12 November 2020

WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2020

Financially strong Group; well positioned for the recovery

- Decisive actions taken to protect colleagues, customers and the business since the start of the pandemic
- Challenging year with a Headline loss of £69m but with improving trends prior to current lockdown
- Focused plan on customer conversion, increasing average transaction value, category development and cost management; delivering good results across all UK and international travel markets
- Continue to focus on opportunities for further growth
- Encouraging signs of recovery in North America; continue to open new stores and win new business
- Resilient performance from High Street business; steady recovery since first lockdown; 558 stores currently trading
- Robust balance sheet; finished October ahead of plan with cash on deposit of £83m and undrawn facilities of £320m
- Underlying cash burn† for November approximately £20m
- The Group is well positioned as travel markets recover

Group financial summary:

	Aug 2020 (IFRS)	Aug 2020 (IAS 17*)	Aug 2019 (IAS 17)	% Change (IAS 17)
Travel trading (loss)/profit[1]	£(27)m	£(33)m	£117m	(128)%
High Street trading (loss)/profit[1]	£(4)m	£(10)m	£60m	(117)%
Group (loss)/profit from trading operations[1]	£(31)m	£(43)m	£177m	(124)%
Headline Group (loss)/profit before tax[1]	£(68)m	£(69)m	£155m	(145)%
Headline (loss)/earnings per share[1]	(43.3)p	(44.2)p	114.7p	(139)%
Non-underlying costs[1]	£(212)m	£(157)m	£(20)m	
Group (loss)/profit before tax	£(280)m	£(226)m	£135m	(267)%
Basic (loss)/earnings per share	(199.2)p	(160.0)p	98.1p	(263)%
Diluted (loss)/earnings per share	(199.2)p	(160.0)p	97.2p	(265)%

Revenue performance:

	£m	Total % change	LFL[1] % change
Travel	553	(32)%	(43)%
High Street	468	(19)%	(19)%
Group	1,021	(27)%	(33)%

* The Group adopted IFRS 16 'Leases' with effect from 1 September 2019 using the modified retrospective approach to transition and has therefore not restated prior periods. The results for the year ended 31 August 2020 are not directly comparable with those reported in prior periods under the previous applicable accounting standard, IAS 17 'Leases'. In order to aid comparability, the results for the year ended 31 August 2020 have also been presented on a pre-IFRS 16 (IAS 17) basis and commentary throughout this report will refer to these pre-IFRS 16 numbers. Measures presented under IAS 17 are identified with a "*". All prior period measures are presented on an IAS 17 basis. Reconciliations from IAS 17 measures to IFRS 16 measures are provided in the Glossary on page 53. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue, and like-for-like revenue are based on statutory measures.

† Monthly recurring cash burn before any cost deferrals or one-off savings/costs

[1] Alternative Performance Measure (APM) defined and explained in the Glossary on page 53. Unless otherwise stated, all references in this announcement to growth rates and year-on-year comparisons relating to the Group's statutory and alternative performance measures are stated on a consistent basis under IAS 17.

Carl Cowling, Group Chief Executive, commented:

"The Group delivered a strong first half performance and traded strongly prior to the outbreak of Covid-19. Since March, we have been heavily impacted by the pandemic. Despite the many challenges faced, we responded quickly and took decisive actions to protect our colleagues, customers and the business, including strengthening our financial position.

"While passenger numbers continue to be significantly impacted in the UK, our North American business, where 85% of passengers are domestic, is beginning to see some encouraging signs of recovery. In addition, we continue to open new stores in the US and win significant tenders across major US airports.

"In High Street, we had seen a steady recovery and we were well set up both in stores and online as we went into the second lockdown. We currently have 558 stores open.

"We have a robust plan across all our businesses focusing on cost management and initiatives within our control which support us in the immediate term and position us well to emerge stronger as our markets recover.

"I have nothing but enormous admiration for all our colleagues across the business, be it in stores, our distribution centres or our head offices. Their support and commitment has been outstanding during this difficult period and I would like to thank every one of them for how they have responded.

"We are a resilient and agile business. The actions we have taken have put us in a strong position to navigate this time of uncertainty and we are well positioned to benefit as our markets return to growth."

WEBCAST:

A live webcast will be held today at 8.30am GMT for investors and analysts and will be available on our website at www.whsmithplc.co.uk.

ENQUIRIES:

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WH Smith PLC's Preliminary Results 2020 are available at www.whsmithplc.co.uk.

GROUP OVERVIEW

Impact of Covid-19

Following the outbreak of Covid-19, the Group acted fast to take a number of actions to support our colleagues, customers and our business. Our number one priority is the health and wellbeing of our colleagues and our customers. All stores, distribution centres and head offices have effective safety measures in place, including social distancing measures, PPE for colleagues' use, protective screens and guidelines to limit the number of customers in store. In addition, all head office staff have worked from home throughout the lockdown periods.

We immediately focused on cost and cash management, including the following activities:

- Reduced stock purchases to reflect ongoing demand, returning sale or return stock and negotiating extended payment terms
- Reviewed all capital expenditure to focus on essential and strategic projects
- Stopped all discretionary expenditure and reduced corporate overheads
- Worked with landlords to significantly reduce or remove rent payments and to link, as far as possible, with revenue
- Significant reduction in headcount across stores and head offices through furlough arrangements; including participating in the UK Government Job Retention Scheme, and subsequently restructuring to ensure headcount is in line with business requirements and reduced sales
- Deferred tax payments in line with UK government announcements
- The Board has decided not to pay a dividend in respect of the financial year ending 31 August 2020
- Focused on strengthening the balance sheet and the Group's liquidity position including bank covenant waivers for February 2021 and August 2021

Throughout the first lockdown period, and in line with government guidance, we committed to keeping a number of our stores open to serve those communities that most needed our services. As a result, 203 High Street stores which host Post Offices remained open and c.130 Travel stores located within hospitals across the UK continued to serve NHS frontline workers.

As lockdown restrictions were eased, we focused on the re-opening of our store estate based on the safety of our colleagues and customers, where we were able to make a cash contribution from each individual unit taking into account passenger and customer traffic flows, and the opening of transport infrastructure. We were able to open 570 High Street stores by the end of June 2020, and at the end of August 2020, we had 285 Travel stores open in the UK and 365 stores open outside of the UK.

Following the announcement of a second lockdown in England, we have 558 stores open in High Street and 243 stores open in Travel, including 206 Post Offices and 135 hospital stores. We were able to apply the learnings from the first lockdown to act fast where necessary to return stock, furlough staff and manage our supply chain. We also took measures to make sure our stores can open swiftly as lockdown eases.

Strategic Initiatives

As we have re-opened our stores, we have focused on initiatives within our control that support us in the immediate term and position us well to emerge stronger as our markets recover. These key areas of focus include:

- Driving average transaction value and sales per passenger. We have seen increases across all our businesses
- Extending our categories and ranges to reflect the specific needs of our customers in each location. For example, health and beauty and hygiene and wellbeing products across our Travel stores and working from home and electrical accessories ranges across our High Street stores
- Forensic focus on costs; completing the previously announced restructures in stores and head offices and minimising discretionary spend
- Working with landlords building on our strong relationships to create opportunities for business development as the recovery continues

- Investing capex in completing strategically important projects which set us up well for the future. These deliver unique and creative propositions for landlords and customers, such as our new store at London Heathrow Airport Terminal 2 and Bowery Bay at La Guardia Airport, New York
- Integrating our North American businesses into Las Vegas, saving c.£5m of costs annually
- Building our internet proposition by extending our ranges, increasing our distribution capacity and building customer engagement through social media

Group Summary

As lockdown restrictions eased throughout the world we saw a gradual recovery. Total Group revenue as a percentage of 2019 total revenue has been:

	% of 2019 Revenue		
	Travel	**High Street**	**Group**
April 2020	8%	29%	17%
May 2020	9%	35%	18%
June 2020	16%	59%	31%
July 2020	27%	75%	43%
August 2020	37%	81%	53%
September 2020	41%	89%	59%
October 2020	39%	92%	59%

Covid-19 has had a significant impact on the Group, particularly in the second half of the financial year. Total Group revenue was down 27% compared to last year at £1,021m (2019: £1,397m) with Group LFL revenue down 33% (down 64% in the second half).

The Headline Group loss from trading operations[1] for the year was £43m* (2019: profit of £177m) with Headline Group loss before tax[1] at £69m* (2019: profit of £155m). Including non-underlying items the Group loss before tax[1] was £226m* (2019: profit of £135m). The Group loss before tax, after non-underlying items and including IFRS 16, was £280m.

Following disruption to the business from Covid-19, the Board has announced that it will not be paying a dividend in respect of the financial year ending 31 August 2020.

As announced on 6 April 2020, we raised net proceeds of c.£160m via a share placing and at the same time agreed a £120m 12 month (plus 7 months at the option of the Group) committed banking facility from BNP Paribas, HSBC Bank PLC and Santander UK PLC. This was in addition to our existing facilities. The Group has also agreed waivers for the bank covenant tests at August 2020, February 2021 and August 2021.

As at 31 August net debt[1] was £301m* (2019: £180m). Group free cash flow[1] was an outflow of £41m* (2019: free cash flow generated of £109m). As at 31 August 2020, the Group had cash of £108m of which £82m was cash on deposit[2] giving us access to £402m of liquidity (undrawn revolving credit facility (RCF) of £200m, liquidity loan of £120m and cash on deposit[2] of £82m.)

The Group has the following debt facilities as at 11 November 2020:

	Amount Drawn at 31 August and 11 November 2020	**Maturity**
Available facilities		
£120m 'Liquidity' Facility	£nil	November 2021***
£200m Revolving Credit Facility	£nil	December 2023
Existing debt		
£200m Term Loan	£200m	October 2022
£200m MRG Loan	£200m	October 2022***

*** The maturity dates above include extension options at the Group's control

[2] Cash and cash equivalents of £108m is cash on deposit/cash at bank of £82m, plus £26m of cash in transit/held at stores.

As at 30 October 2020, the Group had cash on deposit of £83m and access to £320m of committed facility from the RCF and liquidity loan. At that point, the Group owed approximately £80m primarily relating to rent, restructuring charges, and outstanding creditors as we entered the second lockdown. We anticipate these payments will be made during the first half of the financial year. Therefore, the Group had £323m of available cash and facilities at the end of October 2020. We have worked hard to reduce the cash outflow, managing costs, stock in-take, capex projects and negotiating rent reductions as well as improved trading. The Group's underlying monthly cash burn[†] for November is expected to be £20m including any furlough mitigation. The improved trading and good cash management resulted in our underlying cash burn[†] in September and October being £5m to £10m per month which was better than we had originally expected.

In April, the Group secured eligibility to the Government's Covid Corporate Financing Facility (CCFF) for up to £300m. The Group never utilised the facility. The CCFF is currently being reviewed and like many companies, the Group is in dialogue with the CCFF concerning its eligibility.

TRAVEL

Prior to Covid-19, our Travel business was trading very well having delivered its seventh year of like-for-like sales growth. The second half however was significantly impacted by Covid-19 across our UK and international markets resulting in a full year trading loss[1] of £33m* (2019: profit of £117m), of which £32m* (2019: profit of £20m) relates to our international business including MRG and InMotion. Total revenue was £553m (2019: £817m), down 32% compared to last year and down 43% on a LFL basis.

The table below shows the impact of Covid-19 in the second half of our financial year:

Travel	H1	H2	Full Year
YOY movement in Revenue (%)	19%	(73)%	(32)%
Trading (loss)/profit[1] (£m)	49m*	(82)m*	(33)m*

As at 31 August 2020, our global Travel business, including MRG and InMotion, operated from 1,174 units (31 August 2019: 1,019 units). Of these, 650 were open as at 31 August 2020. Excluding franchise units, Travel occupies 1.0m square feet.

UK Travel

In our UK Travel business, we saw a significant decline in passenger numbers as a result of travel restrictions in the second half of the financial year. Total revenue in the year was £344m, (2019: £565m), down 39% on the previous year. In air, total revenue was down 48% with LFL revenue also down 48%; in our hospital channel, total revenue was down 15% with LFL revenue down 20%, and in rail, total revenue was down 42% with LFL revenue down 40%. This resulted in a trading loss[1] of £1m* (2019: profit of £97m).

Recent trading in UK Travel has been impacted by quarantine measures and reduced passengers on public transport. Revenue in September and October was 32% of 2019 sales. Hospital revenue continues to track at around 64% of 2019 sales. Following the announcement of the second lockdown in England, we expect to be further impacted and for the recovery not to begin until the second half.

We have worked hard across all our channels to implement a robust plan focusing on key priorities within our control that support us in the immediate term and will enable us to emerge stronger when our markets recover. Our key areas of focus include: cost management, increasing conversion and average transaction value, category development and identifying opportunities for further growth.

Air

In air, whilst we saw some early signs of recovery from leisure passengers in July as lockdown restrictions were eased, passenger numbers stalled as quarantine requirements were broadened. Despite the reduction in passenger numbers, we have continued to build on our strong position in this channel by focusing on increasing conversion and our average transaction value. This has been achieved by further extending our categories and existing ranges into new categories such as health and beauty, and hygiene and wellbeing products. We have seen some positive results with scope to do more.

During the second half, we opened a new flagship store at London Heathrow Airport Terminal 2. This new format store builds upon the success of our combined WHSmith and pharmacy format store that opened at London Gatwick Airport in the prior year. Our experience shows that we can deliver higher sales per passenger from these large stores, through improved layouts, increased capacity and by providing a one-stop-shop for time pressed passengers. With over 5,000 square feet of selling space, this flagship store features an extensive news, books and convenience offer with the addition of a world class health and wellbeing department with specialist staff. The health and wellbeing department comprises a comprehensive range of over 3,000 products curated through our partnership with market leading, global brands. In addition, the pharmacy counter offers healthcare advice along with a wide selection of medicines. We have received very positive feedback from both our customers and landlords. While this format is not suitable for all locations, we expect it to be of interest to landlords as they reconfigure their space in the future.

Hospitals

Hospitals are an important channel for us and this is now our second largest channel by sales in UK Travel. This channel is a great example of how we continue to innovate to meet the specific needs of each hospital. We have developed a strong customer offer and aligned our ranges to the NHS strategy on healthy eating. Our broad suite of brands, which include Costa and M&S Simply Food, also ensure that we can tailor and adapt our proposition to each hospital's requirements. We believe there are further opportunities to improve the hospital retail offer in the UK and we are well positioned to grow this channel further.

