

17 October 2019

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2019**

Strong trading performance across the Group and acquisition of Marshall Retail Group, a leading US travel retailer announced

Overview

- Group revenue up 11% with Group like-for-like* revenue up 1%
- Travel total revenue up 22% (up 8% excluding InMotion) and up 3% on a like-for-like basis
- Strong profit growth in Travel with profit up 14% to £117m (2018: £103m)
- Today, we announced an agreement to acquire Marshall Retail Group, a leading US travel retailer
- InMotion integration now complete; performance ahead of our initial expectations
- First WH Smith stores won in a major US airport
- Record number of international units won in the year with 433 units open as at 31 August 2019
- High Street profit in line with expectations at £60m (2018: £60m)
- Final dividend increased by 8%. Share buyback of £31m completed

Group Financial Summary

	12 months to Aug 2019	12 months to Aug 2018	% change
Travel trading profit*	£117m	£103m	14%
High Street trading profit*	£60m	£60m	-%
Group profit from trading operations*	£177m	£163m	9%
Headline Group profit before tax*	£155m	£145m	7%
Headline earnings per share*	114.7p	108.2p	6%
Non-underlying costs**	£20m	£11m	
Statutory profit before tax	£135m	£134m	1%
Diluted earnings per share	97.2p	98.2p	(1)%
Total dividend per share	58.2p	54.1p	8%

Revenue Performance

	£m	Total	LFL
Travel	817	22%	3%
High Street	580	(2)%	(2)%
Group	1,397	11%	1%

* Denotes first instance of an Alternative Performance Measure (APM) term defined and explained in the Glossary on page 38.

** Non-underlying costs* in the year relate to the acquisition of InMotion and completion of the review in High Street announced in October 2018, see page 9.

Stephen Clarke, Group Chief Executive, commented:

“The Group has delivered another strong performance.

“In our Travel business, we continue to see strong sales growth, up 22%, driven by our UK store investment programme and our expanding international business. Profit for the year, in Travel, was up 14%.

“Internationally we have won a record number of units in the year, including significant wins in the Middle East, Australia and Europe and, more recently, our first WH Smith win in a major US airport. We now have 433 units open internationally, across 30 countries and over 100 airports.

“In our High Street business, we have delivered another good performance. We continue to focus on improving our Stationery offer and this remains our key area of investment. As a result, we delivered a strong ‘Back to School’ period with good growth across many product categories.

“In addition, today we are delighted to announce that we have signed an agreement to acquire Marshall Retail Group, a leading travel retailer in the US. This builds further on our acquisition of InMotion last year and significantly strengthens our growth prospects in the US, the world's largest travel retail market.

“The Board has proposed an 8% increase in the final dividend reflecting the Group’s cash generation and our confidence in the future prospects of the Group.

“While there is uncertainty in the broader economic and political environment, we are pleased with the start to the new financial year in both businesses. Looking ahead, the Group will continue to focus on profitable growth, cash generation and delivering value for shareholders.

“Finally, as this is my last set of results before leaving at the end of this month, I would like to express my sincere gratitude to all the great people across our business for their hard work and commitment which has made WH Smith such a success over recent years. WH Smith is a great business in very good shape and I have every confidence in Carl Cowling and the team to continue to deliver the strategy that has served us so well.”

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WH Smith PLC’s Preliminary Results 2019 are available at www.whsmithplc.co.uk.

GROUP OVERVIEW

Our distinct strategy has been successful in driving profit growth and creating shareholder value, together with our disciplined approach to cash generation, capital allocation and making appropriate value-creating acquisitions in markets with good growth prospects.

In UK Travel, we aim to deliver high levels of sales and profit growth and good cash generation. We seek to achieve this by:

- driving like-for-like sales in existing stores through improved execution and service;
- investment in store environments and layouts;
- a forensic store by store focus on space and category management;
- winning new space and retaining existing space; and
- developing new formats

In International Travel, we aim to expand profitably by:

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

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

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

Group Summary

Total Group revenue was up 11% at £1,397m (2018: £1,262m) with Group LFL revenue up 1% compared to last year.

Group profit from trading operations increased 9% on the prior year to £177m (2018: £163m) with Headline Group profit before tax increasing by £10m to £155m (2018: £145m), up 7%. Including non-underlying items relating to the acquisition of InMotion and the completed review in High Street announced in October 2018, Group profit before tax was £135m (2018: £134m).

Travel

Travel, which generates two thirds of annual Group profit from trading operations, delivered a strong performance. Trading profit increased by 14% to £117m of which £20m (2018: £11m) relates to our growing international business, including InMotion. Total revenue was up 22% compared to last year and up 3% on a LFL basis driven by our initiatives and ongoing investment, and growth in passenger numbers. Gross margin*, excluding InMotion, was up 100bps compared to last year. We continue to invest in the business and opened 19 new units in the UK during the year, taking us to a total of 586 units in the UK.

Our International business, including InMotion, is growing fast. During the year, we have won 45 units across Australia, Europe, the Middle East, South East Asia and North America. As at 31 August 2019, we had 433 units open internationally (2018: 286 units).

The acquisition of InMotion, a market leading digital and travel accessories retailer in US airports, was completed on 30 November 2018. InMotion operates from 116 stores across 43 airports in the US. The integration of the business is now complete and we are pleased with its performance which is ahead of our initial expectations. During the period, InMotion contributed operating profit of £8m and revenue of £94m. Non-underlying costs relating to the acquisition were £13m in the year (see Note 3 on page 24).

As at 31 August 2019, Travel operated from 1,019 units (31 August 2018: 867 units) and, excluding franchises, operates from 0.7m square feet.

Marshall Retail Group

Today, we announced that we have signed an agreement to acquire Marshall Retail Group ('MRG') for \$400m. MRG is a fast growing independent travel retailer operating in high footfall airport and tourist locations in the United States. Differentiated from its competitors by its strategy of developing highly customised retail experiences tailored to local customers and landlords, MRG has a highly successful and proven business model with a strong track record of concession and tender wins.

The Transaction will be financed through a new £200m term loan facility provided by the Group's existing relationship banks, alongside a £155m fully underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility will be expanded to £200m (from the current £140m).

High Street

High Street delivered a good performance with trading profit of £60m, in line with expectations (2018: £60m) and second half profit up £2m on last year. Total revenue was down 2% with LFL revenue also down 2% compared to the prior year. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £9m were delivered in the year in line with plan. An additional £7m of cost savings have been identified, making a total of £17m over the next three years, of which £9m are planned for 2019/20.

As at 31 August 2019 High Street operated from 576 WH Smith stores (31 August 2018: 578 WH Smith stores) and occupied 2.7m square feet (31 August 2018: 2.7m square feet).

WH Smith Group Current Trading

WH Smith has made a good start to the new financial year. After the first 6 weeks, Travel total revenue is up 25% with like-for-like revenue up 5%. High Street total revenue is down 4% and like-for-like revenue is down 3%. Total revenue for the Group is up 12% with like-for-like sales up 1%.

Revenue performance	Total	LFL
Travel revenue	25%	5%
High Street revenue	(4)%	(3)%
Group revenue	12%	1%

Group

Headline earnings per share increased by 6% to 114.7p (2018: 108.2p). This reflects the increase in Headline profit and a lower basic weighted average number of shares in issue following the share buyback.

The Board has proposed a final dividend of 41.0p per share, an 8% increase on last year. The proposed increase in the final dividend reflects our progressive dividend policy, the Board's confidence in the future prospects of the Group and the strong cash generative nature of the businesses.

We completed £31m of the share buyback announced on 11 October 2018. The Group remains highly cash generative and has a strong balance sheet. Net debt* including the £200m term loan used to finance the acquisition of InMotion and after finance leases was £180m (2018: £2m). Group free cash flow* was £109m (2018: £96m).

