9 November 2023

WH SMITH PLC
The global travel retailer

PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2023

A year of strong growth
Strong start to the new financial year with Total Travel revenue* up 16%

- Strong performance with Group revenue up 28% to £1,793m (2022: £1,400m)
  - Total revenue in Travel UK up 36%; North America up 32%; Rest of the World ('ROW') up 99%
- Headline profit before tax and non-underlying items† up 96% to £143m (2022: £73m)
  - Total Travel trading profit† of £164m (2022: £89m)
  - High Street trading profit† of £32m (2022: £33m)
- Headline diluted EPS before non-underlying items† up 93% to 80.3p
- New store pipeline of over 110 stores‡ won and yet to open in Travel, including over 60 in North America
- Investing for growth with capex in the current financial year expected to be around £140m
- Proposed final dividend of 20.8p per share making full year dividend of 28.9p per share, reflecting strong trading and cash generation combined with confidence in future prospects
- Strong balance sheet with leverage now at 1.4x with further strengthening expected
- Strong start to the new financial year with continued momentum across our Travel markets. Total revenue in the first 9 weeks to 4 November 2023 up 13% in Travel UK; up 15%* in North America and up 27%* in ROW

Carl Cowling, Group Chief Executive, commented:

"This has been another year of significant progress for the Group. Our Travel divisions have all seen strong growth with Travel UK total revenue up 36%, North America up 32% and ROW up 99%, and I am very pleased with the start to the new financial year.

"Our global travel business is growing in all our key markets. It is highly scalable with multiple medium and long term growth opportunities and we are seeing great results from sharing our expertise and innovation across our different geographies. Our North American business is benefitting from our forensic approach to space management which has always been a key feature of our UK Travel operations. In the same way, the ability of our North American business to provide bespoke retail formats is now being successfully harnessed outside of the US.

"WHSmith is a highly cash generative business. In 2024, we expect to invest a further £140m which will drive further growth and at the same time we expect our leverage to fall within our target range.

"These results would not be possible without the extraordinary efforts of our entire team across the globe, and I would like to offer my sincere thanks for their support.

"The Board's decision to propose an increase to the final dividend to 20.8p per share, making a full year dividend of 28.9p per share, reflects the good performance, the Group's cash generation and our confidence in the future given the multiple growth opportunities that exist for WHSmith.

"We have started the new financial year well with total revenue in Travel UK up 13%, North America up 15%, and ROW up 27%. With good trading and very positive prospects, despite the uncertainty in the economic environment, we are confident in the Group's outlook for the new financial year."

* On a constant currency basis
† Pre-IFRS 16
‡ Pipeline as at 31 August 2023

Group financial summary:

	IFRS 16		Headline pre-IFRS 16[2]	
	Aug 2023	Aug 2022	**Aug 2023**	Aug 2022
Travel UK trading profit[1]	£101m	£60m	£102m	£54m
North America ('NA') trading profit[1]	£52m	£33m	£49m	£31m
Rest of the World ('ROW') trading profit[1]	£13m	£3m	£13m	£4m
Total Travel trading profit[1]	£166m	£96m	£164m	£89m
High Street trading profit[1]	£43m	£45m	£32m	£33m
Group profit from trading operations[1]	£209m	£141m	£196m	£122m
Group profit before tax and non-underlying items[1]	£137m	£83m	£143m	£73m
Diluted earnings per share before non-underlying items[1]	76.5p	47.7p	80.3p	41.7p
Non-underlying items[1]	£(27)m	£(20)m	£(15)m	£(12)m
Group profit before tax	£110m	£63m	£128m	£61m
Basic earnings per share	60.8p	36.2p	71.5p	35.4p
Diluted earnings per share	59.8p	35.6p	70.5p	34.8p

Revenue performance:

	Aug 2023 £m	Aug 2022 £m	% change
Travel UK	709	521	36%
North America	380	288	32%
Rest of the World	235	118	99%
Total Travel	1,324	927	43%
High Street	469	473	(1)%
Group	1,793	1,400	28%

[1] Alternative Performance Measure (APM) defined and explained in the Glossary on page 44.

[2] The Group adopted IFRS 16 'Leases' with effect from 1 September 2019. The Group continues to monitor performance and allocate resources based on pre-IFRS 16 information (applying the principles of IAS 17), and therefore the results for the years ended 31 August 2023 and 31 August 2022 have been presented on both an IFRS 16 and a pre-IFRS 16 basis.

Measures described as 'Headline' are presented pre-IFRS 16.

For the purposes of narrative commentary on the Group's performance and financial position, both pre-IFRS 16 and IFRS 16 measures are provided. Reconciliations from pre-IFRS 16 measures to IFRS 16 measures are provided in the Glossary on page 44. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue are based on statutory measures.

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GROUP OVERVIEW

The Group has had another very successful year with Total Travel generating Headline trading profit[1] of £164m (2022: £89m), Headline Group profit before tax and non-underlying items[1] up 96% to £143m (2022: £73m) and Headline diluted EPS before non-underlying items[1] up 93% to 80.3p (2022: 41.7p). The new financial year has started well with good momentum across all our Travel markets.

The pace of winning new business in Travel remains strong. Across the UK, North America and Rest of the World we won 92 stores in the year and now have over 110 stores won and due to open, of which we expect over 100 to open this financial year whilst closing 22 stores as we focus on better quality space.

Travel is well positioned to continue to create value through the structurally advantaged markets in which it operates and the considerable opportunities to win and open additional stores. Analysis from the International Air Transport Association ('IATA') suggests that passenger numbers will return to 2019 levels during calendar year 2024 and will continue to grow in low single digits each year thereafter in the medium term.

We utilise our forensic approach to retailing to drive average transaction value ("ATV') growth and space management to increase the spend per passenger in our stores. This, combined with scalability in the significant opportunities to win and open new stores, gives us the confidence to continue to grow revenue, profit, cash generation, and through operational gearing, grow our EBIT margins.

We have made substantial progress and saw significant growth in the year, supported by the key pillars of our strategy and our ongoing forensic approach to retailing across each of our businesses.

These include:

- ***Space growth:***
    - Opening new stores;
    - Winning new business;
    - New, better quality space;
    - Extending contracts;
    - Developing formats and brands
- ***ATV growth:***
    - Space management;
    - Refitting stores;
    - Range development
- ***Category development:***
    - One-stop-shop travel essentials format;
    - Internationalising the InMotion brand;
    - Improving ranges, e.g. health and beauty, food to go, and tech
- ***Cost and cash management:***
    - Flexible rent model;
    - Investing for growth (capex in the current financial year expected to be around £140m);
    - Productivity and efficiencies
- ***Disciplined capital allocation, supporting investment in growth and shareholder returns***

In the year, Travel was approximately 75% of Group revenue and 85% of Headline Group profit from trading operations. Both of these measures will increase as we continue to grow Travel which reinforces that we are now a global travel retailer.

Group revenue

	Revenue (% change) Year to 31 August 2023	
	Total vs 2022	LFL[1,3] vs 2022
Travel UK	36%	30%
North America	32%	11%
Rest of the World	99%	53%
Total Travel	**43%**	**27%**
High Street[4]	(1)%	1%
Group	**28%**	**18%**

[3] Constant currency
[4] Includes internet businesses

Total Group revenue at £1,793m (2022: £1,400m) was up 28% compared to the prior year.

In Travel, we saw a strong performance across all our markets with Total Travel revenue up 43% and up 27% on a like-for-like[1] ('LFL') basis. This was driven by strong performances in all three Travel divisions, with Travel UK up 36% on a total basis, North America up 32%, and ROW up 99%.

We saw a consistently good performance in High Street throughout the year, with the Christmas trading period flat year on year on a LFL basis.

Passenger numbers have recovered strongly during the year and momentum has continued into the new financial year.

Group profit

Total Travel delivered a Headline trading profit[1] in the year of £164m (2022: £89m) with all three divisions growing significantly: Travel UK increased by £48m to £102m; North America increased by £18m to £49m; and ROW increased by £9m to £13m.

High Street delivered a Headline trading profit[1] of £32m (2022: £33m), in line with expectations.

Headline Group profit from trading operations[1] for the year was £196m (2022: £122m) with Headline Group profit before tax and non-underlying items[1] up 96% to £143m (2022: £73m).

The Group profit before tax, including non-underlying items and on an IFRS 16 basis, was £110m (2022: £63m) in the year.

Group balance sheet

The Group has a strong balance sheet, is highly cash generative and has substantial liquidity.

The Group has the following cash and committed facilities as at 31 August 2023:

	31 August 2023	Maturity
Cash and cash equivalents[5]	£56m	
Revolving Credit Facility[6]	£400m	June 2028
Convertible bonds	£327m	May 2026

[5] Cash and cash equivalents comprises cash on deposit of £34m and cash in transit of £22m
[6] Draw down of £84m as at 31 August 2023

In June 2023, we completed the refinancing of the Group's borrowing facilities with a new 5 year sustainability-linked revolving credit facility ('RCF'). The Group also has a £327m convertible bond with a maturity of 7 May 2026 which has a fixed coupon of 1.625%.

As at 31 August 2023, Headline net debt[1] was £330m (2022: £296m) and the Group has access to c.£350m of liquidity. Leverage at the year end was 1.4x Headline EBITDA[1]. We expect to be within our leverage envelope of between 0.75x and 1.25x Headline EBITDA[1] by the end of this financial year.

Group cash flow

The Group generated an operating cash flow[1] of £235m in the year (2022: £155m) demonstrating the cash generative nature of the business. Capex was £122m (2022: £83m) as we continued to invest in new stores, IT, energy efficient chillers and other store equipment. As expected, we had a working capital outflow of £64m in the year (2022: £10m). This mainly relates to investment in new stores, the recovering Travel business and some timing. Most of the outflow was in the first half. This year, we expect a much smaller outflow mainly relating to opening new stores. In total, there was a free cash inflow in the year of £20m (2022: £41m). This year we would expect, subject to investment opportunities, an increase in free cash generation, and net debt to be around £310m.

Capital allocation policy

The cash generative nature of the Group is complemented by our disciplined approach to capital allocation. This has been in place for many years and continues to drive our decision making for utilising our cash:

- investing in our existing business and in new opportunities where rates of return are ahead of the cost of capital; this year, we expect capex of c.£140m
- paying a dividend. We have a progressive dividend policy with a target dividend cover, over time, of 2.5x; the Board is proposing a full year dividend of 28.9p per share
- undertaking attractive value-creating acquisitions in strong and growing markets; and
- returning surplus cash to shareholders via share buy backs.

The Board has proposed a final dividend of 20.8p per share in respect of the financial year ended 31 August 2023, which together with the interim dividend, gives a full year dividend of 28.9p per share. This reflects the cash generative nature of the business and our confidence in the future prospects of the Group. Subject to shareholder approval, the dividend will be paid on 1 February 2024 to shareholders registered at the close of business on 12 January 2024.

TOTAL TRAVEL

Total Travel revenue was £1,324m (2022: £927m), up 43% compared to the previous year, generating a Total Travel Headline trading profit[1] in the year of £164m (2022: £89m).

£m	Trading profit[1] (IFRS 16)		Headline trading profit[1] (pre-IFRS 16)		Revenue	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Travel UK	101	60	102	54	709	521
North America	52	33	49	31	380	288
Rest of the World	13	3	13	4	235	118
Total Travel	**166**	**96**	**164**	**89**	**1,324**	**927**

In Travel, our initiatives position us well for future growth:

- ***Space growth - Business development and winning new business***
  Through building and managing relationships with all our landlord partners, we look to win new space, improve the quality and amount of space, develop new formats and extend contracts. During the year, we opened 118 stores and we now have a store pipeline of over 110 stores. Going forward, we expect to win, on average, around 50 to 60 stores a year. There are significant space growth opportunities across all our Travel markets.