Throughout the second half, during the height of the pandemic and in the second lockdown, we committed to keeping our stores open in c.130 hospitals across the UK in order to support frontline NHS staff. While sales were clearly impacted with no hospital visitors, these stores performed well. We also extended our grocery ranges in these stores to further support NHS staff, ensuring we continued to play our part in the communities we serve.

Rail

Rail remains an important channel with significant long-term investment in new lines and station redevelopments. During the year, our performance was impacted by travel restrictions in the second half. We saw some improvement in performance in July, however this was stalled by further government restrictions in early September. Similar to air, we have focused on extending our ranges and increasing average transaction value.

We now have c.60% of our UK Travel store estate open.

We have focused on all areas of cost across our UK Travel business. As a result of the significant decline in passenger numbers, we took the difficult decision to review our store operations in August 2020, reducing headcount across the Travel business.

International

Within our International Travel division, North America now represents c.50% of our stores outside of the UK and we continue to see further opportunities to grow this business. Outside of North America, we still have a relatively small market share of the international news, books and convenience (NBC) market and we believe there is good long-term potential for us to continue to grow our space. During the first half of the financial year, our strategy to grow our International Travel business progressed well. In line with our UK Travel business, the second half was adversely impacted by Covid-19.

Total revenue for the year, including Marshall Retail Group (MRG) and InMotion, was £209m (2019: £252m), down 17% versus the previous year. LFL revenue, on a constant currency basis, was down 43%. The trading loss for the year was £32m* (2019: profit £20m).

North America

We completed the acquisition of MRG, a leading and fast-growing US travel retailer in December 2019. The combination of WH Smith, MRG and InMotion now enables the Group to participate in the entire North American airport specialty retail market. Differentiated from its competitors by its strategy of developing highly customised retail experiences tailored to local customers and landlords, MRG has a highly successful and proven business model with a strong track record of concession and tender wins. Although impacted by Covid-19 in the second half, MRG won a further 8 stores, including stores at San Francisco, Denver and Newark airports, and along with InMotion have a further 39 stores won but yet to open.

During the second half, MRG opened a new walk-through format of stores at La Guardia Airport, New York. This format is a first in North America. The Bowery Bay showcases around 15,000 square feet of selling space, curating a number of travel essential and specialty international retailers and brands including Kate Spade and Kiehl's. All these stores are operated by MRG with the digital accessories range provided by InMotion. This is the first InMotion implant within MRG and we believe there is scope for further opportunities for InMotion to be part of the MRG assortment of products and brands and for InMotion to open further stores in resorts.

InMotion has an excellent store portfolio with 116 stores across 43 airports in North America. During the year, InMotion opened 8 units, including units at San Francisco, Washington Dulles and Salt Lake City international airports.

While Covid-19 has had a significant impact on our North American business, approximately 85% of passengers in the US are domestic with leisure passengers an important segment, and we therefore anticipate a faster recovery in this market versus the rest of the world. TSA data continues to show a consistent, gradual recovery in passenger numbers week on week, with passenger numbers now at 35% of 2019 levels. In addition, the Las Vegas resorts business is proving resilient with occupancy rates continuing to improve, particularly at the weekend. Importantly, a significant number of visitors travel by car to Las Vegas. Data from the Las Vegas Conventions and Visitors Authority suggests that vehicle movements between California and Nevada remain robust with volumes up 10% in September compared to 2019. Our sales performance has reflected these trends with overall sales in North America at 44% of 2019 levels in October. We currently have 224 stores open (136 MRG and 88 InMotion).

During the second half, we accelerated the integration of InMotion into the MRG head office in Las Vegas. Given the exceptional circumstances, with the majority of stores closed, we acted quickly to integrate the businesses much earlier than we originally planned at acquisition. The integration is progressing well, and we expect it to be complete by the end of the calendar year. Going forward, we expect this to deliver savings of c.£5m per annum.

Rest of the World

Outside of the UK and North America, our WH Smith international business is seeing broadly similar trends with passenger numbers significantly down year on year. Similar to the UK, we remain focused on areas within our control, including increasing average transaction value, re-negotiating rents and extending our leases. Of the 307 WH Smith stores outside the UK, we have re-opened 159 stores to date. Recovery in these markets is likely to take some time and we are planning accordingly. We will temporarily close stores if they become uneconomic and as airlines adjust volumes and schedules. Revenue in September and October was at 18% of 2019 levels.

Despite the disruption in the second half, outside of North America we won 26 new WH Smith units internationally in the year and opened 16 units, making a total of 307 WH Smith international units as at 31 August 2020. 40% are directly run, 52% are franchised with the balance being joint ventures. We will continue to use these three economic models flexibly in order to create value and win new business.

In total, across our global Travel business outside of the UK, we are now present in over 100 airports and 30 countries with 277 units open in North America, 83 units open in Europe, 104 in the Middle East and India, and 120 in Asia Pacific.

HIGH STREET

High Street delivered a resilient performance despite a very challenging second half with a full year trading loss[1] of £10m* (2019: profit of £60m). Total revenue was down 19% with like-for-like revenue down 19%.

The table below shows the impact of Covid-19 on the second half of our financial year:

High Street	H1	H2	Full Year
YOY movement in Revenue (%)	(5)%	(39)%	(19)%
Trading (loss)/profit[1] (£m)	44m*	(54)m*	(10)m*

Throughout the first lockdown period we kept 203 stores open to ensure that those stores that include a Post Office could continue to serve their local communities and provide access to vital postal and banking services.

We consider retail space as a strategic asset and we utilise our space to maximise a return 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. This approach remains as appropriate today as it has ever been.

As with our Travel business, we have focused on initiatives within our control with a greater focus on: increasing average transaction value, where we have seen some very positive results; category development, introducing new ranges such as health and hygiene, electrical accessories and working from home ranges; and good cost control.

Driving efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. We achieved cost savings of £23m in the year. These savings come from right across the business, including rent savings at lease renewal (on average over 45%) which continue to be a significant proportion, government property rates holiday, marketing efficiencies and productivity gains from our distribution centres. An additional £34m of cost savings have been identified over the next three years of which £21m are planned for 2021.

Over the years, we have actively looked to put as much flexibility into our store leases as we can, and this leaves us well positioned in the current environment. The average lease length in our High Street business, including where we are currently holding over at lease end is 2.5 years. We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.420 leases due for renewal over the next three years, including 120 where we are holding over and in negotiation with the landlord. Depending on the negotiations with our landlords and the government's future approach to property rates, we anticipate closing c.25 stores in the current financial year as the leases on these stores expire. While this is not an easy decision to make for our colleagues or the communities we serve, it is vital we retain a strong and cash generative high street portfolio going forward.

As at 31 August 2020, the High Street business operated from 568 WH Smith stores (2019: 576) which occupy 2.7m square feet (2019: 2.7m square feet). Eight WH Smith stores were closed in the year.

Online

Our online businesses have delivered strong growth, particularly in the second half.

i. Our online personalised greetings card business, www.funkypigeon.com, has delivered high levels of growth with record sales over key trading events and good profit growth.

ii. www.whsmith.co.uk provides customers with a comprehensive book and stationery offer and, during the year we invested in a new website. In addition, we have focused on extending our ranges and building our customer base. In the second half, we delivered growth of over 240%.

iii. Our specialist pen website, www.cultpens.com has continued to perform well in the year. During the year, we have focused on extending our luxury pen range which now includes a full range of Montblanc pens and accessories.

Outlook

Despite the challenges and uncertainties faced in the second half, the Group responded quickly to protect the business and we are in a stronger position than forecast in August 2020. We had reduced our cash burn to £5m-£10m per month in September and October, managed our cash position well and entered November with access to £323m of liquidity. We expect cash burn in November of approximately £20m. We have a robust plan in place, and we expect to emerge stronger operationally as our markets recover.

We have a resilient hospital channel and we are committed to playing our part to support NHS staff on the frontline. In air, we expect a gradual improvement in domestic passenger numbers first, particularly in the US where c.85% of passengers are domestic, followed by international and inter-continental passengers. In rail, as government restrictions are lifted, and more people return to work, we expect to see a gradual improvement in sales. Outside the UK, we will continue to focus on our key initiatives and we expect to see a continued improvement in passenger traffic in North America.

We are financially strong and are an important retail partner for our travel landlords. As a result, we are well positioned to benefit from further opportunities, including extending our user clauses to drive spend per passenger. We will continue to invest in new stores and new store formats in the UK and North America where we see attractive opportunities for profitable growth.

In view of the continuing uncertainty from the impact of Covid-19 we continue to plan cautiously for a wide range of outcomes. As we have done since March, we will manage the business by focusing on the short-term actions that manage cash and costs along with ensuring we are well positioned for economic recovery, particularly in our Travel business.

GROUP

The Group generated Headline loss before tax[1] of £69m* (2019: Headline profit before tax £155m) and, after non-underlying items and IFRS 16, statutory loss before tax of £280m (2019: profit before tax £135m). During the second half, the Group received a total of £22m from the UK Government's Job Retention Scheme and similar schemes in other countries. The Group also benefited from the Business Rates holiday implemented by the UK Government which was worth £20m in the year.

£m	**2020 IFRS**	**2020 IAS 17**	**2019 IAS 17**
Travel trading (loss) / profit[1]	(27)	(33)	117
High Street trading (loss) / profit[1]	(4)	(10)	60
Group (loss) / profit from trading operations[1]	**(31)**	**(43)**	**177**
Unallocated costs[1]	(17)	(17)	(17)
Headline Group operating (loss) / profit[1]	**(48)**	**(60)**	**160**
Net finance costs	(20)	(9)	(5)
Headline Group (loss) / profit before tax[1]	**(68)**	**(69)**	**155**
Non-underlying items	(212)	(157)	(20)
Group (loss) / profit before tax	**(280)**	**(226)**	**135**

Non-underlying Items[1]

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 this year include items relating to the acquisition of MRG, a pension past service charge and items specifically relating to the impact of Covid-19 on the business. The majority of these items are non-cash.

Non-underlying items included in the year ending 31 August 2020 are shown in the table below (2019: £20m). The expected cash impact in the year to 31 August 2021 relating to these items is £27m. See reconciliation of net debt on page 13 for the cash spend in the year ended 31 August 2020 in relation to non-underlying items.

		Income statement		***Cash Outflow***
£m	**Ref.**	**2020 IFRS**	**2020 IAS 17**	***2021***
Costs directly attributable to Covid-19				
Impairment	(1)	(135)	(55)	-
Onerous leases	(2)	n/a	(13)	-
Stock provisions and write-offs	(3)	(14)	(14)	-
Restructuring	(4)	(25)	(25)	*24*
Other property costs	(5)	n/a	(12)	*3*
Other		(1)	(1)	-
Other non-underlying costs		**(175)**	**(120)**	***27***
Transaction costs	(6)	(11)	(11)	-
Integration costs	(6)	(9)	(9)	-
Amortisation	(7)	(3)	(3)	-
Pensions past service cost	(8)	(14)	(14)	-
		(212)	**(157)**	***27***

Items 1-5 in the above table have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of store closures, and downward revisions to budgeted revenues following government interventions.

(1) Impairment of Property, plant and equipment and Right-of-use assets
The impact on the Group's operations of Covid-19 is expected to continue during the current year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on managements' assumptions regarding likely future trading performance taking into account the effect of Covid-19 to the carrying values at 31 August 2020. Following this review, a charge of £55m* was recorded for impairment of retail store assets on an IAS 17 basis, and £135m on an IFRS 16 basis which includes an impairment of the right of use assets of £95m.

(2) Onerous leases
As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. This resulted in a charge for the year of £13m*. This concept relates to IAS 17 only and does not exist under IFRS 16.

(3) Stock provisions and write-offs
Provisions of £9m have been recorded against inventory mainly relating to dated and perishable stock and stock subject to obsolescence such as technology and apparel where the sell through rate has significantly reduced due to store closures and lower footfall as a consequence of Covid-19. In addition since the outbreak of Covid-19 the Group has incurred stock write-offs of £5m mainly relating to perishable and dated product.

(4) Restructuring costs
As a result of the impact of Covid-19 on passenger numbers and lower footfall on the UK high street, in August 2020 the Group announced a review of store operations across both our Travel and High Street businesses. The charge of £21m is principally attributable to redundancies and restructuring costs relating to that along with other corporate office restructuring undertaken by the Group. In addition the Group has incurred £4m relating to costs of exiting WHSmith France and the Brazil joint venture both of which were as a result of Covid-19.

(5) Other property costs
Property costs relate to reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19. Under IFRS 16 these costs are included in right-of-use assets and are therefore included within the impairment figure of £135m.

(6) Costs relating to business combinations
During the year, the Group incurred transaction and integration costs of £20m in relation to the acquisition of MRG, which completed on 20 December 2019. Integration costs relate to the integration of MRG into the Group and the merging of the InMotion and MRG corporate offices into Las Vegas.

(7) Amortisation of acquired intangible assets
Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands.

(8) Pension past service cost
Past service cost of £14m has been recognised in the year ended 31 August 2020. This relates to equalisation of pension benefits between men and women for the period from 1 April 1992 to 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a Barber equalisation window of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993.

A tax credit of £25m has been recognised in relation to the above items (£18m* under IAS 17).

Net Finance Costs

£m	2020 IFRS	2020 IAS 17	2019 IAS 17
Interest payable on bank loans and overdrafts	9	9	5
Interest on lease liabilities	11	-	-
Net finance costs	**20**	**9**	**5**

Net finance costs relating to bank loans were £9m compared with £5m last year. The non-cash pension interest charge was £nil (2019: £nil). Lease interest of £11m in the current year arises on lease liabilities recognised under IFRS 16.

Tax

The effective tax rate[1] was 23%* on the loss made in the year (2019: 18%). The effective tax rate is higher than the prior year rate due to the profile of losses incurred in the UK and overseas.

In August 2020 the Group received a corporation tax refund of £5m following the carry back of 2020 losses against prior year profits. The Group does not anticipate making any corporation tax payments in the current year.

Fixed Charges Cover[1]

£m	2020	2019
Net finance charges* (IAS 17)	9	5
Net operating lease rentals (IAS 17) [1]	210	236
Total fixed charges	**219**	**241**
Headline (loss)/profit before tax[1]	(69)	155
Headline (loss)/profit before tax and fixed charges	**150**	**396**
Fixed charges cover - times	**0.7x**	**1.6x**

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 0.7 times* (2019: 1.6 times) by Headline loss/profit before tax and fixed charges.

