

10 October 2013

**WH SMITH PLC  
PRELIMINARY RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 AUGUST 2013**

**Strong performance across the Group with profit ahead of expectations, final dividend up 15% and further £50m share buyback**

**KEY POINTS**

- Total Group profit before tax up 6% to £108m (2012: £102m)
- Group profit from trading operations<sup>1</sup> up 4% to £122m (2012: £117m)
  - Good performance from Travel with trading profit<sup>1</sup> up 5% to £66m (2012: £63m)
  - Further growth from High Street with trading profit<sup>1</sup> up 4% to £56m (2012: £54m)
- Earnings per share<sup>2</sup> up 15% to 68.5p (2012: 59.7p restated)<sup>3</sup>
- Final dividend proposed of 21.3p, up 15% on the prior year; giving a total ordinary dividend per share of 30.7p, a 14% increase on the prior year
- Additional £50m share buyback programme announced today, having completed the £50m share buyback announced in August 2012
- Strong cash generation and balance sheet
  - Strong free cash flow<sup>4</sup> of £95m
  - Net cash of £31m as at 31 August 2013
- Group total sales down 5% with like-for-like (LFL) sales down 5%
  - Travel total sales flat with LFL sales down 4%
  - High Street total sales down 7% with LFL sales down 6%
- Gross margin improved by 180 basis points
- Good progress in Travel's growing international channel with 40 units won this year, taking the total to 141<sup>5</sup> units now open or won
- Increased target cost savings in High Street to £22m over the next three years

**Commenting on the results, Stephen Clarke, Group Chief Executive said:**

"We continue to deliver on our strategy with a strong performance and good profit growth in both businesses. Travel increased profit to £66m and in High Street profit increased to £56m. The Group remains highly cash generative enabling us to invest in our businesses and in new opportunities, whilst returning cash to shareholders, including a further £50m share buyback announced today.

"Looking to the year ahead, we continue to plan cautiously in an uncertain environment, however we are a resilient business and are well positioned for continued growth in both the UK and internationally."

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<sup>1</sup> Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 2

<sup>2</sup> Diluted

<sup>3</sup> Restated to recognise IFRIC 14 pension liability and associated deferred tax asset. See note 1

<sup>4</sup> Net cash flow from operating activities adjusted for net capital expenditure, pension deficit funding, net interest received and settlement of contingent consideration provisions. See analysis of cash flow (page 7)

<sup>5</sup> Excludes 30 small kiosks in China

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WH Smith PLC's Preliminary Results 2013 are available at [www.whsmithplc.co.uk](http://www.whsmithplc.co.uk). A copy of the Preliminary Results 2013 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

## FINANCIAL REVIEW

### Group Summary

Group profit from trading operations<sup>1</sup> increased 4% on the prior year to £122m (2012: £117m) and the Group generated profit before tax of £108m (2012: £102m), an increase of 6% on the prior year.

Total Group sales were £1,186m (2012: £1,243m) with LFL sales down 5%. Travel sales were flat compared to last year and down 4% on a LFL basis. High Street sales were down 7% and down 6% on a LFL basis.

Travel delivered another good performance with trading profit<sup>1</sup> increasing by 5% to £66m with further improvement in gross margin and good cash generation. We continue to invest in the business, and in the UK we opened 30 new units during the year taking us to a total of 579 units in this country. We expect to open a similar number of new units in the year ahead. The business is well positioned for recovery when the economy improves. In our international channel we won a further 40 new units in the year. We now have 94 units open in this channel and 47 units yet to open, giving us a total of 141 units either open or won. As at 31 August 2013, Travel operated from 673 units.

High Street delivered a resilient performance in challenging trading conditions with further good cash generation and trading profit<sup>1</sup> up 4% to £56m. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £18m were delivered in the year. An additional £10m of cost savings have been identified making a total of £22m over the next three years. We opened 4 new stores in the year and as at 31 August 2013 High Street operated from 615 stores.

Earnings per share<sup>2</sup> increased by 15% to 68.5p (2012: 59.7p)<sup>3</sup>. This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback, and a decrease in the effective tax rate from 21%<sup>3</sup> to 19%.

The Group remains highly cash generative and has a strong balance sheet. Net cash was £31m at 31 August 2013, with a Group free cash flow<sup>4</sup> of £95m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

During the year we completed the £50m return of cash to shareholders announced in August 2012 and we have today announced a further return of cash to shareholders of up to £50m through a rolling share buyback programme.

The Board has proposed a final dividend of 21.3p per share, a 15% increase on last year, giving a total ordinary dividend per share of 30.7p, a 14% increase on the prior year. The proposed

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<sup>2</sup> Diluted

<sup>3</sup> Restated to recognise IFRIC 14 pension liability and associated deferred tax asset. See note 1

<sup>4</sup> Net cash flow from operating activities adjusted for net capital expenditure, pension deficit funding, net interest received and settlement of contingent consideration provisions. See analysis of cash flow (page 7)

increase in final dividend reflects the Board's confidence in the future prospects of the Group and the strong cash generative nature of the business. We have a progressive dividend policy and expect that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

We invest in the business, including capital expenditure in the year of £38m, whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced today and the proposed final dividend, we will have returned £536m of cash to shareholders since 2007 through a combination of ordinary dividends, share buybacks and a special dividend.

<b>Financial Year</b>	<b>Ordinary Dividend<sup>1</sup></b>	<b>Buyback</b>	<b>Special Dividend</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
2014	25 <sup>2</sup>	50 <sup>3</sup>	-	75
2013	34	50	-	84
2012	31	50	-	81
2011	29	55	-	84
2010	26	35	-	61
2009	23	-	-	23
2008	21	33	57	111
2007	17	-	-	17
	<b>206</b>	<b>273</b>	<b>57</b>	<b>536</b>

<sup>1</sup> Cash dividend paid

<sup>2</sup> Proposed final dividend for year ended 31 August 2013

<sup>3</sup> Buyback announced on 10 October 2013

## Trading Operations

### Travel

Travel delivered another good performance, with strong cash generation, demonstrating the strength of the business model, which enables us to continue to grow despite the uncertain economic environment. Travel's trading profit<sup>1</sup> increased by 5% to £66m (2012: £63m) with a further improvement in gross margin and good cost control. We continue to benefit from variable rents based on turnover and are well positioned when the economy improves.