Including the declared final dividend, we will have returned £1bn of cash to shareholders since 2007, increased the dividend every year and reduced our issued share capital by 41%.

Financial Year	Ordinary Dividend ¹ £m	Buyback ³ £m	Special Dividend £m	Total £m
2020	63 ²	-	-	c. 63
2019	60	31	-	91
2018	54	26	-	80
2017	50	41	-	91
2016	46	47	-	93
2015	42	54	-	96
2014	38	41	-	79
2007 - 2013	181	223	57	461
	534	463	57	1,054

¹ Cash dividend paid

² Proposed final ordinary dividend for year ended 31 August 2019 and for illustrative purposes only assumes 2020 interim dividend to be the same as in 2019

³ Buyback in financial year

Following the announcement of the proposed acquisition of MRG, the Group will have the following debt facilities:

Term loan	£200m	Matures October 2022
Revolving credit facility	£200m	Matures December 2023
Term loan	£200m	Matures October 2021
Total	£600m	

Our capital allocation policy remains unchanged:

- Investing in the business and new opportunities where we see attractive rates of return ahead of the cost of capital. Capex in the year was £59m
- Returning cash to shareholders through a progressive dividend policy
- Making appropriate value-creating acquisitions in markets with good growth prospects
- Share buybacks

The Group aims to operate with a level of net debt to EBITDA of 1.25x. At the end of the financial year, our leverage was 0.9x EBITDA. Following the proposed acquisition, we expect our leverage to return to below target leverage of 1.25x by the end of our first full financial year following Completion. We will suspend our buyback programme whilst we deleverage.

Trading Operations

Travel

Travel delivered a strong performance in the year with trading profit up 14% to £117m (2018: £103m). Travel profits are now almost twice the profits of High Street. Total revenue was up 22% with LFL revenue up 3%. Gross margin, excluding InMotion, was up 100bps.

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

- i. focusing in our existing stores on improved execution and customer service; investment in store layouts; space and category management,
- ii. developing new formats and opening new space in the UK,
- iii. expanding profitably overseas through organic growth, and
- iv. acquiring appropriate value-creating businesses in markets with good growth prospects.

Travel - UK

We delivered another strong revenue performance across all our key channels driven by our continued investment, growth in passenger numbers and growth in spend per passenger. Total revenue was up 5% with LFL revenue up 3%. In air, total revenue was up 5% with LFL revenue up 3%; in our hospital channel, total revenue was up 12% with LFL revenue up 6% and in rail, total revenue was up 1% with LFL revenue also up 1%. Gross margin increased by 70bps during the period, driven by mix. Profit was up 5% to £97m (2018: £92m).

Retail space in travel locations is often very constrained. It varies substantially by channel and location and is expensive. As a result, we seek to maximise the return from this space through our detailed analysis of the space and category elasticities of each square metre of display space. This, along with our operational capabilities to make space changes three or four times a year even in our busiest stores, means we are able to respond to the changes in our customers' needs, growth opportunities and adapt to seasonal variations. This process has, over the years, led to a significant evolution of our formats and ranges.

Air:

During the year we have continued to invest in our store environments and to focus on developing new formats that position us well for the future. We have seen some particularly pleasing results from our recently opened large airport format stores at Gatwick, Heathrow, Birmingham and Belfast airports, delivering superior sales per passenger across these stores.

In April, we reformatted our large WH Smith store at Gatwick North terminal to include a Well Pharmacy, the UK's third largest pharmacy chain. This 6,000 square feet store combines a traditional WH Smith format with a pharmacy offer, providing customers with everything they would expect from a WH Smith Travel store, alongside a licensed pharmacy with over 2,500 health and beauty lines and an in-store pharmacist.

In addition to the WH Smith pharmacy format trial, we also opened a new 2,000 square feet Bookshop by WH Smith at Gatwick during the second half. This store provides customers with a specialist customer experience with a unique look and feel. This has been well received by customers and our landlord. Across Gatwick, we now have over 25,000 square feet of selling space, with a number of different formats, positioning us well for the expected growth in passenger numbers. These new formats present good opportunities for WH Smith and our landlords going forward.

Hospitals:

Revenue in hospitals grew by 12% in total and 6% on a LFL basis. Hospitals are now our second biggest channel by revenue with good opportunities to grow further. Over the years, we have built strong relationships with NHS Trusts, working closely with them to develop our healthy eating ranges and we have a clear pricing policy to ensure our prices are in line with other high street retailers or local supermarkets. We have also invested in our hospital units; developing new formats and ranges to suit the individual requirements of each hospital. Our partnership with M&S in hospitals continues to deliver strong results and we now have 22 M&S implants within our stores and operate 21 Simply Food units, including 8 smaller trial units. During the year, we also opened our first Costa Coffee franchise units in Blackburn Hospital and Churchill Hospital, Oxford.

We now offer hospital landlords any combination of a WH Smith, M&S Simply Food and Costa Coffee format and this positions us to better meet the needs of our NHS partners and customers in a variety of different sized hospitals across the country. This is demonstrated by our tender win in Colchester Hospital where we will operate a WH Smith unit, an M&S Simply Food and a Costa Coffee; all due to open later this year.

At the end of August 2019, we had 140 hospital units open across 100 hospitals and we believe there are around 300 hospitals that have the potential to support one or more of our store formats. The pipeline of new store openings looks encouraging.

Rail:

We continue to invest in rail. During the year, we have further developed our 'Tech Express' format. Our recent openings in Waterloo Station and Euston Station are performing well. These Tech Express units incorporate all our learnings from InMotion to create a compelling customer proposition. We expect to open another two Tech Express units at Liverpool Street Station and Birmingham New Street Station this financial year. Following the success of our large store format in airports, we have recently refurbished our store at Paddington Station, taking the learnings from our large airport format and applying them to the rail format. Although very early days, the results are looking positive.

In the UK, we are on track to open around 15 - 20 new units this year which will be across all three channels in air, hospitals and rail. We anticipate opening around 15 new units each year over the following three years.

In addition to investing in our stores, we are also investing in our people. We have introduced tailored training programmes for our staff in our specialist book and Tech Express units, developing product specialists to help customers select the right item for their journey. We have invested in new technology to support faster and simpler improved payment experiences for customers enabling us to reduce queue times in peak periods.

International Travel

Total revenue for the year, including InMotion, was £252m (2018: £132m), up 91% versus the previous year. LFL revenue was up 3% on a constant currency basis. Trading profit for the year was £20m (2018: £11m), including £8m profit from InMotion. Excluding InMotion, profit from International was £12m, which includes a challenging performance from Madrid Airport where we have a short term contract due to airport re-development. We won a record 45 new units outside of the UK during the year.

Of the 36 WH Smith units won during the year, 4 are in Australia, 5 are in Europe, 14 are in the Middle East, 11 are in South East Asia and India and 2 are in the US. We won 10 InMotion units, including our first InMotion airport units outside of North America in: Perth, Australia; Alicante in Spain; and Leeds in the UK.

WH Smith

Our International business is growing rapidly. We are able to demonstrate that we can deliver improved performance and add value relative to the previous incumbents. Our active space management and focus on providing a compelling offer to customers and landlords enables us to win and retain business. During the year, we have won a further 36 WH Smith units and opened 53 units, making a total of 317 WH Smith units open internationally, as at 31 August 2019. However, our share of the global news, books and convenience (NBC) travel market is still very small and we continue to see opportunities to grow using our three economic models of directly-run, joint venture and franchise.

We have also, more recently, won our first WH Smith units in a major US airport. North America is the world's largest travel market with good growth prospects.

InMotion

On 30 November 2018, we acquired 100% of the issued share capital of InMotion, a market leading digital accessories retailer in US airports. InMotion has an excellent store portfolio with 116 stores across 43 airports in the US. InMotion also benefits from great relationships with landlords and brand suppliers as well as a best in class customer service proposition.