Cash Flow

Free cash flow[1] *reconciliation*

£m	2020	2019
Headline Group operating (loss)/profit*[1]	(60)	160
Depreciation, amortisation and impairment*[3]	60	49
Non-cash items	3	5
	3	**214**
Capital expenditure	(79)	(59)
Working capital*[3]	40	(13)
Net tax refunded / (paid)	5	(27)
Net interest paid*	(7)	(4)
Other	(3)	(2)
Free cash flow	**(41)**	**109**

[3] Excludes cash flow impact of non-underlying items.

The Group had a free cash outflow[1] of £(41)m* in the year, heavily impacted by Covid-19 in the second half. The Group delivered a net £3m EBITDA and non-cash items compared to £214m in 2019. Capital expenditure was £79m, £20m higher than last year reflecting new stores primarily in Travel and additional capex in 2020 relating to MRG. Following the outbreak of Covid-19 we reviewed all our capital commitments and plans and saved £24m compared to our expectations at the end of February 2020. We continued to invest in strategically important projects such as our new flagship store in Heathrow Terminal 2 and Bowery Bay in La Guardia, New York. We expect capex spend for the current financial year to be around £55m although we retain some discretion over part of this.

£m	2020	2019
New stores and store development	34	31
Refurbished stores	17	16
Systems	14	11
Other	14	1
Total capital expenditure	**79**	**59**

We worked hard to manage our working capital as lockdown fell, managing our payment profile whilst continuing to pay our small suppliers promptly. We utilised government schemes and payment initiatives such as the UK Government's moratorium on rent payments for the UK High Street and the deferral of the March quarter VAT payment. Overall for the year we saw a working capital net inflow of £40m*.

Net corporation tax refunded in the year was £5m, compared to a payment of £27m last year, as a result of the refund of corporation tax payments on account due to Covid-19.

Reconciliation of net debt[1]

Net debt is presented on an IAS 17 basis. See Note 9 of the Financial statements for the impact of IFRS 16 on net debt.

As at 31 August 2020 the Group had net debt[1] of £301m* comprising term loans of £400m relating to the acquisitions of InMotion and MRG, £9m* of finance lease liabilities and net cash[4] of £108m, of which £82m was on deposit (2019: net debt of £180m, comprising term loan of £200m relating to the acquisition of InMotion, £14m of finance lease liabilities and net cash of £34m).

£m	**2020**	**2019**
Opening net debt	(180)	(2)
Movement in year		
Free cash flow*	(41)	109
Dividends	(47)	(60)
Pensions	(3)	(3)
Non-underlying items	(20)	(16)
Net purchase of own shares for employee share schemes	(2)	(6)
Purchase of own shares for cancellation	(-)	(32)
Acquisition of businesses, net of cash acquired - MRG/InMotion	(316)	(161)
Proceeds from placings	312	-
Other	(4)	(9)
Closing net debt*	**(301)**	**(180)**
Cash	108	34
Term Loans	(400)	(200)
Finance leases*	(9)	(14)
	(301)	**(180)**

The Group had a movement in net debt of £121m in the year. In addition to the free cash outflow, the Group paid, in January 2020, the final dividend relating to the 2019 financial year of £47m; pension funding of £3m (see Note 17 on pensions); and £20m of non-underlying items which mainly relate to the acquisition and integration costs of MRG.

During the year the Group raised £312m through two share placings firstly for the acquisition of MRG raising £152m, and secondly raising £160m as part of the refinancing announced on 6 April 2020 following the impact of Covid-19. We spent £316m on the acquisition of MRG on 20 December 2019 funded through the above placing and a £200m term loan. At the same point we also extended our RCF from £140m to £200m.

Re-financing

The Group undertook an equity raise on 6 April 2020 which raised net proceeds of c.£160m through a 13.7% placing of new shares. The Group also secured a new £120m 12 month (plus 7 month at the option of the Group) committed banking facility from BNP Paribas, HSBC Bank PLC and Santander UK PLC. In addition, the maturity on the Group's two £200m term loans was extended to October 2022.

	31 August 2020	**31 August 2019**
Net cash at bank[4]	£108m	£34m
Revolving Credit Facility	£200m[5]	£140m
Further Liquidity Facility	£120m[5]	
InMotion – Term Loan	£200m	£200m
MRG – Term Loan	£200m	

[4] Net cash at bank includes cash at bank and, for 2019, drawdown on the revolving credit facility.

[5] Undrawn as at 11 November 2020

Balance sheet

£m	2020 IFRS	2020 IAS 17	2019 IAS 17
Goodwill and other intangible assets	493	495	225
Property, plant and equipment	192	190	201
Right of use assets	413	-	-
Investments in joint ventures	2	2	4
	1,100	**687**	**430**
Inventories	150	150	174
Payables less receivables	(183)	(226)	(178)
Working capital	**(33)**	**(76)**	**(4)**
Derivative financial asset	-	-	2
Net current and deferred tax asset / (liability)	28	17	(3)
Provisions	(14)	(27)	(5)
Operating assets employed	**1,081**	**601**	**420**
Net debt	(851)	(301)	(180)
Net assets excluding pension liability	**230**	**300**	**240**
Pension liability	(4)	(4)	(4)
Deferred tax asset on pension liability	1	1	1
Total net assets	**227**	**297**	**237**

The Group had net assets of £300m* before pension liabilities and associated deferred tax assets, £60m higher than last year end, reflecting the acquisition of MRG along with share placements in October 2019 and April 2020. Net assets after the pension liability and associated deferred tax asset were £297m* compared to £237m at 31 August 2019. Under IFRS the Group had net assets of £227m.

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WH Smith Pension Trust, was at 31 March 2020 at which point the deficit was £9m (31 March 2017 actuarial revaluation deficit of £11m). The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the next five years, which includes the deficit recovery contributions and other running costs of just under £3m per annum. During the year ended 31 August 2020, 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 94% of the inflation and interest rate risks hedged.

As at 31 August 2020, the Group has an IFRIC 14 minimum funding requirement in respect of the WH Smith Pension Trust of £3m (2019: £3m) and an associated deferred tax asset of £1m (2019: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2020, the scheme had an IAS 19 surplus of £268m (2019: surplus of £354m) 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 (2019: £1m).

Brexit

Following the UK's withdrawal from the EU, there remains a period of further uncertainty until a trading agreement has been agreed between the UK and the EU. In these circumstances, the extent to which our operations and financial performance are affected both in the longer term and at the end of the current transition period up to 31 December 2020, will only become clear as details of any agreement are clarified. We have continued to review the possible consequences that Brexit could have upon our business and have concluded that it does not raise any principal new risks, although it does have the potential to impact a number of our existing risks, for example, regulatory changes and economic uncertainty, including impacts from changes in foreign exchange rates. We will continue to monitor the risks and uncertainties arising from Brexit as part of the Company's risk management and control processes.

Principal Risks and Uncertainties

The Board has undertaken a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Board has assessed the ongoing impact of Covid-19 as a significant risk facing the Group, due to uncertainty around the timing and extent of recovery on our ability to re-open and operate our Travel and High Street stores, both in the UK and Internationally, and its impact upon the levels of global and domestic travel. The Group has deployed a framework of operational procedures, mitigating actions and business continuity plans as outlined in this announcement and will continue to adapt these plans as the situation evolves.

Changes to the Risk Profile due to Covid-19

Where the consequences of the Covid-19 pandemic may impact the business, we have incorporated these considerations into our assessment in relation to each of our principal risk headings. The grid below explains where the potential risk implications of the pandemic link with, and impact upon, our other Principal Risks.

A full disclosure of the Group's principal risks and uncertainties including the factors which mitigate them will be set out within the Strategic Report of the 2020 Annual Report and Accounts.

Relevant Principal Risk	Covid-19 Impact
Economic, political, competitive & market risks	The Group may fail to effectively respond to the pressures of an increasingly changing retail environment, where Covid-19 materially changes consumer spending patterns and habits, such as shifting from physical to online shopping, and from any longer-term damage to the travel industry and reductions in the level of International travel.
Brand and reputation	The reputation of the Brand may be impacted in the event that customers were to perceive that our Store environments are insufficiently safe and secure in response to the continuing experience of the virus.
Key suppliers and supply chain management	Given that large elements of our sourcing rely on factories and shipment from the Far East, these supply chains and principal product flows could be negatively impacted by any interruptions due to any further shutdown of factories and supply routes or growing international outbreaks.
Store portfolio	The Group's performance is reliant upon trading from our wide portfolio of premier shopping locations, where our performance may be negatively impacted in the event of further store closures, constraints on trading and travel restrictions, or further extensions in the scale and nature of local lockdowns.
Business interruption	The business could be negatively impacted by any concentration of illness in a particular location such as Head Office, DC or particular stores, should these need to close temporarily and large numbers staff were required to self-isolate.
Reliance on key personnel	The business could be negatively impacted in the event that any of the senior leadership team were to fall ill or be personally impacted by the virus.
International expansion	The ongoing growth of the business has been generated through continued international expansion. Such ongoing growth could therefore be negatively impacted from further enforced store closures, constraints on trading and the longer-term continuation of international travel restrictions or curtailment in passenger numbers.
Treasury, financial and credit risk management	Significantly reduced trading over an extended period from further outbreaks of new Covid strains and the lack of an effective vaccine could

	cause further negative impact on the Group's financial position in the longer term.
Cyber risk, Data Security and GDPR compliance	Further risks from significant increases in industry wide phishing activity and cyber threats could pose further risks of potential systems interruption.

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.

WH Smith PLC
Unaudited Group Income Statement
For the year ended 31 August 2020

		2020[1]			2019		
£m	Note	**Headline**[2]	**Non-underlying items**[3]	**Total**	Headline[2]	Non-underlying items[3]	Total
Revenue	2	**1,021**	**-**	**1,021**	1,397	-	1,397
Group operating (loss) / profit	3, 4	**(48)**	**(212)**	**(260)**	160	(20)	140
Finance costs	5	**(20)**	**-**	**(20)**	(5)	-	(5)
(Loss) / profit before tax		**(68)**	**(212)**	**(280)**	155	(20)	135
Income tax expense	6	**16**	**25**	**41**	(28)	1	(27)
(Loss) / profit for the period		**(52)**	**(187)**	**(239)**	127	(19)	108
Attributable to equity holders of the parent		**(52)**	**(187)**	**(239)**	125	(19)	106
Attributable to non-controlling interests		**-**	**-**	**-**	2	-	2
		(52)	**(187)**	**(239)**	127	(19)	108
Earnings per share							
Basic	7			**(199.2)p**			98.1p
Diluted	7			**(199.2)p**			97.2p
Equity dividends per share[4]	8						58.2p

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 19).
[2] 'Headline' denotes an Alternative Performance Measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 53.
[3] See Note 4 for an analysis of Non-underlying items. See Glossary on page 53 for definition of Alternative Performance Measures.
[4] Prior year equity dividends per share is the final dividend of 41.0p and the interim dividend of 17.2p. The Board of Directors do not propose a dividend in respect of the year end 31 August 2020.

WH Smith PLC
Unaudited Group Statement of Comprehensive Income
For the year ended 31 August 2020

£m	Note	2020[1]	2019
(Loss) / profit for the year		**(239)**	108
Other comprehensive (loss) / income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains / (losses) on defined benefit pension schemes	17	**11**	(3)
		11	(3)
Items that may be reclassified subsequently to the income statement:			
(Losses) / gain on cash flow hedges			
- Net fair value (losses) /gains		**(8)**	2
- Reclassified and recognised in goodwill		**8**	-
- Reclassified and recognised in inventories		**(1)**	(1)
- Reclassified and reported in the income statement		**(1)**	-
Exchange differences on translation of foreign operations		**(22)**	10
		(24)	11
Other comprehensive (loss) / income for the year, net of tax		**(13)**	8
Total comprehensive (loss) / income for the year		**(252)**	116
Attributable to equity holders of the parent		**(252)**	114
Attributable to non-controlling interests		**-**	2
		(252)	116

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 19).

WH Smith PLC
Unaudited Group Balance Sheet
As at 31 August 2020

£m	Note	2020[1]	2019
Non-current assets			
Goodwill	11	**418**	176
Other intangible assets	11	**75**	49
Property, plant and equipment	12	**192**	201
Right-of-use assets	13	**413**	-
Investments in joint ventures		**2**	4
Deferred tax assets		**23**	8
Trade and other receivables		**9**	10
		1,132	448
Current assets			
Inventories		**150**	174
Trade and other receivables		**49**	73
Derivative financial assets		**-**	2
Current tax receivable		**8**	-
Cash and cash equivalents	9	**108**	49
		315	298
Total assets		**1,447**	746
Current liabilities			
Trade and other payables		**(241)**	(250)
Bank overdrafts and other borrowings	9	**-**	(15)
Retirement benefit obligations	17	**(1)**	(1)
Lease liabilities	14	**(130)**	(5)
Current tax liabilities		**-**	(7)
Short-term provisions		**(5)**	(1)
		(377)	(279)
Non-current liabilities			
Bank loans and other borrowings	9	**(400)**	(200)
Retirement benefit obligations	17	**(3)**	(3)
Long-term provisions		**(9)**	(4)
Lease liabilities	14	**(429)**	(9)
Deferred tax liabilities		**(2)**	(3)
Other non-current liabilities		**-**	(11)
		(843)	(230)
Total liabilities		**(1,220)**	(509)
Total net assets		**227**	237
Shareholders' equity			
Called up share capital	15	**29**	24
Share premium		**315**	9
Capital redemption reserve		**13**	13
Translation reserve		**(14)**	8
Other reserves		**(279)**	(274)
Retained earnings		**158**	455
Total equity attributable to equity holders of the parent		**222**	235
Non-controlling interest		**5**	2
Total equity		**227**	237

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 19).

WH Smith PLC
Unaudited Group Cash Flow Statement
For the year ended 31 August 2020

£m	Note	2020	2019
Operating activities			
Cash generated from operating activities	10	**94**	153
Interest paid[1]		**(13)**	(4)
Net cash inflow from operating activities		**81**	149
Investing activities			
Purchase of property, plant and equipment		**(67)**	(47)
Purchase of intangible assets		**(12)**	(12)
Acquisition of subsidiaries, net of cash acquired		**(316)**	(161)
Net cash outflow from investing activities		**(395)**	(220)
Financing activities			
Dividend paid	8	**(47)**	(60)
Net cash flows from non-controlling interests		**1**	(2)
Proceeds from share placing	15	**312**	-
Issue of new shares for employee share schemes	15	**-**	1
Purchase of own shares for cancellation		**-**	(32)
Purchase of own shares for employee share schemes	15	**(2)**	(7)
Proceeds from borrowings	9	**200**	200
Repayment of borrowings	9	**(15)**	(18)
Financing arrangement fees		**(3)**	(1)
Repayments of obligations under leases		**(72)**	(6)
Net cash inflow from financing activities		**374**	75
Net increase in cash and cash equivalents in the period		**60**	4
Opening cash and cash equivalents		**49**	45
Effect of movements in foreign exchange rates		**(1)**	-
Closing cash and cash equivalents		**108**	49

[1] Includes interest payments of £6m on lease liabilities.