Total Travel sales were flat, with LFL sales down by 4%. Gross margin increased by 180bps during the period, primarily driven by active category mix management.

We continue to identify opportunities for growth in the UK and opened 30 new units in the UK during the year, including: 8 in air, 5 in rail, 8 in hospitals, 1 in a motorway service area, 6 workplace units and 2 Funky Pigeon stores. We plan to open a similar number of units in the current year, including all the CTN units in the new Terminal 2 at Heathrow, and anticipate opening around 10 hospital units and 8 workplace units a year over the next five years.

We actively manage margins, costs and space across all of our channels, whilst investing for the future. We have continued to focus on category mix management to best meet customer and landlord needs, improve service and efficiency, to grow market share and to drive margins. Additional space has been allocated, for example, to travel accessories, digital accessories, food, drink, gifts and souvenirs as well as creating space for self checkouts, which improve efficiency and service. We have also invested in both improved technology, such as handheld scanners and self checkouts, and format development, building on the strength of our relationships with landlords. This includes extending the WHSmith brand as well as developing new brands and partnerships.

During the year we opened a new concept WHSmith Express store, and three Zoodle stores with a dedicated children's offer; two in Manchester Airport and one in Melbourne Airport. In addition, we can offer our operating expertise to partners, such as M&S Simply Food, where there is a mutually beneficial opportunity. We now have two WHSmith M&S Simply Food units open, in

<sup>1</sup> Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 2

Salford Hospital and Manchester Royal Infirmary, and further units are planned to open later this year. We have also partnered with the Musgrave Group (owners of the Londis and Budgens brands) to trial a convenience offer in railway stations, hospitals and airport arrival stores.

Our International units are performing well, with the WHSmith brand and offer well received in each location by customers and landlords. We continue to demonstrate that we can add value and deliver improved performance and, where we have replaced the previous operator, we have outperformed. Further progress has been made in a number of regions, including Australia, South East Asia, India and the Middle East and we have invested in additional resources to develop our international business and support further growth.

During the year we renewed the contract for our first international units in Copenhagen Airport, securing an additional sixth unit. We have today announced 20 new units: 4 units in Dublin, 6 units in Australia, 1 unit in Malaysia, 1 unit in Fiji, 4 units in the Middle East, 1 unit in India, 2 units in Russia and 1 unit in Azerbaijan. We now have 141 international units either open or won, across four channels: air, rail, hospitals and malls. In addition, we have won 30 small kiosks in China in the year.

We continue to utilise our three operating models and, of the 141 units we have already won, 56% are franchise, 35% direct lease and the remainder are joint venture.

The Travel business now operates from 673 units (2012: 619 units), including motorway service area franchise units and coffee shops. 8 UK units were closed in the period, primarily due to landlord redevelopment. We renewed 22 contracts and completed 7 refits during the year. Excluding franchise units, Travel occupies 0.52m square feet (2012: 0.51m square feet).

### **High Street**

High Street delivered a resilient profit performance in challenging trading conditions, delivering an increase in trading profit<sup>1</sup> to £56m (2012: £54m), up 4% on the prior year. This was achieved by continuing to strengthen our core categories, whilst focusing on optimising margins, controlling costs and delivering the retailing basics. Cash generation in the division continues to be strong.

High Street sales were down 7% in total and down 6% on a LFL basis, reflecting some challenging markets and the strong publishing schedule in the second half of the prior year. Gross margin improved by around 200bps, through rebalancing the mix of our business, better buying, improved sourcing and markdown management.

Optimal use of space is a fundamental part of the strategy for High Street, as we look to maximise profitability today whilst setting ourselves up for the future shape of the business. We have a dedicated team and a substantial amount of data on both space and product elasticity, with major space changes made at least twice a year. This year space changes have included changes which have allowed us to reduce operating costs (for example, increasing stock room space in some stores), create an additional 150 Kobo shops and extend Kids books. We have also announced today that we have renewed our contract with Post Office Limited to operate the existing 82 Post Office branches in our stores for a further five years. In addition, we have signed a new agreement and anticipate opening a further 16<sup>2</sup> Post Office branches, giving us a total of 98 Post Offices within our stores.

Cost savings remain a core part of our strategy and we focus on all areas of cost in the business. We have made good progress again this year, delivering cost savings of £18m. These came from right across the business, including the rollout of energy efficient tills to all High Street stores, the introduction of voice picking in our distribution centres, the remodelling of our transshipment routes to stores and other operational efficiencies. We also have a number of initiatives on trial such as: improving trailer configuration in our distribution centres; centralising energy management for stores; more self checkouts; and changing our website hosting. We have identified an additional £10m of new cost savings, taking the target to £22m over the next three years.

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<sup>1</sup> Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 2

<sup>2</sup> Subject to public consultation

The High Street business now operates from 615 stores (2012: 619 stores), which occupy 3.00m square feet (2012: 3.05m square feet). We opened 4 new stores in the year and closed 7.

### **Category Performance**

#### **Stationery:**

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like sales were down 3%, with gross margin up. We managed our stock tightly in all categories, which helped support this further improvement in gross margin. Our range of Gadgetshop products performed well over Christmas and we have recently acquired the Past Times and Modelzone brands, which we intend to use in a similar way to Gadgetshop. During the year, Stationery continued to benefit from active management of space, for example adding new ranges such as specialist art materials, digital accessories and partyware. We saw a strong performance from Funkypigeon.com over the key seasons and we continue to develop the offer, including the launch of new personalised gifting products. During the year we have also launched new Funky Pigeon smartphone and tablet apps and have further invested in website development and functionality.