- ***ATV growth***
  We aim to grow ATV through our forensic analysis of the return on our space, cross-category promotions, merchandising, store layouts and store refits. During the year, we have continued to focus on re-engineering our ranges and we continue to see good ATV growth across all our channels.

- ***Category development***
  We do this by developing adjacent product categories relevant for our customers, such as health and beauty and tech ranges, and expanding existing categories such as premium food ranges. Throughout the year, we have continued to focus on identifying further opportunities where we

can reposition our traditional news, books and convenience ('NBC') format to a one-stop-shop travel essentials format. The results from our one-stop-shop stores have been positive.

- ***Cost and cash management***
  We remain focused on cost efficiency and productivity, for example, by investing in more energy efficient chillers in-store and increasing the number of self scan tills, particularly in North America.

TRAVEL UK

Travel UK, our largest division, has delivered a year of significant growth and we continue to have good opportunities to grow this division further.

Air passenger numbers still remain below pre-pandemic levels and we are confident that, as passenger numbers continue to recover, this division will see an ongoing improvement in profitability as we leverage our fixed cost base. All our channels in Travel UK have performed strongly during the year with total revenue growth of 36% versus last year. We have started the new financial year strongly with all three channels delivering good growth.

	Revenue (% change) Year to 31 August 2023	
	Total vs 2022	**LFL[1] vs 2022**
Air	48%	37%
Hospitals	32%	26%
Rail	15%	19%
Total Travel UK	**36%**	**30%**

Total revenue in the year was £709m (2022: £521m) which, together with improved margins, resulted in a Headline trading profit[1] of £102m (2022: £54m).

Across all our channels, we continue to focus on our key growth drivers: space growth, increasing ATV and spend per passenger, driving EBIT margins and benefitting from the growth in passenger numbers. Momentum is strong and we are seeing good results, with revenue growing ahead of passenger numbers.

We are investing in our UK store portfolio while also identifying new and better quality space opportunities across each of our channels. During the year, we have made excellent progress opening 20 new stores, including 6 at airports, 8 in hospitals and 3 in rail. We see this annual space growth of around 15 new stores in Travel UK extending into the medium term. We closed 19 small and less well located stores in the year. This year, we expect to open over 15 new stores in the UK, of which 12 are already contracted, and close 4 stores.

Air

Air, which is the biggest channel in Travel UK, delivered a strong performance with total revenue up 48% and LFL revenue up 37% on the prior year.

We continually develop our retail formats to better address the changing requirements of airport landlords and customers.

Our one-stop-shop for travel essentials format continues to generate significant opportunities across all channels and improve profitability. We have a very strong customer proposition which is tailored to each location and channel. Next week, we will open our largest UK Travel store. This is a 6,000 sq ft flagship one-stop-shop for travel essentials store at Birmingham International airport, further developing this format. This new store will be tailored to the requirements of the landlord and provides passengers with a bespoke, localised customer experience by drawing on our experience from North America. The store will offer everything you would expect from a WHSmith, as well as a broader product range, large health and beauty and tech zones, and coffee.

By extending our categories such as health and beauty, tech and food to go, we are able to provide time-pressed customers with all their travel essentials under one roof with a fast and convenient shopping experience. This enables us to expose both new and existing customers to a broader range of categories, which has resulted in an increase in sales per square foot, a higher ATV and spend per

passenger. This delivers superior returns with improved margins and attractive economics for our landlords.

Hospitals

The hospital channel, our second largest channel in Travel UK by revenue, continued its very strong growth with total revenue up 32% and LFL revenue up 26% in the year.

This is a growing channel for us with significant opportunities to continue to increase our space and improve the retail proposition using our broad suite of brands. During the year, we opened 8 new stores, including Royal Liverpool and Royal Sussex hospitals. Looking ahead, we have a good pipeline of opportunities in this channel, where we see scope for at least one of our four formats (WHSmith, Marks & Spencer Simply Food, Costa Coffee, and our proprietary coffee brands) in up to 200 further hospitals.

We are excited by the opportunity to grow our coffee offer. By using our expertise in localisation from our North American business, we have recently won two new stores in Sheffield hospitals under a new coffee concept. Working with local artists and roasteries, we have designed a bespoke store with a local coffee offer.

Rail

Our Rail channel is our smallest channel in Travel UK representing around 15% of revenue. It is an attractive market and has proven to be resilient, delivering a good performance in the year despite the ongoing impact of industrial action.

We have seen a very encouraging return of passengers with leisure and weekend passengers recovering the fastest. We know from our segmentation and return on space analysis that leisure is our most valuable customer segment.

We continue to invest in Rail in new formats and in new opportunities to meet landlord and customer needs. During the year, we successfully completed the refit of our London Paddington store to a one-stop-shop format, extending our health and beauty ranges from 1 metre of space to 8 metres of space and allocating more space to tech. This has been very well received by customers and driven strong sales.

curi.o.city

In line with our strategy to develop our retail formats, we have recently launched a new premium souvenir and gifting brand, curi.o.city. This new concept demonstrates how we are able to adapt, innovate and create a bespoke, localised brand and product offer. In addition to providing a new shopping experience for travellers, this format also offers an incremental sales opportunity in locations where we already have a WHSmith store by selling high margin categories such as souvenirs and fashion stationery, freeing up space in our traditional news, books and convenience stores. We now have 6 stores open at London Gatwick airport, Bristol airport, St Pancras station and Selfridges in Birmingham and Manchester.

It is still early days, but we also see opportunities outside the UK with 2 curi.o.city stores also due to open in Dubai later this year.

As at 31 August 2023, Travel UK had 588 stores (2022: 587).

NORTH AMERICA

In North America we also saw a good performance as passenger numbers continued to recover. We opened a further 43 stores and closed 14 stores increasing market share and improving the quality of our space. Total revenue was up 32% for the year and up 17% in the second half.

This performance was driven by our core MRG airport business (which is now approximately 50% of the revenue of our North American division) which performed strongly across the year and continues to do so. We are seeing passenger number growth and strong demand for our travel essentials categories.

In our smaller businesses we saw a lack of new launches in the electricals market in the second half which impacted InMotion (and this has continued into this financial year) and in our Las Vegas resorts business we were up against a strong 2022 summer performance when there was an exceptional number of vacationing visitors.

Overall, our North American business is trading well with total revenue in the first 9 weeks of the financial year up 15%[3] and is as such well placed for growth this year and beyond.

Headline trading profit[1] was £49m (2022: £31m), reflecting the strong recovery in passenger numbers, improved margins and a small beneficial impact of currency. The Group is exposed to movements in the GBP:USD exchange rate. A 5 cent move in this rate results in a c.£2m to £3m movement in annual Headline trading profit[1]. Current company compiled consensus suggests an average exchange rate of GBP:USD of 1.25.

Our North America business has become an increasingly significant part of the Group and is now our second largest division in profit terms, after Travel UK. The growth prospects are substantial and we are excited by the significant opportunities to grow this business further. Over the last two years, we have won an additional 62 new stores.

The US is the largest travel retail market in the world with annual revenue of c.$3.8bn[7]. Our analysis of the North American market shows that there were a total of approximately 2,000 news and gift and specialty retail stores across the top 70 airports, giving our North America business a market share of c.13%[8]. During the year, we have improved our rate of winning new tenders and anticipate a large amount of space to come onto the market over the medium term. As a consequence, we are in a strong position to significantly grow our North America market share to around 20% over the next five years.

We have applied our forensic approach to retailing from the UK to the North American market and are seeing good results. This includes, space management, category development to change the mix to higher margin products such as food to go, enhanced promotional activity and increased operational efficiencies, for example, self-scan tills which we are rolling out across the estate.

We continue to grow our North American business at pace, opening 43 stores in the year at Newark, Phoenix, Orlando, Nashville, Washington Ronald Reagan, Jacksonville, Kansas City, Salt Lake City and Los Angeles airports. In Kansas City airport, we have won 85% of the retail space comprising 8 stores, all of which are open. We are seeing strong returns.

We still have a very strong pipeline of new store openings. In the year ending 31 August 2023, we won 40 stores, including stores at Salt Lake City, Boston, San Diego, Portland, Oakland and Las Vegas airports, as well as 11 stores in Canada, across Calgary and Edmonton airports. We expect to open over 50 stores in this financial year and close 6.

Including the 43 store openings in the year, we now have 231 stores in Air (including 123 InMotion stores), 95 stores in Resorts, and 1 in Rail.

REST OF THE WORLD

We saw a good recovery in the year from the ROW division with total revenue up 99% and LFL revenue up 53% on the prior year.

Our strategy for this division is clear: to continue to enter new countries, better understand the market, build our presence from a small base, build global supplier relationships and drive operational leverage to deliver higher returns. The scalability of the Group's retail formats is now evident having entered 28 new countries since we opened our first international stores in 2008 and we see significant market share opportunities for the division.

Utilising our expertise from our North America division to localise our retail offer, combined with our current low market share, means there is significant opportunity to grow this business in new and existing territories through our traditional NBC retail proposition and with technology tenders under the InMotion brand. We will continue to use our three operating models of directly run, joint venture and franchise, in order to maximise value and win new business.

We have also had another very successful year in winning new stores with 30 new stores won across the division.

During the year, we opened 55 new stores, including stores in Belgium, Italy, Malaysia, Norway, Spain and Sweden. We closed 28 mainly small, franchised stores.

[7] 2019 ACI Factbook, increased by CPI
[8] Based on store numbers; including stores won and yet to open

Outside of the NBC market, we continue to see good opportunities to win new business in the tech accessories market under our InMotion brand. InMotion is now a globally recognised brand with interest coming from all over the world. During the year, we have won 3 InMotion stores in Italy. We have won a total of 13 InMotion stores outside of the UK and North America, of which 10 are open. We remain well positioned to benefit from further opportunities as more space becomes available.

We now have 338 stores of which 50% are directly-run, 9% are joint venture and 41% are franchise. During the current financial year, we expect to open 40 stores and close 12 stores.

Total Travel stores

During the year, we opened 118 stores in Travel. As at 31 August 2023, our global Travel business operated from 1,253 stores (2022: 1,196). As part of our strategy to improve the quality of our space, we closed 61 stores in the year, largely smaller, less well located stores. Excluding franchise stores, Travel occupies 1.1m square feet. See page 15 for analysis of store numbers by region.

No. of stores	At 31 August 2022	Opened	Closed	**At 31 August 2023**
Travel UK	587	20	(19)	**588**
North America	298	43	(14)	**327**
Rest of the World	311	55	(28)	**338**
Total Travel	1,196	118	(61)	**1,253**

HIGH STREET

During the year, High Street delivered a good performance with Headline trading profit[1] of £32m, in line with expectations (2022: £33m), and revenue of £469m (2022: £473m). We managed the business tightly, keeping focused on costs and cash generation.

The strategy we have in place in our High Street business is as relevant today as it has ever been with a focus on delivering robust and sustainable cash flows and profits.

We utilise our space to maximise returns in ways that are sustainable over the longer-term. We have extensive and detailed space and range elasticity data for every store which we use to allocate space in categories.

Driving efficiencies remains a core part of that strategy and we continue to focus on all areas of cost in the business. During the year, we have delivered savings of £15m and we are on track to deliver savings of £21m over the next 3 years, of which £10m are planned in the current financial year. These savings come from right across the business, including rent savings at lease renewal (on average 50% over the last 12 months) which continue to be a significant proportion, marketing efficiencies and productivity gains from our supply chain.

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 where rents are falling. The average lease length in our High Street business, including where we are currently holding over at lease end, is under 2 years. We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.480 leases due for renewal over the next 3 years, including over 100 where we are holding over and in negotiation with the landlord. The store closure process is cash neutral.

As at 31 August 2023, the High Street business operated from 514 stores (2022: 527) which occupy 2.5m square feet (2022: 2.5m square feet). 13 stores were closed in the year (2022: 17).