WH Smith PLC
Unaudited Group Cash Flow Statement (continued)
For the year ended 31 August 2020

Reconciliation of net cash flow to movement in net debt[2]

£m	Note	2020[1]	2019
Net debt at beginning of the year		**(180)**	(2)
Net increase in cash and cash equivalents		**60**	4
Impact of adoption of IFRS 16	19	**(479)**	-
Lease liability acquired through business combination	18	**(106)**	-
Decrease in debt	9	**15**	18
Increase in long-term borrowings	9	**(200)**	(200)
Net movement in lease liability		**32**	-
Effect of movements in foreign exchange rates		**7**	-
Net debt at end of the year	9	**(851)**	(180)

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 19).

[2] Net debt is an Alternative Performance Measure defined and explained in the Glossary on page 53. Further information on the items in the above reconciliation are provided in Note 9.

WH Smith PLC
Unaudited Group Statement of Changes in Equity
For the year ended 31 August 2020

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserves	Other reserves[1]	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 September 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**
Impact of adoption of IFRS 16	-	-	-	-	(22)	**(22)**	-	**(22)**
Adjusted balance at 1 September 2019	**33**	**13**	**8**	**(274)**	**433**	**213**	**2**	**215**
Loss for the year	-	-	-	-	(239)	**(239)**	-	**(239)**
Other comprehensive loss:								
Actuarial gains on defined benefit pension schemes	-	-	-	-	11	**11**	-	**11**
Cash flow hedges	-	-	-	(2)	-	**(2)**	-	**(2)**
Exchange differences on translation of foreign operations	-	-	(22)	-	-	**(22)**	-	**(22)**
Total comprehensive loss for the year	-	-	**(22)**	**(2)**	**(228)**	**(252)**	-	**(252)**
Net cash flows from non-controlling interests	-	-	-	-	-	-	**1**	**1**
Dividends paid (Note 8)	-	-	-	-	(47)	**(47)**	-	**(47)**
Employee share schemes	-	-	-	(3)	-	**(3)**	-	**(3)**
Issue of shares	311	-	-	-	-	**311**	-	**311**
Non-controlling interest arising on acquisition (Note 18)	-	-	-	-	-	-	2	**2**
Balance at 31 August 2020	**344**	**13**	**(14)**	**(279)**	**158**	**222**	**5**	**227**

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserves	Other reserves[1]	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 September 2018	**32**	**13**	**(2)**	**(268)**	**437**	**212**	**–**	**212**
Profit for the year	–	–	–	–	106	**106**	2	**108**
Other comprehensive income/(loss):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(3)	**(3)**	–	**(3)**
Cash flow hedges	–	–	–	1	–	**1**	–	**1**
Exchange differences on translation of foreign operations	–	–	10	–	–	**10**	–	**10**
Total comprehensive income for the year	**–**	**–**	**10**	**1**	**103**	**114**	**2**	**116**
Recognition of share-based payments	–	–	–	–	6	**6**	–	**6**
Dividends paid (Note 8)	–	–	–	–	(60)	**(60)**	–	**(60)**
Employee share schemes	–	–	–	(7)	–	**(7)**	–	**(7)**
Non-controlling interest arising on an acquisition	–	–	–	–	–	**–**	2	**2**
Distributions to non-controlling interests	–	–	–	–	–	**–**	(2)	**(2)**
Issue of shares	1	–	–	–	–	**1**	–	**1**
Purchase of own shares for cancellation	–	–	–	–	(31)	**(31)**	–	**(31)**
Balance at 31 August 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**

[1] Other reserve includes Revaluation reserve of £2m (2019: £2m), ESOP reserve of £(4)m (2019: £(6)m), Hedging reserve of £nil (2019: £2m) and Other reserves of £(277)m (2019: £(272)m). 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.

WH Smith PLC
Notes to the Unaudited Condensed Financial Statements
For the year ended 31 August 2020

1. Basis of preparation

The condensed financial statements for the year ended 31 August 2020 are unaudited and do not comprise statutory accounts of the Group within the meaning of Section 434(3) of the Companies Act 2006.

The statutory accounts for the year ended 31 August 2019 have been filed with the Registrar of Companies. The auditors' report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts for the year ended 31 August 2020 will be available for shareholders in December 2020.

Whilst the information included in the condensed financial statements 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 condensed financial statements for the year ended 31 August 2020 have 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 2019 except as described below.

The Group has adopted the following standards and interpretations which became mandatory for the first time during the current financial year. The Group has considered the below new standards and amendments and has concluded that, with the exception of IFRS 16, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

IFRS 16 (including amendments)	Leases
IFRIC 23	Uncertainty over Income Tax Treatment
Amendment to IFRS 9	Financial instruments - Prepayment features with negative compensation
Amendments to IAS 28	Investments in associates - Long term interests in associates and joint ventures
Amendments to IAS 19	Employee benefits - Plan amendment, curtailment or settlement
Annual Improvements	2015-2017 cycle

The impact of the adoption of IFRS 16, and the revised accounting policy is described in Note 19.

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

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IAS 16	Proceeds before intended use
Amendments to IAS 37	Onerous contracts - Cost of fulfilling a contract
Amendments references to the Conceptual Framework in IFRS Standards	
Annual Improvements to IFRS Standards 2018–2020	

The directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's condensed financial statements.

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. These APMs 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 APMs 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 include: Headline profit before tax, Headline earnings per share, High Street and Travel trading profit, Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Net debt / funds and free cash flow. These APMs are set out in the Glossary on page 53 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

1. Basis of preparation (continued)

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 linked to a Board approved programme, amortisation of acquired intangibles, costs relating to business combinations, impairment charges and onerous lease charges, significant items relating to pensions, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. The Group believes that the separate disclosure of these costs provides additional useful information to users of the condensed 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 4.

Going concern

The consolidated condensed financial statements have been prepared on a going concern basis. The directors are required to assess whether the Group can continue to operate for the 12 months from the date of approval of these condensed financial statements, and to prepare the condensed financial statements on a going concern basis. The directors report that they have assessed the principal risks, reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, and borrowing facilities. The directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these condensed financial statements, having undertaken a rigorous assessment of the financial forecasts particularly in the context of the ongoing Covid-19 pandemic, for the reasons set out below.

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 Group acted quickly to mitigate the impact of Covid-19 by taking steps to strengthen our balance sheet and to ensure access to further funding. As announced on 6th April 2020, we raised c£160m of additional funding via a share placing. In addition, we agreed a £120m 12 month (plus 7 months at the option of the Group) committed banking facility.

As at 12 November 2020, the Group has in place a five-year committed multi-currency revolving credit facility of £200m maturing on 8 December 2023. In addition, the Group has a further £120m multi-currency revolving credit facility as described above which is in place until 8 November 2021. As at 12 November 2020, the Group is not drawn down on either of these facilities.

The Group has a four-year committed £200m term loan, that was drawn down at the time of the acquisition of InMotion. This loan is due to mature on 29 October 2022. In addition, during the year, the Group agreed an additional committed term loan of £200m which matures in October 2022.

In making the going concern assessment, the directors have modelled a number of scenarios for the period to February 2022. The base case scenario is consistent with the Board approved 2021 Budget, adjusted for the lockdown across England announced by the UK Government on 31 October and the three year plan. These reflect our expectations of ongoing challenging trading conditions, with sales remaining significantly below pre-Covid levels for the duration of the going concern period.

In light of the considerable uncertainty surrounding the ongoing impact of Covid-19, a downside scenario has also been modelled, applying severe but plausible assumptions to the base case. This scenario assumes a further two month lockdown in addition to the November lockdown, with High Street store sales down over 80% from November 2020 through to January 2021 compared to the equivalent 2019 levels and down over 50% in February 2021. We then assume a gradual recovery, reflecting our experience of the post-lockdown recovery period from earlier in the year, to a position in February 2022 where High Street store sales are down over 20% compared to February 2019. This scenario assumes that our 207 Post Office stores and 130 hospital stores continue to trade during a second national lockdown reflecting our experience from the national lockdown earlier in 2020. In Travel UK we have assumed a sales reduction of over 80% from November 2020 through to January 2021 compared to last year and down over 70% in February 2021. We then assume a gradual recovery, reflecting our experience of the post-lockdown recovery period from earlier in the year, to a position in February 2022 where Travel store sales are down over 30% compared to February 2019. The severe but plausible scenario includes a number of mitigating actions including further savings in store and head office payrolls, a reduction in inventory purchases, a reduction in discretionary spend and reductions in capital expenditure across High Street and Travel.

In both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities, as described above.

1. Basis of preparation (continued)

The covenants on the above facilities, tested half-yearly, are based on fixed charges cover and net borrowings. In response to the impact of the Covid-19 pandemic on the Group's operations, the Group has secured waivers on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021.

The Group will next be tested on its covenants at 28 February 2022, over 15 months from the date of signing these condensed financial statements. Under current conditions, it is likely that the Group would require a further waiver or amendment to its February 2022 covenant tests. If this situation prevailed, the Group would engage its lending banks in advance of this date to secure a further covenant waiver. Throughout the pandemic we have received excellent support from our banks who have granted covenant waivers for February 2021 and August 2021. This Preliminary announcement also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position.

As a result of the above analysis, the directors believe that the Group has sufficient financial resources to continue in operation and meet its obligations as they fall due for the 12 months from the date of approval of these condensed financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of condensed financial statements in conformity with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting judgements and sources of estimation uncertainty in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to the classification of items as non-underlying, assessment of lease substitution rights, determination of the lease term, determination of the incremental borrowing rate, valuation of retirement benefit obligations, valuation of goodwill and other non-current assets and inventory valuation. The critical accounting judgements and sources of estimation uncertainty in relation to leasing are discussed in Note 19.

Critical accounting judgements

Non-underlying items

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items that 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 linked to a Board agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, significant items related to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. The Group believes that they provide additional useful information to users of the condensed financial statements to enable a better understanding of the Group's underlying financial performance. The classification of items as non-underlying requires significant management judgement. The definition of non-underlying items has been applied consistently year on year. Further details of non-underlying items are provided in Note 4.

Sources of estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further information and sensitivity analysis in respect of the Group's retirement benefit obligation is included in Note 17

Goodwill impairment review

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates. A sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment of Goodwill in the next financial year (see Note 11). Further information in respect of the Group's goodwill and other intangible assets is included in Note 11.

1. Basis of preparation (continued)

Intangible assets, property, plant and equipment and right-of-use asset impairment reviews

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

The key assumptions in the value-in-use calculations include growth rates of revenue and expenses, discount rates and likelihood of lease renewal. Due to the ongoing Covid-19 global pandemic, there is an increased level of uncertainty in all of the above assumptions such that a reasonably possible change in these assumptions could lead to a material change in the carrying value of assets.

Further information in respect of the Group's property, plant and equipment and right-of-use assets is included in Notes 12 and 13 respectively.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of sell through rates, and the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made. A sensitivity analysis has been carried out on the calculation of inventory provisions, including consideration of the uncertainties arising from Covid-19. The key assumption driving the stock provision calculation is forecast revenue. A 10 per cent change in the revenue assumptions applied in the provision calculation, representing a reasonably possible outcome, would reduce the net realisable value of inventories by £2m.

2. 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 Travel operating segment includes both MRG and InMotion from the dates of acquisition, as the MRG and InMotion operations share similar economic characteristics with Travel and are managed within the Travel segment.

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. The information presented to the Board is prepared in accordance with the Group's IFRS accounting policies, with the exception of IFRS 16, and is shown below as Headline information in Section b). A reconciliation to statutory measures is provided below in accordance with IFRS 8, and in the Glossary on page 53 (Note A2).

a) Group revenue

£m	**2020**	2019
Travel	**553**	817
High Street	**468**	580
Group revenue	**1,021**	1,397

b) Group results

	2020				2019		
£m	**Headline[1]**	**Non-underlying items**	**IFRS 16**	**Total**	Headline	Non-underlying items	Total
Travel trading (loss) / profit	**(33)**	-	**6**	**(27)**	117	-	117
High Street trading (loss) / profit	**(10)**	-	**6**	**(4)**	60	-	60
Group (loss) / profit from trading operations	**(43)**	-	**12**	**(31)**	177	-	177
Unallocated costs	**(17)**	-	**-**	**(17)**	(17)	-	(17)
Headline Group operating (loss) / profit	**(60)**	-	**12**	**(48)**	160	-	160
Non-underlying items	-	**(157)**	**(55)**	**(212)**	-	(20)	(20)
Group operating (loss) / profit	**(60)**	**(157)**	**(43)**	**(260)**	160	(20)	140
Finance costs	**(9)**	-	**(11)**	**(20)**	(5)	-	(5)
(Loss) / profit before tax	**(69)**	**(157)**	**(54)**	**(280)**	155	(20)	135
Income tax credit / (expense)	**16**	**18**	**7**	**41**	(28)	1	(27)
(Loss) / profit for the period	**(53)**	**(139)**	**(47)**	**(239)**	127	(19)	108

[1] Presented on a pre-IFRS 16 basis. Alternative Performance Measures are defined and explained in the Glossary on page 53.

Included within Travel revenue and Trading profit is International revenue of £209m (2019: £252m) and International Trading loss of £32m (2019: profit of £20m). International revenue includes revenue from the USA of £116m (2019: £94m) and revenue from Australia of £38m (2019: £57m).

2. Segmental analysis of results (continued)

c) Other segmental items

£m	Travel	High Street	2020 Unallocated	Group
Capital additions[1]	**48**	**24**	**-**	**72**
Depreciation and amortisation of non-current assets[1]	**(32)**	**(23)**	**-**	**(55)**
Depreciation of Right-of-use assets	**(52)**	**(52)**	**(6)**	**(110)**
Impairment of non-current assets[2]	-	-	**(40)**	**(40)**
Impairment of Right-of-use assets[3]	-	**-**	**(95)**	**(95)**

£m	Travel	2019 High Street	Group
Capital additions	35	30	65
Depreciation and amortisation of non-current assets	(25)	(25)	(50)
Impairment losses	(1)	-	(1)

[1] Excludes Right-of-use assets under IFRS 16.
[2] Impairment charges relating to non-current assets for the year ended 31 August 2020 as a result of the impact of Covid-19 which have been included in Non-underlying items as described in Note 4.
[3] Impairment charges relating to Right-of-use assets for the year ended 31 August 2020 as a result of the impact of Covid-19 which have been included in Non-underlying items as described in Note 4.

