests rose from 30% to 32% of the total. This year our report was audited by an independent third party appointed by the WWF FTN. In commenting on WHSmith's performance in this area the auditors noted that there was "commitment at senior management level", and a "proactive approach to providing information and training to buyers and suppliers". They also recognised the value of our inclusion of forest sourcing requirements when we are tendering contracts with suppliers.

*\*Certified forests are managed in accordance with the requirements of specific certification bodies setting out the steps that must be taken to ensure the long-term sustainability of the forest. The certification schemes our suppliers use include the Forest Stewardship Council (FSC) scheme, Programme for the Endorsement of Forest Certification (PEFC) schemes and Sustainable Forestry Initiative (SFI). The approach taken by each certification scheme varies. We encourage suppliers to move towards certification under the FSC scheme, which is recognised by WWF as an indicator of a well-managed forest.*

## Ethical trading

As with most other UK retailers, a significant number of our products are now made by suppliers based in the Far East. We are committed to ensuring standards are maintained right across our supply chain and it is our objective that all suppliers should meet the standards set out in our Supplier Code of Conduct. We will actively support our suppliers in making improvements, recognising that this will be a gradual process.

We have been members of the Ethical Trading Initiative (ETI) for several years. The ETI is an alliance of companies, non-governmental organisations (NGOs) and trade unions working together to promote and improve corporate codes of practice covering the supply chain. We participate in the ETI's China Working Group, which provides a forum for us to work with other retailers to learn and share our experiences from one of our key supplier countries.

We have been assessing labour standards in our own-brand Asian suppliers for several years, most recently through a third party auditor. However, this year, we appointed a specialist WHSmith audit team within our Far East sourcing office. This is enabling us to build closer relationships with our suppliers, giving us greater visibility of the risks and increasing our capacity to influence improvement.

## Case Study - Engagement to improve worker welfare

In the south-east of China where many of our supplier factories are located, there is a current labour shortage, which makes it more important than ever that factory management look after their staff and thereby encourage loyalty. Our audit team has been working with one supplier facing just this problem.

Our auditors first visited the factory to carry out a full audit, including interviews with a number of workers to ask about conditions. The interviewed workers shared one concern: the quality of food in the canteen. Our auditors also looked at the minutes of the labour union meetings which confirmed that there had been discontent for the food for months.

We discussed our findings with the factory owner. There seemed to be an opportunity to make a material difference to worker welfare through simple changes to the food quality. We suggested that the management conduct a survey regarding the food quality and the price of food. Within a month, the survey had been completed and 70% of the employees had taken part. It showed that only 11% of the workers were satisfied with the food and that 69% were willing to pay a little more for better quality food.

The owner responded to the survey results by increasing the budget for food and improving quality. Workers are now satisfied with the catering and feel that the management value their opinions and take their welfare seriously.

The audit team is responsible for monitoring supplier performance, making regular assessments of compliance with our Code of Conduct. This year, they completed 126 supplier factory audits, most of which were in China. This is up from 64 last year.

After each audit, we agree necessary improvements with the factory management and a timescale for implementing these changes.

Significantly, the appointment of this dedicated resource also increases our capacity to engage with our key suppliers to encourage improvement in labour standards. One of the audit team's key objectives is to build strong relationships with these companies and to help them to understand how improvements in labour standards can benefit both the individual workers and the business as a whole. If we can help factory management to appreciate the benefits of improved labour standards, we hope that this will make them more willing to work with us to deliver improvements.

Closer to home, we formalised the role of UK Compliance Manager who has overall responsibility for maintaining standards in UK own brand suppliers. Many of our UK suppliers also source components from around the world and it is important that they too have systems in place to maintain standards.

In the coming year we will be focussing efforts on UK-based own-brand stationery suppliers who are sourcing Far East manufactured products, making sure that they have robust systems in place to audit labour standards and forest sourcing practices in their supply base.

## Case study - Supplier health and safety project

We are working with two key suppliers in China to improve the way they manage health, safety and welfare matters.

This is an area where the risks to worker welfare are significant and the benefits to all concerned are clearly demonstrable. We hope that by working closely with factory owners and managers to realise these benefits we will be able to build a greater level of understanding and trust. This should establish sound foundations for future projects and our wider trading relationship.

Members of our audit team are providing advice and support in helping these suppliers to formalise a health and safety policy and management system, establish a worker health and safety committee and to consult workers on welfare issues. There is a strong sense of partnership in this work, for example our audit team sitting down together with factory management to think through the risks to the health and safety of staff.

This work, which is closely aligned with that of the ETI China Working Group's health and safety project, will be continuing through next year.

## Engaging suppliers and buyers

As our main interface with suppliers it is important that our buyers have a good understanding of these issues and what we expect of our suppliers. We have followed up on last year's buyer training programme by incorporating ethical trading and forest sourcing within buyers' personal objectives.

During the year we held supplier workshops in the UK to raise awareness of our ethical trading and forest sourcing requirements. In this way we spoke directly with around 30 key suppliers, developing their understanding of our requirements, outlining the business case for action and explaining how they can put systems in place. We are following up these sessions with more detailed engagement as well as planning further workshops for own-brand suppliers in the Far East this year.

We have also provided our suppliers of paper and wood-based product with specific guidance to explore in detail the forestry issues in some key countries including China, Russia and Finland. In addition we provided individual feedback on their responses to this year's annual forestry survey.

## Product stewardship and responsible marketing

As part of the implementation of our forest sourcing policy, and in response to increasing consumer interest in environmental issues, last year we set a target to pilot at least three new lines of recycled or FSC-certified stationery. Our buying teams responded with trials of new recycled lines, including new correspondence stationery, copier paper and the "I used to be..." fashion stationery range. We will continue to develop our range of recycled and FSC-certified products.

We also look at the wider environmental impacts of our products, in particular the raw materials they contain and the way in which they are disposed of at the end of their life. New environmental legislation, such as the Waste Electrical and Electronic Equipment (WEEE) Directive, will require us to develop our approach further and we are monitoring legislative developments to ensure that we are fully compliant. In addition, we encourage our customer to play their part by promoting a number of product recycling schemes. This is covered in more detail in the *Environment* section of this report.