Funkypigeon.com delivered, as expected, total revenue of £32m (2022: £35m) and Headline EBITDA[1] of £5m (2022: £8m). We continue to see opportunities to grow the platform further, growing revenue and profits over the medium term.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ('ESG')

We have excellent sustainability credentials and we continue to make good progress. We are one of the top performing specialty retailers in Morningstar's Sustainalytics ESG Benchmark and, during the year, we were awarded an AA from MSCI ESG ratings. In addition, we were included, once again, in the Dow Jones World Sustainability Index, awarded an A rating in CDP's annual climate leadership survey as well as being rated as Prime by ISS.

We have set our target to achieve net zero by 2050 and are working with our supply chain to help reduce emissions across our value chain.

The need for literacy support is as important as ever and we continue to invest in our partnership with the National Literacy Trust. Over the course of the next year, we will be sponsoring a new reading hub in Swindon as part of their Early Years Matter campaign.

We have made excellent progress in the year to further support our colleagues' journeys. We now have 5 employee networks focusing on Pride, gender, parents and carers, disability, and race and culture. All of these networks are sponsored by members of our Executive team and are encouraging an open and honest forum for colleagues to drive positive change within the business.

In addition, we have launched a new mentoring scheme in the year focused on fostering female talent within our organisation.

FINANCIAL REVIEW

The Group generated a Headline profit before tax and non-underlying items[1] of £143m (2022: £73m) and, after non-underlying items and IFRS 16, a Group profit before tax of £110m (2022: £63m).

	IFRS		Headline pre-IFRS 16[1]	
£m	**2023**	**2022**	**2023**	**2022**
Travel UK trading profit[1]	101	60	102	54
North America trading profit[1]	52	33	49	31
Rest of the World trading profit[1]	13	3	13	4
Total Travel trading profit[1]	166	96	164	89
High Street trading profit[1]	43	45	32	33
Group profit from trading operations[1]	**209**	**141**	**196**	**122**
Unallocated central costs	(27)	(24)	(27)	(24)
Group operating profit before non-underlying items[1]	**182**	**117**	**169**	**98**
Net finance costs[9]	(45)	(34)	(26)	(25)
Group profit before tax and non-underlying items[1]	**137**	**83**	**143**	**73**
Non-underlying items[1, 9]	(26)	(20)	(13)	(12)
Non-underlying items – Finance costs[1]	(1)	-	(2)	-
Group profit before tax	**110**	**63**	**128**	**61**

[9] Excluding non-underlying Finance costs disclosed below

Unallocated central costs increased in the year reflecting higher share-based payment charges and investing as the business recovers.

Headline net finance costs before non-underlying items[1] (pre-IFRS 16) for the year were £26m (2022: £25m).

Cash spend in relation to finance costs were £10m lower at £16m.

The interest on the convertible bonds includes the accrued coupon (a fixed coupon of 1.625%) and c.£ 8m of the non-cash debt accretion charge.

Lease interest of £19m arises on lease liabilities recognised under IFRS 16, bringing the total net finance costs before non-underlying items under IFRS 16 to £45m (2022: £34m).

	IFRS		Headline pre-IFRS 16[1]	
£m	2023	2022	2023	2022
Interest payable on bank loans and overdrafts	12	9	12	9
Interest on convertible bonds	14	14	14	14
Unwind of discount on onerous contract provisions	-	-	-	2
Interest on lease liabilities	19	11	-	-
Net finance costs before non-underlying items	**45**	**34**	**26**	**25**

Tax

The effective tax rate[1] was 19% (2022: 17%) on the profit for the year. Net corporation tax payments in the year were £13m (2022: £6m). Based on current legislation, we expect the tax rate in the current year to be 25%.

Earnings per share

Calculation of Headline earnings per share

	Headline pre-IFRS 16[1]	
	2023	2022
Headline profit before tax[10] (£m)	143	73
Income tax expense[10] (£m)	(28)	(12)
Headline profit for the year[10] (£m)	**115**	**61**
Attributable to non-controlling interests (£m)	(9)	(6)
Headline profit for the year attributable to equity holders of WH Smith PLC[10] (£m)	**106**	**55**
Weighted average shares in issue (diluted) (no. of shares - millions)	132	132
Headline diluted EPS[10] (p)	**80.3p**	**41.7p**

[10] Before non-underlying items

The above measures are calculated on a pre-IFRS 16 basis.

EPS calculated on an IFRS 16 basis is provided in Note 8 to the financial statements, and a reconciliation between the IFRS 16 and pre-IFRS 16 earnings per share is provided in Note A4 to the Glossary on page 44.

The diluted weighted average number of shares in issue used in the calculation of Headline diluted EPS[1] assumes that the convertible bond is not dilutive.

Profit attributable to non-controlling interests primarily represents the joint venture partner share of profit in relation to airport contracts in the US. As at 31 August 2023 the profit attributable to non-controlling interests of £9m (2022: £6m), is c.18% (2022: 19%) of North America Headline trading profit[1].

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 or incidence, are treated as non-underlying items and disclosed separately. Non-underlying items in the year are detailed in the table below. Most do not impact cash.

£m	Ref.	IFRS 2023	IFRS 2022	Headline pre-IFRS 16[1] 2023	Headline pre-IFRS 16[1] 2022
Impairment of Property, plant and equipment and Right-of-use assets ('ROU')	(1)	19	13	4	5
Provisions for onerous contracts	(2)	3	-	5	-
Finance costs – discount unwind on provisions for onerous contracts	(2)	-	-	1	-
Other	(3)	5	7	5	7
		27	**20**	**15**	**12**

(1) Impairment of Property, plant and equipment and Right-of-use assets
The Group has carried out an assessment for indicators of impairment across the store portfolio.

The impairment review compared the value-in-use of cash-generating units, based on managements' assumptions regarding likely future trading performance, to the carrying values at 31 August 2023. As a result of this exercise, a non-cash charge of £4m (2022: £5m) was recorded for impairment of retail store assets on a pre-IFRS 16 basis, and £19m (2022: £13m) on an IFRS 16 basis which includes an impairment of ROU assets of £15m (2022: £8m). This non-cash impairment to the ROU asset primarily results from the difference between the Incremental Borrowing Rate ('IBR') used to establish the ROU asset and the WACC rate used to discount the future cash flows of certain stores in Spain.

(2) Provisions for onerous contracts
A charge of £3m (on an IFRS 16 basis) has been recognised in the income statement in non-underlying items to provide for the unavoidable costs of continuing to service a non-cancellable contract, in certain locations where revenue recovery to pre-Covid-19 levels has not been observed. On a pre-IFRS 16 basis this charge is £5m.

Finance costs relating to the discount unwind on previously recognised provisions for onerous contracts has also been recognised in non-underlying items.

(3) Other
Other non-underlying items include: non-cash amortisation of acquired intangible assets of £3m (2022: £3m) primarily related to the MRG and InMotion brands; costs associated with pensions £1m related to the pension scheme's purchase of a bulk annuity insurance policy as described in Note 16; and finance costs associated with refinancing £1m to derecognise the carrying value of unamortised fees in respect of the extinguished term loan and revolving credit facility. Other non-underlying items in the prior year also included costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites. This included impairment of software assets of £1m, third party consultancy support and legal and other costs.

A tax credit of £5m (2022: £4m) has been recognised in relation to the above items (£2m pre-IFRS 16 (2022: £3m)).

The cash spend relating to non-underlying items in the 2023 financial year was £9m and mainly related to activity announced in 2020 and 2021.

Cash flow

Free cash flow[1] reconciliation

	pre-IFRS 16[1]	
£m	**2023**	**2022**
Headline Group operating profit before non-underlying items[1]	169	98
Depreciation, amortisation and impairment (pre-IFRS 16)[11]	52	49
Non-cash items	14	8
Operating cash flow[1, 11]	**235**	**155**
Capital expenditure	(122)	(83)
Working capital (pre-IFRS 16)[11]	(64)	(10)
Net tax paid	(13)	(6)
Net finance costs paid (pre-IFRS 16)	(16)	(15)
Free cash flow[1]	**20**	**41**

[11] Excludes cash flow impact of non-underlying items

The Group generated an operating cash flow[1] of £235m in the year (2022: £155m) demonstrating the cash generative nature of the business. Capex was £122m (2022: £83m) as we continued to invest in new stores, IT and energy efficient chillers and other store equipment. As expected we had a working capital outflow of £64m in the year (2022: £10m). This mainly relates to investment in new stores, the recovering Travel business and some timing. Most of the outflow was in the first half. This year we expect a much smaller outflow mainly relating to opening new stores. In total, there was a free cash inflow in the year of £20m (2022: £41m). This year we would expect, subject to investment opportunities, an increase in free cash generation.

Net corporation tax payments in the period were £13m (2022: £6m).

Capex was £122m (2022: £83m) which includes the additional spend from opening 118 stores around the world.

£m	**2023**	**2022**
New stores and store development	58	37
Refurbished stores	20	22
Systems	19	13
Other	25	11
Total capital expenditure	**122**	**83**

Reconciliation of Headline net debt[1]

Headline net debt[1] is presented on a pre-IFRS 16 basis. See Note 9 of the Financial statements for the impact of IFRS 16 on net debt.

As at 31 August 2023, the Group had Headline net debt[1] of £330m comprising convertible bonds of £301m, £1m of finance lease liabilities and net overdrafts of £28m (2022: £296m, convertible bonds of £292m, term loans of £132m (net of fees), £4m of finance lease liabilities and net cash of £132m).

	Headline[1] pre-IFRS 16	
£m	**2023**	**2022**
Opening Headline net debt[1]	(296)	(291)
Free cash flow[1]	20	41
Dividends paid	(22)	-
Pension contributions	-	(2)
Non-underlying items[1]	(9)	(16)
Net purchase of own shares for employee share schemes	(8)	(7)
Other	(15)	(21)
Closing Headline net debt[1]	**(330)**	**(296)**
Net (overdraft)/cash	(28)	132
Term loans (net of fees)	-	(132)
Convertible bond	(301)	(292)
Finance leases (pre-IFRS 16)	(1)	(4)
Headline net debt[1]	**(330)**	**(296)**

In addition to the free cash flow, the Group paid £9m of non-underlying items, which mainly relate to restructuring following the review of store and head office operations, as previously reported and charged to the income statement in prior years. The other outflows related to the dividend £22m (2022: £nil) being the final dividend from 2022 and the interim dividend from 2023. In addition, we spent £8m (2022: £7m) on own shares for the Group's share schemes. Other includes non-cash accretion on the convertible bond, and payments to non-controlling interests.

On an IFRS 16 basis, net debt was £895m (2022: £869m), which includes an additional £565m (2022: £573m) of lease liabilities.

Fixed charges cover[1]

	pre-IFRS 16[1]	
£m	**2023**	**2022**
Headline net finance costs[1]	26	25
Net operating lease charges (pre-IFRS 16)[1]	326	241
Total fixed charges	**352**	**266**
Headline profit before tax and non-underlying items[1]	143	73
Headline profit before tax, non-underlying items and fixed charges	**495**	**339**
Fixed charges cover - times	**1.4x**	**1.3x**

Fixed charges, comprising property operating lease charges and net finance costs, were covered 1.4 times (2022: 1.3 times) by Headline profit before tax, non-underlying items and fixed charges.

Balance sheet

	IFRS		Headline[1] pre-IFRS 16	
£m	**2023**	**2022**	**2023**	**2022**
Goodwill and other intangible assets	505	543	506	544
Property, plant and equipment	270	219	263	211
Right-of-use assets	444	446	-	-
Investments in joint ventures	2	2	2	2
	1,221	**1,210**	**771**	**757**
Inventories	205	198	205	198
Payables less receivables	(219)	(269)	(216)	(284)
Working capital	**(14)**	**(71)**	**(11)**	**(86)**
Net derivative financial asset	-	1	-	1
Net current and deferred tax assets	45	54	45	54
Provisions	(17)	(14)	(26)	(26)
Operating assets employed	**1,235**	**1,180**	**779**	**700**
Net debt	(895)	(869)	(330)	(296)
Total net assets	**340**	**311**	**449**	**404**

The Group had Headline net assets of £449m, £45m higher than last year end reflecting the investment in new store openings and exchange differences on translation of goodwill. Under IFRS the Group had net assets of £340m.