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3. Group operating profit

		2020			2019		
£m	Note	**Headline**	**Non-underlying items**	**Total**	Headline	Non-underlying items	Total
Revenue		**1,021**	**-**	**1,021**	1,397	-	1,397
Cost of sales		**(441)**	**-**	**(441)**	(552)	-	(552)
Gross profit		**580**	**-**	**580**	845	-	845
Distribution costs[1]		**(538)**	**-**	**(538)**	(592)	-	(592)
Administrative expenses		**(92)**	**-**	**(92)**	(100)	-	(100)
Other income[2]		**2**	**-**	**2**	7	-	7
Non-underlying items	4	**-**	**(212)**	**(212)**	-	(20)	(20)
Group operating (loss) / profit		**(48)**	**(212)**	**(260)**	160	(20)	140

[1]During the year there was no impairment charge (2019: £1m) for property, plant and equipment and other intangible assets included in distribution costs. Impairment charges related to Covid-19 are included in non-underlying items. See Note 4.
[2]Other income is profit attributable to property and the sale of property, plant and equipment. The prior year includes the sale of a head office building.

£m	**2020**	2019
Cost of inventories recognised as an expense	**441**	552
Write-down of inventories in the year	**14**	4
Depreciation of property, plant and equipment	**43**	41
Depreciation of right-of-use assets		
– land and buildings	**105**	-
– other	**5**	-
Amortisation of intangible assets	**12**	9
Impairment of property, plant and equipment	**39**	1
Impairment of right-of-use assets	**95**	-
Impairment of Intangibles	**1**	-
(Income) / expenses relating to leasing:		
– expense relating to short-term leases	**22**	-
– expense relating to variable lease payments not included in the measurement of the lease liability	**12**	-
– Income relating to Covid-19 related rent reduction	**(15)**	-
Net operating lease charges		
- land and buildings	-	236
- equipment and vehicles	-	-
Other occupancy costs	**49**	69
Staff costs	**217**	248
Government grant income	**(22)**	-

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4. 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 10.

£m	2020	2019
Costs relating to business combinations		
- Transaction costs	11	6
- Integration costs	9	5
Amortisation of acquired intangible assets	3	2
High Street business review	-	7
Pension past service cost	14	-
Costs directly attributable to Covid-19		
- Impairment of property, plant and equipment	39	-
- Impairment of intangible assets	1	
- Impairment of right-of-use assets	95	-
- Write-down of inventories	14	-
- Restructuring costs	25	-
- Other	1	-
Non-underlying items, before tax	212	20
Tax credit on non-underlying items	(25)	(1)
Non-underlying items, after tax	187	19

Non-underlying items recognised in the year are as follows:

Costs relating to business combinations

During the year, the Group incurred transaction and integration costs of £20m in relation to the acquisition of Marshall Retail Group ('MRG'), which completed on 20 December 2019. Further information on the acquisition of MRG is included in Note 18.

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands (see Note 11).

Pension past service cost

Past service cost of £14m has been recognised in the year ended 31 August 2020. This relates to equalisation of pension benefits between men and women over the period from 1 April 1992 to 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a Barber equalisation window of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993. See Note 17.

Costs directly attributable to Covid-19

As described in the Preliminary announcement the Covid-19 pandemic has had a substantial impact on the Group's operations. As a result, the Group has incurred significant costs which have been separately recognised in non-underlying items, in accordance with the Group’s accounting policy. The charges have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of store closures, and downward revisions to budgeted revenues following government interventions.

4. Non-underlying items (continued)

Impairment of Property, plant and equipment and Right-of-use assets

The impact on the Group's operations of Covid-19 is expected to continue during the next year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on managements' assumptions regarding likely future trading performance (taking into account the effect of Covid-19) to the carrying values at 31 August 2020. Following this review, a charge of £135m was recorded within non-underlying items for impairment of retail store assets, of which £39m relates to property, plant and equipment, £1m relates to intangible assets and £95m relates to right-of-use assets. Refer to Notes 12 and 13 for details of impairment of store cash-generating units.

Write-down of inventories

The Group assesses the recoverability of the carrying value of inventories at every reporting period and, where the expected recoverable amount is lower than the carrying value, a provision is recorded. Provisions of £9m have been recorded against inventory, which relates to dated and perishable stock and stock subject to obsolescence such as technology and some apparel where the sell through rate has significantly reduced due to store closures and lower footfall. In addition, since the outbreak of Covid-19 the Group has incurred stock write-offs of £5m mainly relating to perishable and dated product. The Group has recognised these charges as non-underlying as they meet the Group's definition of non-underlying.

Restructuring costs

As a result of the impact of Covid-19 on passenger numbers and lower footfall on the UK high street, in August 2020 the Group announced a review of store operations across both our Travel and High Street businesses. The charge of £21m is principally attributable to redundancies and restructuring costs relating to that and other corporate office restructuring undertaken by the Group. In addition, the Group has incurred £4m relating to costs of exiting the Paris bookshop and the Brazil joint venture both of which were as a result of Covid-19. These costs are presented as an adjusting item as they are part of a restructuring programme, and are considered material and one-off in nature.

A tax credit of £25m has been recognised in relation to the above items.

Prior year non-underlying items

Non-underlying items in 2019 relate to transaction and integration costs of £11m in relation to the acquisition of InMotion, which completed on 30 November 2018, amortisation of acquired intangible assets of £2m (primarily relating to the InMotion brand), and costs of £7m relating to the completed High Street business review announced in October 2018.

5. Finance costs

£m	**2020**	2019
Interest payable on bank loans and overdrafts	**9**	5
Interest on lease liabilities	**11**	-
Net interest cost on the defined benefit pension liabilities	**-**	-
	20	5

Interest expense on lease liabilities of £11m has been recorded for the current year, as a result of the adoption of IFRS 16 'Leases'. Refer to Note 19 for details of adoption of IFRS 16.

6. Income tax expense

£m	2020	2019
Tax on (loss) / profit	**(5)**	32
Adjustment in respect of prior year UK corporation tax	**(6)**	(4)
Total current tax (credit) / expense	**(11)**	28
Deferred tax – current year	**(7)**	(1)
Deferred tax – prior year	**2**	1
Tax on headline (loss) / profit	**(16)**	28
Tax on non-underlying items	**(25)**	(1)
Total tax on (loss) / profit	**(41)**	27

The effective tax rate, before non-underlying items, was 23 per cent (2019: 18 per cent).

The UK corporation tax rate is 19 per cent effective from 1 April 2017. In the Spring Budget 2020, the UK government announced that from 1 April 2020 the corporation tax rate would remain at 19 per cent (rather than reducing to 17 per cent, as previously enacted). This new law was substantively enacted on 17 March 2020.

7. (Loss)/ earnings per share

a) (Loss) / earnings

£m	2020	2019
(Loss) / profit for the year, attributable to equity holders of the parent	**(239)**	106
Non-underlying items (Note 4)	**(187)**	19
Headline (loss) / profit for the year, attributable to equity holders of the parent	**(52)**	125

b) Weighted average share capital

Millions	2020	2019
Weighted average ordinary shares in issue	**120**	108
Less weighted average ordinary shares held in ESOP Trust	**-**	-
Weighted average ordinary shares for basic earnings per share	**120**	108
Add weighted average number of ordinary shares under option	**-**	1
Weighted average ordinary shares for diluted earnings per share	**120**	109

c) Basic and diluted (loss) / earnings per share

Pence	2020	2019
Basic (loss) / earnings per share	**(199.2)**	98.1
Adjustments for non-underlying items	**155.9**	17.6
Headline basic (loss) / earnings per share	**(43.3)**	115.7
Diluted (loss) / earnings per share	**(199.2)**	97.2
Adjustments for non-underlying items	**155.9**	17.5
Headline diluted (loss) / earnings per share	**(43.3)**	114.7

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid. The calculation of EPS on a pre-IFRS 16 basis is provided in the Glossary on page 53.

8. Dividends

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

£m	2020	2019
Dividends		
Final dividend for the year ended 31 August 2018 of 38.1p per ordinary share	**-**	41
Interim dividend for the year ended 31 August 2019 of 17.2p per ordinary share	**-**	19
Final dividend for the year ended 31 August 2019 of 41.0p per ordinary share	**47**	-
	47	60

The Board of Directors have not declared an interim dividend and do not propose a final dividend in respect of the year ending 31 August 2020.

9. Analysis of net debt

Movement in net debt:

£m	2019	Recognised on adoption of IFRS 16	On acquisition of subsidiaries (non-cash)	Cash flow	Other	Currency translation	2020
Borrowings							
- Borrowings – repayable after one year	(200)	-	(115)	(200)	115	-	**(400)**
- Revolving credit facility	(15)	-	-	15	-	-	**-**
- Lease liability	(14)	(479)	(106)	78	(46)	8	**(559)**
Liabilities from financing activities	**(229)**	**(479)**	**(221)**	**(107)**	**69**	**8**	**(959)**
Cash and cash equivalents	49	-	1	59	-	(1)	**108**
Net debt	**(180)**	**(479)**	**(220)**	**(48)**	**69**	**7**	**(851)**

£m	2018	Impact of IFRS 16	On acquisition of subsidiaries (non-cash)	Cash flow	Other	Currency translation	2019
Borrowings							
- Borrowings – repayable after one year	-	-	(40)	(200)	40	-	**(200)**
- Revolving credit facility	(33)	-	-	18	-	-	**(15)**
- Lease liability	(14)	-	-	6	(6)	-	**(14)**
Liabilities from financing activities	**(47)**	**-**	**(40)**	**(176)**	**34**	**-**	**(229)**
Cash and cash equivalents	45	-	2	2	-	-	**49**
Net debt	**(2)**	**-**	**(38)**	**(174)**	**34**	**-**	**(180)**

An explanation of Alternative Performance Measures, including Net debt on a pre-IFRS 16 basis, is provided in the Glossary on page 53.

Cash and cash equivalents
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.

Lease liabilities
The adoption of IFRS 16 on 1 September 2019 has resulted in the recognition of substantial right of use assets and corresponding lease liabilities on the Group balance sheet. On the transition date, £479m of lease liabilities have been recognised. In addition, lease liabilities of £106m have been recognised as a result of the acquisition of MRG. Other (non-cash) movements in lease liabilities mainly relate to new leases, modifications and re-measurements in the year.

Borrowings and revolving credit facilities
The Group has in place a five-year committed multi-currency revolving credit facility of £200m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2023. The utilisation is interest-bearing at a margin over LIBOR. As at 31 August 2020, the Group has drawn down £nil (2019: £15m) on this facility.

9. Analysis of net debt (continued)

In April 2020 the Group agreed an additional multi-currency revolving credit facility of £120m with BNP Paribas, HSBC Bank PLC and Santander UK PLC, for a period of 12 months (plus 7 months at the option of the Group). This facility will be in place until 8 November 2021 if the Group opts to use the available extension option. This is in addition to our existing facilities and includes a waiver on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021.

The Group has a four-year committed £200m term loan with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC, that was drawn down at the time of the acquisition of InMotion (30 November 2018). This loan is interest bearing at a margin over LIBOR and is due to mature on 29 October 2022.

During the year, the Group agreed an additional syndicated £200m term loan with the above banks to fund the acquisition of MRG. This loan is interest bearing at a margin over LIBOR and is due to mature on 17 October 2022.

Transaction fees of £3m (2019: £1m) including arrangement fees associated with the securing of financing have been capitalised and are amortised through the income statement over the term of the relevant facility.

Other movements include the repayment of a £115m loan acquired as part of the acquisition of MRG (see Note 18). This payment is included within investing activities in the Group cash flow statement.

10. Cash generated from operating activities

£m	**2020**	2019
Group operating (loss)/profit	**(260)**	140
Depreciation and amortisation	**55**	50
Impairment losses	**40**	1
Depreciation of right of use assets	**110**	-
Impairment of right of use assets	**95**	-
Non-cash change in lease liabilities	**(15)**	-
Non-cash movement in pension	**14**	-
Share-based payments	**-**	6
Profit on disposal of property, plant and equipment	**-**	(2)
Other non-cash items	**2**	1
Decrease / (increase) in inventories	**35**	(2)
Decrease / (increase) in receivables	**27**	(6)
Decrease in payables	**(10)**	(3)
Pension funding	**(3)**	(3)
Income taxes paid	**(32)**	(27)
Income taxes refunded	**37**	-
Movement on provisions (through utilisation or income statement)	**(1)**	(2)
Cash generated from operating activities	**94**	153

11. Intangible assets

£m	Goodwill	Brands and franchise contracts	Tenancy rights	Software	Total
Cost:					
At 1 September 2019	176	16	13	109	314
Additions	-	-	-	11	11
Acquisitions (Note 18)	258	29	-	1	288
Disposals	-	-	-	(25)	(25)
Foreign exchange	(16)	(2)	-	-	(18)
At 31 August 2020	**418**	**43**	**13**	**96**	**570**
Accumulated amortisation:					
At 1 September 2019	-	1	8	80	89
Amortisation charge	-	3	-	9	12
Impairment charge	-	-	-	1	1
Disposals	-	-	-	(25)	(25)
Foreign exchange	-	-	-	-	-
At 31 August 2020	**-**	**4**	**8**	**65**	**77**
Net book value at 31 August 2020	**418**	**39**	**5**	**31**	**493**
Cost:					
At 1 September 2018	41	1	13	97	152
Additions	-	-	-	11	11
Acquisitions	128	15	-	1	144
Foreign exchange	7	-	-	-	7
At 31 August 2019	**176**	**16**	**13**	**109**	**314**
Accumulated depreciation:					
At 1 September 2018	-	-	8	72	80
Amortisation charge	-	1	-	8	9
Impairment charge	-	-	-	-	-
Foreign exchange	-	-	-	-	-
At 31 August 2019	**-**	**1**	**8**	**80**	**89**
Net book value at 31 August 2019	**176**	**15**	**5**	**29**	**225**

Additions to Goodwill in the year relate to the acquisition of Marshall Retail Group. On 20 December 2019, the Group acquired the entire issued share capital of Marshall Retail Group ('MRG'), for a total cash consideration of USD $402m (£317m) resulting in the recognition of goodwill of £258m, including an £8m loss on a forward contract used to hedge the exposure on the US dollar purchase consideration.