Food is an increasingly important part of the product mix for our Travel business, which operates primarily from airports and railway stations. This year we have introduced a wider range of healthier food options, such as fresh fruit, nuts and fruit smoothies. The customer response has been positive and we will be rolling out this expanded range to more stores next year.

Another aspect of our products and promotions are links to charities, giving our customers a convenient way to support a favourite cause. More information on our work in this area is in the *Community* section of this report.

## Marketing Code of Practice

We take our responsibility for the products we sell seriously. We are committed to listening to our customers and acting responsibly in their interests. Customers often have strongly differing views about the products we sell, so we aim to strike the right balance to meet the needs of all our customers. We aim to offer our customers choice, whilst also respecting their views and protecting the interests of vulnerable groups, particularly children.

We already operate according to internal guidelines regarding the responsible retailing and marketing of our products. This year, we agreed a formal Marketing Code of Practice, which has been signed off by the Board. The Code sets out the standards we will follow in all aspects of promotional activity, marketing and advertising. During the year ahead, we will ensure that buying and marketing teams understand the Code and what it means for them.

Our Marketing Code of Practice is available in full at [www.whsmithplc.com/cr](http://www.whsmithplc.com/cr)

## Customer service

Customer Service continues to be one of our core business values underpinning everything that we do. When it comes to customer expectations, top of the list are product availability, accurate and efficient transactions and a positive staff attitude.

A major store focus this year has been on transactions, specifically the successful implementation of our Two in a Queue policy and providing prompt and efficient service, both at the till and during the refund/exchange process.

We have improved the contact rate into our central customer contact centre by 22%, enabling stores and customers more frequent first time resolution opportunities.

Customer service has also been an area of real focus for us this year in our airport stores. We are testing mobile tills in 6 airside units, which can be added onto the bank during times of high demand, for example during peak summer trading, then removed. We have rolled out new queuing systems to all airside stores this year and we received our best ever, independent mystery shopper results; 86% versus 82% last year.

# Marketplace - progress against targets

	05/06 targets	Progress	06/07 targets
Ethical Trading	<ul style="list-style-type: none"> <li>Incorporate ethical trading and forest sourcing into the job specifications of key buyers</li> </ul>	<ul style="list-style-type: none"> <li>✓ Ethical trading and forestry requirements included in buyer objectives for 05/06</li> </ul>	
	<ul style="list-style-type: none"> <li>Appoint a specialist internal audit team in our Asian sourcing operation to strengthen our engagement with suppliers on labour standards and forestry issues.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Dedicated audit team appointed based in WHSmith Hong Kong sourcing office</li> </ul>	<ul style="list-style-type: none"> <li>Increase engagement work with Far East own brand suppliers by 10% to give greater visibility of potential risks and to encourage improvement from the highest risk suppliers</li> </ul>
	<ul style="list-style-type: none"> <li>Work with two key Far East suppliers to provide them with practical tools to improve the way they manage health and safety and human resources.</li> </ul>	<ul style="list-style-type: none"> <li>▶▶ Project scoped and work has started</li> </ul>	<ul style="list-style-type: none"> <li>Continue our work with two Far East suppliers on health, safety and welfare issues</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>Maintain the data coverage of our forest source survey at 70% of the volume of all own-brand paper and wood products or increase coverage further</li> </ul>	<ul style="list-style-type: none"> <li>✓ Report covered 78%</li> </ul>	<ul style="list-style-type: none"> <li>Maintain at 32% or increase further the amount of own-brand paper and timber product sourced from recycled sources and certified forests</li> </ul>
	<ul style="list-style-type: none"> <li>Hold workshops for 15 key UK own-brand suppliers to raise awareness of WHSmith's ethical trading and forest sourcing requirements provide suppliers with tools to help them improve standards</li> </ul>	<ul style="list-style-type: none"> <li>✓ Workshops took place in September 2005</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that key UK stationery suppliers who provide us with own-brand product from the Far East have robust systems in place to audit labour standards and forest sourcing practices in their supply base</li> </ul>
Products & Marketing	<ul style="list-style-type: none"> <li>Pilot at least three new lines of recycled or FSC certified stationery to test the commercial opportunities</li> </ul>	<ul style="list-style-type: none"> <li>✓ Recycled stationery products trialled included copier paper, and "I used to be..." fashion range</li> </ul>	<ul style="list-style-type: none"> <li>Continue to identify new product opportunities through our CR approach. Aim to introduce at least 3 further recycled or FSC-certified product lines</li> </ul>
			<ul style="list-style-type: none"> <li>Develop internal guidelines that specify the actions buying and marketing teams should take to ensure that Marketing Code of Practice is effectively implemented</li> </ul>

✓ Achieved

▶▶ Ongoing

✗ Not achieved



# Environment

**Board accountability:** **Alan Stewart**  
Group Finance Director

**Executive accountability:** **Robert Moorhead**  
Retail Finance Director

**Relevant policies:** Environmental Policy

We recognise that we have responsibilities for managing the impact of our business on the environment. This is not only good for the environment but makes business sense too – the less fuel, electricity, water and raw materials we use, the lower our costs will be.

Some of these impacts relate directly to our operations - the most significant relating to:

- the energy used in our stores, offices and distribution centres
- the fuel consumed by our vehicle fleet in getting product to store
- the waste, mainly cardboard and plastic, generated in stores and at our distribution centres.

We also have responsibility for the environmental impacts of the products we sell although these are often harder to manage. There are impacts relating to their manufacture, use and disposal. Some of these issues, such as forest sourcing and labour standards are discussed under *Marketplace*.

## Environmental champions

With over 700 sites across the UK, the majority of which are stores, there is an opportunity to make significant improvements in environmental performance by engaging our store teams and making sure they understand the role they can play. Store managers are already accountable for energy consumption with these costs appearing on their monthly Profit and Loss accounts.