Total Travel stores by region

No. of stores		At 31 August 2023
Travel UK		588
North America		
	Air	231
	Resorts / Rail	96
	Total North America	327
Rest of the World		
	Europe	125
	Middle East and India	91
	Asia Pacific	122
	Total Rest of the World	338
Total Travel		**1,253**

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES

The Board regularly reviews and monitors the risks and uncertainties that could have a material effect on the Group's financial results. The principal risks and uncertainties that could lead to a material impact have not significantly changed from those listed in the Annual Report and Accounts 2022. No new principal risks were identified in the year, however there were five risks where the potential impact had increased over the year, with the remaining risks having no change in their overall impact. We have also recognised that the ongoing global conflicts have created further uncertainty in the macro economy. A summary of the principal risks has been provided below:

Risk and change in risk level	**Impact**
Economic, political, competitive and market risks – *increased*	The Group operates in highly competitive markets and in the event of failing to compete effectively with travel, convenience and other similar product category retailers, this may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. Factors such as the economic climate, levels of household disposable income, seasonality of revenue, changing demographics and customer shopping patterns, and raw material costs could impact on profit performance. The Group may also be impacted by political developments both in the UK and internationally, such as regulatory & tax changes, increasing scrutiny by competition authorities and other changes in the general condition of retail and travel markets or impacts from further geopolitical threats or escalation in global conflict.
Brand and reputation – *no change*	The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business, adversely affecting revenues. As the Group continues to expand its convenience offer in travel locations introducing a wider range of products, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.
Key suppliers and supply chain management – *increased*	The Group has agreements with key suppliers in the UK, Europe and Asia and other countries in which it operates. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade.
Store portfolio – *no change*	The quality and location of the Group's store portfolio are key contributors to the Group's strategy. Retailing from a portfolio of good quality real estate in prime retail areas and key travel hubs at commercially reasonable rates remains critical to the performance of the Group. Most Travel stores are held under concession agreements, on average for five to ten years, although there is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts. All of High Street's stores are held under operating leases, and consequently the Group is exposed, to the extent that any store becomes unviable as a result of rental costs.
Business interruption – *increased*	An act of terrorism or war, or an outbreak of a pandemic disease, could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. In the past, our Travel business has been particularly impacted by geopolitical events such as major terrorist attacks, which have led to reductions in customer traffic. Closure of travel routes both planned and unplanned, such as the disruption caused by natural disasters or weather-related events, may also have a

	material effect on business. The Group operates from three distribution centres and the closure of any one of them may cause disruption to the business. In common with most retail businesses, the Group also relies on a number of important IT systems, where any system performance problems, cyber risks or other breaches in data security could affect our ability to trade.
Reliance on key personnel – *no change*	The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment.
International expansion – *increased*	The Group continues to expand internationally. In each country in which the Group operates, the Group may be impacted by political or regulatory developments, or changes in the economic climate or the general condition of the travel market.
Cyber risk, data security and GDPR compliance – *increased*	The Group is subject to the risk of systems breach or data loss from various sources including external hackers or the infiltration of computer viruses. Theft or loss of Company or customer data or potential damage to any systems from viruses, ransomware or other malware, or non-compliance with data protection legislation, could result in fines and reputational damage to the business that could negatively impact our revenue.
Treasury, financial and credit risk management – *no change*	The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 21 on page 155 of the Annual Report and Accounts 2022. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.
Environment and Social Sustainability – *no change*	Our investors, customers and colleagues expect us to conduct our business in a responsible and sustainable way. Climate change is now recognised as a global emergency. Failure to effectively respond and influence our value chain and wider stakeholders to decarbonise could damage our reputation and introduce higher costs. Delivery against our sustainability targets and meeting regulatory obligations is vital. We have identified several climate related risks, including; - Increases in the cost of energy and fuel from carbon pricing and changing market dynamics; - Disruption to supply of goods caused by acute and chronic changes in weather patterns. Although the impact is limited over our outlook period, these risks are potentially significant over the longer term.

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
Group Income Statement
For the year ended 31 August 2023

£m	Note	**2023** Before non-underlying items[1]	**2023** Non-underlying items[2]	**2023** Total	2022 Before non-underlying items[1]	2022 Non-underlying items[2]	2022 Total
Revenue	2	**1,793**	**-**	**1,793**	1,400	-	1,400
Group operating profit/(loss)	2, 3	**182**	**(26)**	**156**	117	(20)	97
Finance costs	5	**(45)**	**(1)**	**(46)**	(34)	-	(34)
Profit/(loss) before tax		**137**	**(27)**	**110**	83	(20)	63
Income tax (expense)/credit	6	**(27)**	**5**	**(22)**	(14)	4	(10)
Profit/(loss) for the year		**110**	**(22)**	**88**	69	(16)	53
Attributable to equity holders of the parent		**101**	**(22)**	**79**	63	(16)	47
Attributable to non-controlling interests		**9**	**-**	**9**	6	-	6
		110	**(22)**	**88**	69	(16)	53
Earnings per share							
Basic	8			**60.8p**			36.2p
Diluted	8			**59.8p**			35.6p

All results relate to continuing operations of the Group.

[1] Alternative performance measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 44.

[2] See Note 4 for an analysis of non-underlying items. See Glossary on page 44 for a definition of Alternative Performance Measures.

WH Smith PLC
Group Statement of Comprehensive Income
For the year ended 31 August 2023

£m	Note	2023	2022
Profit for the year		**88**	53
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains on defined benefit pension schemes		**1**	-
		1	-
Items that may be reclassified subsequently to the income statement:			
(Losses)/gains on cash flow hedges			
- Net fair value (losses)/ gains		**(3)**	3
Exchange differences on translation of foreign operations		**(40)**	71
		(43)	74
Other comprehensive (loss)/income for the year, net of tax		**(42)**	74
Total comprehensive income for the year		**46**	127
Attributable to equity holders of the parent		**39**	120
Attributable to non-controlling interests		**7**	7
		46	127

WH Smith PLC
Group Balance Sheet
As at 31 August 2023

£m	Note	**2023**	2022
Non-current assets			
Goodwill	11	**436**	471
Other intangible assets	11	**69**	72
Property, plant and equipment	12	**270**	219
Right-of-use assets	13	**444**	446
Investments in joint ventures		**2**	2
Deferred tax assets		**43**	55
Trade and other receivables		**9**	9
		1,273	1,274
Current assets			
Inventories		**205**	198
Trade and other receivables		**112**	87
Derivative financial assets		**1**	1
Current tax receivable		**3**	-
Cash and cash equivalents	9	**56**	132
		377	418
Total assets		**1,650**	1,692
Current liabilities			
Trade and other payables		**(340)**	(365)
Bank overdrafts and other borrowings	9	**(84)**	(20)
Lease liabilities	14	**(116)**	(131)
Derivative financial liabilities		**(1)**	-
Current tax liability		**(1)**	(1)
Short-term provisions		**(1)**	-
		(543)	(517)
Non-current liabilities			
Bank loans and other borrowings	9	**(301)**	(404)
Long-term provisions		**(16)**	(14)
Lease liabilities	14	**(450)**	(446)
		(767)	(864)
Total liabilities		**(1,310)**	(1,381)
Total net assets		**340**	311
Shareholders' equity			
Called up share capital		**29**	29
Share premium		**316**	316
Capital redemption reserve		**13**	13
Translation reserve		**5**	43
Other reserves		**(255)**	(244)
Retained earnings		**209**	138
Total equity attributable to equity holders of the parent		**317**	295
Non-controlling interests		**23**	16
Total equity		**340**	311

WH Smith PLC
Group Cash Flow Statement
For the year ended 31 August 2023

£m	Note	2023	2022
Operating activities			
Cash generated from operating activities	10	**302**	219
Interest paid[1]		**(35)**	(26)
Financing arrangement fees		**(3)**	-
Income taxes paid		**(15)**	(6)
Income taxes refunded		**2**	-
Net cash inflow from operating activities		**251**	187
Investing activities			
Purchase of property, plant and equipment		**(106)**	(70)
Purchase of intangible assets		**(16)**	(13)
Net cash outflow from investing activities		**(122)**	(83)
Financing activities			
Dividends paid		**(22)**	-
Purchase of own shares for employee share schemes		**(8)**	(7)
Distributions to non-controlling interests		**(6)**	(1)
Repayment of term loans	9	**(133)**	-
Net drawdown on short term borrowings	9	**84**	-
Capital repayments of obligations under leases	9	**(118)**	(96)
Net cash outflow from financing activities		**(203)**	(104)
Net decrease in cash and cash equivalents in the year		**(74)**	-
Opening cash and cash equivalents		**132**	130
Effect of movements in foreign exchange rates		**(2)**	2
Closing cash and cash equivalents	9	**56**	132

[1] Includes interest payments of £19m on lease liabilities (2022: £11m).

WH Smith PLC
Group Statement of Changes in Equity
For the year ended 31 August 2023

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserves	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2022	**345**	**13**	**43**	**(244)**	**138**	**295**	**16**	**311**
Profit for the year	**-**	**-**	**-**	**-**	**79**	**79**	**9**	**88**
Other comprehensive (loss)/income:								
Cash flow hedges	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**-**	**(3)**
Actuarial gains on defined benefit pension schemes	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Exchange differences on translation of foreign operations	**-**	**-**	**(38)**	**-**	**-**	**(38)**	**(2)**	**(40)**
Total comprehensive (loss)/income for the year	**-**	**-**	**(38)**	**(3)**	**80**	**39**	**7**	**46**
Employee share schemes	**-**	**-**	**-**	**(8)**	**12**	**4**	**-**	**4**
Dividends paid (Note 7)	**-**	**-**	**-**	**-**	**(22)**	**(22)**	**-**	**(22)**
Deferred tax on share-based payments	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(6)**
Non-cash movement on non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Balance at 31 August 2023	**345**	**13**	**5**	**(255)**	**209**	**317**	**23**	**340**

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserves	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2021	345	13	(27)	(240)	82	173	10	183
Profit for the year	-	-	-	-	47	47	6	53
Other comprehensive income:								
Cash flow hedges	-	-	-	3	-	3	-	3
Exchange differences on translation of foreign operations	-	-	70	-	-	70	1	71
Total comprehensive income for the year	-	-	70	3	47	120	7	127
Employee share schemes	-	-	-	(7)	9	2	-	2
Non-cash movement on non-controlling interests	-	-	-	-	-	-	(1)	(1)
Balance at 31 August 2022	345	13	43	(244)	138	295	16	311

1. Basis of preparation

Whilst the information included in the consolidated financial statements has been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006, this announcement does not itself contain sufficient information to comply with IFRSs. The financial information in this full year results statement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

Statutory accounts for the year ending 31 August 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the Company's Annual General Meeting. The Annual Report for the year ending 31 August 2023 and this full year results statement were approved by the Board on 9 November 2023. The auditors have reported on the Annual Report for the years ended on 31 August 2023 and 2022 and neither report was qualified and neither contained a statement under Section 498(2) or (3) of the Companies Act 2006.

The consolidated financial information for the year ended 31 August 2023 has been prepared on a consistent basis with the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2022 except as described below. The Group has adopted the following standards and interpretations which became mandatory for the first time during the year ended 31 August 2023. The Group has considered the below new standards and amendments and has concluded that they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3	Business combinations
Amendment to IAS 16	Property, plant and equipment
Amendment to IAS 37	Provisions, contingent liabilities and contingent assets
Annual Improvements 2018-2020	Amendments to IFRS 1, IFRS 9 and IFRS 16

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:

IFRS 17	Insurance contracts
Amendment to IAS 12	Taxation
Amendment to IAS 8	Accounting policies, Changes in Accounting Estimates and Errors
Amendments to IAS 1	Presentation of financial statements
Amendments to IFRS 16	Leases
Narrow scope amendments to IFRS 3, IAS 16 and IAS 37	

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 (APM's)

The Group has identified certain measures 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' APMs.