The Goodwill arising on the acquisition of MRG has been allocated to the Travel segment. See Note 18 for further information. The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	**2020**	2019
Travel	**403**	161
High Street	**15**	15
	418	176

11. Intangible assets (continued)

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2019: £4m), representing certain rights under tenancy agreements, which include the right to renew leases, therefore no amortisation has been charged. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period. These assets are reviewed annually for indicators of impairment.

Impairment of Goodwill and intangible assets

The Group tests goodwill for impairment annually or where there is an indication that goodwill might be impaired. For impairment testing purposes, the Group has determined that each store is a separate CGU, and Goodwill is allocated to groups of CGUs in a manner that is consistent with our operating segments, as this reflects the lowest level at which goodwill is monitored. All goodwill has arisen on acquisitions of groups of retail stores. These acquisitions are then integrated into either the High Street or Travel operating segments as appropriate. Acquired brands are considered together with goodwill for impairment testing purposes, and are therefore considered annually for impairment.

Goodwill has been tested for impairment by comparing the carrying amount of each group of cash-generating units (‘CGUs’), including goodwill and acquired brands, with the recoverable amount determined from value-in-use calculations. The value-in-use of each group of CGUs has been calculated using cash flows derived from the Group's latest Board-approved budget and three year plan, initially extrapolated to five years and taking into account the projected impact of Covid-19. The forecasts reflect knowledge of the current market, together with the Group’s expectations on the future achievable growth and committed store openings. Cash flows beyond the initial forecast period are extrapolated using estimated long-term growth rates.

For certain groups of CGUs, additional adjustments to cash flows have been made during the extrapolation process for an extended period of up to 15 years before calculating a terminal value. This extended period of time is required to establish a normalised cash flow base on which a terminal value calculation can be appropriately calculated. The main reasons for cash flow adjustments include the need to forecast lease renewals under IFRS 16, and the unwinding of certain cash flow benefits arising from acquisitions in North America.

The key assumptions on which forecast three-year cash flows of the CGUs are based include revenue growth, product mix and operating costs, long-term growth rates and the pre-tax discount rate:

- The values assigned to each of the revenue growth, product mix and operating cost assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the travel and high street retail sectors.
- The pre-tax discount rates are derived from the Group’s weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 8.9%.
- The long-term growth rate assumptions are between 0% and 2%.

The value-in-use estimates indicated that the recoverable amount of goodwill exceeded the carrying value for the groups of CGUs. As a result, no impairment has been recognised in respect of the carrying value of goodwill in the year (2019: £nil).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and it is possible that significant changes to these assumptions could lead to an impairment of Goodwill and acquired brands. Given the significant uncertainty surrounding the impact of Covid-19 on the Group’s operations and on the global economy, management have considered a range of sensitivities on each of the key assumptions, with other variables held constant. The sensitivities include applying a 10% reduction in the revenue assumption in the next financial year from the base cash flow projections, representing a slower recovery from the impact of Covid-19; increases in the discount rate by 1% and reductions in the long term growth rates to 0%. Under these severe scenarios, the estimated recoverable amount of Goodwill and acquired brands still exceeded the carrying value. The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

WH Smith PLC
Notes to the Unaudited Condensed Financial Statements
For the year ended 31 August 2020

12. Property, plant and equipment

£m	Freehold Properties	Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2019	15	236	168	120	539
Adjustment on initial application of IFRS 16[1]	-	(3)	(5)	(22)	(30)
At 1 September 2019	15	233	163	98	509
Additions	-	28	23	10	61
Acquisitions (Note 18)	-	18	14	2	34
Disposals	-	(5)	(1)	(1)	(7)
Foreign exchange	-	(2)	(1)	(1)	(4)
At 31 August 2020	**15**	**272**	**198**	**108**	**593**
Accumulated depreciation:					
At 1 September 2019	10	147	103	78	338
Adjustment on initial application of IFRS 16 [1]	-	1	(1)	(12)	(12)
At 1 September 2019	10	148	102	66	326
Depreciation Charge	-	22	12	9	43
Impairment Charge	-	20	14	5	39
Disposals	-	(5)	(1)	(1)	(7)
At 31 August 2020	**10**	**185**	**127**	**79**	**401**
Net book value at 31 August 2020	**5**	**87**	**71**	**29**	**192**
Cost or valuation:					
At 1 September 2018	22	207	149	110	488
Additions	-	26	18	10	54
Acquisitions	-	6	3	1	10
Disposals	(7)	(4)	(3)	(1)	(15)
Foreign exchange	-	1	1	-	2
At 31 August 2019	**15**	**236**	**168**	**120**	**539**
Accumulated depreciation:					
At 1 September 2018	15	134	93	67	309
Depreciation Charge	1	16	12	12	41
Impairment Charge	-	-	1	-	1
Disposals	(6)	(4)	(3)	(1)	(14)
Foreign exchange	-	1	-	-	1
At 31 August 2019	**10**	**147**	**103**	**78**	**338**
Net book value at 31 August 2019	**5**	**89**	**65**	**42**	**201**

[1] The adjustment is in respect of assets treated as finance leases under the previous standard, IAS 17 'Leases', transferred to right-of-use assets, with a net book value of £15m and impairment charge of £3m on the date of initial application of IFRS 16.

Impairment of property, plant and equipment
For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The significant disruption to trading as a result of the Covid-19 pandemic has been identified as an indicator of impairment, and therefore all CGUs have been tested for impairment as at the balance sheet date.

12. Property, plant and equipment (continued)

Property, plant and equipment and right of use assets have been tested for impairment by comparing the carrying amount of each CGU with its recoverable amount determined from value-in-use calculations. It was determined that value in use was higher than fair value less costs to sell as a result of the significant impact on fair values as a result of Covid-19. The value-in-use of each CGU has been calculated using discounted cash flows derived from the Group's latest Board-approved budget and three-year plan, taking into account the projected impact of Covid-19, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth. Cash flows beyond this three-year period are extrapolated using growth rates and inflation rates appropriate to each store's location. Cash flows have been included for the remaining lease life for the specific store. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. Where stores have a relatively short remaining lease life, an extension to the lease has been assumed where management consider it likely that an extension will be granted.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include sales and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer term growth rates. The forecasts used in the impairment review are based on management's best estimate of revenue reductions versus a 'pre-Covid' base, and the recovery in revenue over the forecast period. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows, and knowledge gained during the pandemic up to the year end date.

The forecasts for the year for our High Street business assume that like for like sales will be initially lower by around 25% on average and recover to around 14% below pre-Covid levels by the end of August 2021. The recovery is non-linear and is affected by monthly seasonality.

In Travel UK, revenue is assumed to be down around 65% on average across all formats, recovering to around 40% down by the end of the year. Our International locations outside of North America assume similar levels of decline. In North America, revenue is assumed to be down around 55% in the early part of the next financial year, improving to down 25% by the end of the year.

The second and third years of the three year plan include further gradual recoveries across all locations. Revenue is not assumed to recover to pre-Covid levels within the three year plan period.

The pre-tax discount rate is derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include the risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 8.9%.

Where the value-in-use was less than the carrying value of the CGU, an impairment of property, plant and equipment and right-of-use asset was recorded. These stores were impaired to their recoverable amount of £203m, which is their carrying value at year end. The Group has recognised an impairment charge of £39m to property, plant and equipment, £1m to intangible assets and £95m to right-of-use assets as a result of impairment testing (2019: £1m). These impairments have been presented as non-underlying items in the current year (see Note 4).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and changes to these assumptions could lead to further impairments to assets. Given the significant uncertainty regarding the impact of Covid-19 on the Group's operations and on the global economy, management have considered sensitivities to the impairment charge as a result of changes to the estimate of future revenues achieved by the stores.

The Group has applied certain sensitivities in isolation to demonstrate the impact on the impairment of changes in key assumptions. The most significant assumption is the revenue assumption. A further decrease in revenue of 10% versus the pre-Covid base for the year ended 31 August 2021 to reflect a potential slower recovery from the pandemic, with no change to subsequent forecast revenue growth rate assumptions, would result in a £19m increase in the impairment charge of retail store assets in the year ended 31 August 2020. An increase or decrease of 1% in the discount rate would result in an increase or decrease in the impairment charge of £5m.

On 31 October 2020, the UK government announced a 4 week lockdown across England. We have concluded that this is a non-adjusting post balance sheet event. See Note 20 for the estimated financial impact of this announcement.

Other changes in assumptions have been modelled and have shown that any reasonably possible changes would not lead to a significant impact on the impairment charge. Other modelled assumption changes include margin reductions, growth rate reductions or further cost inflation in High Street. In Travel, we have modelled slower recovery in UK and North American airport traffic and reductions in long-term growth rate assumptions.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 53.

13. Right-of-use assets

£m	Land and buildings	Other	Total
At 1 September 2019	439	18	457
Additions	98	-	98
Acquisitions (Note 18)	108		108
Modifications and remeasurements	(35)	-	(35)
Disposals	(2)	-	(2)
Depreciation charge	(105)	(5)	(110)
Impairment charge	(95)	-	(95)
Foreign exchange	(8)	-	(8)
Net book value at 31 August 2020	400	13	413

Adoption of IFRS 16 'Leases'
The Group has adopted IFRS 16 'Leases' for the first time in the year ended 31 August 2020. The modified retrospective transition methodology has been applied as at the initial date of application, 1 September 2019, and prior period comparative results have not been adjusted. Further information regarding the impact of initial adoption of IFRS 16 is provided in Note 19. The information on the Group's leasing activities is included in Note 14, Lease liabilities.

On adoption of IFRS 16, the Group has performed an impairment test on the right-of-use assets on a lease by lease basis as at the transition date, in accordance with IAS 36. Further information regarding this impairment test is provided in Note 19. On transition the Group has recorded an impairment of £18m to the opening balance of the Right-of-use assets and £3m to property, plant and equipment with a corresponding adjustment to the opening reserves.

Land and buildings
Right-of-use assets of £95m have been impaired in the year as a result of the impact of Covid-19. This impairment charge has been presented in non-underlying items (see Note 4). The approach to impairment testing is described in detail in Note 12, Property, plant and equipment.

14. Lease liabilities

£m	Land and buildings	Other	Total
At 31 August 2019	-	14	14
Adjustment on initial application of IFRS 16	476	3	479
At 1 September 2019	476	17	493
Additions	87	-	87
Acquisitions (Note 18)	106	-	106
Interest costs	11	-	11
Payments	(72)	(6)	(78)
Modifications and remeasurements	(50)	-	(50)
Disposals	(2)	-	(2)
Foreign exchange	(8)	-	(8)
At 31 August 2020	548	11	559

14. Lease liabilities (continued)

£m	Total
Analysis of total lease liabilities:	
Non-current	429
Current	130
Total	559

The Group leases land and buildings for its retail stores, distribution centres, storage locations and office property. These leases have an average remaining lease term of 4 years. Some leases include an option to break before the end of the contract term or an option to renew the lease for an additional term after the end of the term. Management assess the lease term at inception based on the facts and circumstances applicable to each property.

Other leases are mainly forklift trucks for the retail stores and distribution centres, office equipment and vehicles. These leases have an average remaining lease term of 3 years.

The Group reviews the retail lease portfolio on an ongoing basis, taking into account retail performance and future trading expectations. The Group may exercise extension options or negotiate lease extensions or modifications. In other instances, the Group may exercise break options, negotiate lease reductions or decide not to negotiate a lease extension at the end of the lease term. Certain property leases contain rent review terms that require rent to be adjusted on a periodic basis which may be subject to market rent or increases in inflation measurements.

Many of the Group's property leases, particularly in Travel locations, also incur payments based on a percentage of revenue (variable lease payments) achieved at the location. In line with IFRS 16, variable lease payments which are not based on an index or rate are not included in the lease liability. See Note 3 for the expense charged to the Income statement relating to variable lease payments not included in the measurement of the lease liability.

In response to the Covid-19 pandemic, an amendment was issued to IFRS 16 in June 2020. This amendment (practical expedient) allows the impact on lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2021, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset. The Group has applied this practical expedient to all Covid-19 rent reductions/waivers that meet the requirements of the amendment, and this has resulted in a credit to the Income statement of £15m for the year ended 31 August 2020.

The Group’s accounting policy for leases is set out in Note 19. Details of Income statement charges and income for leases are set out in Note 3. The Right-of-use asset categories on which depreciation is incurred are presented in Note 13. Interest expense incurred on lease liabilities is presented in Note 5.

The total cash outflow for leases in the financial year was £101m. This includes cash outflow for short-term leases of £16m and variable lease payments (not included in the measurement of lease liability) of £7m. The total future income from sub-leasing the right-of-use assets is £1m.

15. Called Up Share Capital

Allotted and fully paid

	2020		2019	
	Number of shares (millions)	**Nominal value £m**	Number of shares (millions)	Nominal value £m
Equity				
Ordinary shares of 22 6/67p	131	29	108	24
Total	**131**	**29**	**108**	**24**

As part of the financing of the acquisition of MRG, on 17 October 2019, the Company issued 7,209,303 shares in a share placing at a price of £21.50 per share, raising proceeds of £152m net of issue costs.

In addition, as part of the Group's actions to mitigate the impact of Covid-19, on 9 April 2020 the Company issued 15,802,768 shares in a share placing at a price of £10.50 per share, raising proceeds of £160m net of issue costs.

During the year, 5,024 ordinary shares were allotted under the terms of the Company's Sharesave Scheme.

The effect of the above share issues was to increase share premium by £306m.

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

The ESOP reserve of £4m (2019: £6m) represents the cost of shares in WH Smith PLC purchased in the market and held by the WH Smith Employee Benefit Trust to satisfy awards and options under the Group's executive share schemes. The total shareholding is 203,628 (2019: 315,306).

16. Contingent liabilities and capital commitments

£m	2020	2019
Bank guarantees and guarantees in respect of lease agreements	31	27

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Connect Group PLC (formerly Smiths News PLC), any such contingent liability which becomes an actual liability, will be apportioned between the Group and Connect Group PLC in the ratio 65:35 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2020 of £1m (31 August 2019: £1m). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

Contracts placed for future capital expenditure approved by the directors but not provided for amounted to £18m (2019: £17m).

17. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit schemes (which are closed to new entrants and future service accrual) and defined contribution pension schemes. The main pension arrangements for employees are operated through a defined contribution scheme, WH Smith Retirement Savings Plan, and a defined benefit scheme, WHSmith Pension Trust. The most significant scheme is the defined benefit WHSmith Pension Trust.