This year we trialled a scheme aimed at increasing awareness of environmental best practice and delivering reductions in energy consumption and waste. We ran the pilot in our Devon and Cornwall stores. An Environmental

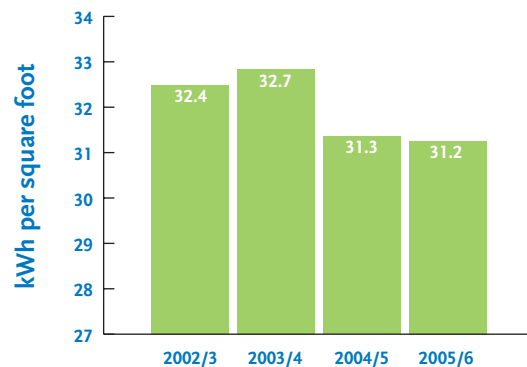
Champion was appointed in each store and tasked with encouraging colleagues to make small changes in their behaviour which would improve our environmental performance.

Over a 12-week period, the Champions carried out tasks ranging from displaying energy awareness posters in the non-trading areas of the store, to promoting cardboard recycling and reminding colleagues to turn lights off when they are the last to leave a room.

The pilot demonstrated that there are opportunities to improve our environmental performance by encouraging store staff to make small changes to their behaviour. We concluded that it is not appropriate to appoint an Environmental Champion in each store. Instead, next year, we are planning an environmental awareness raising campaign targeting all staff in High Street and Travel stores and our head office to teach them about best practice.

## Energy and emissions

We have continued to reduce energy consumption across the Group in line with our targets. Since September 2004, we have delivered a 4.3% reduction in consumption.



Energy consumption

Overall Group carbon emissions (from both transport and energy) were 42,116 tonnes, an increase from 32,299 tonnes last year. While overall consumption levels have decreased this year, we were unable to buy as much electricity from renewable sources as we did last year. This led to an increase in overall carbon emissions. We will seek to reverse this trend in the coming year.

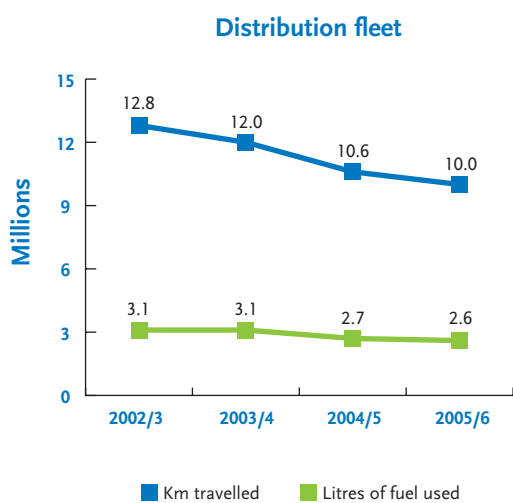
We have continued our regular programme of energy audits, looking at sites with high levels of energy consumption to identify the reasons for these high consumption levels. These audits are followed up with a corrective action plan to implement the necessary improvements.

Raising staff awareness of energy efficiency remains a focus. This year we have created an Energy and Environment section on our intranet to provide staff with information on how they can help us save energy. Resources include a Virtual Shop, a fun tool for store teams to explore and see if they can find all of energy saving opportunities in a typical store.

Through the Environmental Champions pilot (see page 9), we have investigated new ways to raise staff awareness of the simple steps they can take to help reduce energy consumption. Following this pilot, we will launch an environmental awareness campaign next year, which will have energy efficiency as a major focus.

### Transport

In the last few years we have made good progress in reducing the distance travelled and fuel used in getting product into store. Last year we set a target to reduce diesel use by 15% compared to levels in 2004. This year we achieved a 4.4% saving which, combined with our improvement last year, resulted in an overall reduction of 16.2% from 2004 levels. During the same two year period we have also managed to reduce distance travelled by 16.7%.



Savings last year were primarily due to the implementation of our ideal delivery frequency schedule. This takes account of how full a vehicle is before making a delivery rather than simply basing it on the daily schedule. This year, further reductions have been achieved through the introduction of double deck trailers on trunk routes and a restructuring of our distribution network. This was only completed in the second half of the financial year so further benefits should be seen in the next 12 months.

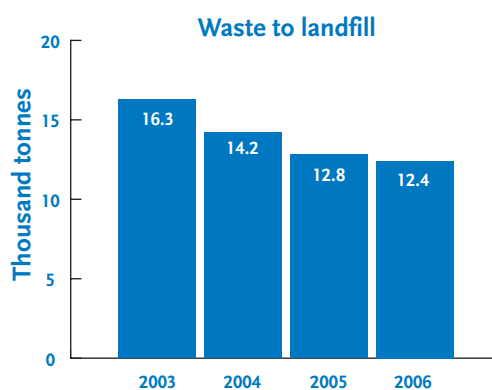
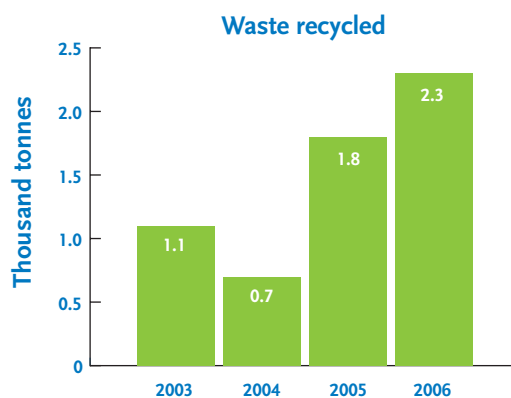
### Employee journeys to work

There are also travel impacts from employees' journeys to and from work – this is most obvious at our Greenbridge site in Swindon. During the year we surveyed staff in the head office and distribution centre to understand where they travel from and what mode of transport they use. Our findings showed that 70% of office staff travelled to work by car, with only 3% using the bus and 2% walking. This contrasted with those in the distribution centre where only 12% travelled in by car, 35% took the bus and 22% walked. We provide facilities to encourage alternative forms of transport including secure areas for bicycles, showers and changing rooms, covered areas for motor bikes and flexible working where possible. However, we have now put together a Green Travel Plan for the site. This commits us to

undertaking additional actions to highlight the public transport options that are available (and discuss improvements with Swindon Borough Council), encourage more staff to car share, promote cycling and encourage flexible working.