#### **Books:**

In Books, the market continues to vary by sub-category, with the quality of publishing having a significant impact on market movements. In Kids, we annualised the strong sales from the very successful Hunger Games series in 2012, but we saw the biggest impact in Fiction, where the Fifty Shades trilogy had a substantial impact in the second half of the previous year. As a consequence, like-for-like sales were down 10% (down 6% excluding the Fifty Shades trilogy and the Hunger Games series) but gross margin was up year on year. We have further developed our presence in the eBooks market through our partnership with Kobo and have now successfully rolled out 250 Kobo shops into our largest High Street stores. We have also recently launched this season's new Kobo device line-up, including a new HD e-ink eReader with a new range of tablets available in November.

#### **News and Impulse:**

News and Impulse like-for-like sales were down 4% year on year with further improvement in gross margin. The newspaper and magazine market continues to be challenging but we grew our market share further through successful promotions, such as free Lego with the Daily Mail and free water with The Telegraph. We continue to develop the strongly-growing bookazine category which helps improve our margins. Our bookazine range now includes over two hundred and fifty titles and bestsellers in the year included a number of titles celebrating the birth of Prince George. We actively manage space in news and impulse, and in Travel, we have increased our chilled space by around 12%, enabling us to increase our food and drink offer. In High Street, we will roll out new till front displays to over 400 stores this autumn. Impulse categories continue to perform well.

## Group profit

The Group generated a profit before tax of £108m (2012: £102m), an increase of 6% on the prior year.

<b>£m</b>	<b>2013</b>	<b>2012</b>	<b>Profit Growth %</b>
Travel trading profit <sup>1</sup>	66	63	5%
High Street trading profit <sup>1</sup>	56	54	4%
<b>Group profit from trading operations<sup>1</sup></b>	<b>122</b>	<b>117</b>	<b>4%</b>
Unallocated central costs	(15)	(15)	
<b>Group operating profit</b>	<b>107</b>	<b>102</b>	<b>5%</b>
Net finance income	1	-	
<b>Profit before taxation</b>	<b>108</b>	<b>102</b>	<b>6%</b>

## Tax

The effective tax rate was 19% (2012: 21%)<sup>2</sup>, reflecting the lower statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 19%. The exact tax rate achieved will depend on the underlying profitability of the Group, movement on the pension deficit and continued progress in agreeing outstanding tax assessments with the tax authorities.

## Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.6 times (2012: 1.6 times) by profit before tax and fixed charges.

## Dividends

The Board has proposed a final dividend of 21.3p per share, an increase of 15% on the prior year, giving a total ordinary dividend per share of 30.7p, a 14% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval the dividend will be paid on 30 January 2014 to shareholders registered at the close of business on 10 January 2014. The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

<sup>1</sup> Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, interest and taxation

<sup>2</sup> Restated to recognise IFRIC 14 pension liability and associated deferred tax asset. See note 1

## Cash Flow

The Group generated free cash flow of £95m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2013	2012
Group operating profit	107	102
Depreciation, amortisation & amounts written off fixed assets	37	39
Working capital	1	-
Capital expenditure	(38)	(37)
Tax	(19)	(17)
Net interest received	-	-
Net provisions	-	(3)
Other items	7	7
<b>Free cash flow</b>	<b>95</b>	<b>91</b>

Cash inflows from working capital were £1m as we continue to focus on working capital management, and capital expenditure was £38m in the year. This includes investment in new stores in both Travel and High Street together with ongoing investment in technology (including new tills in the High Street) and the existing estate. In the current year we expect capital expenditure to be around £34m. Net corporation tax paid was £19m, compared to £17m last year reflecting the increase in profit.

£m	2013	2012
New stores and store development	9	14
Refurbished stores	12	12
Systems	14	9
Other	3	2
<b>Total capital expenditure</b>	<b>38</b>	<b>37</b>

## Net Cash

The movement in net cash is as follows:

£m	2013	2012
Opening net cash	36	41
Free cash flow	95	91
Equity dividends paid <sup>1</sup>	(34)	(31)
Pension deficit funding	(12)	(13)
Net purchase of own shares for employee share schemes	(1)	(2)
Purchase of own shares for cancellation	(50)	(50)
Acquisition of Fresh Plus and Funky Pigeon earnout	(3)	-
<b>Closing net cash</b>	<b>31</b>	<b>36</b>

<sup>1</sup> Dividends paid include 2013 interim and 2012 final dividends paid.

In addition to the £95m of free cash flow generated in the year, the Group has seen a net cash outflow of £50m in relation to non trading operations. This includes £34m of dividend payments, £12m pension funding and net ESOP trust purchases of £1m. During the year, the Group completed the £50m return of cash to shareholders by way of a share buyback programme. As at 31 August 2013 net cash was £31m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

## Balance Sheet

The Group had net assets of £152m (2012: £150m) at the end of the period, before the net effect of the pension liability less deferred tax asset, reflecting the cash generated during the year and the £50m return of cash to shareholders through the share buyback.

£m	2013	2012 <sup>1</sup>
Goodwill and other intangible assets	55	54
Property plant and equipment	149	155
	204	209
Inventories	148	151
Payables less receivables	(194)	(203)
Working capital	(46)	(52)
Derivative financial asset	1	-
Net current and deferred tax liability	(31)	(36)
Provisions	(7)	(7)
<b>Operating assets employed</b>	<b>121</b>	<b>114</b>
Net cash	31	36
<b>Net assets excluding pension liability</b>	<b>152</b>	<b>150</b>
IFRIC 14 pension liability	(62)	(71) <sup>1</sup>
Deferred tax asset on IFRIC 14 pension liability	12	16 <sup>1</sup>
<b>Total net assets</b>	<b>102</b>	<b>95</b>

<sup>1</sup> Restated to recognise an IFRIC14 pension liability and associated deferred tax asset. See note 1

## Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m <sup>1</sup>	ROCE <sup>2</sup> %	ROCE% with operating leases capitalised <sup>3</sup>
Travel	60	110	25
High Street	119	47	18
<b>Retail</b>	<b>179</b>	<b>68</b>	<b>21</b>
Unallocated central items	(58)		
<b>Operating assets employed</b>	<b>121</b>	<b>88</b>	<b>20</b>

<sup>1</sup> Net assets adjusted for net funds and retirement benefit obligations.