The key APMs that the Group uses include: measures before non-underlying items, Headline profit before tax, Headline earnings per share, trading profit, Headline trading profit, Headline Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Headline EBITDA, Net debt and Headline net debt and free cash flow. These APMs are set out in the Glossary on page 44 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 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 operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring and transformation costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, significant items relating 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. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

The Group believes that 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.

Further details of the non-underlying items are provided in Note 4.

Going concern

The consolidated 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 financial statements.

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 overview also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position.

In making the going concern assessment, the directors have undertaken a rigorous assessment of current performance and forecasts for the 12-month period to November 2024, including expenditure commitments, capital expenditure and available borrowing facilities. The Group's borrowing facilities are described in the Group overview on page 4. The covenants on these facilities are tested half-yearly and are based on fixed charges cover and net borrowings. The directors have also considered the existence of factors beyond the going concern period that could indicate that the going concern basis is not appropriate.

The directors have modelled a base case scenario consistent with the latest Board approved forecasts, which include management's best estimates of market conditions and include a number of assumptions including passenger numbers, sales growth and cost inflation. Under this scenario the Group has significant liquidity and complies with all covenant tests throughout the assessment period.

As a result of uncertainty and challenges in the macroeconomic environment, this base case scenario has been stress-tested by applying severe, but plausible, downside assumptions of a magnitude and profile in line with previous experience of economic downturns. These assumptions include reductions to revenue assumptions of between 5 and 10 per cent versus the base case as appropriate by division; additional inflation in labour costs beyond that included in the base case; and margin pressures. Apart from an equal reduction in turnover-based rents in our Travel businesses, this scenario does not assume a decrease in other variable costs, and is therefore considered severe. Under this downside scenario the Group would continue to have significant liquidity headroom on its existing facilities and complies with all covenant tests throughout the assessment period.

Based on the above analysis, the directors have concluded that the Group is able to adequately manage its financing and principal risks, and that the Group will be able to continue to meet its obligations as they fall due and operate within the level of its facilities for at least 12 months from the date of approval of these financial statements.

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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, impairment reviews of other non-current assets and inventory valuation.

Critical accounting judgements

Non-underlying items

The Group has chosen to present a 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 operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring and transformation costs linked to a Board agreed programme, amortisation of acquired intangibles assets, costs relating to business combinations, impairment charges and other property costs, significant items relating 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.

The classification of items as non-underlying requires 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.

IFRS 16 Lease accounting

Substantive substitution rights

Judgement is required 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.

Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early at the Group's discretion, 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.

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 the pre-tax discount rate. Further information in respect of the Group's intangible assets, property, plant and equipment and right-of-use assets is included in Notes 11, 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 year in which the sale is made. A sensitivity analysis has been carried out on the calculation of inventory provisions. 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 carrying value of inventories by £2m (2022: £2m).

2. Segmental analysis of results

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

For management and financial reporting purposes, the Group is organised into two operating divisions which comprise four reportable segments – Travel UK, North America, Rest of the World within the Travel division, and High Street.

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 44 (Note A2).

a) Revenue

£m	2023	2022
Travel UK	**709**	521
North America	**380**	288
Rest of the World	**235**	118
Total Travel	**1,324**	927
High Street	**469**	473
Group revenue	**1,793**	1,400

Rest of the World revenue includes revenue from Australia of £82m (2022: £40m), Ireland £47m (2022: £30m) and Spain £46m (2022: £21m). No other country has individually material revenue.

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2. Segmental analysis of results (continued)

b) Group results

£m	**2023**				2022			
	Headline before non-underlying items[1] (pre-IFRS 16)	**Headline non-underlying items[1] (pre-IFRS16)**	**IFRS 16**	**Total**	Headline before non-underlying items[1] (pre-IFRS 16)	Headline non-underlying items[1] (pre-IFRS16)	IFRS 16	Total
Travel UK trading profit/(loss)	**102**	**-**	**(1)**	**101**	54	-	6	60
North America trading profit	**49**	**-**	**3**	**52**	31	-	2	33
Rest of the World trading profit/(loss)	**13**	**-**	**-**	**13**	4	-	(1)	3
Total Travel trading profit	**164**	**-**	**2**	**166**	89	-	7	96
High Street trading profit	**32**	**-**	**11**	**43**	33	-	12	45
Group profit from trading operations	**196**	**-**	**13**	**209**	122	-	19	141
Unallocated central costs	**(27)**	**-**	**-**	**(27)**	(24)	-	-	(24)
Group operating profit before non-underlying items	**169**	**-**	**13**	**182**	98	-	19	117
Non-underlying items (Note 4)	**-**	**(13)**	**(13)**	**(26)**	-	(12)	(8)	(20)
Group operating profit/(loss)	**169**	**(13)**	**-**	**156**	98	(12)	11	97
Finance costs	**(26)**	**-**	**(19)**	**(45)**	(25)	-	(9)	(34)
Non-underlying finance costs (Note 4)	**-**	**(2)**	**1**	**(1)**	-	-	-	-
Profit/(loss) before tax	**143**	**(15)**	**(18)**	**110**	73	(12)	2	63
Income tax (expense)/credit	**(28)**	**2**	**4**	**(22)**	(12)	3	(1)	(10)
Profit/(loss) for the year	**115**	**(13)**	**(14)**	**88**	61	(9)	1	53

[1] Presented on a pre-IFRS 16 basis. Alternative Performance Measures are defined and explained in the Glossary on page 44.

2. Segmental analysis of results (continued)

c) Other segmental items

	2023				
	Non-current assets[1]			Right-of-use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	**30**	**(17)**	**-**	**-**	-
North America	**47**	**(13)**	**-**	**-**	-
Rest of the World	**17**	**(6)**	**-**	**-**	-
Total Travel	**94**	**(36)**	**-**	**-**	-
High Street	**28**	**(15)**	**-**	**-**	-
Unallocated	**-**	**(2)**	**-**	**-**	-
Headline, before non-underlying items (pre-IFRS 16)	**122**	**(53)**	**-**	**-**	-
Headline non-underlying items (pre-IFRS 16)	**-**	**(3)**	**(4)**	**-**	-
Headline, after non-underlying items (pre-IFRS 16)	**122**	**(56)**	**(4)**	**-**	-
Impact of IFRS 16	**-**	**-**	**-**	**(104)**	**-**
Non-underlying items (IFRS 16)[2]	**-**	**-**	**-**	**-**	**(15)**
Group	**122**	**(56)**	**(4)**	**(104)**	**(15)**

	2022				
	Non-current assets[1]			Right-of-use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	30	(16)	-	-	-
North America	22	(11)	-	-	-
Rest of the World	13	(2)	-	-	-
Total Travel	65	(29)	-	-	-
High Street	25	(15)	(2)	-	-
Unallocated	-	(3)	-	-	-
Headline, before non-underlying items (pre-IFRS 16)	90	(47)	(2)	-	-
Headline non-underlying items (pre-IFRS 16)	-	(3)	(6)	-	-
Headline, after non-underlying items (pre-IFRS 16)	90	(50)	(8)	-	-
Impact of IFRS 16	-	-	-	(81)	-
Non-underlying items (IFRS 16)	-	-	-	-	(8)
Group	90	(50)	(8)	(81)	(8)

[1] Non-current assets including property, plant and equipment and intangible assets, but excluding right-of-use assets.

[2] The impairment under IFRS 16 mostly relates to the Rest of the World segment

3. Group operating profit

		2023			2022		
£m	Note	**Before non-underlying items**	**Non-underlying items**	**Total**	Before non-underlying items	Non-underlying items	Total
Revenue		**1,793**	**-**	**1,793**	1,400	-	1,400
Cost of sales		**(682)**	**-**	**(682)**	(538)	-	(538)
Gross profit		**1,111**	**-**	**1,111**	862	-	862
Distribution costs[1]		**(746)**	**-**	**(746)**	(588)	-	(588)
Administrative expenses		**(197)**	**-**	**(197)**	(161)	-	(161)
Other income[2]		**14**	**-**	**14**	4	-	4
Non-underlying items	4	**-**	**(26)**	**(26)**	-	(20)	(20)
Group operating profit		**182**	**(26)**	**156**	117	(20)	97

[1] During the year there was an underlying impairment charge of £nil (2022: £2m) for property, plant and equipment and other intangible assets included in distribution costs. Other impairment charges are included in non-underlying items. See Note 4.

[2] Other income includes remeasurement of right-of-use assets, insurance recoveries and other property related income.

£m	**2023**	2022
Cost of inventories recognised as an expense	**682**	538
Write-down of inventories in the year[3]	**3**	2
Depreciation of property, plant and equipment	**42**	37
Depreciation of right-of-use assets		
– land and buildings	**101**	78
– other	**3**	3
Amortisation of intangible assets	**14**	13
Impairment of property, plant and equipment	**4**	7
Impairment of right-of-use assets	**15**	8
Impairment of intangibles	**-**	1
(Income)/expenses relating to leasing:		
– expense relating to short-term leases	**22**	17
– expense relating to variable lease payments not included in the measurement of the lease liability	**29**	29
– income relating to Covid-19 rent reductions	**-**	(5)
Other occupancy costs	**49**	59
Staff costs	**367**	293

[3] Write-down of inventories in the year are included within the amounts disclosed as Cost of inventories recognised as an expense, and recognised in Cost of sales.

4. Non-underlying items

Items which are not considered part of the normal operations of the business, are non-recurring or are considered exceptional because of their size, nature or 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 Financial review on page 11.

£m	2023	2022
Amortisation of acquired intangible assets	**3**	3
Impairment of assets		
- property, plant and equipment	**4**	5
- right-of-use assets	**15**	8
Provisions for onerous contracts	**3**	-
Costs associated with pensions	**1**	-
Costs related to cyber incident	**-**	4
Non-underlying items, included in operating profit	**26**	20
Finance costs associated with refinancing	**1**	-
Non-underlying items, before tax	**27**	20
Tax credit on non-underlying items	**(5)**	(4)
Non-underlying items, after tax	**22**	16

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

Amortisation of acquired intangible assets

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

Impairment of property, plant and equipment and right-of-use assets and provisions for onerous contracts

The Group has carried out an assessment for indicators of impairment across the store portfolio. Where an indicator of impairment has been identified, an impairment review has been performed to compare the value-in-use of store cash generating units, based on management's assumptions regarding likely future trading performance, to the carrying value of the cash-generating unit as at 31 August 2023. As a result of this exercise, a charge of £19m (2022: £13m) was recorded within non-underlying items for impairment of retail store assets, of which £4m (2022: £5m) relates to property, plant and equipment and £15m (2022: £8m) relates to right-of-use assets. The majority of the impairment of right-of-use assets relates to the difference between the incremental borrowing rate used to establish the right-of-use assets and the WACC rate used to discount the future cash flows of certain stores in Spain. Refer to Note 12 for details of impairment of store cash-generating units.

The impairment recognised on a pre-IFRS 16 basis is provided in the Glossary on page 44.

A charge of £3m has been recognised in the income statement to provide for the unavoidable costs of continuing to service a non-cancellable contract. This provision will be utilised over the next three financial years.

Costs associated with pensions

Professional fees of £1m (2022: £nil) have been incurred related to the pension scheme's purchase of a bulk annuity insurance policy as described in Note 16.

Costs associated with refinancing

A charge of £1m (2022: £nil) has been included in non-underlying items to derecognise the carrying value of unamortised fees in respect of the extinguished term loan and revolving credit facility. See Note 9.

Other prior year non-underlying items

Other non-underlying items in the prior year included costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites. This includes impairment of software assets of £1m, third party consultancy support and legal and other costs.

A tax credit of £5m (2022: £4m) has been recognised in relation to non-underlying items.