### Waste

Waste can be broken down into many different categories but for us there are two main areas to consider: waste from our stores and distribution centres, for example, cardboard boxes, plastic shrink wrap and damaged stock, and general waste from our offices, such as office paper, food, redundant IT equipment, toner cartridges and newspapers.



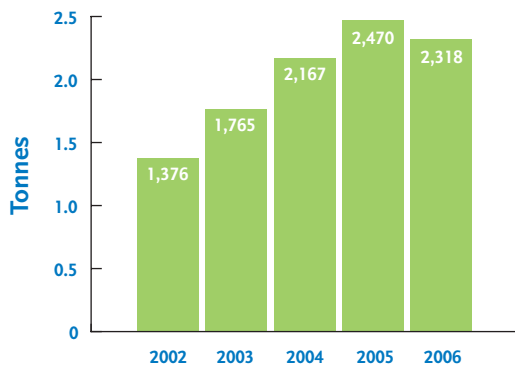
Overall the amount of waste sent to landfill has reduced by 4% and we have managed to increase our recycling rate to 16% of our total waste arisings. This has been achieved through reductions in the amount of transit packaging being used on our products in the first place and through increased recycling in our stores. We have increased the recycling rate at our central sites to over two thirds of total waste arisings.

We have been working hard to increase the store recycling rate, overcoming some particular issues related to space and location. The amount of waste at each is small and dispersed around hundreds of sites around the country. Some of these are in stations, airports and shopping centres where we rely on the waste management services provided by our landlord.

We have a centralised waste management contract covering 370 of our High Street stores and during the year we have extended our cardboard recycling scheme to cover 153 of these sites. This has resulted in the recycling of 1,100 tonnes of cardboard – we plan to extend the scheme to further stores this year.

### Packaging

With increasing pressure on both businesses and consumers to reduce waste, we are keen to find opportunities to reduce product packaging at source and to make our packaging easier to dispose of. As well as placing a burden on the environment, excessive packaging also increases costs for our business, with an over-packaged product costing more to transport and taking longer to unpack.



Packaging obligation

Each year we are required to report to the Environment Agency figures for the amount of packaging we handle and ensure that a set percentage of this material has been recycled. This percentage is known as our packaging obligation. We have managed to reverse the trend of previous years with a fall in our obligation for the 2006 calendar year.

### Transit packaging

This year we have continued our work with key Far East suppliers of own-brand products to eliminate unnecessary transit packaging. We trained merchandisers and product technologists in our Far East sourcing office on what best practice looks like in terms of product packaging. This was then followed by training for 25 suppliers where we explained the simple steps they can take to reduce packaging and also reduce cost.

All of the 25 suppliers trained have changed their processes in some way. In some cases, suppliers have been able to halve the weight of packaging on products. Other changes have the potential to make a big difference overall. For example, one supplier replaced an inner box with shrink wrap whilst another now packs products as 2 boxes of 12 items, rather than 4 boxes of 6.

The cumulative effect of these many small changes is that at least 105 tonnes of cardboard has been taken out of

our supply chain. The full extent of the savings delivered will only be realised once the product comes through the full supply chain in the coming months. This should allow us to see savings in transport costs, handling time in both distribution centre and store and reduced costs both for waste disposal and compliance with packaging legislation.

Next year, we will be incorporating packaging guidelines into our Far East Vendor Manual and compliance will be monitored by our merchandisers based in Hong Kong.

### Carrier bags

A recent redesign of our carrier bags will deliver a significant saving in the amount of plastic used each year. The new carrier bag designs have the same strength but use around 30% less plastic. Not only will the new bags save plastic, but the lighter design will also reduce manufacturing and transport costs.

### Biodegradable sandwich packaging

The Foo Go sandwich range offered in our Travel stores features innovative packaging which is helping to reduce the waste from convenience food. The sandwich packaging is completely biodegradable. In the right conditions, the carton board and coatings can biodegrade in approximately 14 weeks. The clear material used for the windows is made from 100% cornstarch.

### Encouraging our customers to help the environment



2006 saw our continued involvement in Woodland Trust's Christmas Card Recycling campaign – now in its 9th year. Throughout January customers were able to recycle cards in WHSmith stores throughout England, Wales and Scotland. A staggering 82 million cards were recycled by the scheme, an increase on the previous year of more than 40%. This meant that 1,600 tonnes of cardboard that might otherwise have ended up in landfill were recycled. By way of a thank you, the Woodland Trust has dedicated a stand of trees to WHSmith at Warnage Wood near Swindon.

We continue to 'complete the loop' with our own brand toner cartridges. Customers buying a new printer cartridge can send off their old one to be recycled using a prepaid envelope available in store.



This cartridge is then refurbished, refilled and tested by our supplier before making its way back on to the shelf as our own brand cartridge. In addition, Tommy's, the baby charity, receives donations based on the number of units recycled.

# Environment - progress against targets

	05/06 targets	Progress	06/07 targets
<b>Engagement</b>	<ul style="list-style-type: none"> <li>Establish an Environmental Champions scheme to help deliver continuous improvement in energy efficiency and waste minimisation.</li> </ul>	<ul style="list-style-type: none"> <li>Scheme piloted in stores in Devon and Cornwall. Results showed improvements in awareness of environmental issues, but no clear benefit from the appointment of a dedicated Environmental Champion in each store. The national rollout will therefore take the form of an environmental awareness campaign.</li> </ul>	<ul style="list-style-type: none"> <li>Carry out environmental awareness campaign across all stores, offices and distribution centres</li> </ul>
<b>Transport</b>	<ul style="list-style-type: none"> <li>Reduce fuel use in the WHSmith Retail distribution fleet by 15% from September 2004 levels.</li> </ul>	<ul style="list-style-type: none"> <li>Overall reduction of 16% achieved</li> </ul>	<ul style="list-style-type: none"> <li>Continue to target logistics contractors to improve fuel efficiency of distribution fleet by maintaining fuel consumption at 9.9mpg</li> </ul>
<b>Waste &amp; packaging</b>	<ul style="list-style-type: none"> <li>Increase recycling of transit packaging by 5% at WH Smith Retail distribution centres from September 2004 levels</li> <li>Extend cardboard recycling to 150 WHSmith High Street stores</li> <li>Work with our top 20 own-brand suppliers in the Far East to reduce the amount of transit packaging they generate by 10% from September 2004 levels.</li> </ul>	<ul style="list-style-type: none"> <li>In September 2004, we were recycling 46% of waste in our distribution centres. By the end of August 2006, 67% of waste was being recycled.</li> <li>153 stores now have cardboard recycling facilities.</li> <li>Results from detailed involvement with 25 Far East suppliers should save at least 105 tonnes of transit packaging.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that at least 20% of group waste is recycled</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>By August 2008, reduce energy consumption by 5% per square foot from September 2004 levels</li> </ul>	<ul style="list-style-type: none"> <li>As at end of August 2006, we have achieved a 4.6% reduction in consumption per square foot from 2003/4.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to reduce energy consumption, targeting a further 3% reduction by August 2008, i.e. an 8% reduction overall from 2003/4.</li> <li>Roll out automated meter reading systems across High Street stores to provide accurate meter readings which will enable fast identification of high energy users</li> </ul>