<sup>2</sup> Return on capital employed is calculated as the operating profit as a percentage of operating capital employed.

<sup>3</sup> Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

For the prior year, comparable ROCE was 89 per cent (20 per cent - after capitalised operating leases).



## ***Pensions***

The latest triennial valuation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2012 at which point the actuarial deficit was £75m and the Group agreed a revised schedule of contributions of approximately £13m per annum for the following seven years. The scheme has been closed to new members since 1996, and, from 2007, closed to defined benefit service accrual.

The WHSmith Pension Trust has an IAS 19 surplus of £108m at 31 August 2013 (2012 surplus: £113m) which the Group has not recognised. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19. We have amended our accounting in respect of the schedule of contributions and have recognised an IFRIC 14 pension liability of £62m (2012: £70m)<sup>1</sup>. The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £nil (2012: £1m).

IAS 19 (Revised), effective for our financial year ending 31 August 2014, is a change in accounting policy to require pension interest in the Income Statement to be calculated on the net balance sheet position at the beginning of the period. We estimate the resulting non-cash pension charge to be approximately £3m in the year ending 31 August 2014. The comparatives for the year ending 31 August 2013 will be restated to also reflect a non-cash £3m charge following this required change in accounting policy.

## ***Operating leases***

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

The business has an annual minimum net rental commitment of £167m (2012: £166m) (net of £2m of external rent receivable (2012: £4m)). The total future rental commitment at the balance sheet date amounted to £987m (2012: £1,043m) with the leases having an average life of six years.

## ***Contingent liabilities***

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Smiths News PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £12m (2012: £18m).

## ***Principal risks and uncertainties***

There are a number of potential risks and uncertainties that could have a material impact on the Group's financial performance and position. These include: economic, political, competitive and market risks; reliance on the WHSmith brand; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; treasury, financial and credit risk; and pensions and investment risk. A full description of these risks and our mitigating actions will be provided in the Annual Report and Accounts 2013.

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.

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<sup>1</sup> Restated: See note 1 and note 12

## WH Smith PLC

### Group Income Statement

For the year ended 31 August 2013

£m	Note	2013	2012 Restated <sup>1</sup>
<b>Continuing operations</b>			
Revenue		1,186	1,243
<b>Operating profit</b>	2	<b>107</b>	<b>102</b>
Investment income	4	2	2
Finance costs	5	(1)	(2)
<b>Profit before tax</b>		<b>108</b>	<b>102</b>
Income tax expense	6	(21)	(22)
<b>Profit for the year</b>		<b>87</b>	<b>80</b>
<b>Earnings per share</b>			
Basic	7	71.3p	61.5p
Diluted	7	68.5p	59.7p
<b>Non GAAP measures</b>			
<b>Equity dividends per share<sup>2</sup></b>		<b>30.7p</b>	<b>26.9p</b>
<b>Fixed charges cover</b>	11	<b>1.6x</b>	<b>1.6x</b>

<sup>1</sup> See Note 1.

<sup>2</sup> Dividend per share is the final proposed dividend of 21.3p (2012: 18.6p) and the interim dividend of 9.4p (2012: 8.3p)

## WH Smith PLC

### Group Statement of Comprehensive Income

For the year ended 31 August 2013

£m	Note	2013	2012 Restated <sup>1</sup>
<b>Profit for the period</b>		<b>87</b>	<b>80</b>
<b>Other comprehensive income:</b>			
Actuarial losses on defined benefit pension schemes	12	(5)	(3)
Tax on defined benefit pension schemes		(1)	(1)
Mark to market valuation of derivative financial asset		1	-
Exchange differences on translation of foreign operations		-	-
<b>Other comprehensive loss for the period, net of tax</b>		<b>(5)</b>	<b>(4)</b>
<b>Total comprehensive income for the period</b>		<b>82</b>	<b>76</b>

<sup>1</sup> See Note 1.

# WH Smith PLC

## Group Balance Sheet

As at 31 August 2013

£m	Note	2013	2012 Restated <sup>1</sup>	2011 Restated <sup>1</sup>
<b>Non-current assets</b>				
Goodwill		33	32	32
Other intangible assets		22	22	24
Property, plant and equipment		149	155	151
Deferred tax assets		23	24	28
Trade and other receivables		3	4	4
		<b>230</b>	<b>237</b>	<b>239</b>
<b>Current assets</b>				
Inventories		148	151	154
Trade and other receivables		51	54	57
Current tax asset		2	5	7
Derivative financial asset		1	-	-
Cash and cash equivalents	9	31	36	41
		<b>233</b>	<b>246</b>	<b>259</b>
<b>Total assets</b>		<b>463</b>	<b>483</b>	<b>498</b>
<b>Current liabilities</b>				
Trade and other payables		(232)	(246)	(248)
Retirement benefit obligation	12	(11)	(10)	(12)
Current tax liabilities		(42)	(45)	(44)
Short-term provisions		(3)	(4)	(3)
		<b>(288)</b>	<b>(305)</b>	<b>(307)</b>
<b>Non-current liabilities</b>				
Retirement benefit obligation	12	(51)	(61)	(70)
Deferred tax liabilities		(2)	(4)	(6)
Long-term provisions		(4)	(3)	(6)
Other non-current liabilities		(16)	(15)	(15)
		<b>(73)</b>	<b>(83)</b>	<b>(97)</b>
<b>Total liabilities</b>		<b>(361)</b>	<b>(388)</b>	<b>(404)</b>
<b>Total net assets</b>		<b>102</b>	<b>95</b>	<b>94</b>
<b>Total equity</b>		<b>102</b>	<b>95</b>	<b>94</b>

<sup>1</sup> See Note 1.