The acquisition of InMotion offers three attractive growth opportunities for the WH Smith Group:

- i. The travel retail market in North America for digital accessories offers significant growth potential. As the market leader, recognised for its best-in-class customer service, InMotion is well positioned to take advantage of that potential;
- ii. InMotion provides us with a scalable platform to launch the WH Smith airport format into the US; and
- iii. Open InMotion stores outside of the US.

We are pleased with the performance of InMotion. Integration has been completed and the profits from InMotion, at £8m, were higher than our initial expectations, confirming the attractiveness of the US travel market. During the year we won a further 7 new units in the US. The InMotion brand has been well received by landlords outside of the US and we were pleased to open 3 units during the year in Perth, Alicante and Leeds. Our understanding of the North American travel retail market has increased significantly and we were delighted to win our first WH Smith units in a package with InMotion in North America in the second half.

In total, across our Travel business outside of the UK, we are now present in 102 airports and 30 countries with 81 units open in Europe, 55 in Australia, 114 in the Middle East and India, 56 in Asia Pacific and 127 across North and South America.

Of the 433 units open, 54% are directly run, 38% are franchised with the balance being joint ventures. We will continue to use these three economic models flexibly in order to create value and win new business.

Marshall Retail Group

Today, we announced that we have signed an agreement to acquire Marshall Retail Group ('MRG'). MRG is a fast growing independent travel retailer operating in high footfall airport and tourist locations in the United States. Differentiated from its competitors by its strategy of developing highly customised retail experiences tailored to local customers and landlords, MRG has a highly successful and proven business model with a strong track record of concession and tender wins.

MRG currently operates in 170 North American locations, with 59 of these inside airports, and generates the majority of its revenue through the sale of news, gifts and convenience products. Its airport business is the key driver of MRG's highly visible growth prospects. With a further 33 new airport stores due to open over the next 4 years following successful tenders, MRG is expected to add more than 43,000 square feet of airport retail selling space to its current c.54,000 square feet airport footprint.

The Transaction will be financed through a new £200m term loan facility provided by the Group's existing relationship banks, alongside a £155m fully underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility will be expanded to £200m (from the current £140m).

High Street

High Street delivered a good performance, with trading profit, as expected, of £60m (2018: £60m). Second half profit was up £2m on the same period last year.

Total revenue in High Street was down 2%, with LFL revenue also down 2%, as expected. Gross margin improved by around 70bps, through rebalancing the mix of our business, better buying and markdown management.

As we do with our Travel business, we consider retail space as a strategic asset and we utilise our space to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we utilise our space to maximise the return on every metre drop of display space in every store. We also create value through improving margins, reducing costs and driving third party income opportunities.

The majority of our stores are located in the best retail locations in the catchments in which we operate. This, and the huge variability in the size and shape of our stores, continues to give us opportunities to reconfigure our space to deliver margin mix benefits and efficiencies in the store operating model. During the year, we have conducted a number of trials to further extend our Stationery ranges and provide more, better quality space in store to this category. These trials have ranged from lower cost initiatives that deliver key benefits, to additional space with new features, such as a dedicated pen shop and digital area, through to a complete store refurbishment.

Stationery remains an important area of investment in our High Street business with good economics and growth potential. It now generates around half our High Street sales and over 60% of store contribution. The market remains robust, particularly for fashion and seasonal stationery and our seasonal ranges, art and craft and 'Back to School' ranges all performed well during the year.

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

- Funkypigeon.com, our online personalised greetings card business, performed strongly over the key seasons in the year, growing share and delivering good revenue and profit growth.
- Whsmith.co.uk continues to provide customers with a comprehensive book and stationery offer and during the second half, we launched a new website providing customers with an improved shopping experience and extended ranges. Customer feedback has been positive and we delivered a good 'Back to School' period.
- Cultpens.com, our specialist pen website, continues to perform well as we further develop the site and grow sales.
- During the second half, we acquired The Card Gallery, comprising www.treeofhearts.co.uk and www.dottyaboutpaper.co.uk, for a small consideration. Although small, these online stationery businesses align with our digital strategy of broadening our stationery ranges and enhancing our customer offer.

Over the years as part of our strategy of actively managing our space, we have developed a number of key partnerships, including our partnership with Post Office Limited. In October 2018, we announced our intention to install a further 40 Post Offices into our High Street stores and convert 33 hosted branches to franchise. We now have 205 Post Offices within our High Street stores. The opening of these additional Post Offices further cements our position on the High Street and at the heart of the communities we serve.

Driving efficiencies remains a core part of our strategy and we focus on all areas of cost in the business. We continue to deliver savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. During the year we achieved cost savings of £9m. These savings come from right across the business, including rent savings at lease renewal (on average 35%) which continue to be a significant proportion, marketing efficiencies and a more efficient store operating model through greater use of technology.

We have worked hard over the years to create flexibility in our store portfolio. The average lease length is under four years and we only renew a lease where we are confident of delivering economic value over the life of that lease. We have a rolling programme of lease renewals and over the next three years the leases on around 300 stores expire giving us further opportunities to renegotiate our occupation costs. We have a number of stores where we pay zero rent and others where we now pay rent in arrears.

An additional £7m of cost savings have been identified, making a total of £17m over the next three years, of which £9m are planned for 2019/20.

As at 31 August 2019, the High Street business operates from 576 WH Smith stores (2018: 578), which occupy 2.7m square feet (2018: 2.7m square feet). Two WH Smith stores were closed in the year.

Category Performance

Stationery:

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like revenue was up 2%, with gross margin higher than the prior year. Stationery remains an attractive category for us with good economics and growth potential. During the year, Stationery has continued to be the main beneficiary of space with more stores benefitting from additional space towards the front of store and further range improvements. This additional space, combined with our range development initiatives drove good like-for-like revenue growth over the key Christmas and 'Back to School' periods.

News and Impulse:

The newspaper and magazine market continues to be challenging however we are pleased with our performance and we continue to grow our share in magazines. Like-for-like revenue was up 2% for the full year and we saw further improvement in gross margin. In Travel, we have continued to focus on our healthy eating ranges across our food, snacking and drink categories. During the year, we have introduced more protein- and plant-based products as well as extending our vegan and dairy free ranges which have been well received by our customers.

Books:

Our approach to our books business goes unchanged. We continue to build on our areas of relative strength to make WH Smith High Street the home for lighter readers, kids and educational books while at the same time driving the overall net profitability of the category by improving the efficiency of our books operating model. Like-for-like revenue was down 5% but the margin increased compared to the prior year. We continue to make improvements to our customer proposition and, during the second half, we launched a new concept bookshop within our High Street store in Bath. Customer feedback has been positive. In Travel, we now have 11 standalone bookshops, including our recently opened bookshop at Gatwick Airport. During the year, we were delighted to win the 'Book Retailer of the Year' Award 2019.

Group

The Group generated Headline profit before tax of £155m (2018: £145m), an increase of 7% on the prior year and, after non-underlying items, statutory profit before tax of £135m (2018: £134m).

£m	2019	2018	Change %
Travel trading profit	117	103	14%
High Street trading profit	60	60	-%
Group profit from trading operations	177	163	9%
Unallocated costs	(17)	(16)	
Group operating profit⁴	160	147	9%
Net finance costs	(5)	(2)	
Headline Group profit before tax	155	145	7%
Non-underlying items	(20)	(11)	
Group profit before tax	135	134	1%

⁴Headline, excludes £20m (2018: £11m) non-underlying items.

Non-underlying items

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

As at the Interim Results, the non-underlying items relate to the InMotion acquisition and the completion of the High Street review announced in October 2018.

£m	Income statement⁵ 2019	Cash impact in 2019
Costs associated with acquisition:		
- Transaction costs	6	6
- Integration costs	5	3
- Amortisation of acquired intangible assets	2	-
Completed High Street review	7	7
	20	16

⁵ See Note 3.