- Achieved
- Ongoing
- Not achieved

# Workplace

**Board accountability:** **Alan Stewart**  
Group Finance Director

**Executive accountability:** **Tanith Dodge**  
Group Human Resources Director  
**Mark Sabin**  
Head of Group Risk

**Relevant policies:** Code of Business Conduct  
Suite of employee policies  
Health and Safety Policy

Our employees are core to the success of our business. We aim to achieve a working environment where our staff are respected, treated fairly, listened to and involved. We want all WHSmith employees to feel proud of the company and responsible for its success.

It is therefore important that we invest in our people, provide them with suitable training and create opportunities for development and promotion so that they feel valued and choose to stay with the business. We need to be clear as to what we expect of our staff and embed the values of the business across all our locations.

## Embedding our values



In 2004/05 we adopted four key business values: Customer Focus, Drive for Results, Value Our People and Accountability. This year we continued with our three year plan of

embedding these values throughout the business.

The values form a key part of every employee's personal objectives and appraisals, as well as being incorporated into staff training and development programmes. Our Values in Practice or 'VIP' scheme, is an opportunity to recognise colleagues who have set a leading example and really lived the values. Anyone can nominate someone as a VIP. It could be the VIP's manager, but could also be a colleague in the team or someone in another part of the business recognising the contribution the VIP has made to a cross-functional project.

During 2005/06 we have gone further in embedding the values within the business. In October we distributed Values postcards to managers to use with their teams. This enables them to send an immediate message to recognise a team member who is demonstrating our values.

## Communicating with and engaging our staff

As we work to deliver our turnaround plan, it is more important than ever that all employees are updated and informed on current business performance and progress in delivering key priorities throughout the year.

The Executive Directors carry out regular briefings to ensure that staff are informed about business strategy and performance and also have an opportunity to ask questions or raise any concerns they may have. All store managers attend a conference each autumn where the Executive team give an update on business strategy, especially plans for the Christmas ahead. Twice a year we also hold strategy briefings at head office, presented by the Executive team, giving an update on progress in implementing our strategy. Before these briefings, we contact a cross section of staff to ask them about any questions they may have or any points they would like covered. We then try to address these points during the briefing. After each briefing, we also survey staff for feedback to check that the briefing was of value.

We do not carry out formal employee surveys, instead we provide staff with frequent opportunities to ask questions of directors and to express their views. One such forum is known as Directors Breakfasts where staff, both in head office and in stores, have an opportunity to meet a Director in an informal setting and set the agenda, whether to ask questions about business strategy or raise any concerns they may have. Each Director makes a commitment to answer all the points raised and suggestions are taken into account in future business planning. Staff also have the opportunity to be involved in other ways, for example, this year all staff were invited to vote for the charity partners for our 2006 charity Christmas cards.

## Valuing diversity

In February 2006 we established a diversity working group to develop initiatives and policies concerning gender, sexual orientation, ethnicity and disability. The working group carried out a review of WHSmith's current diversity policies and benchmarked our policies and performance against our peers. This review helped us to identify areas requiring improvement, which will form the basis of our diversity action plan.

Developments already made this year include updating our suite of diversity policies to ensure they reflect new legislation and changes in company policy, and the development of diversity awareness training sessions for staff in our head office, distribution centres and stores. The training will be rolled out across the group over the next year and will brief staff on new legislation and the implementation of WHSmith's policies and highlight the contribution that diversity can make to our business.

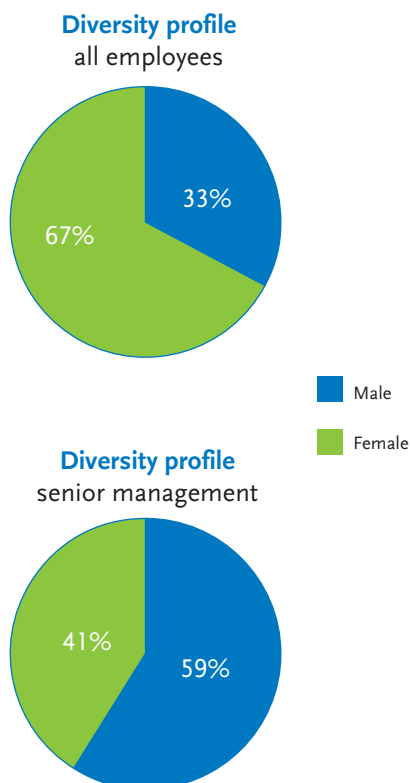


In preparation for the new age discrimination legislation, which comes into force in October 2006, we have reviewed our employment policies, recruitment strategy and training and development programmes to reflect the requirements of the regulations. All managers are also receiving training on how to ensure compliance with the new legislation.

We are improving our data collection systems to capture, not only employee diversity by gender, but also additional indicators of diversity, both for existing employees and prospective recruits.

Next year, we will be developing disability awareness training programmes as part of the wider staff training plan. We will also be preparing a calendar of diversity awareness events throughout the year, which WHSmith can then promote both internally and externally, starting with promotion of Learn to Sign week in October 2006.