## WH Smith PLC

### Group Balance Sheet

As at 31 August 2013 (continued)

£m	Note	2013	2012 Restated <sup>1</sup>	2011 Restated <sup>1</sup>
<b>Shareholders' equity</b>				
Called up share capital		27	29	31
Share premium		4	3	2
Capital redemption reserve		10	8	6
Revaluation reserve		2	2	2
ESOP reserve		(21)	(22)	(25)
Hedging reserve		1	-	-
Translation reserve		(3)	(3)	(3)
Other reserve		(215)	(212)	(207)
Retained earnings		297	290	288
<b>Total equity</b>		<b>102</b>	<b>95</b>	<b>94</b>

<sup>1</sup> See Note 1.

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 10 October 2013 and were signed on its behalf by:

**Stephen Clarke**

Group Chief Executive

**Robert Moorhead**

Group Finance Director

## WH Smith PLC

### Group Cash Flow Statement

For the year ended 31 August 2013

<b>£m</b>	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Net cash inflow from operating activities</b>	10	<b>119</b>	<b>115</b>
<b>Investing activities</b>			
Interest received		-	-
Purchase of property, plant and equipment		(32)	(38)
Purchase of intangible assets		(6)	(5)
Proceeds on disposal of property, plant and equipment		-	6
Acquisition of business		(1)	-
<b>Net cash outflow from investing activities</b>		<b>(39)</b>	<b>(37)</b>
<b>Financing activities</b>			
Dividend paid		(34)	(31)
Purchase of own shares for cancellation		(50)	(50)
Purchase of own shares for employee share schemes		(1)	(2)
Repayments of obligations under finance leases		-	-
<b>Net cash used in financing activities</b>		<b>(85)</b>	<b>(83)</b>
<b>Net decrease in cash and cash equivalents in year</b>		<b>(5)</b>	<b>(5)</b>
Opening net cash and cash equivalents		36	41
<b>Closing net cash and cash equivalents</b>		<b>31</b>	<b>36</b>
<b>Reconciliation of net cash flow to movement in net cash</b>			
<b>£m</b>	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Net cash at beginning of the year</b>		<b>36</b>	<b>41</b>
Decrease in cash and cash equivalents		(5)	(5)
<b>Net cash at end of the year</b>	9	<b>31</b>	<b>36</b>

# WH Smith PLC

## Group Statement of Changes in Equity

For the year ended 31 August 2013

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve <sup>1</sup>	Retained earnings	Total
<b>Balance at 1 September 2012</b>	<b>32</b>	<b>8</b>	<b>2</b>	<b>(22)</b>	<b>(3)</b>	<b>(212)</b>	<b>290</b>	<b>95</b>
Total comprehensive income for the period	-	-	-	-	1	-	81	<b>82</b>
Recognition of share-based payments	-	-	-	-	-	-	7	<b>7</b>
Deferred tax on share-based payments	-	-	-	-	-	-	3	<b>3</b>
Premium on issue of shares	1	-	-	-	-	-	-	<b>1</b>
Dividends paid	-	-	-	-	-	-	(34)	<b>(34)</b>
Employee share schemes	-	-	-	1	-	(3)	-	<b>(2)</b>
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(50)	<b>(50)</b>
<b>Balance at 31 August 2013</b>	<b>31</b>	<b>10</b>	<b>2</b>	<b>(21)</b>	<b>(2)</b>	<b>(215)</b>	<b>297</b>	<b>102</b>
<b>Balance at 1 September 2011</b>	<b>33</b>	<b>6</b>	<b>2</b>	<b>(25)</b>	<b>(3)</b>	<b>(207)</b>	<b>350</b>	<b>156</b>
Prior year restatement <sup>2</sup>	-	-	-	-	-	-	(62)	<b>(62)</b>
<b>Balance at 1 September 2011 (Restated<sup>2</sup>)</b>	<b>33</b>	<b>6</b>	<b>2</b>	<b>(25)</b>	<b>(3)</b>	<b>(207)</b>	<b>288</b>	<b>94</b>
Total comprehensive income for the period	-	-	-	-	-	-	76	<b>76</b>
Recognition of share-based payments	-	-	-	-	-	-	7	<b>7</b>
Premium on issue of shares	1	-	-	-	-	-	-	<b>1</b>
Dividends paid	-	-	-	-	-	-	(31)	<b>(31)</b>
Employee share schemes	-	-	-	3	-	(5)	-	<b>(2)</b>
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(50)	<b>(50)</b>
<b>Balance at 31 August 2012</b>	<b>32</b>	<b>8</b>	<b>2</b>	<b>(22)</b>	<b>(3)</b>	<b>(212)</b>	<b>290</b>	<b>95</b>

<sup>1</sup> The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Smith News PLC in 2006, as well as movements relating to employee share schemes of £3m (2012: £5m).

<sup>2</sup> See Note 1.

## WH Smith PLC Notes to the Accounts

### 1. Preparation of the preliminary announcement

#### a) Basis of preparation

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

The preliminary announcement for the 12 months to 31 August 2013 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 2012 except as described below.

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

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income

#### Restatement of retirement benefit obligation

Following correspondence with the Financial Reporting Review Panel of the Financial Reporting Council's Conduct Committee, the Company has accepted that the schedule of contributions is a minimum funding requirement within the meaning of IFRIC 14 and falls to be accounted for as a liability in its accounts for the year ended 31 August 2012. Accordingly in the 2013 Financial statements, we have recognised the Schedule of Contributions as a liability of £62m and a resulting deferred tax asset of £12m on our Balance sheet.