Costs relating to the acquisition of InMotion were £13m most of which were taken in the first half. We also completed the review in High Street, announced in October 2018, in the first half of the financial year and there are no further income statement costs to come relating to this. The remaining £5m of cash costs relating to the High Street review will be incurred over the next two financial years.

Net Finance Costs

£m	12 months to	
	Aug 2019	Aug 2018
Interest payable on bank loans and overdrafts	5	2
Pension interest	-	-
Net finance costs	5	2

The Group has in place a five-year committed multi-currency revolving credit facility of £200m (increased from £140m in light of the acquisition of MRG). This is due to mature on 8 December 2023. During the year, the Group agreed a syndicated £200m term loan to fund the acquisition of InMotion. This loan is interest bearing at LIBOR plus 100 basis points and is due to mature on 29 October 2022. In addition, the Group has agreed an additional £200m term loan facility provided by the Group's existing relationship banks, to fund the acquisition of MRG. This loan is interest bearing at LIBOR plus a ratcheted interest rate over the term of the loan and is due to mature on 15 October 2021.

Net finance costs relating to bank loans were £5m compared with £2m last year. The non-cash pension interest charge was £nil (2018: £nil).

Tax

The effective tax rate* was 18% (2018: 18%), reflecting the statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 18%. The exact tax rate achieved will depend on the underlying profitability of the Group, continued progress in agreeing outstanding tax assessments with the tax authorities and the timing of the completion of the MRG acquisition.

Fixed Charges Cover*

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.6 times (2018: 1.7 times) by profit before tax and fixed charges.

Dividends

The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis. The Board has proposed a final dividend of 41.0p per share, an increase of 8% on the prior year, giving a total ordinary dividend per share of 58.2p, an 8% increase on the prior year. This increase on the prior year reflects the continuing cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 30 January 2020 to shareholders registered at the close of business on 10 January 2020. The final dividend will be paid gross.

Cash Flow

The Group generated free cash flow of £109m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2019	2018
Group operating profit ⁴	160	147
Depreciation, amortisation and impairment of fixed assets ⁶	49	44
Non cash items	5	4
Working capital ⁶	(13)	(14)
Employers payroll tax on exercised share awards	(1)	(2)
Capital expenditure	(59)	(53)
Net tax paid	(27)	(27)
Net interest paid	(4)	(1)
Movement in provisions ⁶	(1)	(2)
Free cash flow	109	96

⁶ Headline, excludes cash flow impact of non-underlying items, explained on page 9.

The Group generated free cash flow of £109m in the year. This is higher than last year due to increased operating profit partially offset by higher investment capex. Non-cash charges, including depreciation and share-based payments, were £6m higher than last year.

The working capital movement reflects continued investment in opening new stores, some timing and a combination of some early rent payments on a couple of new contracts and a wash-up of historic rents on a number of contract extensions. While this has a one-off impact on the Group's working capital, the new and extended contracts set us up well for the future. Capital expenditure for the year was £59m, £6m higher than last year. Capital expenditure includes investment in new Travel stores both in the UK and internationally, investment in High Street stores (including the latest tranche of Post Offices) and further investment in our in-store operating model.

Net corporation tax paid was flat year on year at £27m. In the year ending 31 August 2020, following a change in UK tax legislation, six payments on account of corporation tax are due rather than the four payments made in previous years. The corporation tax payments on account will revert to four payments annually for the financial year ending 31 August 2021 and subsequent years.

This year we expect capex spend to be around £70m. Going forward after this year, we expect capex to also be around £60m - £70m per annum although this will depend on the number of new stores we open.

£m	2019	2018
New stores and store development	31	25
Refurbished stores	16	17
Systems	11	9
Other	1	2
Total capital expenditure	59	53

Reconciliation of net debt

As at 31 August 2019, the Group had net debt of £180m, including term loan of £200m relating to the acquisition of InMotion, £14m of finance lease liabilities and net cash⁷ of £34m (2018: net debt of £2m, including £14m of finance lease liabilities and net cash⁷ of £12m).

The movement in net debt is as follows:

£m	2019	2018
Opening net (debt) / funds	(2)	4
Free cash flow generated	109	96
Dividends paid ⁸	(60)	(54)
Pension funding	(3)	(3)
Net purchase of own shares for employee share schemes	(6)	(3)
Purchase of own shares for cancellation	(32)	(26)
Acquisitions of businesses, net of cash acquired	(161)	(5)
Repayments of obligations under finance leases	(6)	(5)
Other	(3)	(1)
Non-underlying items ⁹	(16)	(3)
Closing net debt before net movement in finance leases	(180)	-
Net movement in finance leases	-	(2)
Closing net debt	(180)	(2)

⁷ Net cash is Cash and cash equivalents (£49m; 2018: £45m) less Bank overdrafts and other borrowings (£15m; 2018 £33m). See Group balance sheet on page 16.

⁸ Dividends paid include current year interim and prior year final dividends paid.

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

The cash outflow from non-trading items (excluding acquisitions and non-underlying items) was £18m higher compared to last year, mainly reflecting our capital allocation policy with dividends of £60m, £6m higher than last year, and the share buyback at £32m, was £6m higher than last year. We also spent £6m on ESOP trust purchases and pension deficit funding of £3m. During the year, the Group acquired InMotion for a cash consideration of £162m. The cash flow impact of non-underlying items was £16m. Further detail is provided on page 9.

Balance Sheet

The Group had net assets of £237m (2018: £212m) at the end of the year. The increase in net assets reflects the acquisition of InMotion, capital investment and the cash generation of the business, offset by the return of cash to shareholders.

£m	2019	2018
Goodwill and other intangible assets	225	72
Property plant and equipment	201	179
Investments in joint ventures	4	3
	430	254
Inventories	174	154
Payables less receivables	(178)	(183)
Working capital	(4)	(29)
Derivative financial asset	2	1
Net current and deferred tax liability	(3)	(3)
Provisions	(5)	(6)
Operating assets employed	420	217
Net debt	(180)	(2)
Net assets excluding pension liability	240	215
Pension liability	(4)	(4)
Deferred tax asset on pension liability	1	1
Total net assets	237	212

Return on Capital Employed* (ROCE)

Operating capital employed and ROCE were as follows:

	Operating capital employed ¹⁰ £m	ROCE ¹¹ %	ROCE% with operating leases capitalised ¹² %
Travel	272	43	20
High Street	156	38	19
Trading operations	428	41	19
Unallocated central items	(8)		
Operating assets employed	420	38	18

For the prior year, comparable ROCE was 68% (Travel 112% and High Street 44%) and 26% after capitalised operating leases (Travel 31% and High Street 23%). The 2019 ROCE includes the acquisition of InMotion which took place during the year.

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

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

¹² Return on capital employed after capitalised net operating leases is calculated as the adjusted trading profit as a percentage of operating assets after capitalising operating leases. Adjusted trading profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WH Smith Pension Trust, was at 31 March 2017 at which point the deficit was £11m (31 March 2014 actuarial revaluation deficit of £24m). The Group agreed a revised annual funding schedule with the Trustees from September 2017 for the next six years of £3m per annum. This includes the deficit recovery contributions and other running costs. During the year ended 31 August 2019, the Group made a contribution of £3m to the scheme.

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

As at 31 August 2019, the Group has an IFRIC 14 minimum funding requirement in respect of the WH Smith Pension Trust of £3m (2018: £3m) and an associated deferred tax asset of £1m (2018: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2019, the scheme had an IAS 19 surplus of £354m (2018: surplus of £294m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2018: £1m).

IFRS 16

IFRS 16 'Leases' applies to the Group for the first time for the year ending 31 August 2020. The Group will apply the modified retrospective transition approach and the first reporting period under IFRS 16 will be the Group's interim results as at 29 February 2020. The expected impact of the standard on the financial statements is provided in Note 1 to the financial statements on page 21.