This year, Kate Swann, Group Chief Executive, was invited to become a member of the National Employment Panel Business Commission on Race Equality in the Workplace. The Commission's overall objective is to advise the Chancellor on policies and practical measures to increase the recruitment, retention and progression of ethnic minorities in the private sector. A member of the Commission's Executive Committee, Kate has taken responsibility for providing the strategic lead on the national levers for driving change in the private sector. The Commission is due to present recommendations to the Chancellor in time for the March 2007 budget.



## Disability discrimination

The business is continuing to work to improve the services that it provides to disabled customers, in order to meet the requirements of the Disability Discrimination Act (DDA). This makes it unlawful to discriminate against a disabled person because of their disability in relation to employment, the provision of goods and services, education and transport. It also places duties on service providers to make reasonable adjustments when providing access to goods and services.

During the year, we have continued a rolling programme of capital improvements across our estate. This has included fitting hearing loops for customers with impaired hearing and installing automatic doors and lifts in some stores for those who are less mobile. In some cases, particularly in older and smaller stores, the building itself prevents the installation of a lift and we have to consider each location on case by case basis.

We continue to provide training to staff so that they can better understand the needs of our disabled customers. We also subscribe to a web-service operated by Direct Enquiries that provides information on the specific facilities at each of our stores and enables us to review feedback from disabled customers on the quality of our service.

## Training and developing our staff

We have continued to strengthen our training and development support to ensure that all employees, whether in head office, stores or distribution centres, can access the appropriate development tools. Our training and development programmes can be separated into two categories:

- Knowledge and skills development - to support individuals in achieving their objectives
- Development and succession – supporting the development of individuals to enable them to maximise their potential

For head office staff, a training plan is published every six months advertising workshops designed to support individuals in meeting their objectives. We also offer a variety of additional training programmes tailored to meet the needs of a specific group within the head office population. These include:

- Coaching and mentoring programme for the senior management team to develop their skills in this area. 40 senior managers took part in workshops last year.
- Fast Track Academy designed to prepare candidates for future senior management roles. This year, 12 high potential head office employees completed the first programme. A new programme will start in January 2007 targeting staff with the potential to move sideways and upwards within the management structure.

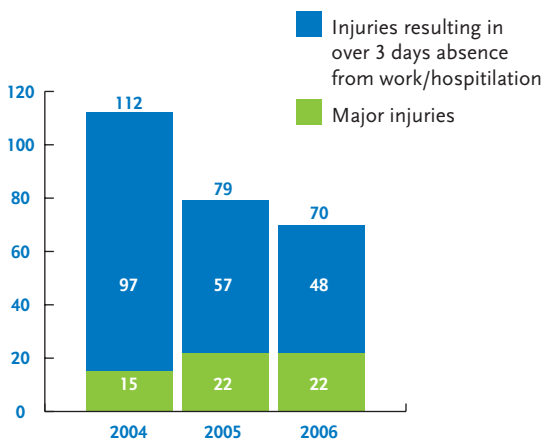
- Commercial Development pool - the purpose of the programme, which consists of workshops and specialist master classes, is to provide delegates with the core knowledge, skills, behaviours and experience to support them in their first management position within Buying and Merchandising. The current pool has 14 delegates of which 4 have already been promoted.

Training and development for our store teams focuses on providing solutions which create a pipeline of talent to fulfil key roles within stores and retain talent within the business. Every employee completes a training programme covering induction, customer service, selling and product knowledge relating to the department they work within. This is designed around the key measures on the Business Balanced Scorecard which all staff are measured against.

We seek to provide a menu of different training approaches to suit different learning styles where appropriate. At the core of this approach are development programmes designed to help staff in a specific role move on to the next level of seniority. These development programmes offer succession development for potential supervisors, potential store managers and potential area or district managers. 117 delegates attended the store manager development programme this year, with a running promotion rate upon completion of 69%. The supervisor development programme was attended by 107 delegates with 51% already appointed to date and 34% with appointments being confirmed.

### Health and safety

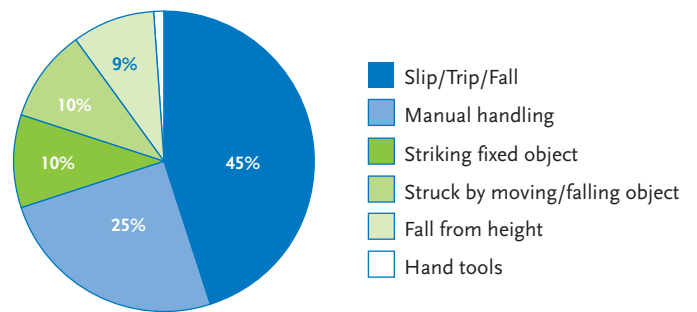
The Board is committed to maintaining high standards of health and safety in the business. The management team, supported by professional safety advisers from the Risk and Occupational Health Department, monitor key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a properly constituted Health and Safety Committee that comprises employee representatives, management, trade union representatives and officials.



Accidents and injuries

This year the total number of reportable accidents reduced by a further 11% although the number of major injuries remained stable. Whilst we are pleased with the overall reduction in the coming year we will be focusing on making further improvements. Each incident is taken very seriously: our health and safety team review the circumstances leading to it, analyse the contributing factors and introduce measures to avoid similar occurrences.

### Accidents by type 2005/6



As the graph (above) shows, slips, trips and falls and manual handling account for 70% of our accidents. During the year we trained over 1,000 managers so that they can cascade safety training to their staff, with a particular emphasis on these two areas. Specific Health and Safety training has also been incorporated into our Management Development Programme for new store managers.