5. Finance costs

£m	2023	2022
Interest payable on bank loans and overdrafts	**12**	9
Interest on convertible bonds	**14**	14
Interest on lease liabilities	**19**	11
Cost associated with refinancing	**1**	-
	46	34

Costs associated with refinancing are included in non-underlying items (see Note 4).

6. Income tax expense

£m	2023	2022
Tax on profit	**13**	6
Blended standard rate of UK corporation tax 21.5% (2022: 19.0%)		
Adjustment in respect of prior years	**(2)**	-
Total current tax expense	**11**	6
Deferred tax – current year	**19**	8
Deferred tax – prior year	**(3)**	-
Tax on profit before non-underlying items	**27**	14
Tax on non-underlying items – deferred tax	**(5)**	(4)
Total tax on profit	**22**	10

Reconciliation of the taxation charge

£m	2023	2022
Tax on profit at blended standard rate of UK corporation tax 21.5% (2022: 19.0%)	**24**	12
Tax effect of items that are not deductible or not taxable in determining taxable profit	**(3)**	-
Derecognition / (recognition) of deferred tax balances	**7**	(1)
Differences in overseas tax rates	**(1)**	(1)
Adjustment in respect of prior years – current tax	**(2)**	-
Adjustment in respect of prior years – deferred tax	**(3)**	-
Total income tax charge	**22**	10

The effective tax rate, before non-underlying items, is 19 per cent (2022: 17 per cent).

The UK corporation tax rate is 25 per cent. Up to the 1 April 2023 the corporation tax rate was 19 per cent.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting years starting on or after 31 December 2023. The Group has applied the exemption under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes. This will be applicable for the year ending 31 August 2025.

7. Dividends

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

£m	2023	2022
Dividends		
Final dividend for the year ended 31 August 2022 of 9.1p per ordinary share (2022: nil)	**12**	-
Interim dividend for the year ended 31 August 2023 of 8.1p per ordinary share (2022: nil)	**10**	-
	22	-

The Board has proposed a final dividend of 20.8p per share, amounting to a final dividend of £27m, which is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 1 February 2024 to shareholders registered at the close of business on 12 January 2024.

8. Earnings per share

a) Earnings

£m	2023	2022
Profit for the year, attributable to equity holders of the parent	**79**	47
Non-underlying items, after tax (Note 4)	**22**	16
Profit for the year before non-underlying items, attributable to equity holders of the parent	**101**	63

b) Weighted average share capital

Millions	2023	2022
Weighted average ordinary shares in issue	**130**	130
Less weighted average ordinary shares held in ESOP Trust	**-**	-
Weighted average shares in issue for earnings per share	**130**	130
Add weighted average number of ordinary shares under option	**2**	2
Weighted average ordinary shares for diluted earnings per share	**132**	132

c) Basic and diluted earnings per share

Pence	2023	2022
Basic earnings per share	**60.8**	36.2
Adjustment for non-underlying items	**16.9**	12.3
Basic earnings per share before non-underlying items	**77.7**	48.5

Diluted earnings per share	**59.8**	35.6
Adjustment for non-underlying items	**16.7**	12.1
Diluted earnings per share before non-underlying items	**76.5**	47.7

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.

8. Earnings per share (continued)

As at 31 August 2023 the convertible bond has no dilutive effect as the inclusion of these potentially dilutive shares would improve earnings per share (31 August 2022: improve earnings per share).

The calculation of earnings per share on a pre-IFRS 16 basis is provided in the Glossary on page 44.

9. Analysis of net debt

Movement in net debt can be analysed as follows:

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2022	(132)	(292)	-	(577)	(1,001)	132	(869)
Other non-cash movements	(1)	(9)	-	(148)	(158)	-	(158)
Other cash movements	133	-	(84)	137	186	(74)	112
Currency translation	-	-	-	22	22	(2)	20
At 31 August 2023	**-**	**(301)**	**(84)**	**(566)**	**(951)**	**56**	**(895)**

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2021	(132)	(283)	-	(470)	(885)	130	(755)
Other non-cash movements	-	(9)	-	(184)	(193)	-	(193)
Other cash movements	-	-	-	107	107	-	107
Currency translation	-	-	-	(30)	(30)	2	(28)
At 31 August 2022	(132)	(292)	-	(577)	(1,001)	132	(869)

9. Analysis of net debt (continued)

An explanation of Alternative Performance Measures, including Net debt on a pre-IFRS 16 basis, is provided in the Glossary on page 44.

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

Non-cash movements in lease liabilities mainly relate to new leases, modifications and remeasurements in the year.

Term loans and revolving credit facilities

On 14 June 2023 the Group announced new financing arrangements. The Group's existing lending facilities, comprising a £250m revolving credit facility ('RCF') and a term loan were cancelled and repaid. The Group's four-year committed £133m term loan with Santander UK PLC, Barclays Bank PLC, BNP Paribas, J.P. Morgan Securities PLC and HSBC UK Bank PLC, was repaid as part of the above refinancing. Instalments of £20m were paid prior to the repayment.

This repayment was funded by drawings under new facilities consisting of a £400m RCF (the 'New RCF'). The New RCF is for a five-year term due to mature on 13 June 2028, with two uncommitted extension options of one year each, which would, subject to lender approval, extend the tenor to six or seven years if exercised. The New RCF is provided by a syndicate of banks: Barclays Bank PLC, BNP Paribas, Citibank N.A. London Branch, Fifth Third Bank National Association, HSBC UK Bank PLC, JP Morgan Securities PLC, PNC Capital Markets LLC, Banco Santander SA London Branch and Skandinaviska Enskilda Banken AB (PUBL). Utilisation is interest bearing at a margin over SONIA. As at 31 August 2023, the Group has drawn down £84m on the New RCF (2022: £nil, on the RCF).

Transaction costs of £4m relating to the New RCF have been capitalised and are amortised to the Income statement on a straight-line basis.

Convertible bonds

The Group has issued £327m (2022: £327m) guaranteed senior unsecured convertible bonds due in 2026. The bond covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). The conversion price at 31 August 2023 was £24.7032. If not previously converted, redeemed or purchased and cancelled, the bonds will be redeemed at par on 7 May 2026.

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds was allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £286m was initially recognised as a liability in the balance sheet on issue and the remainder of the proceeds of £41m, which represents the option component, was recognised in equity.

Transaction costs of £6m were allocated between the two components and the element relating to the debt component of £5m is amortised through the effective interest rate method. The issue costs apportioned to the equity component of £1m have been deducted from equity.

10. Cash generated from operating activities

£m	2023	2022
Group operating profit	**156**	97
Depreciation of property, plant and equipment	**42**	37
Impairment of property, plant and equipment	**4**	7
Amortisation of intangible assets	**14**	13
Impairment of intangible assets	**-**	1
Depreciation of right-of-use assets	**104**	81
Impairment of right-of-use assets	**15**	8
Non-cash change in lease liabilities	**-**	(5)
Share-based payments	**12**	9
Gain on remeasurement of leases	**(5)**	(4)
Other non-cash items (incl. foreign exchange)	**7**	(12)
Increase in inventories	**(12)**	(56)
Increase in receivables	**(22)**	(42)
(Decrease)/increase in payables	**(15)**	88
Pension funding	**-**	(2)
Movement on provisions (through utilisation or income statement)	**2**	(1)
Cash generated from operating activities	**302**	219

11. Intangible assets

£m	Goodwill	Brands and franchise contracts	Tenancy rights	Software	Total
Cost:					
At 1 September 2022	**471**	**50**	**13**	**114**	**648**
Additions	**-**	**-**	**-**	**16**	**16**
Foreign exchange	**(35)**	**(4)**	**-**	**(2)**	**(41)**
At 31 August 2023	**436**	**46**	**13**	**128**	**623**
Accumulated amortisation:					
At 1 September 2022	**-**	**12**	**8**	**85**	**105**
Amortisation charge	**-**	**3**	**-**	**11**	**14**
Foreign exchange	**-**	**(1)**	**-**	**-**	**(1)**
At 31 August 2023	**-**	**14**	**8**	**96**	**118**
Net book value at 31 August 2023	**436**	**32**	**5**	**32**	**505**
Cost:					
At 1 September 2021	406	42	13	102	563
Additions	-	-	-	13	13
Disposals	-	-	-	(2)	(2)
Foreign exchange	65	8	-	1	74
At 31 August 2022	471	50	13	114	648
Accumulated amortisation:					
At 1 September 2021	-	7	8	75	90
Amortisation charge	-	3	-	10	13
Impairment charge	-	-	-	1	1
Disposals	-	-	-	(2)	(2)
Foreign exchange	-	2	-	1	3
At 31 August 2022	-	12	8	85	105
Net book value at 31 August 2022	471	38	5	29	543

Goodwill of US$64m (£50m) (2022: US$70m / £60m) relating to the acquisition of the InMotion Entertainment Group of companies in 2018 is expected to be deductible for tax purposes in the future.

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

£m	**2023**	2022
Travel UK	**272**	295
North America	**122**	132
Rest of the World	**27**	29
Total Travel	**421**	456
High Street	**15**	15
	436	471

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2022: £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 Group can continue to occupy and trade from certain premises for an indefinite period. These assets are reviewed annually for indicators of impairment.

11. Intangible assets (continued)

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, 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 the Group's operating segments as appropriate. Acquired brands are considered together with goodwill for impairment testing purposes, and are therefore considered annually for impairment.

Goodwill and acquired brands have been tested for impairment by comparing the carrying amount of each group of 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. 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 the forecast three-year cash flows of the CGUs are based include revenue and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer-term growth rates:

- The values assigned to each of the revenue, 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 risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). Country-specific discount rates were not considered to be materially different to the Group rate. The pre-tax discount rate used in the calculations was 13.2 per cent (2022: 11.9 per cent).
- The long-term growth rate assumptions are between 0 per cent and 2 per cent (2022: 0 per cent and 2 per cent).

The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three year plan which have been used to support the impairment reviews, with no material impact on cash flows.

The value-in-use estimates indicated that the recoverable amount of goodwill exceeded the carrying value for each group of CGUs. As a result, no impairment has been recognised in respect of the carrying value of goodwill in the year (2022: £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 inherent uncertainties due to challenges in the macroeconomic environment, management have considered a range of sensitivities on each of the key assumptions, with other variables held constant. The sensitivities include applying increases in the discount rate by 2 per cent and reductions in the long-term growth rates to 0 per cent. Under these severe scenarios, the estimated recoverable amount of goodwill and acquired brands still exceeded the carrying value.

Furthermore, outputs of the quantitative climate change scenario analysis have also been taken into consideration in the sensitivity analysis, and has shown that climate change is not considered to be a key driver in determining the outcome.

The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

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12. Property, plant and equipment

£m	Land and buildings: Freehold Properties	Land and buildings: Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2022	**18**	**329**	**232**	**127**	**706**
Additions	**-**	**63**	**24**	**19**	**106**
Reclassifications	**-**	**-**	**5**	**(5)**	**-**
Foreign exchange	**-**	**(7)**	**(7)**	**(1)**	**(15)**
At 31 August 2023	**18**	**385**	**254**	**140**	**797**
Accumulated depreciation:					
At 1 September 2022	**10**	**230**	**155**	**92**	**487**
Depreciation charge	**-**	**20**	**15**	**7**	**42**
Impairment charge	**-**	**3**	**-**	**1**	**4**
Reclassifications	**-**	**1**	**(1)**	**-**	**-**
Foreign exchange	**-**	**(2)**	**(3)**	**(1)**	**(6)**
At 31 August 2023	**10**	**252**	**166**	**99**	**527**
Net book value at 31 August 2023	**8**	**133**	**88**	**41**	**270**
Cost or valuation:					
At 1 September 2021	18	290	196	110	614
Additions	-	32	29	16	77
Disposals	-	(3)	(1)	(1)	(5)
Foreign exchange	-	10	8	2	20
At 31 August 2022	18	329	232	127	706
Accumulated depreciation:					
At 1 September 2021	10	206	140	84	440
Depreciation charge	-	19	11	7	37
Impairment charge	-	4	2	1	7
Disposals	-	(3)	(1)	(1)	(5)
Foreign exchange	-	4	3	1	8
At 31 August 2022	10	230	155	92	487
Net book value at 31 August 2022	8	99	77	35	219

Impairment of property, plant and equipment
For impairment testing purposes, the Group has determined that each store is a separate CGU or in some cases a group of stores is considered to be a CGU where the stores do not generate largely independent cash inflows. CGUs are tested for impairment at the balance sheet date if any indicators of impairment have been identified. The identified indicators include loss-making stores, stores earmarked for closure and under-performance of individual stores versus forecast.