The business has an annual minimum net rental commitment of £212m (2018: £184m) (net of £1m of external rent receivable (2018: £1m)). The total future rental commitment at the balance sheet date amounted to £986m (2018: £824m) with the leases having an average life of 4.3 years.

Brexit

The Group is prepared for Brexit and has put in place contingency plans to manage the impact, including increasing the stock of convenience products.

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain primarily those detailed on pages 20 to 24 of the Group's Annual Report and Accounts 2018, a copy of which is available on the Group's website at www.whsmithplc.co.uk. These include: economic, political, competitive and market risks; brand and reputation; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; international expansion; and cyber risk and data security.

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

This announcement contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this announcement should be construed as a profit forecast. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Trading update

The Group will issue its next trading update on 22 January 2020.

WH Smith PLC
Group Income Statement
For the year ended 31 August 2019

£m	Note	2019			2018		
		Headline ¹	Non-underlying items ²	Total	Headline ¹	Non-underlying items ²	Total
Continuing operations							
Revenue	4	1,397	–	1,397	1,262	–	1,262
Group operating profit	2, 4	160	(20)	140	147	(11)	136
Finance costs	5	(5)	–	(5)	(2)	–	(2)
Profit before tax		155	(20)	135	145	(11)	134
Income tax expense	6	(28)	1	(27)	(26)	–	(26)
Profit for the year		127	(19)	108	119	(11)	108
Attributable to equity holders of the parent		125	(19)	106	119	(11)	108
Attributable to non-controlling interests		2	–	2	–	–	–
		127	(19)	108	119	(11)	108
Earnings per share							
Basic	7			98.1p			99.1p
Diluted	7			97.2p			98.2p
Equity dividends per share³				58.2p			54.1p

¹ The Group has defined and outlined the purpose of its alternative performance measures in the Glossary on page 38.

² See Note 3 for an analysis of Non-underlying items. See Glossary on page 38 for definition of alternative performance measures.

³ Equity dividends per share is the final proposed dividend of 41.0p (2018: 38.1p) and the interim dividend of 17.2p (2018: 16.0p).

WH Smith PLC
Group Statement of Comprehensive Income
For the year ended 31 August 2019

£m	Note	2019	2018
Profit for the year		108	108
Other comprehensive income / (loss):			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	12	(3)	(1)
		(3)	(1)
Items that may be reclassified subsequently to the income statement:			
Gains / (losses) on cash flow hedges			
- Net fair value gains		2	–
- Reclassified and recognised in inventories		(1)	–
- Reclassified and reported in the income statement		–	1
Exchange differences on translation of foreign operations		10	(4)
		11	(3)
Other comprehensive income / (loss) for the year, net of tax		8	(4)
Total comprehensive income for the year		116	104
Attributable to the equity holders of the parent		114	104
Attributable to non-controlling interests		2	–
		116	104

WH Smith PLC
Group Balance Sheet
As at 31 August 2019

£m	Note	2019	2018
Non-current assets			
Goodwill		176	41
Other intangible assets		49	31
Property, plant and equipment		201	179
Investments in joint ventures		4	3
Deferred tax assets		8	7
Trade and other receivables		10	7
		448	268
Current assets			
Inventories		174	154
Trade and other receivables		73	60
Derivative financial assets		2	1
Cash and cash equivalents	9	49	45
		298	260
Total assets		746	528
Current liabilities			
Trade and other payables		(250)	(238)
Bank overdrafts and other borrowings	9	(15)	(33)
Retirement benefit obligations	12	(1)	(1)
Obligations under finance leases	9	(5)	(5)
Current tax liabilities		(7)	(9)
Short-term provisions		(1)	(1)
		(279)	(287)
Non-current liabilities			
Retirement benefit obligations	12	(3)	(3)
Bank overdrafts and other borrowings	9	(200)	–
Long-term provisions		(4)	(5)
Obligations under finance leases	9	(9)	(9)
Deferred tax liabilities		(3)	–
Other non-current liabilities		(11)	(12)
		(230)	(29)
Total liabilities		(509)	(316)
Total net assets		237	212

WH Smith PLC
Group Balance Sheet (continued)
As at 31 August 2019

£m	Note	2019	2018
Shareholders' equity			
Called up share capital		24	24
Share premium		9	8
Capital redemption reserve		13	13
Translation reserve		8	(2)
Other reserves		(274)	(268)
Retained earnings		455	437
Total equity attributable to the equity holders of the parent		235	212
Non-controlling interests		2	–
Total equity		237	212

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 14 to 37 were approved by the Board of Directors and authorised for issue on 17 October 2019 and were signed on its behalf by:

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

WH Smith PLC
Group Cash Flow Statement
For the year ended 31 August 2019

£m	Note	2019	2018
Operating activities			
Cash generated from operating activities	10	153	144
Interest paid		(4)	(1)
Net cash inflow from operating activities		149	143
Investing activities			
Purchase of property, plant and equipment		(47)	(43)
Purchase of intangible assets		(12)	(10)
Acquisition of businesses		(161)	(3)
Acquisition of investments in joint ventures		–	(2)
Net cash outflow from investing activities		(220)	(58)
Financing activities			
Dividend paid	8	(60)	(54)
Distributions to non-controlling interests		(2)	–
Issue of new shares for employee share schemes		1	2
Purchase of own shares for cancellation		(32)	(26)
Purchase of own shares for employee share schemes		(7)	(5)
Proceeds from borrowings	9	182	11
Financing arrangement fees		(1)	–
Repayments of obligations under finance leases		(6)	(5)
Net cash inflow / (outflow) from financing activities		75	(77)
Net increase in cash and cash equivalents in year			
		4	8
Opening cash and cash equivalents		45	38
Effect of movements in foreign exchange rates		–	(1)
Closing cash and cash equivalents	9	49	45

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

£m	Note	2019	2018
Net (debt) / funds at beginning of the year		(2)	4
Increase in cash and cash equivalents		4	8
Decrease / (Increase) in debt		18	(11)
Increase in long term borrowings		(200)	–
Net movement in finance leases		–	(2)
Effect of movements in foreign exchange rates		–	(1)
Net debt at end of the year	9	(180)	(2)

WH Smith PLC
Group Statement of Changes in Equity
For the year ended 31 August 2019

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserve	Other reserves ¹	Retained earnings	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2018	32	13	(2)	(268)	437	212	–	212
Profit for the year	–	–	–	–	106	106	2	108
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(3)	(3)	–	(3)
Cash flow hedges	–	–	–	1	–	1	–	1
Exchange differences on translation of foreign operations	–	–	10	–	–	10	–	10
Total comprehensive income for the year	–	–	10	1	103	114	2	116
Recognition of share-based payments	–	–	–	–	6	6	–	6
Dividends paid (Note 8)	–	–	–	–	(60)	(60)	–	(60)
Distributions to non-controlling interests	–	–	–	–	–	–	(2)	(2)
Employee share schemes	–	–	–	(7)	–	(7)	–	(7)
Premium on issue of new shares	1	–	–	–	–	1	–	1
Non-controlling interests arising on acquisition	–	–	–	–	–	–	2	2
Purchase of own shares for cancellation	–	–	–	–	(31)	(31)	–	(31)
Balance at 31 August 2019	33	13	8	(274)	455	235	2	237
Balance at 1 September 2017	30	13	2	(264)	406	187	–	187
Profit for the year	–	–	–	–	108	108	–	108
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1)	(1)	–	(1)
Cash flow hedges	–	–	–	1	–	1	–	1
Exchange differences on translation of foreign operations	–	–	(4)	–	–	(4)	–	(4)
Total comprehensive income for the year	–	–	(4)	1	107	104	–	104
Recognition of share-based payments	–	–	–	–	4	4	–	4
Current tax on share-based payments	–	–	–	–	1	1	–	1
Deferred tax on share-based payments	–	–	–	–	(1)	(1)	–	(1)
Premium on issue of shares	2	–	–	–	–	2	–	2
Dividends paid (Note 8)	–	–	–	–	(54)	(54)	–	(54)
Employee share schemes	–	–	–	(5)	–	(5)	–	(5)
Purchase of own shares for cancellation	–	–	–	–	(26)	(26)	–	(26)
Balance at 31 August 2018	32	13	(2)	(268)	437	212	–	212

¹ Other reserves includes Revaluation reserve of £2m (2018: £2m), ESOP reserve of (£6m) (2018: (£4m)), hedging reserve of £2m (2018: £1m) and Other reserves of (£272m) (2018: (£267m)). The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2019

1. Basis of preparation of the preliminary announcement

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 2019 has been prepared on a consistent basis with the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2018 except as described below.