# Workplace - progress against targets

05/06 targets

Progress

06/07 targets

Engagement

- Further embed the values in our business culture in head office and stores through the launch of a tool for managers to send an immediate message to positively recognise staff who demonstrate the values



- Values postcards launched in October 2005 and distributed to managers to use with their teams

- Use our training and development programmes to strengthen the skills managers have to consult with their teams and increase employee engagement

Diversity

- Set up a diversity working group to develop initiatives and policies concerning gender, sexual orientation, ethnicity and disability



- Diversity working group met during 2006, analysing WHSmith policies and performance against best practice and agreeing an action plan for work going forward

- Provide training for all store managers on diversity, disability and discrimination issues.
- Integrate diversity into store recruitment strategy

Training & development

- Launch a fast track development programme for store supervisors



- Programme launched and 107 delegates attended during 2005/6 with 51% already appointed to supervisor roles and 34% in process of being appointed

- 70% of attendees on store manager development programme to be in store manager role within one year

- Fill 50% of the store manager vacancies in our high street shops with internal candidates



- 60% of vacancies filled by internal candidates

- Maintain current rates of internal succession with at least 60% High Street store manager vacancies to be filled by internal candidates

- Develop a coaching and mentoring programme for senior executives



- Programme created and attended by 40 senior managers

H&S

- By the end of August 2010, reduce overall reportable accidents by 5% from September 2004 levels



- RIDDOR rate reduced by 13% during 2005/6

- By 2010, overall reportable accidents to be 10% of 2004 levels



Achieved



Ongoing



Not achieved

# Community

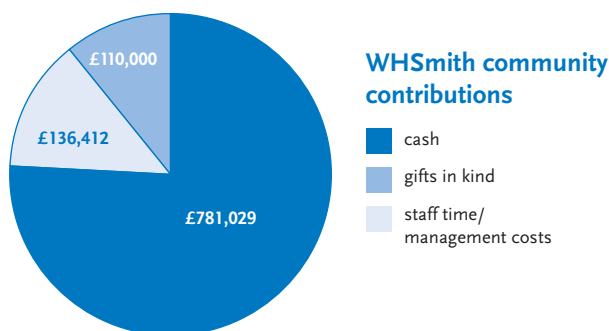
**Board accountability:** **Kate Swann**  
Group Chief Executive

**Executive accountability:** **Tanith Dodge**  
Group Human Resources Director

**Relevant policies:** Community Engagement Policy

Our community investment continues to focus on education and life-long learning. As a leading bookseller and stationer, this is an area where we can use our knowledge and resources to make a real difference.

This year, in line with our commitments to the Per Cent Club, we continued to invest over 1% of our pre-tax profits in charities and community projects. The chart below gives a breakdown of our community contributions. We use the London Benchmarking Group reporting model to calculate our contributions to the community which provides a standardised way of managing and measuring a company's community involvement.



In addition to our direct community contributions, we also measure the leverage our contributions give to the charities we support, in other words the amount of funding our charity partners attract as a direct result of receiving support from WHSmith. This year, support from WHSmith has enabled our charity partners to raise an additional £129,745.

**WHSmith Charitable Trust**

The WHSmith Trust is an independent registered charity (registered charity no. 1013782) with two principal objectives:

- To support the local communities in which WHSmith staff and customers live and work and;
- To support education and lifelong learning, helping people of any age to achieve their educational potential.

For further information on the WHSmith Trust, see [www.whsmithplc.com/grp/trust](http://www.whsmithplc.com/grp/trust)

## Promoting literacy in partnership with the WHSmith Charitable Trust

### Second year of WHSmith Summer Read

July and August saw the second year of the Summer Read, a partnership between WHSmith PLC, the WHSmith Trust and the National Literacy Trust's Reading is Fundamental initiative. This is part of a three-year programme which encourages children across the UK to develop a love of reading and helps to maintain literacy levels during the long summer holidays.

Research has found that reading is a low priority over the summer break, with three in five children reading significantly less than half an hour a day. This has a marked impact on their ability to keep up with their schoolwork after the summer break. Nine out of ten parents need to spend more time helping children with their homework in the first few weeks after the holidays than during the previous term.

This year, more than 2,700 children in 15 locations around the country took part in the Summer Read events. Children took part in a range of book-related activities including storytelling, treasure hunts and making bookmarks and masks of characters from their favourite book. Each child chose two books to take home and also received a WHSmith goody bag. The aim was to promote the fun of reading, the importance of book ownership and the benefits to families of sharing books at home.

Kate Swann, Group Chief Executive, launched the 2006 Summer Read at an event in Kilburn, London. Three other Directors also attended events during the summer, as did members of store teams across the country.

Viv Bird, Acting Director of Reading Is Fundamental, UK, said: "A love of reading has been shown to have more of an effect on children's achievement than their parents' wealth - we're pleased that our partnership with the WHSmith Trust is enabling children across the UK to have fun with books and reading during the long summer break."

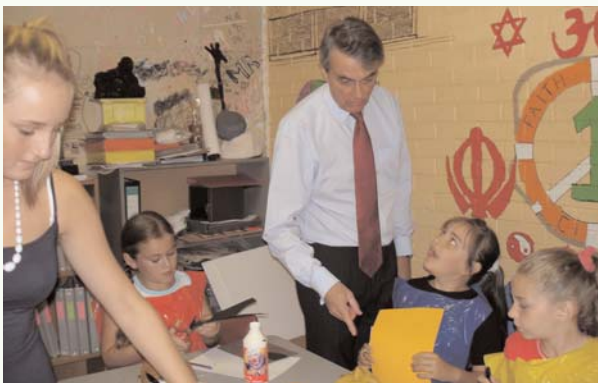
WHSmith Trust and WHSmith PLC will provide funding and support for a further Summer Read in 2007.

## 2006 Summer Read - measuring performance

At the beginning of this year's Summer Read we agreed specific objectives for what we wanted the project to deliver to the children involved. The table below shows how we performed against these objectives.

Objective	Achieved	Comment
Hold Summer Read events promoting literacy and the fun of reading in at least 15 locations, to benefit at least 2,500 children	✓	Events held in 15 locations, over 2,700 children took part
Over 70% of project coordinators to assess the value of the RIF/WHSmith Summer Read project as 'very important'	✓	75% of feedback received rated the WHSmith 2006 Summer Read as 'very important'
Local projects to deliver:		
• Improvement in children's attitudes to reading	✓	• 90% improvement in children's attitudes to reading
• Increased project coordinators' knowledge of children's books	✓	• 59% increased project coordinators' knowledge of children's books
• Additional fun element to children's experiences of reading	✓	• 97% additional fun element to children's experiences of reading

### Case Study - Reading is Fundamental in Kensington, Liverpool



In July Robert Walker, Chairman of WH Smith PLC, attended the Summer Read event in Kensington, Liverpool.