12. Property, plant and equipment (continued)

Impairment of property, plant and equipment (continued)
For those CGUs where an indicator of impairment has been identified, property, plant and equipment and right-of-use assets have been tested for impairment by comparing the carrying amount of the 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.

The value-in-use of CGUs is calculated using discounted cash flows derived from the Group's latest Board-approved budget and three-year plan, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth for these specific stores. Cash flows beyond the forecast 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 short remaining lease life, an extension to the lease has been assumed where management consider it likely that an extension will be granted. The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three year plan which have been used to support the impairment reviews, with no material impact on cash flows. The useful economic lives of store assets are short in the context of climate change scenario models therefore no medium to long-term effects have been considered.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include revenue and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer-term growth rates. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows.

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 the risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). Country-specific discount rates were not considered to be materially different to the Group rate. The pre-tax discount rate used in the calculations was 13.2 per cent (2022: 11.9 per cent).

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 assets was recorded. These stores were impaired to their recoverable amount of £34m, which is their carrying value at year end. The Group has recognised an impairment charge of £4m (2022: £7m) to property, plant and equipment, no impairment to software (2022: £1m) and £15m (2022: £8m) to right-of-use assets. The majority of the impairment of right-of-use assets relates to the difference between the incremental borrowing rate used to establish the right-of-use assets and the WACC rate used to discount the future cash flows of certain stores in Spain. Impairments of £19m (2022: £14m) have been presented as non-underlying items in the current year (see Note 4).

As disclosed in Note 1, Basis of preparation, 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. As a result, the Group has applied certain sensitivities in isolation to demonstrate the impact on the impairment charge of changes in key assumptions. An increase of 1 per cent in the discount rate has been modelled and would have resulted in an increase in the impairment charge of £1m across intangible assets, property, plant and equipment and right of use assets.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 44.

13. Right-of-use assets

£m	**Land and buildings**	**Equipment**	**Total**
At 1 September 2022	**440**	**6**	**446**
Additions	**93**	**-**	**93**
Modifications and remeasurements	**41**	**1**	**42**
Depreciation charge	**(101)**	**(3)**	**(104)**
Impairment charge	**(15)**	**-**	**(15)**
Effect of movements in foreign exchange rates	**(18)**	**-**	**(18)**
Net book value at 31 August 2023	**440**	**4**	**444**

£m	Land and buildings	Equipment	Total
At 1 September 2021	319	9	328
Additions	160	-	160
Modifications and remeasurements	25	-	25
Disposals	(2)	-	(2)
Depreciation charge	(78)	(3)	(81)
Impairment charge	(8)	-	(8)
Effect of movements in foreign exchange rates	24	-	24
Net book value at 31 August 2022	440	6	446

Impairment of right-of-use assets
Right-of-use assets of £15m (2022: £8m) have been impaired in the year. 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**	**Equipment**	**Total**
At 1 September 2022	**574**	**3**	**577**
Additions	**91**	**-**	**91**
Modifications and remeasurements	**39**	**1**	**40**
Disposals	**(2)**	**-**	**(2)**
Interest	**19**	**-**	**19**
Payments	**(135)**	**(2)**	**(137)**
Effect of movements in foreign exchange rates	**(22)**	**-**	**(22)**
At 31 August 2023	**564**	**2**	**566**

£m	Land and buildings	Equipment	Total
At 1 September 2021	463	7	470
Additions	159	-	159
Modifications and remeasurements	18	-	18
Disposals	(4)	-	(4)
Interest	11	-	11
Payments	(103)	(4)	(107)
Effect of movements in foreign exchange rates	30	-	30
At 31 August 2022	574	3	577

£m	**2023**	2022
Analysis of total lease liabilities:		
Non-current	**450**	446
Current	**116**	131
Total	**566**	577

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, 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.

14. Lease liabilities (continued)

In response to the Covid-19 pandemic, an amendment was issued to IFRS 16 in June 2020 and further extended in March 2021. This amendment (practical expedient) allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, 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. This resulted in a credit to the Income statement of £5m for the year ended 31 August 2022.

Details of Income statement charges 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 £181m (2022: £150m). This includes cash outflow for short-term leases of £19m (2022: £16m) and variable lease payments (not included in the measurement of lease liability) of £25m (2022: £28m).

15. Contingent liabilities and capital commitments

£m	**2023**	2022
Bank guarantees and guarantees in respect of lease agreements	**61**	51

Bank guarantees are principally in favour of landlords and could be drawn down on by landlords in the event that the Group does not settle its contractual obligations under lease or other agreements.

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amount to £27m (2022: £30m).

£m	**2023**	2022
Commitments in respect of property, plant and equipment	**25**	28
Commitments in respect of other intangible assets	**2**	2
	27	30

16. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan.

WHSmith Pension Trust

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

The WHSmith Pension Trust is independent of the Group and is administered by a Trustee. The Trustee is responsible for the administration and management of the scheme on behalf of the members in accordance with the Trust Deed and relevant legislation. An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Group is represented on this Committee.

In August 2022 the WH Smith Pension Trust purchased a bulk annuity insurance policy from Standard Life, part of Phoenix Group, insuring all liabilities to pay all future defined benefit pensions to the Trust's 12,950 members and any eligible dependants. The insurance policy was purchased using most of the existing assets held within the Trust, without the need for the Group to make any additional cash contributions. The bulk annuity policy matches the Trust's cash flow benefit obligations to its members, removing longevity and other demographic risks as well as investment, interest rate and inflation risks.

As a result of this comprehensive risk-removal, WH Smith PLC is no longer required to make any future cash contributions into the Trust regarding defined benefit liabilities. During the prior year ended 31 August 2022, prior to the completion of the buy-in transaction, the Group made a contribution of £2m to the scheme in accordance with the agreed funding schedule.

The Group does not have an unconditional right to derive economic benefit from any surplus in the scheme, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of any IAS 19 surplus in the pension scheme available on a reduction of future contributions is £nil (2022: £nil). Accordingly, no balance sheet asset or liability exists in relation to this scheme. The income statement impact of this scheme is limited to administrative costs only.

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 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 operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring and transformation costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, significant items relating 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. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

The Group believes that separate disclosure of these items 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 adopted IFRS 16 in the year ended 31 August 2020. 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.

Management have chosen to exclude the effects of IFRS 16 for the purposes of narrative commentary on the Group's performance and financial position in the Group Overview. The effect of IFRS 16 on the Group income statement is to front-load total lease expenses, being higher at the beginning of a lease contract, and lower towards the end of a contract, and this is further influenced by timing of renewals and contract wins, and lengths of contracts. As a result of these complexities, IFRS 16 measures of profit and EBITDA (used as a proxy for cash generation) do not provide meaningful KPIs or measures for the purposes of assessing performance, concession quality or for trend analysis, therefore management continue to use pre-IFRS 16 measures internally.

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 flows from operating activities being offset by a decrease in net cash flows from financing activities, as set out in Note A9 below. The balance sheet as at 31 August 2023 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Leases 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.

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.

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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 measures	Various	See Notes A1-A11	Headline measures exclude the impact of IFRS 16 (applying the principles of IAS 17). Reconciliations of all Headline measures are provided in Notes A1 to A12.
Group profit before tax and non-underlying items	Group profit before tax	See Group income statement and Note A1	Group profit before tax and non-underlying items excludes the impact of non-underlying items as described below. A reconciliation from Group profit before tax and non-underlying items to Group profit before tax is provided on the Group income statement on page 18, and on a Headline (pre-IFRS 16) basis in Note A1.
Group profit from trading operations and segment trading profit	Group operating profit	See Note 2 and Note A2	Group profit from trading operations and segment 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 financial statements and on a Headline (pre-IFRS 16) basis in Note A2.
Non-underlying items	None	Refer to definition and see Note 4 and 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 that 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 financial statements, and on a Headline (pre-IFRS 16) basis in Note A6.
Earnings per share before non-underlying items	Earnings per share	Non-underlying items, see Note 7 and Note A4	Profit for the year attributable to the equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year. A reconciliation is provided on an IFRS 16 basis in Note 7 and on a Headline (pre-IFRS 16) basis in Note A4.
Headline diluted earnings per share	Earnings per share	Non-underlying items, see Note 7 and Note A4	Earnings per share before non-underlying items (defined above) on a pre-IFRS 16 basis and assuming no dilutive impact of the convertible bond. In the year ended 31 August 2023, on a statutory basis, the bond is also not dilutive.
Headline EBITDA	Group operating profit	Refer to definition	Headline EBITDA is Headline Group operating profit before non-underlying items adjusted for pre-IFRS 16 depreciation, amortisation and impairment.

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APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures (continued)			
Effective tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax and non-underlying items. See Note 6 on an IFRS 16 basis, and Notes A3 and A6 on a pre-IFRS 16 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 a pre-IFRS 16 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.
Balance sheet measures			
Headline net debt	Net debt	Reconciliation of net debt	Headline 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 a pre-IFRS 16 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of Net debt on an IFRS 16 basis provided in Note A8.
Other measures			
Free cash flow	Net cash inflow from operating activities	See Note A7 and Group overview	Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of IFRS 16, non-underlying items and pension funding, less net capital expenditure. The components of free cash flow are shown in Note A7 and on page 13, as part of the Financial review.
Operating cash flow	Net cash inflow from operating activities	See Group overview	Operating cash flow is defined as Headline profit before tax and non-underlying items, excluding Headline depreciation, amortisation, impairment and other non-cash items. The components of Operating cash flow are shown on page 13, as part of the Financial review.