We have also restated the 2012 Financial Statements recognising a liability of £70m and resulting deferred tax asset of £16m. The impact on the profit before tax is £nil. The income tax expense in the Income Statement has increased by £4m due to the tax relief from the company's contributions to the WHSmith Pension Scheme being accounted for in the Statement of Comprehensive Income, rather than in the Income Statement as previously reported. As a result, profit after tax was £80m for 2012, basic earnings per share was 61.5p and diluted earnings per share of 59.7p. Profit after tax for 2013 is £87m, basic earnings per share of 71.3p and diluted earnings per share of 68.5p. Had the pension liability not been recorded, 2013 profit after tax would have been £90m, basic earnings per share 73.8p and diluted earnings per share of 70.9p.

The restated 2011 Financial Statements recognise a retirement benefit obligation of £82m (£12m current liability, £70m non-current liability) and an associated deferred tax asset of £20m.

There is no impact on net funds, cash flows (including tax payments) or covenants.

	31 August 2012		
	Previously reported	Impact of pension liability recognition	Restated
<b>Profit before tax</b>	<b>102</b>	<b>-</b>	<b>102</b>
Income tax expense	(18)	(4)	(22)
<b>Profit after tax</b>	<b>84</b>	<b>(4)</b>	<b>80</b>
Earnings per share			
Basic	64.6p	(3.1p)	61.5p
Diluted	62.7p	(3.0p)	59.7p
<b>Statement of comprehensive income</b>			
Profit after tax	84	(4)	80
Actuarial gains / (losses)	(16)	13	(3)
Tax on items taken directly to equity	-	(1)	(1)
<b>Total comprehensive income</b>	<b>68</b>	<b>8</b>	<b>76</b>



**WH Smith PLC**  
**Notes to the Accounts**

**1. Preparation of the preliminary announcement (continued)**

**a) Basis of preparation (continued)**

	31 August 2012		
£m	Previously reported	Impact of pension liability recognition	Restated
<b>Balance sheet</b>			
Retirement benefit obligation	(1)	(70)	(71)
Deferred tax asset on retirement benefit obligation	-	16	16
<b>Net assets</b>	<b>(1)</b>	<b>(54)</b>	<b>(55)</b>
<b>Free cash flow</b>			
	<b>91</b>	<b>-</b>	<b>91</b>

**Going concern**

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in the Financial Review. The Financial Review describes the Group's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Group.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and borrowing facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For these reasons, the going concern basis has been adopted in preparing the financial statements.

**b) Preliminary announcement**

The financial information contained within this preliminary announcement for the 12 months to 31 August 2013 and 12 months to 31 August 2012 do not comprise statutory financial statements for the purpose of the Companies Act 2006, but are derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2012 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2013 will be filed following the Company's annual general meeting.

The auditor's reports on the accounts for both the 12 months to 31 August 2013 and 12 months to 31 August 2012 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in December 2013.

**WH Smith PLC**  
**Notes to the Accounts**

**2. Group operating profit**

<b>£m</b>	<b>2013</b>	<b>2012</b>
<b>Turnover</b>	<b>1,186</b>	<b>1,243</b>
Cost of sales	(531)	(579)
<b>Gross profit</b>	<b>655</b>	<b>664</b>
Distribution costs <sup>1</sup>	(475)	(486)
Administrative expenses	(76)	(81)
Other income <sup>1</sup>	3	5
<b>Group operating profit</b>	<b>107</b>	<b>102</b>

<sup>1</sup> Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m (2012: £5m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

<b>£m</b>	<b>2013</b>	<b>2012</b>
Cost of inventories recognised as an expense	531	579
Write-down of inventories in the period	4	5
Depreciation and amounts written off property, plant and equipment	31	32
Amortisation and amounts written off intangible assets	6	7
Net operating lease charges		
- land and buildings	181	183
- equipment and vehicles	1	1
Other occupancy costs	67	65
Staff costs	186	191

**3. Segmental analysis of results**

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

**a) Group revenue**

<b>£m</b>	<b>2013</b>	<b>2012</b>
<b>Continuing operations:</b>		
Travel	460	462
High Street	726	781
<b>Group revenue</b>	<b>1,186</b>	<b>1,243</b>

**WH Smith PLC**  
**Notes to the Accounts**

**3. Segmental analysis of results (continued)**

**b) Group results**

£m	2013	2012 Restated <sup>1</sup>
<b>Continuing operations:</b>		
Travel	66	63
High Street	56	54
<b>Profit from trading operations</b>	<b>122</b>	<b>117</b>
Unallocated costs	(15)	(15)
<b>Group operating profit</b>	<b>107</b>	<b>102</b>
Investment income	2	2
Finance costs	(1)	(2)
Income tax expense	(21)	(22)
<b>Profit for the year</b>	<b>87</b>	<b>80</b>

<sup>1</sup> See Note 1.

**4. Investment income**

£m	2013	2012
Net income on pension schemes (Note 12)	2	2
	<b>2</b>	<b>2</b>

**5. Finance costs**

£m	2013	2012
Interest payable on bank loans and overdrafts	-	1
Unwinding of discount on provisions	1	1
	<b>1</b>	<b>2</b>

**WH Smith PLC**  
**Notes to the Accounts**

**6. Income tax expense**

<b>£m</b>	<b>2013</b>	<b>2012</b> <b>Restated<sup>1</sup></b>
Tax on profit from continuing operations	37	38
<i>Standard rate of UK corporation tax 23.58% (2012: 25.16%)</i>		
Adjustment in respect of prior year UK corporation tax	(15)	(13)
<b>Total current tax charge - continuing operations</b>	<b>22</b>	<b>25</b>
Deferred tax – current year	(1)	(2)
Deferred tax – prior year	-	(1)
<b>Tax on profit – continuing operations</b>	<b>21</b>	<b>22</b>
<i>Effective tax rate on continuing activities</i>	<i>19%</i>	<i>21%</i>

<sup>1</sup> See Note 1.