Kensington is an area with many social problems, making it more important than ever that the children are given support to improve their reading and their education.

30 children aged between 8 and 13 made masks of their favourite book character. Tracey Beaker, star of the Jacqueline Wilson books, was a particularly popular choice.



One little girl plucked up the courage to ask Robert whether the masks could be displayed in WHSmith's Liverpool store. Much to the children's delight, he agreed. The masks were displayed in the children's book department and the Kensington children visited the store, both to see their masks and to spend the WHSmith voucher they had received in their goody bags.

The book distribution was a highlight of the event and children were delighted with the books they received. Comments included, "boss book", "can't put it down", "can I read that one next?", "when are we having more book days?"



### Support for Quick Reads

World Book Day in March is the biggest annual event to promote reading in the UK. This year it marked the launch

 of Quick Reads, an exciting new initiative bringing short, fast-paced books by top authors to emergent or infrequent adult readers.

The books are particularly suited to adults with learning difficulties. WHSmith and the WHSmith Trust funded promotional materials which were distributed to adult literacy classes and further education colleges. This helped draw attention to the scheme amongst those people who would benefit most from these new books.

The response to our role was positive with more than 90% of teachers at adult literacy colleges surveyed saying that our involvement had played an important part in raising awareness of the campaign.

### Employees making a difference in their local communities



WHSmith is at the heart of hundreds of communities around the country. Our staff do a great deal of excellent work to support the local

communities in which we operate. This could be work with local schools, charities or other community groups. Actions may be on a small-scale, but the cumulative effect of the many actions - by teams at our stores, distribution centres and offices - is significant.

Not only does this support and create strong links with the local community, but it can also have benefits for WHSmith - for example, strengthening WHSmith's reputation, encouraging local schools to shop with us, or contributing to team-building and staff morale.

This year, we launched the WHSmith Community Awards to recognise the work our staff do in the local community. Awards were given to 20 teams who had set a leading example by building strong links in their local community.

Winners included the team at WHSmith Airdrie who organised a story telling session for a local primary school; staff at Redcar store who donated books, games and artist materials to help raise funds for a children's sensory garden at a local respite home; and Glasgow Travel store that supported Erskine Hospital through fundraising, donating stock and entertaining patients at the hospital.

Staff at our Gateshead Metro Centre store received a special award for outstanding achievement. The team has built a partnership with the Thomas Hepburn Community School which serves one of the most deprived inner city areas in the country. They have supported the school in a number of different ways. This includes donating stock for prizes to recognise pupils who have made significant improvements in numeracy, literacy or attendance; arranging store visits for Business Studies students to learn about how WHSmith operates as a business and helping the school to promote educational events such as National Science Week or simply to encourage exam revision.

### Products to promote and support charity and education

An increasingly popular way for our customers to support charity is through buying products with charity links. Our Adopt-an-Animal range, launched in autumn 2005, was developed in close association with our partner charities, helping them to raise funds and also to increase consumer awareness of their work and gain new supporters. Sales of these products raised over £100,000 for our partner charities which include Guide Dogs for the Blind and the Born Free Foundation. This year, we will be extending the



range and hope to raise even more money for charity. Our charity Christmas cards continue to raise significant amounts of money for our charity partners. When designing our 2006 range, we were keen that staff should have a say in which charities we support. We organised a staff vote with the most popular charities chosen as our partners for Christmas 2006.

The recycling schemes we offer to customers, for used toner cartridges and for Christmas cards, also support charity. More information can be found in the Environment section of this report.

WHSmith is a leading provider of Educational Achievement Rewards which are a popular way for teachers to recognise pupils' achievements and encourage good behaviour. The vouchers, which we sell to schools at a 10% discount, can only be redeemed against items of educational value, in other words, books and stationery.

## Community - progress against targets

	05/06 targets	Progress	06/07 targets
WHSmith Trust	<ul style="list-style-type: none"> <li>Work in partnership with the WHSmith Trust to deliver two significant education and literacy projects</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> WHSmith Trust and WH Smith PLC have worked in partnership to deliver 2006 Summer Read and to support Quick Reads outreach work</li> </ul>	<ul style="list-style-type: none"> <li>Continue partnership with the WHSmith Trust to deliver two further education and literacy projects</li> <li>Continue to raise awareness of the WHSmith Trust, by raising the profile of charity fundraising activities</li> </ul>
Community involvement	<ul style="list-style-type: none"> <li>Establish a scheme to recognise and reward staff for outstanding work in the community to share best practice</li> <li>Send three teams on team community challenges working with HR to evaluate the contribution to training and development</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> WHSmith Community Awards launched in May 2006 to celebrate best practice</li> <li><input type="checkbox"/> Four WHSmith teams will take part in a fundraising challenge in September 2006</li> </ul>	<ul style="list-style-type: none"> <li>Continue to invest 1% of pre-tax profits in the community through donations of cash, employee time and gifts in kind</li> </ul>
Charity products	<ul style="list-style-type: none"> <li>Increase the range of products we sell that support charities</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Wider range of charity products in store, e.g. Adopt-an-Animal range</li> </ul>	<ul style="list-style-type: none"> <li>Continue to identify new products or promotions, which support charity partners.</li> </ul>

Achieved

Ongoing

Not achieved

# Contacts and feedback

We welcome your feedback on this report. If you have any comments regarding this report or the corporate responsibility section on our website, [www.whsmithplc.co.uk/cr](http://www.whsmithplc.co.uk/cr), please contact:

Head of Corporate Responsibility  
WH Smith PLC  
Greenbridge Road  
Swindon SN3 3LD

Tel: 01793 616 161

If you would prefer to email us with your comments, please visit the 'Contact us' page at [www.whsmithplc.co.uk/cr](http://www.whsmithplc.co.uk/cr)