The Group has adopted the following standards and interpretations which became mandatory during the current financial year.

IFRS 9 (including amendments)	Financial Instruments
IFRS 15 (including amendments and clarifications)	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendment to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendment to IAS 40	Transfers of Investment Property
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures

The Group has considered the above new standards and amendments and has concluded that, except for IFRS 9 and IFRS 15, they are either not relevant to the Group or they do not have a significant impact on the Group’s consolidated financial statements.

IFRS 9 ‘Financial Instruments’ replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’ and addresses the classification, measurement and recognition of financial assets and financial liabilities. The Group adopted IFRS 9 on 1 September 2018, applying the modified retrospective approach, which does not require restatement of prior year comparatives.

Upon adoption of IFRS 9, there has been no change to classification of the Group’s financial assets or liabilities. The standard introduces a forward-looking expected credit loss model for recognising provisions in respect of financial assets and receivables. The Group has updated its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9. The impact of using the expected credit loss model on the consolidated financial statements is immaterial.

The Group designates certain derivative financial instruments in hedge relationships. All hedge relationships were regarded as continuing hedge relationships at the date of transition, as all designated hedges under IAS 39 met the criteria for hedge accounting under IFRS 9. The Group’s risk management strategy and hedge documentation were aligned to the new standard at the date of transition.

Following an assessment, the Group concluded that IFRS 9 has an immaterial impact on the consolidated financial statements. Accordingly, no transitional adjustments have been recognised. Certain accounting policies have been updated to incorporate the requirements of IFRS 9.

IFRS 15 ‘Revenue from Contracts with Customers’ replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction Contracts’. The Group adopted IFRS 15 on 1 September 2018, applying the modified retrospective approach, which does not require restatement of the prior year comparatives.

The standard establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied and when control passes to the customer. The majority of Group sales are for standalone products made direct to customers at standard prices either in-store, online or through franchisees, where there is a single performance obligation and revenue is recognised at the point of sale or, where later, delivery to the end customer. It is the Group’s policy to sell certain products to retail customers with a right to return, however based on historical rates of return, the total expected value of returns at any point in time is immaterial to the Group. Therefore, a separate right of return asset has not been shown on the consolidated balance sheet.

Following a detailed impact assessment of each of the Group’s revenue streams, it was concluded that the adoption of IFRS 15 has an immaterial impact on the consolidated financial statements. Accordingly, no transitional adjustments have been recognised. The Group has updated its accounting policy for Revenue.

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

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2019

1. Basis of preparation of the preliminary announcement (continued)

IFRS 16, 'Leases' is effective for accounting periods beginning on or after 1 January 2019 and will therefore be applied by the Group from 1 September 2019. IFRS 16 will supersede the current lease guidance including IAS 17 and the related interpretation.

Nature of change

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

At the commencement date of a lease, a lessee will recognise a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Impact on the Group

The standard will primarily affect the accounting for the Group's operating leases relating to properties.

The Group will apply the simplified transition approach (modified retrospective approach) and will recognise the lease liability on transition at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of transition. The Group will not restate comparatives and the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to opening reserves at the date of transition.

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

- Exclude short-term leases (leases with a remaining term of less than one-year) and low-value assets (defined as less than \$5,000 at initial cost);
- Rely on its assessment of whether leases are onerous immediately before the date of transition as an alternative to performing an impairment review; and
- Exclude initial direct costs from the measurement of the right-of-use assets on transition

The Group estimates that the application of IFRS 16 will result in the recognition of a lease liability of around £470m to £490m and a right-of-use asset of around £465m to £485m, along with the derecognition of onerous lease provisions of approximately £2m and other working capital balances (including lease incentives) of approximately £6m, which results in an overall adjustment to opening reserves of approximately £5m to £8m. This excludes the amounts already recognised on the Balance sheet under finance leases.

Based on a constant portfolio of leases as at 31 August 2019 i.e., leases in place as at the current financial reporting date, the Group expects that profit before tax will be lower by approximately £3m to £5m. This is due to an increase in depreciation expense of around £95m to £100m on the right-of-use asset and an additional interest expense of approximately £8m to £10m on the lease liability, offset by the removal of the rental expense of around £100m to £105m.

There will be no impact on cash flows, although the presentation of the Cash flow statement will change, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities.

The application of IFRS 16 requires judgement particularly around the calculation of the incremental borrowing rate which has been determined on a lease-by-lease basis on transition, and determining the lease term when there are options to extend or terminate early. In addition to this, judgement is also involved in determining whether leases contain substantive substitution rights and therefore whether they meet the definition of a lease under IFRS 16. There are number of such retail concession agreements that do not meet the definition of a lease under IFRS 16 and hence are a key reconciling difference between the IAS 17 lease commitment included in Note 13 and the IFRS 16 lease liability on transition. A complete reconciliation between the 31 August 2019 IAS 17 lease commitment and the IFRS 16 lease liability on the transition date (1 September 2019) will be included in our interim accounts for the period ended 29 February 2020.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

All accounting policies in respect of lease accounting will be updated to reflect the impact of IFRS 16 in the consolidated financial statements for the year ended 31 August 2020.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2019

1. Basis of preparation of the preliminary announcement (continued)

Alternative Performance Measures ('APMs')

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 Alternative Performance Measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures.

The key APMs that the Group uses include: Headline profit before tax, Headline earnings per share, High Street and Travel trading profit, Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Net debt / funds, Return on capital employed and free cash flow. These APMs are set out in the Glossary on page 38 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

Non-underlying items

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items, that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, impairment charges and onerous lease charges, and the related tax effect of these items. The Group believes that the separate disclosure of these costs provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

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

Going concern

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

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

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2019 and 12 months to 31 August 2018 does not comprise statutory financial statements for the purpose of the Companies Act 2006, but is derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2018 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2019 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 2019 and 12 months to 31 August 2018 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in November 2019.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2019

2. Group operating profit

	2019			2018		
	Headline	Non-underlying items	Total	Headline	Non-underlying items	Total
£m						
Revenue	1,397	–	1,397	1,262	–	1,262
Cost of sales	(552)	–	(552)	(501)	–	(501)
Gross profit	845	–	845	761	–	761
Distribution costs ¹	(592)	–	(592)	(532)	–	(532)
Administrative expenses	(100)	–	(100)	(88)	–	(88)
Other income ²	7	–	7	6	–	6
Non-underlying items (Note 3)	–	(20)	(20)	–	(11)	(11)
Group operating profit	160	(20)	140	147	(11)	136

¹ During the period there was a £1m (2018: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

² Other income is profit attributable to property and the sale of property, plant and equipment, including the sale of a head office building.

£m	2019	2018
Cost of inventories recognised as an expense	552	501
Write-down of inventories in the year	4	5
Depreciation and amounts written off property, plant and equipment	42	38
Amortisation and amounts written off intangible assets	9	7
Net operating lease charges		
– land and buildings	236	212
– equipment and vehicles	–	–
Other occupancy costs	69	66
Staff costs	248	216

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3. Non-underlying items

Items which are not considered part of the normal operating costs of the business, are non-recurring and are considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Further details of non-underlying items are included in Note 1, and in the Group Overview on page 2.