The retirement benefit obligations recognised in the balance sheet for the respective schemes at the relevant reporting dates were:

£m	2020	2019
WHSmith Pension Trust	**(3)**	(3)
United News Shops Retirement Benefits Scheme	**(1)**	(1)
Retirement benefit obligation recognised in the balance sheet	**(4)**	(4)

WHSmith Pension Trust

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

£m	2020	2019
Present value of the obligations	**(1,144)**	(1,107)
Fair value of plan assets	**1,412**	1,461
Surplus before consideration of asset ceiling	**268**	354
Amounts not recognised due to effect of asset ceiling	**(268)**	(354)
Additional liability recognised due to minimum funding requirements	**(3)**	(3)
Retirement benefit obligation recognised in the balance sheet	**(3)**	(3)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £3m (2019: £3m). The defined benefit pension schemes are closed to further accrual. The Group does not have an unconditional right to derive economic benefit from any surplus, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £268m (2019: £354m) available as a reduction of future contributions is £nil (2019: £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.

17. Retirement benefit obligations (continued)

Income Statement

The amounts recognised in the income statement were as follows:

£m	2020	2019
Net interest cost on the defined benefit liability	-	-
Past service cost	(14)	-
	(14)	-

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.

Past service costs of £14m have been recognised in relation to equalisation of pension benefits relating to a period between 1 April 1992 and 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a "Barber window" of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993.

This past service cost has been disclosed within Non-underlying items, in accordance with the accounting policy in Note 1.

Statement of comprehensive income

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

£m	2020	2019
Total actuarial loss before consideration of asset ceiling	**(43)**	(141)
(Loss) on plan assets excluding amounts included in net interest cost	**(38)**	190
Gain / (loss) resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	**92**	(52)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	-	-
Total actuarial gain / (loss) recognised in other comprehensive income	**11**	(3)

Actuarial losses recognised in the statement of comprehensive income on the United News Shops Retirement Benefits Scheme were £nil in the period to 31 August 2020 (2019: £nil).

Balance sheet

Movement in net retirement benefit liability during the period:

£m	2020	2019
At beginning of period	(3)	(3)
Current service cost	-	-
Past service cost	(14)	-
Contributions from the sponsoring companies	3	3
Actuarial gains / (losses) on defined benefit pension schemes	11	(3)
At end of period	(3)	(3)

17. Retirement benefit obligations (continued)

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 2020 by independent actuaries using the projected unit credit method and has been completed. At 31 March 2020 the deficit was £9m; at 31 March 2017 the deficit was £11m. The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the following 5 years, which includes the deficit recovery contributions and other running costs of just under £3m.

During the year, the Group made a contribution of £3m to the WHSmith Pension Trust (2019: £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 principal long-term assumptions used in the IAS 19 valuation were:

%	**2020**	2019
Rate of increase in pension payments	3.04	3.13
Rate of increase in deferred pensions	2.30	2.20
Discount rate	1.75	1.85
RPI Inflation assumption	3.10	3.20
CPI Inflation assumption	2.30	2.20

18. Acquisitions

On 20 December 2019, the Group acquired the entire share capital of Marshall Retail Group ('MRG') for a total cash payment of USD $402m (£317m) comprising $243m of enterprise value, $146m repayment of loan, $12m working capital, and $1m cash and restricted cash.

MRG is an independent travel retailer operating in high footfall airport and tourist locations in the United States. The acquisition builds further on the acquisition of InMotion in November 2018 and significantly strengthens the Group's offering in the United States, the world's largest travel retail market.

Included within the provisional fair value of the net identifiable assets on acquisition is an intangible asset of £29m (US$37m) representing the MRG brand. The Board believes that the excess of consideration paid over the net assets on acquisition of £258m is best considered as goodwill on acquisition representing future operating synergies. This amount is not tax deductible. The provisional goodwill calculation is summarised below:

	Provisional fair value at 31 August 2020
	£m
Acquiree's net assets / (liabilities) at acquisition date:	
Intangible assets	30
Right of use assets	108
Property, plant and equipment	34
Inventories	14
Cash and cash equivalents	1
Trade and other receivables	5
Deferred tax assets / liabilities	(9)
Trade and other payables - current	(15)
Other non-current liabilities	(1)
Lease liabilities	(106)
Interest-bearing loans	(115)
Net identifiable assets / (liabilities)	**(54)**
Non-controlling interest	(2)
Goodwill on acquisition	258
Total consideration – satisfied in cash	**202**

The provisional goodwill calculation in the table above includes significant estimates that may be refined for a period of 12 months from the acquisition date. Transaction and integration costs totalling £20m have been incurred in the period to 31 August 2020 in respect of the acquisition.

Revenue of £48m and loss of £37m is included in the results for the financial year in respect of MRG. If the acquisition had taken place on 1 September 2019, total Group revenue would have been £1,073m and Group loss before tax would have been £275m.

Reconciliation of cash flows

	£m
Cash consideration	202
Cash acquired	(1)
Repayment of interest-bearing loans	115
Net outflow of cash – investing activities	**316**

19. Impact of adoption of IFRS 16

IFRS 16 Leases

The Group has applied IFRS 16 effective from 1 September 2019 which superseded the lease guidance under IAS 17 and the related interpretation.

Nature of change

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases.

At the commencement date of a lease, a lessee will recognise a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There is no impact on cash flows, although the presentation of the Group cash flow statement has changed, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities.

Impact on the Group

The standard has primarily affected the accounting for the group's operating leases relating to properties.

The Group has applied the simplified transition approach (modified retrospective approach) and has recognised the lease liability on transition at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of transition. Right of use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate at transition date. The Group has applied this methodology to a small number of its property leases where sufficient historical information has been available to facilitate this.
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group has applied this methodology to the majority of its leases as sufficient historical data was not available to enable a retrospective calculation.

The weighted average discount rate applied on transition date is 1.78%.

The Group has not restated comparatives and the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to the opening reserves at the date of transition.

The Group has elected to apply the following practical expedients as allowed under IFRS 16:

- Exclude short-term leases (lease with a remaining term of less than one-year) and low-value assets (defined as less than $5,000 at initial cost);
- Rely on its assessment of whether leases are onerous immediately before the date of transition as an alternative to performing an impairment review. This is applied on a lease by lease basis;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition; and
- The use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has not applied the practical expedient of placing reliance on the previous identification of a lease under IAS 17 but has assessed all its existing lease contracts to determine whether they meet the new definition of a lease and therefore fall within the scope of IFRS 16. This has resulted in several contracts, where the landlord is considered to have substantive substitution rights over the associated assets, falling outside the scope of IFRS 16.

In addition to this, where Group has not taken the practical expedient of taking an onerous lease provision under IAS 37 as a proxy to the opening impairment charge, the Group has undertaken an impairment review at the date of transition. These are explained further below under section "key areas of judgement".

19. Impact of adoption of IFRS 16 (continued)

Impact on the condensed financial statements

(i) Balance Sheet impact on transition

£m	At 31 Aug 2019	IFRS 16 Adjustment	**At 1 Sep 2019**
Non-current assets			
Goodwill	176	-	**176**
Other intangible assets	49	-	**49**
Property, plant and equipment[1]	201	(18)	**183**
Right-of-use assets	-	457	**457**
Investments in joint ventures	4	-	**4**
Deferred tax assets[2]	8	4	**12**
Trade and other receivables	10	-	**10**
	448	443	**891**
Current assets			
Inventories	174	-	**174**
Trade and other receivables[3]	73	(3)	**70**
Derivative financial assets	2	-	**2**
Cash and cash equivalents	49	-	**49**
	298	(3)	**295**
Total assets	746	440	**1,186**
Current liabilities			
Trade and other payables[4]	(250)	4	**(246)**
Bank overdrafts and other borrowings	(15)	-	**(15)**
Retirement benefit obligations	(1)	-	**(1)**
Obligations under finance leases[5]	(5)	5	**-**
Lease liability	-	(108)	**(108)**
Current tax liabilities	(7)	-	**(7)**
Short-term provisions	(1)	-	**(1)**
	(279)	(99)	**(378)**
Non-current liabilities			
Retirement benefit obligations	(3)	-	**(3)**
Bank overdrafts and other borrowings	(200)	-	**(200)**
Long-term provisions[6]	(4)	2	**(2)**
Obligations under finance leases[5]	(9)	9	**-**
Lease liability	-	(385)	**(385)**
Deferred tax liabilities	(3)	-	**(3)**
Other non-current liabilities[4]	(11)	11	**-**
	(230)	(363)	**(593)**
Total liabilities	(509)	(462)	**(971)**
Total net assets	237	(22)	**215**
Shareholders' equity			
Called up share capital	24	-	**24**
Share premium	9	-	**9**
Capital redemption reserve	13	-	**13**
Translation reserve	8	-	**8**
Other reserve	(274)	-	**(274)**
Retained earnings	455	(22)	**433**
Total equity attributable to equity holders of the parent	235	(22)	**213**
Non-controlling interest	2	-	**2**
Total equity	237	(22)	**215**

[1] In respect of transfer of former finance leases and impairment on the date of initial application of IFRS 16.

[2] Deferred tax recognised on transition impact on opening retained earnings.

[3] Adjustment mainly in respect of prepaid rent.

[4] Adjustment in respect of lease incentive and rent accrual.

[5] Adjustment in respect of former finance lease liability now reclassified as lease liability.

[6] Adjustment in respect of onerous lease provision.

19. Impact of adoption of IFRS 16 (continued)

The table below shows a reconciliation from the total operating lease commitment as disclosed at 31 August 2019 to the total lease liability recognised in the financial statements on the date of transition:

	At 1 Sep 2019
	£'m
Operating lease commitment at 31 August 2019 as disclosed in the Group's consolidated financial statements	986
Discounted using the incremental borrowing rate at 1 September 2019	920
Leases where landlords have substantive substitution rights (i.e., leases outside the scope of IFRS 16)[1]	(412)
Leases with variable lease payment[2]	(12)
Recognition exemption for short-term leases[3]	(10)
Extension options reasonably certain to be exercised[4]	4
Termination options reasonably certain to be exercised[4]	(11)
Additional lease liabilities recognised at 1 September 2019	**479**
Finance lease liabilities as at 31 August 2019	14
Total Lease liabilities recognised at 1 September 2019	**493**

[1] Contracts that were considered to be a lease under IAS 17 which do not meet the definition of a lease under IFRS 16, principally because the landlord is considered to have substantive substitution rights over the associated assets. This is explained further below under the section "key areas of judgement".

[2] Contracts where the minimum lease payments are dependent upon a variable factor and therefore the lease payments are in substance variable in nature.

[3] The Group has applied the practical expedient to classify leases for which the leases term ends within 12 months of the date of initial application of IFRS 16 as short-term leases. The Group has also applied the recognition exemption for short term leases.

[4] Previously, lease commitments only included non-cancellable periods in the lease agreements. Under IFRS 16, the lease term includes period covered by options to extend or terminate the lease where the Group is reasonably certain that such options will be exercised.

(ii) Income statement impact

As a result of applying IFRS 16, the Group has recognised depreciation and interest costs in respect of leases that are within the scope of IFRS 16 (which were previously classified as operating leases), rather than rental expense. During the year ended 31 August 2020, the Group recognised £105m of additional depreciation charges and £11m of additional interest costs and a gain of £15m due to Covid-19 rent reduction/ waiver in respect of these leases instead of recognising the rental expense of £102m, resulting in a net £1m impact on profit (before non-underlying items).

(iii) Cash flow impact

As a result of applying IFRS 16, there is an increase in net cash inflows from operating activities by £66m being offset by an increase in net cash outflows from financing activities by £66m. There is no impact on the net cash flow.

19. Impact of adoption of IFRS 16 (continued)

Key areas of judgement in applying IFRS 16

Substantive substitution rights

Judgement is involved in determining whether a contract meets the definition of a lease under IFRS 16. Management has determined that certain retail concession contracts give the landlord substantive substitution rights because the contract gives the landlord rights to relocate the retail space occupied by the Group. In such cases, management has concluded that there is not an identified asset and therefore such contracts are outside the scope of IFRS 16. For these contracts, the Group recognises the payments as an operating expense on a straight-line basis over the term of the contract unless another systematic basis is more representative of the time pattern in which economic benefits from the underlying contract are consumed. The value of such contracts excluded from the lease liability on transition to IFRS 16 is £412m, see Note 19 (i).

Determination of Incremental Borrowing Rate (IBR)

The application of IFRS 16 required judgement around the calculation of the IBR. This has been determined on a lease-by-lease basis based on the right-of-use asset in a similar economic environment and taking into account the risk-free rate, adjusted for factors such as the credit rating and the lease term.

Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

Impairment assessment

The right of use asset is tested for impairment on a lease by lease basis as at the transition date in accordance with IAS 36 where the practical expedient has not been taken. Each store is regarded to be a cash generating unit. In estimating the future net cashflow, judgement is made around the lease term and estimated profit growth which is based on the underlying economics of the individual stores such as the store contribution and location. As part of estimating the value-in-use, future cash flows for each store are discounted based on the Group’s weighted average cost of capital which is determined based on factors such as risk-free rate and risk premium.

The Group has recorded an impairment of £21m to the right-of-use assets and fixed assets with a corresponding adjustment to the opening reserves. The impairment predominantly resulted from the application of different discount rates in line with the applicable accounting standards. IFRS 16 requires using an incremental borrowing rate based on which the right-of-use assets is recorded whereas the value-in-use calculation under IAS 36 requires the cash flow to be discounted using a pre-tax discount rate, for which we have used the pre-tax weighted average cost of capital. The application of these standards caused an impairment on numerous right-of-use assets and fixed assets.

Revised accounting policy

Policies applicable from 1 September 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

19. Impact of adoption of IFRS 16 (continued)

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the lease term. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated balance sheet.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

The lease contracts that include variable rents based on sales, which is the case with many of our retail concession contracts, are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss (see Note 3).

The Group has applied the Amendment to IFRS 16 issued in June 2020, and endorsed by the EU in October 2020. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2021, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset.

For leases acquired as part of a business combination, the lease liability is measured at the present value of the remaining lease payments. The right-of-use asset is measured at the same amount as the lease liability adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.

The Group as a lessor

The Group enters into lease agreements as an intermediate lessor with respect to some of its property leases. It accounts for the head lease and the sublease as two separate contracts. The sublease is classified as finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental payments from operating leases are recognised on a straight-line basis over the term of the relevant lease.