**Reconciliation of the taxation charge**

<b>£m</b>	<b>2013</b>	<b>2012</b> <b>Restated<sup>1</sup></b>
Tax on profit from continuing operations at standard rate of UK corporation tax 23.58% (2012: 25.16%)	26	26
Tax effect of items that are not deductible or not taxable in determining taxable profit	10	10
Adjustment in respect of prior years	(15)	(14)
<b>Tax charge - continuing operations</b>	<b>21</b>	<b>22</b>

<sup>1</sup> See Note 1.

The UK corporation tax rate fell to 23 per cent with effect from 1 April 2013 (previously 24 per cent). The rate of corporation tax will change from 23 per cent to 21 per cent with effect from 1 April 2014 and a further change of one per cent to 20 per cent with effect from 1 April 2015.

**WH Smith PLC**  
**Notes to the Accounts**

**7. Earnings per share**

**a) Earnings**

<b>£m</b>	<b>2013</b>	<b>2012</b> <b>Restated<sup>1</sup></b>
Earnings attributable to shareholders	87	80

<sup>1</sup> See Note 1.

**b) Basic and diluted earnings per share**

<b>Pence</b>	<b>2013</b>	<b>2012</b> <b>Restated<sup>1</sup></b>
Basic	71.3	61.5
Diluted	68.5	59.7

<sup>1</sup> See Note 1.

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.

**c) Weighted average share capital**

<b>Millions</b>	<b>2013</b>	<b>2012</b>
<b>Weighted average ordinary shares in issue</b>	<b>127</b>	<b>135</b>
Less weighted average ordinary shares held in ESOP Trust	(5)	(5)
<b>Weighted average ordinary shares for earnings per share</b>	<b>122</b>	<b>130</b>
Add weighted average number of ordinary shares under option	5	4
<b>Weighted average ordinary shares for diluted earnings per share</b>	<b>127</b>	<b>134</b>

**8. Dividends**

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

<b>£m</b>	<b>2013</b>	<b>2012</b>
<b>Dividends</b>		
Interim dividend of 9.4p per ordinary share (2012: 8.3p per ordinary share)	11	11
Final dividend of 18.6p per ordinary share (2012: 15.3p per ordinary share)	23	20
	<b>34</b>	<b>31</b>

The proposed dividend of 21.3p per share, amounting to a final dividend of £25m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 30 January 2014 to shareholders on the register at the close of business on 10 January 2014.

**WH Smith PLC**  
**Notes to the Accounts**

**9. Analysis of net cash**

Movements in net cash can be analysed as follows:

<b>£m</b>	<b>2012</b>	<b>Cash flow</b>	<b>2013</b>
Cash and cash equivalents	36	(5)	31
<b>Net cash</b>	<b>36</b>	<b>(5)</b>	<b>31</b>

<b>£m</b>	<b>2011</b>	<b>Cash flow</b>	<b>2012</b>
Cash and cash equivalents	41	(5)	36
<b>Net cash</b>	<b>41</b>	<b>(5)</b>	<b>36</b>

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

The Group has in place a five-year committed multi-currency revolving credit facility of £70m. The revolving credit facility is due to mature on 24 January 2016. The utilisation is interest-bearing at LIBOR plus 110 basis points. Utilisation at 31 August 2013 was £nil (2012: £nil).

**10. Net cash inflow from operating activities**

<b>£m</b>	<b>2013</b>	<b>2012</b>
<b>Operating profit from continuing operations</b>	<b>107</b>	<b>102</b>
Depreciation of property, plant and equipment	29	28
Impairment of property, plant and equipment	2	4
Amortisation of intangible assets	6	6
Impairment of intangible assets	-	1
Share-based payments	7	7
Decrease / (increase) in inventories	3	3
Decrease in receivables	4	3
(Decrease) / increase in payables	(6)	(6)
Pension funding	(12)	(13)
Income taxes paid	(19)	(17)
Charge to provisions	1	1
Cash spend against provisions	(3)	(4)
<b>Net cash inflow from operating activities</b>	<b>119</b>	<b>115</b>

**WH Smith PLC**  
**Notes to the Accounts**

**11. Fixed Charges Cover**

£m	2013	2012
Net finance (income) / charges	(1)	-
Net operating lease rentals	182	184
<b>Total fixed charges</b>	<b>181</b>	<b>184</b>
<b>Profit before tax</b>	<b>108</b>	<b>102</b>
<b>Profit before tax and fixed charges</b>	<b>289</b>	<b>286</b>
<b>Fixed charges cover - times</b>	<b>1.6x</b>	<b>1.6x</b>

**12. Retirement benefit obligation**

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, WH Smith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 12 a) i).

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

£m	2013	2012 Restated <sup>1</sup>
WHSmith Pension Trust	(62)	(70)
United News Shops Retirement Benefits Scheme	-	(1)
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>(62)</b>	<b>(71)</b>

<sup>1</sup> See Note 1.

**a) Defined benefit pension schemes**

**i) The WHSmith Pension Trust**

The WHSmith Pension Trust was closed to defined benefit service accrual on 2 April 2007 and has been closed to new members since 1996. The WHSmith Pension Trust is independent of the Group and is administered by a Trustee.

In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2012 by independent actuaries using the projected unit credit method. Following this valuation, the deficit was £75m, and a revised deficit funding schedule of approximately £13m per annum (subject to indexation) over the following seven years was agreed with the Trustee. During the year, the Group made a contribution of £12m to the WHSmith Pension Trust (2012: £13m) in accordance with the agreed pension deficit funding schedule.

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

£m	2013	2012 Restated <sup>1</sup>
Present value of the obligations	(856)	(776)
Fair value of plan assets	964	889
<b>Surplus before consideration of asset ceiling</b>	<b>108</b>	<b>113</b>
Amounts not recognised due to effect of asset ceiling	(108)	(113)
Additional liability recognised due to minimum funding requirements	(62)	(70)
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>(62)</b>	<b>(70)</b>

<sup>1</sup> See Note 1.