£m	2019	2018
Costs relating to business combinations	11	–
Amortisation of acquired intangibles	2	–
High Street business review	7	9
Costs related to an uncompleted transaction	–	2
Non-underlying items, before tax	20	11
Tax credit on non-underlying items	(1)	–
Non-underlying items, after tax	19	11

During the period, we incurred transaction and integration costs of £11m in relation to the acquisition of InMotion which completed on 30 November 2018, as well as the amortisation of intangible assets relating to the InMotion brand.

In October 2018 we reported that we had undertaken a detailed review of our High Street businesses to ensure they remain fit for purpose now and for the future. As a result of this review, we made the following decisions: to increase the focus on our core categories; wind down non core trial initiatives including Cardmarket and WHSmith Local; restructure some operational activities; and close around 6 High Street stores. We have completed this review and as a consequence have recorded a non-underlying charge of £7m (2018: £9m) in respect of restructuring of some operational activities and the managed wind-down of the WHSmith Local franchise business. This review has been completed.

Other non-underlying items in 2018 include costs related to an uncompleted transaction.

4. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments – Travel and High Street. The Travel operating segment includes InMotion from the date of acquisition as the InMotion operations share similar economic characteristics with Travel and are managed within the Travel segment. For further information in relation to the acquisition of InMotion, see Note 14.

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

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

a) Group revenue

£m	2019	2018
Continuing operations:		
Travel	817	672
High Street	580	590
Group revenue	1,397	1,262

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4. Segmental analysis of results (continued)

b) Group results

£m	2019			2018		
	Headline	Non-underlying items	Total	Headline	Non-underlying items	Total
Continuing operations:						
Travel trading profit	117	–	117	103	–	103
High Street trading profit	60	–	60	60	–	60
Group profit from trading operations	177	–	177	163	–	163
Unallocated costs	(17)	–	(17)	(16)	–	(16)
Non-underlying items (Note 3)	–	(20)	(20)	–	(11)	(11)
Group operating profit	160	(20)	140	147	(11)	136
Finance costs	(5)	–	(5)	(2)	–	(2)
Income tax expense	(28)	1	(27)	(26)	–	(26)
Profit for the year	127	(19)	108	119	(11)	108

Included within Travel revenue and trading profit is International revenue of £252m (2018: £132m) and International trading profit of £20m (2018: £11m). International revenue includes revenue from the USA of £94m (2018: £nil) and revenue from Australia of £57m (2018: £54m).

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4. Segmental analysis of results (continued)

c) Balance sheet and other segmental information

		2019		
£m		Travel	High Street	Group
Assets				
Segment assets		410	282	692
Unallocated assets		–	–	54
Consolidated total assets		410	282	746
Liabilities				
Segment liabilities		(138)	(126)	(264)
Unallocated liabilities		–	–	(245)
Consolidated total liabilities		(138)	(126)	(509)
Net assets		272	156	237
		2018		
£m		Travel	High Street	Group
Assets				
Segment assets		206	273	479
Unallocated assets		–	–	49
Consolidated total assets		206	273	528
Liabilities				
Segment liabilities		(114)	(138)	(252)
Unallocated liabilities		–	–	(64)
Consolidated total liabilities		(114)	(138)	(316)
Net assets		92	135	212

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4. Segmental analysis of results (continued)

c) Balance sheet and other segmental information (continued)

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. Included within Travel segment assets are International non-current assets of £196m (2018: £30m). International non-current assets include assets in the USA of £163m (2018: £nil) and assets in Australia of £19m (2018: £16m).

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

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

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5. Finance costs

£m	2019	2018
Interest payable on bank loans and overdrafts	5	2
Net interest cost on defined benefit pension liabilities	–	–
	5	2

6. Income tax expense

£m	2019	2018
Tax on profit	32	29
<i>Standard rate of UK corporation tax 19.00% (2018: 19.00%)</i>		
Adjustment in respect of prior year UK corporation tax	(4)	(3)
Total current tax charge	28	26
Deferred tax – current year	(1)	(1)
Deferred tax – prior year	1	1
Tax on headline profit	28	26
Tax on non-underlying items	(1)	–
Total income tax expense	27	26

Reconciliation of the taxation charge

£m	2019	2018
Tax on profit at standard rate of UK corporation tax 19.00% (2018: 19.00%)	26	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	5	4
Adjustment in respect of prior years	(4)	(3)
Total income tax expense	27	26

The effective tax rate, before non-underlying items, was 18% (2018: 18%). The UK corporation tax rate has been 19 per cent with effect from 1 April 2017 and will reduce to 17 per cent from 1 April 2020.

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

WH Smith PLC
Notes to the Financial Statements
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7. Earnings per share

a) Earnings

£m	2019	2018
Profit for the year, attributable to equity holders of the parent	106	108
Non-underlying items	19	11
Headline profit for the year, attributable to equity holders of the parent	125	119

b) Weighted average share capital

Millions	2019	2018
Weighted average ordinary shares in issue	108	110
Less weighted average ordinary shares held in ESOP Trust	–	(1)
Weighted average shares in issue for earnings per share	108	109
Add weighted average number of ordinary shares under option	1	1
Weighted average ordinary shares for diluted earnings per share	109	110

c) Basic and diluted earnings per share

Pence	2019	2018
Basic earnings per share	98.1	99.1
Adjustments for non-underlying items	17.6	10.1
Headline Basic earnings per share	115.7	109.2
Diluted earnings per share	97.2	98.2
Adjustments for non-underlying items	17.5	10.0
Headline Diluted earnings per share	114.7	108.2

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

WH Smith PLC
Notes to the Financial Statements
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8. Dividends

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

£m	2019	2018
Dividends		
Interim dividend of 17.2p per ordinary share (2018: 16.0p per ordinary share)	19	17
Final dividend of 38.1p per ordinary share (2018: 33.6p per ordinary share)	41	37
	60	54

The proposed dividend of 41.0p per share, amounting to a final dividend of £44m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 30 January 2020 to shareholders on the register at the close of business on 10 January 2020. The final dividend will be paid gross.

9. Analysis of net debt

Movements in net debt can be analysed as follows:

£m	2018	On acquisition of subsidiaries	Cash flow	Non-cash	Currency translation	2019
Cash and cash equivalents	45	2	2	–	–	49
Borrowings						
- Borrowings - repayable after one year	–	(40)	(200)	40	–	(200)
- Revolving credit facility	(33)	–	18	–	–	(15)
- Obligations under finance leases	(14)	–	6	(6)	–	(14)
Net debt	(2)	(38)	(174)	34	–	(180)

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

An explanation of Alternative Performance Measures, including Net debt, is provided in the Glossary on page 38.

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

The Group has in place a five-year committed multi-currency revolving credit facility of £140m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2023. The utilisation is interest-bearing at LIBOR plus 85 basis points. As at 31 August 2019 the Group has drawn down £15m (2018: £33m) on this facility.

During the year, the Group agreed an additional syndicated £200m term loan to fund the acquisition of InMotion. This loan is interest bearing at LIBOR plus 100 basis points and is due to mature on 29 October 2022.