Policies applicable prior to 1 September 2019

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

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

19. Impact of adoption of IFRS 16 (continued)

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

20. Events after the balance sheet date

On 31 October 2020, the UK government announced a 4 week lockdown across England. We have performed an assessment of this government action on the Group to ascertain if this constitutes an adjusting post balance sheet event under IAS 10 'Events after the Reporting Date'. Following our review, we have concluded that the November lockdown is a non-adjusting event.

Following the announcement of a second lockdown in England, we have 558 stores open in High Street and 243 stores open in Travel, including 206 Post Offices and 135 hospital stores. We are expecting a significant decline in passenger numbers as a result of travel bans with the majority of our stores at airports and railway stations temporarily closed. 135 stores located in hospitals across the UK remain open to serve key workers. Internationally, the majority of stores remain open.

We have estimated the impact of this lockdown on the value-in-use calculations use in the impairment assessments of Property, plant and equipment, Intangible assets and Right-of-use assets outlined in Notes 11, 12 and 13. The estimated impact on the Group income statement is an increase to the impairment charge on non-current assets of around £7m.

21. Related parties

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

Remuneration of key management personnel

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

£'000	**2020**	**2019**
Short-term employee benefits	1,517	3,646
Post employment benefits	186	264
Share-based payments	(4)	2,095
	1,699	**6,005**

There are no other transactions with directors.

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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.

Non-underlying items

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items that 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 linked to a Board agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, significant items related to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, 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.

IFRS 16

The Group has implemented IFRS 16 using the modified retrospective approach, which means that prior year balances have not been restated. IFRS 16 superseded the lease guidance under IAS 17 and the related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases. At the commencement date of a lease, a lessee will recognise a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

For the purposes of narrative commentary on the Group's performance and financial position in the Preliminary announcement, the effects of IFRS 16 have been excluded, in order to provide meaningful year on year comparisons.

The impact of the implementation of IFRS 16 on the Income Statement and Segmental information is provided in Notes A1 and A2 below. There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities, as set out in Note A9 below. The balance sheet as at 31 August 2020 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Definitions and reconciliations

In line with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority ('ESMA'), we have provided additional information on the APMs used by the Group below, including full reconciliations back to the closest equivalent statutory measure

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement Measures			
Headline Group (loss) / profit before tax	Group (loss) / profit before tax	See Note A1	Headline Group (loss) / profit before tax excludes non-underlying items. A reconciliation from Headline Group (loss) / profit before tax to Group (loss) / profit before tax on an IFRS 16 basis is provided on the Group income statement on page 17, and on an IAS 17 basis in Note A1.
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	See Note A2	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 non-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 on an IFRS 16 basis is provided in Note 2 to the condensed financial statements, and on an IAS 17 basis in Note A2.

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APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement Measures			
Non-underlying items	None	Refer to definition and see Note A6	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 on an IFRS 16 basis is provided in Note 4 to the condensed financial statements, and on an IAS 17 basis in Note A6.
Headline earnings / (losses) per share	Earnings per share	Non-underlying items and dilutive effect of shares under option see Note A4	Headline earnings per share is defined as Headline (Loss) / profit for the year 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 and Note A4.
Effective tax rate	None	Non-underlying items see Notes A3 and A6	Total income tax credit / charge excluding the tax impact of non-underlying items divided by Group Headline (loss) / profit before tax. See Note 6 on an IFRS 16 basis, and Notes A3 and A6 on an IAS 17 basis.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax covers the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges (excluding finance charges from IFRS 16 leases) and net operating lease rentals stated on an IAS 17 basis. The calculation of this measure is outlined in Note A5.
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Preliminary announcement statement, 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.

	Travel	High Street	Group
LFL revenue change	**(43)%**	**(19)%**	**(33)%**
Net new space impact	1%	-%	1%
Acquisitions	10%	-%	5%
Foreign exchange impact	-%	-%	-%
Total revenue change	**(32)%**	**(19)%**	**(27)%**

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
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 as defined on an IAS 17 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of Net debt is provided in Note A8.
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 the cash flow effect of non-underlying items and pension funding, less net capital expenditure. The components of free cash flow are shown in Note A7 and on page 12, as part of the Group Overview.

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A1. Reconciliation of Headline to Statutory Group operating (loss) / profit and Group (loss) / profit before tax

	2020					2019		
	IAS 17 Basis			**IFRS 16 Basis**				
£m	**Headline**	**Non-underlying items**	**Total**	**IFRS 16 adjustments**	**Total**	Headline	Non-underlying items	Total
Revenue	1,021	-	**1,021**	-	**1,021**	1,397	-	1,397
Cost of sales	(441)	-	**(441)**	-	**(441)**	(552)	-	(552)
Gross profit	580	-	580	-	**580**	845	-	845
Distribution costs	(545)	-	(545)	7	**(538)**	(592)	-	(592)
Administrative expenses	(97)	-	(97)	5	**(92)**	(100)	-	(100)
Other income	2	-	2	-	**2**	7	-	7
Non-underlying items	-	(157)	**(157)**	(55)	**(212)**	-	(20)	(20)
Group operating (loss) / profit	**(60)**	**(157)**	**(217)**	**(43)**	**(260)**	160	(20)	140
Finance costs	(9)	-	(9)	(11)	(20)	(5)	-	(5)
(Loss) / profit before tax	**(69)**	**(157)**	**(226)**	**(54)**	**(280)**	155	(20)	135
Income tax credit / (expense)	16	18	34	7	41	(28)	1	27
(Loss) / profit for the period	**(53)**	**(139)**	**(192)**	**(47)**	**(239)**	127	(19)	108
Attributable to:								
Equity holders of the parent	**(53)**	(139)	**(192)**	(47)	**(239)**	125	(19)	106
Non-controlling interests	-	-	-	-	**-**	2	-	2
	(53)	(139)	**(192)**	(47)	**(239)**	127	(19)	108

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A2. Reconciliation of Headline to Statutory Segmental trading (loss) / profit and Group (loss) / profit from trading operations

	2020					2019		
	IAS 17 Basis			**IFRS 16 Basis**				
£m	**Headline**	**Non-underlying items**	**Total**	**IFRS 16 adjustments**	**Total**	Headline	Non-underlying items	Total
Travel trading (loss) / profit[1]	(33)	-	**(33)**	6	**(27)**	117	-	117
High street trading (loss) / profit	(10)	-	**(10)**	6	**(4)**	60	-	60
Group (loss) / profit from trading operations	(43)	-	**(43)**	12	**(31)**	177	-	177
Unallocated costs	(17)	-	**(17)**	-	**(17)**	(17)	-	(17)
Headline Group operating (loss) / profit	**(60)**	**-**	**(60)**	**12**	**(48)**	160	-	160
Non-underlying items	-	(157)	**(157)**	(55)	**(212)**	-	(20)	(20)
Group operating (loss) / profit	**(60)**	**(157)**	**(217)**	**(43)**	**(260)**	160	(20)	140

[1] Includes International Trading loss of £32m under IAS 17 (2019: profit of £20m) and £26m under IFRS 16

A3. Reconciliation of Headline to Statutory tax (credit) / expense

	2020			2019
£m	**Headline**	**IFRS 16 adjustments**	**Total**	Total
(Loss) / profit before tax	(69)	1	**(68)**	155
Tax on profit	(5)	-	**(5)**	32
Standard rate of UK corporation tax 19.00% (2019: 19.00%				
Adjustment in respect of prior year UK corporation tax	(6)	-	**(6)**	(4)
Total current tax charge	(11)	-	**(11)**	28
Deferred tax – current year	(7)	-	**(7)**	(1)
Deferred tax – prior year	2	-	**2**	1
Tax on Headline (loss) / profit	(16)	-	**(16)**	28
Tax on non-underlying items	(18)	(7)	**(25)**	(1)
Total tax on (loss) / profit	(34)	(7)	**(41)**	27

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A4. Reconciliation of Headline to Statutory (losses) / earnings per share

	2020					2019		
	IAS 17 Basis			IFRS 16 Basis				
£m	Headline	Non-underlying items	Total	IFRS 16 adjustments	Total	Headline	Non-underlying items	Total
(Loss) / profit for the year, attributable to equity holders of the parent	(53)	(139)	**(192)**	(47)	**(239)**	125	(19)	106
Weighted average shares in issue for earnings per share			**120**		**120**			108
Weighted average shares in issued for diluted earnings per share			**120**		**120**			109
Basic (loss) / earnings per share	(44.2)p	(115.8)p	(160.0)p	(39.2)p	(199.2)p	115.7p	(17.6)p	98.1p
Diluted (loss) / earnings per share	(44.2)p	(115.8)p	(160.0)p	(39.2)p	(199.2)p	114.7p	(17.5)p	97.2p

A5. Fixed charges cover

£m	2020	2019
Net finance costs (pre-IFRS 16)	**9**	5
Net operating lease rentals (pre-IFRS 16)	**210**	236
Total fixed charges	**219**	241
Headline (Loss) / profit before tax	**(69)**	155
Headline (Loss) / profit before tax and fixed charges	**150**	396
Fixed charges cover – times	**0.7x**	1.6x

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

	2020		2019
£m	**IAS 17**	**IFRS 16**	
Costs relating to business combinations			
- Transaction costs	11	11	6
- Integration costs	9	9	5
Amortisation of acquired intangible assets	3	3	2
High Street business review	-	-	7
Pension past service cost	14	14	-
Costs directly attributable to Covid-19			
- Impairment of property, plant and equipment	54	39	-
- Impairment of Intangible assets	1	1	-
- Impairment of right-of-use assets	-	95	-
- Other property costs	25	-	-
- Write-down of inventories	14	14	-
- Restructuring costs	25	25	-
- Other	1	1	-
Non-underlying items, before tax	**157**	**212**	**20**
Tax credit on non-underlying items	(18)	(25)	(1)
Non-underlying items, after tax	**139**	**187**	**19**

Non-underlying items on a pre-IFRS 16 basis are calculated on a consistent basis with IFRS 16, with the exception of the below items.

A tax credit of £25m has been recognised in relation to the above items (£18m under IAS 17).

Impairment of property, plant and equipment and right-of-use assets

The impairment charge recognised on an IAS 17 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base under IAS 17, coupled with lower expected store cash flows, with rental expenses being included in the forecast cash flows (treated as financing costs under IFRS 16), and a higher discount rate. The calculation of the Group's weighted average cost of capital differs under IFRS 16 versus IAS 17. The pre-tax discount rate used in the IFRS 16 calculation was 8.9% and the pre-tax discount rate used in the IAS 17 calculation was 10.9%.

Right-of-use assets are not recognised under IAS 17.

Other property costs

Other property costs on a pre-IFRS 16 basis include provisions for onerous lease contracts; on an IFRS 16 basis, onerous lease contracts are recognised as an impairment of the right-of-use asset. As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. We anticipate that a number of stores will not fully recover to pre-Covid-19 sales levels and have accelerated our internal forecasts for the rate of sales decline in those locations. As a result, we have recognised onerous provisions of £13m for stores where we now anticipate we will make a cash loss over the remaining term of their leases.

The Group's IAS 17 property provisions represent the present value of unavoidable future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant, loss-making or currently not planned to be used for ongoing operations. The unwinding of the discount is treated as an imputed interest charge. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Other items included in Other property costs include £12m reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19, and the Group has crystallised its obligation to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

A7. Free cash flow

£m	Note	2020	2019
Cash generated from operating activities	10	94	153
Interest paid		(13)	(4)
Net cash inflow from operating activities		81	149
Impact of IFRS 16		(66)	-
Addback:			
- Cash impact of non-underlying items		20	16
- Pension funding		3	3
Deduct:			
- Purchase of property, plant and equipment		(67)	(47)
- Purchase of intangible assets		(12)	(12)
Free cash flow		**(41)**	**109**

A8. Net debt

£m	Note	2020	2019
Borrowings			
- Revolving credit facility		**-**	(15)
- Bank loans		**(400)**	(200)
- Lease liabilities	**14**	**(559)**	(14)
Liabilities from financing activities		**(959)**	(229)
Cash and cash equivalents		**108**	49
Net debt (IFRS 16)	**9**	**(851)**	(180)
- Add back lease liabilities recognised under IFRS 16[1]		**550**	-
Net debt (IAS 17)		**(301)**	(180)

[1]Excludes lease liabilities previously recognised under IAS 17 as finance leases.

A9. Cash flow disclosure impact of IFRS 16

There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities.

£m	2020 IAS 17	IFRS 16 Adjustment	2020 IFRS 16
Net cash inflows from operating activities	15	66	81
Net cash outflows from investing activities	(395)	-	(395)
Net cash inflows from financing activities	440	(66)	374
Net decrease in cash in the period	**60**	**-**	**60**

A10. Balance sheet impact of IFRS 16

The impact on the Balance Sheet of the IFRS 16 at 31 August 2020 was as follows:

£m	2020 IAS 17	IFRS 16 Adjustment	2020 IFRS 16
Goodwill and other intangible assets	495	(2)	493
Property, plant and equipment	190	2	192
Right-of-use assets	-	413	413
Investments in joint ventures	2	-	2
	687	413	1,100
Inventories	150	-	150
Payables less receivables	(226)	43	(183)
Working capital	(76)	43	(33)
Derivative financial asset	-	-	-
Net current and deferred tax liability	17	11	28
Provisions	(27)	13	(14)
Operating assets employed	**601**	**480**	**1,081**
Net (debt) / funds	(301)	(550)	(851)
Net assets excluding pension liability	**300**	**(70)**	**230**
Pension liability	(4)	-	(4)
Deferred tax asset on pension liability	1	-	1
Total net assets	**297**	**(70)**	**227**

Further information on the impact of the adoption of IFRS 16 can be found in Note 19 on page 47.

A11. Operating lease expense under IAS 17

Amounts recognised in Headline Group operating profit on a pre-IFRS 16 basis are as follows:

£m	2020	2019
Minimum lease payments	**162**	216
Contingent rent payments	**49**	21
Total rent paid	**211**	237
Sublease rentals received on operating leases	**(1)**	(1)
Net operating lease charges	**210**	236

The Group has adopted IFRS 16 during the year, which requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. In order to provide comparable information, the Group has chosen to present Headline measures of operating profit/(loss) and profit/(loss) before tax, as explained in Note 2 Segmental analysis.

The table above presents the pre-IFRS 16 net operating lease charges, applying the principles of IAS 17, and Group accounting policies as applicable prior to 1 September 2019, per Note 1 to the condensed financial statements.

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

The average remaining lease length across the Group is 4 years.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Temporary rent reductions due to Covid-19, affecting rent payments due on or before June 2021, have been recognised in the Income statement in the period they are received.