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A1. Reconciliation of Headline to Statutory Group operating profit and Group profit before tax

	2023					
	pre-IFRS 16 basis			IFRS 16 Basis		
£m	**Headline, before non-underlying items**	**Headline non-underlying items**	**Headline**	**IFRS 16 adjustments**	**IFRS 16 adjustments non-underlying items**	**Total**
Revenue	**1,793**	**-**	**1,793**	**-**	**-**	**1,793**
Cost of sales	**(682)**	**-**	**(682)**	**-**	**-**	**(682)**
Gross profit	**1,111**	**-**	**1,111**	**-**	**-**	**1,111**
Distribution costs	**(756)**	**-**	**(756)**	**10**	**-**	**(746)**
Administrative expenses	**(196)**	**-**	**(196)**	**(1)**	**-**	**(197)**
Other income	**10**	**-**	**10**	**4**	**-**	**14**
Non-underlying items	**-**	**(13)**	**(13)**	**-**	**(13)**	**(26)**
Group operating profit/(loss)	**169**	**(13)**	**156**	**13**	**(13)**	**156**
Finance costs	**(26)**	**(2)**	**(28)**	**(19)**	**1**	**(46)**
Profit/(loss) before tax	**143**	**(15)**	**128**	**(6)**	**(12)**	**110**
Income tax (charge)/credit	**(28)**	**2**	**(26)**	**1**	**3**	**(22)**
Profit/(loss) for the year	**115**	**(13)**	**102**	**(5)**	**(9)**	**88**
Attributable to:						
Equity holders of the parent	**106**	**(13)**	**93**	**(5)**	**(9)**	**79**
Non-controlling interests	**9**	**-**	**9**	**-**	**-**	**9**
	115	**(13)**	**102**	**(5)**	**(9)**	**88**

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

	2022					
	pre-IFRS 16 basis			IFRS 16 Basis		
£m	Headline, before non-underlying items	Headline non-underlying items	Headline	IFRS 16 adjustments	IFRS 16 adjustments non-underlying items	Total
Revenue	1,400	-	1,400	-	-	1,400
Cost of sales	(538)	-	(538)	-	-	(538)
Gross profit	862	-	862	-	-	862
Distribution costs	(604)	-	(604)	16	-	(588)
Administrative expenses	(160)	-	(160)	(1)	-	(161)
Other income	-	-	-	4	-	4
Non-underlying items	-	(12)	(12)	-	(8)	(20)
Group operating profit/(loss)	98	(12)	86	19	(8)	97
Finance costs	(25)	-	(25)	(9)	-	(34)
Profit/(loss) before tax	73	(12)	61	10	(8)	63
Income tax (charge)/credit	(12)	3	(9)	(2)	1	(10)
Profit/(loss) for the year	61	(9)	52	8	(7)	53
Attributable to:						
Equity holders of the parent	55	(9)	46	8	(7)	47
Non-controlling interests	6	-	6	-	-	6
	61	(9)	52	8	(7)	53

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

	2023				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	**Headline, before non-underlying items**	**Headline non-underlying items**	**Headline**	**IFRS 16 adjustments**	**Total**
Travel UK trading profit/(loss)	**102**	**-**	**102**	**(1)**	**101**
North America trading profit	**49**	**-**	**49**	**3**	**52**
Rest of the World trading profit	**13**	**-**	**13**	**-**	**13**
Total Travel trading profit	**164**	**-**	**164**	**2**	**166**
High Street trading profit	**32**	**-**	**32**	**11**	**43**
Group profit from trading operations	**196**	**-**	**196**	**13**	**209**
Unallocated central costs	**(27)**	**-**	**(27)**	**-**	**(27)**
Group operating profit before non-underlying items	**169**	**-**	**169**	**13**	**182**
Non-underlying items	**-**	**(13)**	**(13)**	**(13)**	**(26)**
Group operating profit/(loss)	**169**	**(13)**	**156**	**-**	**156**

	2022				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items	Headline non-underlying items	Headline	IFRS 16 adjustments	Total
Travel UK trading profit	54	-	54	6	60
North America trading profit	31	-	31	2	33
Rest of the World trading profit/(loss)	4	-	4	(1)	3
Total Travel trading profit	89	-	89	7	96
High Street trading profit	33	-	33	12	45
Group profit from trading operations	122	-	122	19	141
Unallocated central costs	(24)	-	(24)	-	(24)
Group operating profit before non-underlying items	98	-	98	19	117
Non-underlying items	-	(12)	(12)	(8)	(20)
Group operating profit/(loss)	98	(12)	86	11	97

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

	2023			2022		
£m	**Headline (pre-IFRS 16)**	**IFRS 16 adjustments**	**Total**	**Headline (pre-IFRS 16)**	**IFRS 16 adjustments**	**Total**
Profit before tax and non-underlying items	**143**	**(6)**	**137**	73	10	83
Tax on profit - Standard rate of UK corporation tax 21.5% (2022: 19.0%)	**14**	**(1)**	**13**	5	1	6
Adjustment in respect of prior years	**(2)**	**-**	**(2)**	-	-	-
Total current tax charge/(credit)	**12**	**(1)**	**11**	5	1	6
Deferred tax – current year	**19**	**-**	**19**	7	1	8
Deferred tax – prior year	**(3)**	**-**	**(3)**	-	-	-
Deferred tax – adjustment in respect of change in tax rates	**-**	**-**	**-**	-	-	-
Tax charge/(credit) on Headline profit	**28**	**(1)**	**27**	12	2	14
Tax on non-underlying items – current tax	**-**	**-**	**-**	-	-	-
Tax on non-underlying items – deferred tax	**(2)**	**(3)**	**(5)**	(3)	(1)	(4)
Total tax charge/(credit) on profit	**26**	**(4)**	**22**	9	1	10

A4. Calculation of Headline and Statutory earnings per share

	2023		2022	
millions	**Basic EPS**	**Diluted EPS**	Basic EPS	Diluted EPS
Weighted average shares in issue	**130**	**132**	130	132

	2023			2022		
	Profit for the year attributable to equity holders of the parent	**Basic EPS**	**Diluted EPS**	Profit for the year attributable to equity holders of the parent	Basic EPS	Diluted EPS
	£m	**pence**	**pence**	£m	pence	pence
Headline (pre-IFRS-16 basis)						
- Before non-underlying items	**106**	**81.5**	**80.3**	55	42.3	41.7
- Non-underlying items	**(13)**	**(10.0)**	**(9.8)**	(9)	(6.9)	(6.9)
Total	**93**	**71.5**	**70.5**	46	35.4	34.8
IFRS 16 adjustments						
- Before non-underlying items	**(5)**	**(3.8)**	**(3.8)**	8	6.2	6.0
- Non-underlying items	**(9)**	**(6.9)**	**(6.9)**	(7)	(5.4)	(5.2)
Total	**(14)**	**(10.7)**	**(10.7)**	1	0.8	0.8
IFRS 16 basis						
- Before non-underlying items	**101**	**77.7**	**76.5**	63	48.5	47.7
- Non-underlying items	**(22)**	**(16.9)**	**(16.7)**	(16)	(12.3)	(12.1)
Total	**79**	**60.8**	**59.8**	47	36.2	35.6

A5. Fixed charges cover

£m	Note	2023	2022
Headline net finance costs (pre-IFRS 16)	A1	**26**	25
Net operating lease charges (pre-IFRS 16)	A11	**326**	241
Total fixed charges		**352**	266
Headline profit before tax and non-underlying items	A1	**143**	73
Headline profit before tax, non-underlying items and fixed charges		**495**	339
Fixed charges cover – times		**1.4x**	1.3x

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

	2023		2022	
£m	**Headline (pre-IFRS16)**	**IFRS 16**	Headline (pre-IFRS16)	IFRS 16
Amortisation of acquired intangible assets	**3**	**3**	3	3
Impairment of assets				
- property, plant and equipment	**4**	**4**	5	5
- right-of-use assets	**-**	**15**	-	8
Provisions for onerous contracts	**5**	**3**	-	-
Costs associated with pensions	**1**	**1**	-	-
Costs related to cyber incident	**-**	**-**	4	4
Non-underlying items, included in operating profit	**13**	**26**	12	20
Finance costs associated with refinancing	**1**	**1**	-	-
Finance costs associated with onerous contracts	**1**	**-**	-	-
Non-underlying items, before tax	**15**	**27**	12	20
Tax credit on non-underlying items	**(2)**	**(5)**	(3)	(4)
Non-underlying items, after tax	**13**	**22**	9	16

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 £5m (2022: £4m) has been recognised in relation to the above items (£2m pre-IFRS 16 (2022: £3m)).

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

The impairment charge recognised on a pre-IFRS 16 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base pre-IFRS 16, 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 pre-IFRS 16. The pre-tax discount rate used in the IFRS 16 calculation was 13.2 per cent (2022: 11.9) and the pre-tax discount rate used in the pre-IFRS 16 calculation was 13.2 per cent (2022: 14.4).

Right-of-use assets are not recognised on a pre-IFRS 16 basis.

A charge of £5m has been recognised on a pre-IFRS 16 basis to provide for the unavoidable costs of continuing to service a non-cancellable contract. This provision will be utilised over the next three financial years.

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

The Group's pre-IFRS 16 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.

A7. Free cash flow

£m	Note	2023	2022
Net cash inflow from operating activities		**251**	187
Cash flow impact of IFRS 16	A9	**(116)**	(93)
Add back:			
- Cash impact of non-underlying items		**9**	16
- Pension funding		**-**	2
- Financing arrangement fees		**3**	-
- Other non-cash items		**(5)**	12
Deduct:			
- Purchase of property, plant and equipment		**(106)**	(70)
- Purchase of intangible assets		**(16)**	(13)
Free cash flow		**20**	41

A8. Headline net debt

The table below shows Headline net debt (pre-IFRS 16). This includes lease liabilities that were previously presented as finance leases (applying the principles of IAS 17), and Group accounting policies as applicable prior to 1 September 2019, described in the Glossary on page 44), but excludes additional lease liabilities recognised on application of IFRS 16.

£m	Note	2023	2022
Borrowings			
- Revolving credit facility		**(84)**	-
- Convertible bonds		**(301)**	(292)
- Bank loans		**-**	(132)
- Lease liabilities	14	**(566)**	(577)
Liabilities from financing activities		**(951)**	(1,001)
Cash and cash equivalents		**56**	132
Net debt (IFRS 16)	9	**(895)**	(869)
Add back lease liabilities recognised under IFRS 16[1]		**565**	573
Headline net debt (pre-IFRS 16)		**(330)**	(296)

[1]Excludes lease liabilities previously recognised as finance leases on a pre-IFRS 16 basis.

A9. Cash flow disclosure impact of IFRS 16

There is no impact of IFRS 16 on cash flows, although the classification of cash flows has changed, with an increase in net cash flows from operating activities being offset by a decrease in net cash flows from financing activities.

	2023			2022		
£m	**Headline (pre-IFRS 16)**	**IFRS 16 Adjustment**	**IFRS 16**	Headline (pre-IFRS 16)	IFRS 16 Adjustment	IFRS 16
Net cash inflows from operating activities	**135**	**116**	**251**	94	93	187
Net cash outflows from investing activities	**(122)**	**-**	**(122)**	(83)	-	(83)
Net cash outflows from financing activities	**(87)**	**(116)**	**(203)**	(11)	(93)	(104)
Net decrease in cash in the period	**(74)**	**-**	**(74)**	-	-	-

A10. Balance sheet impact of IFRS 16

The balance sheet including and excluding the impact of IFRS 16 is shown below:

	2023			2022		
£m	**Headline (pre-IFRS 16)**	**IFRS 16 Adjustment**	**IFRS 16**	Headline (pre-IFRS 16)	IFRS 16 Adjustment	IFRS 16
Goodwill and other intangible assets	**506**	**(1)**	**505**	544	(1)	543
Property, plant and equipment	**263**	**7**	**270**	211	8	219
Right-of-use assets	**-**	**444**	**444**	-	446	446
Investments in joint ventures	**2**	**-**	**2**	2	-	2
	771	**450**	**1,221**	757	453	1,210
Inventories	**205**	**-**	**205**	198	-	198
Payables less receivables	**(216)**	**(3)**	**(219)**	(284)	15	(269)
Working capital	**(11)**	**(3)**	**(14)**	(86)	15	(71)
Net derivative financial asset	**-**	**-**	**-**	1	-	1
Net current and deferred tax assets	**45**	**-**	**45**	54	-	54
Provisions	**(26)**	**9**	**(17)**	(26)	12	(14)
Operating assets employed	**779**	**456**	**1,235**	700	480	1,180
Net debt	**(330)**	**(565)**	**(895)**	(296)	(573)	(869)
Total net assets	**449**	**(109)**	**340**	404	(93)	311

A11. Like-for-like revenue reconciliation

The reconciling items between like-for-like revenue change and total revenue change are shown below:

£m	Travel UK	North America	Rest of the World	Travel Total	High Street	Group
Like-for-like revenue change	30%	11%	53%	**27%**	1%	**18%**
Net space impact	6%	14%	42%	**14%**	(2)%	**8%**
Foreign exchange	-%	7%	4%	**2%**	-%	**2%**
Total revenue change	36%	32%	99%	**43%**	(1)%	**28%**

A12. Operating lease expense

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

£m	2023	2022
Net operating lease charges	**326**	241

In the year ended 31 August 2020, the Group adopted IFRS 16. IFRS 16 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 and profit 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, as described in the Glossary on page 44.

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 2022, have been recognised in the Income statement in the period they are received.