**WH Smith PLC**  
**Notes to the Accounts**

**12. Retirement benefit obligation (continued)**

**a) Defined benefit pension schemes (continued)**

**i) The WHSmith Pension Trust (continued)**

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £108m (2012: £113m) available on a reduction of future contributions is £nil (2012: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. We have amended our accounting in respect of the schedule of contributions to the WHSmith Pension Trust to reflect these as an obligation of the Company. Accordingly we have recognised the schedule of contributions as a liability of £62m in accordance with the requirements of IFRIC 14. We have also restated the 2012 Financial Statements recognising a liability of £70m. See Note 1.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

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

%	2013	2012
Rate of increase in pension payments	3.36	2.72
Rate of increase in deferred pensions	2.59	1.82
Discount rate	4.50	4.20
RPI Inflation assumption	3.49	2.72
CPI Inflation assumption	2.59	1.82

A movement of 0.1% in either the discount rate or the inflation assumptions would result in a change to the scheme liabilities of approximately £17m.

The amounts recognised in the income statement were as follows:

£m	2013	2012
Current service cost	-	-
Interest cost	(32)	(38)
Expected return on scheme assets	34	40
	<b>2</b>	<b>2</b>

The charge for the current service cost has been included in administrative costs. The interest cost net of the expected return on scheme assets has been included in investment income (Note 4). Actuarial gains and losses have been reported in the statement of comprehensive income.

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

£m	2013	2012 Restated <sup>1</sup>
Total actuarial (loss) / gain before consideration of asset ceiling	(19)	29
Gain / (loss) resulting from changes in amounts not recognised due to effect of asset ceiling	5	(44)
Changes in minimum funding liability	8	13
Total actuarial loss recognised in other comprehensive income	<b>(6)</b>	<b>(2)</b>

<sup>1</sup> See Note 1.

In addition, a £1m credit (2012: £1m charge) has been recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme. The total cumulative actuarial loss recognised in the statement of comprehensive income since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £112m (2012: loss of £106m).



**WH Smith PLC**  
**Notes to the Accounts**

**12. Retirement benefit obligation (continued)**

**a) Defined benefit pension schemes (continued)**

**i) The WHSmith Pension Trust (continued)**

Movements in the present value of the defined benefit scheme obligations in the current year were as follows:

<b>£m</b>	<b>2013</b>	<b>2012</b>
At 1 September	(776)	(716)
Current service cost	-	-
Interest cost	(32)	(38)
Actuarial losses	(75)	(48)
Benefits paid	27	26
<b>At 31 August</b>	<b>(856)</b>	<b>(776)</b>

Movements in the fair value of defined benefit scheme assets in the year were as follows:

<b>£m</b>	<b>2013</b>	<b>2012</b>
At 1 September	889	785
Expected return on scheme assets <sup>1</sup>	34	40
Actuarial gains	56	77
Contributions from the sponsoring companies	12	13
Benefits paid	(27)	(26)
<b>At 31 August</b>	<b>964</b>	<b>889</b>

<sup>1</sup> The actual return on scheme assets was a gain of £90m (2012: gain of £117m)

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below.

	<b>2013</b>		<b>2012</b>	
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Equity instruments	55	6	87	10
Debt instruments	695	72	651	73
Derivatives	(31)	(3)	(51)	(6)
Cash and other assets	245	25	202	23
<b>Total</b>	<b>964</b>	<b>100</b>	<b>889</b>	<b>100</b>

<b>£m</b>	<b>2013</b>	<b>2012</b>
LDI financing portfolio	940	829
Hedging swaps	(31)	(28)
Equity call options	55	88
	<b>964</b>	<b>889</b>

The expected rate of return on the defined benefit scheme assets is calculated as a weighted average of the expected return on the LDI fund and the equity call options. At 31 August 2013 this was 4.15 per cent (2012: 3.60 per cent).

**WH Smith PLC**  
**Notes to the Accounts**

**12. Retirement benefit obligation (continued)**

**a) Defined benefit pension schemes (continued)**

**i) The WHSmith Pension Trust (continued)**

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2012 and 2013 are:

	2013		2012	
	Male	Female	Male	Female
<b>Life expectancy at age 65</b>				
Member currently aged 65	22.2	24.5	22.2	24.4
Member currently aged 45	23.6	26.0	23.5	25.9
<b>Life expectancy at age 60</b>				
Member currently aged 60	26.8	29.2	26.6	29.1
Member currently aged 45	27.9	30.4	27.8	30.4

The five-year history of experience adjustments is as follows:

£m	2013	2012	2011	2010	2009
Present value of defined benefit obligations	(856)	(776)	(716)	(761)	(717)
Fair value of scheme assets	964	889	785	786	743
<b>Surplus / (deficit) in the scheme</b>	<b>108</b>	<b>113</b>	<b>69</b>	<b>25</b>	<b>26</b>

Experience adjustments on scheme liabilities

Amount (£m)	(2)	7	(8)	(2)	26
Percentage of scheme liabilities (%)	-	(1)	1	-	(4)

Experience adjustments on scheme assets

Amounts (£m)	56	77	(32)	14	(80)
Percentage of scheme assets (%)	6	9	(4)	2	(11)

**ii) United News Shops Retirement Benefits Scheme**

United News Shops Retirement Benefits Scheme is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out at 5 April 2012 by independent actuaries. Following this valuation, the deficit was £1m.

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

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

£m	2013	2012
Present value of the obligations	(5)	(5)
Fair value of plan assets	5	4
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>-</b>	<b>(1)</b>

During the year a £1m credit (2012: £1m charge) has been recognised in the statement of other comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

**b) Defined contribution pension scheme**

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2013 (2012: £3m).