WH Smith PLC
Notes to the Financial Statements
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10. Cash generated from operating activities

£m	2019	2018
Group operating profit	140	136
Depreciation of property, plant and equipment	41	36
Impairment of property, plant and equipment	1	2
Amortisation of intangible assets	9	7
Share-based payments	6	4
Profit on disposal of property, plant and equipment	(2)	–
Other non-cash items	1	–
Increase in inventories	(2)	(4)
Increase in receivables	(6)	(8)
(Decrease) / increase in payables	(3)	1
Pension funding	(3)	(3)
Income taxes paid	(27)	(27)
Movement on provisions	(2)	–
Cash generated from operating activities	153	144

11. Fixed charges cover

£m	2019	2018
Net finance charges (Note 5)	5	2
Net operating lease rentals (Note 2)	236	212
Total fixed charges	241	214
Headline Profit before tax	155	145
Headline Profit before tax and fixed charges	396	359
Fixed charges cover – times	1.6x	1.7x

An explanation of Alternative Performance Measures, including Fixed charges cover is provided in the Glossary on page 38.

12. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 12 a) i).

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

£m	2019	2018
WHSmith Pension Trust	(3)	(3)
United News Shops Retirement Benefits Scheme	(1)	(1)
Retirement benefit obligation recognised in the balance sheet	(4)	(4)
Recognised as:		
Current liabilities	(1)	(1)
Non-current liabilities	(3)	(3)

WH Smith PLC
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12. Retirement benefit obligations (continued)

i) The WHSmith Pension Trust

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

The WHSmith Pension Trust is independent of the Group and is administered by a Trustee. The Trustee is responsible for the administration and management of the scheme on behalf of the members in accordance with the Trust Deed and relevant legislation. Responsibilities include the investment of funds, the triennial valuation and determining the deficit funding schedule. Under the terms of the Trust Deed there are ten Trustee directors of which three are appointed by the Sponsor, four are member-nominated directors, and three are independent. Trustee directors are appointed for a term of six years, and are then eligible for re-appointment.

The WHSmith Pension Trust has assets valued at £1,461m, as at 31 August 2019, managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2017 by independent actuaries using the projected unit credit method. At 31 March 2017 the deficit was £11m. The Group had agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs of just under £3m. During the year ending 31 August 2019, the Group made a contribution of £3m to the WHSmith Pension Trust (2018: £3m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2020 to be £3m. The weighted average duration of the defined benefit obligation is 18 years.

Amounts recognised in the financial statements

Balance Sheet

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

£m	2019	2018
Present value of the obligations	(1,107)	(983)
Fair value of plan assets	1,461	1,277
Surplus before consideration of asset ceiling	354	294
Amounts not recognised due to effect of asset ceiling	(354)	(294)
Additional liability recognised due to minimum funding requirements	(3)	(3)
Retirement benefit obligation recognised in the balance sheet	(3)	(3)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £3m (2018: £3m). The defined benefit pension schemes are closed to further accrual and the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £354m (2018: £294m) available on a reduction of future contributions is £nil (2018: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet. There is an ongoing actuarial deficit primarily due to the different assumptions and calculation methodologies used compared to those on interpretation of IAS 19.

WH Smith PLC
Notes to the Financial Statements
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12. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

Income Statement

The amounts recognised in the income statement were as follows:

£m	2019	2018
Net interest cost on the defined benefit liability	–	–
	–	–

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

Statement of Comprehensive Income

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

£m	2019	2018
Actuarial gain / (loss) on defined benefit obligations arising from experience	2	(7)
Actuarial (loss) / gain on defined benefit obligations arising from changes in financial assumptions	(165)	70
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	22	6
Total actuarial (loss) / gain before consideration of asset ceiling	(141)	69
Return on plan assets excluding amounts included in net interest cost	190	(54)
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	(52)	(18)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	–	1
Total actuarial loss recognised in other comprehensive income	(3)	(2)

In addition, a credit of £nil (2018: £1m) was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

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12. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

Movements in the present value of the WHSmith Pension Trust defined benefit scheme assets, obligations and minimum funding requirement in the current year were as follows:

£m	2019				2018			
	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding liability	Net retirement benefit obligation recognised
At 1 September	1,277	(983)	(297)	(3)	1,340	(1,071)	(273)	(4)
Current service cost	-	-	-	-	-	-	-	-
Interest income/(expense)	35	(27)	(8)	-	33	(26)	(7)	-
Actuarial gains/(losses)	190	(141)	(52)	(3)	(54)	69	(17)	(2)
Contributions from the sponsoring companies	3	-	-	3	3	-	-	3
Benefits paid	(44)	44	-	-	(45)	45	-	-
At 31 August	1,461	(1,107)	(357)	(3)	1,277	(983)	(297)	(3)

The actual return on scheme assets was a gain of £225m (2018: loss of £21m) due to an increase in the value of the bonds held to match the pension scheme liabilities. The increase in the value of scheme assets was greater than the increase in scheme liabilities, resulting in an increase in the IAS 19 surplus of £60m. Part of this increase in surplus arises due to changes in demographic assumptions that led to a £22m reduction in plan liabilities.

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

%	2019	2018
Rate of increase in pension payments	3.13	3.17
Rate of increase in deferred pensions	2.20	2.15
Discount rate	1.85	2.80
RPI inflation assumption	3.20	3.25
CPI inflation assumption	2.20	2.15

The mortality assumptions in years underlying the value of the accrued liabilities for 2019 and 2018 are:

Years	2019		2018	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	22.6	24.0	23.1	24.5
Member currently aged 45	23.5	25.6	24.1	26.1

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Notes to the Financial Statements
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12. Retirement benefit obligations (continued)
a) Defined benefit pension schemes (continued)
i) The WHSmith Pension Trust (continued)

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2019, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

£m	Effect on liabilities at 31 August 2019
Discount rate + / - 0.1% per annum	-20/+20
Inflation assumptions + / - 0.1% per annum	+18/-18
Life expectancy + / - 1 year	+57/-57

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme ('UNSRBS') is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members based on salary at the date of closure, with increases based on inflation. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out at 5 April 2018 by independent actuaries. Following this valuation, the deficit was less than £1m.

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

The present value of obligations and fair value of assets are stated below.

£m	2019	2018
Present value of the obligations	(8)	(7)
Fair value of plan assets	7	6
Retirement benefit obligation recognised in the balance sheet	(1)	(1)

There was a credit of £nil (2018: £1m) recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £5m for the year ended 31 August 2019 (2018: £4m).

13. Operating lease commitments

Amounts recognised in operating profit:

£m	2019	2018
Minimum lease payments	216	196
Contingent rent payments	21	17
Total rent paid	237	213
Sublease rentals received on operating leases	(1)	(1)
Net operating lease charges	236	212

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13. Operating lease commitments (continued)

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

£m	2019			2018		
	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Within one year	211	1	212	183	1	184
Within two to five years	551	2	553	464	2	466
In more than five years	221	–	221	174	–	174
	983	3	986	821	3	824

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £1m (2018: £2m). The average remaining lease length across the Group is 4.3 years.

14. Acquisitions

On 30 November 2018, the Group acquired the entire issued share capital of InMotion Entertainment Group LLC, for a total cash consideration of USD \$208m (£162m) comprising \$197m enterprise value, \$3m working capital, and \$8m cash and restricted cash.

InMotion is a market leading retailer of digital accessories in US airports, and is a strongly performing business in a category with attractive growth prospects. The acquisition provides a platform from which to expand WH Smith's international travel business into the world's largest travel retail market, and presents additional opportunities to grow the digital accessories format in key markets outside of North America, complementing WH Smith's recent success internationally.

Included within the fair value of the net identifiable assets on acquisition is an intangible asset of £15m, representing the InMotion fascia name. The Board believes that the excess of consideration paid over the net assets on acquisition of £126m is best considered as goodwill on acquisition representing future operating synergies. The goodwill calculation is summarised below:

£m	Book value	Measurement adjustments	Total
Acquiree's net assets / (liabilities) at acquisition date:			
Intangible assets	5	11	16
Property, plant and equipment	11	(1)	10
Inventories	17	(1)	16
Cash and cash equivalents	2	–	2
Trade and other receivables	6	–	6
Deferred tax assets / liabilities	–	(2)	(2)
Trade and other payables - current	(6)	(4)	(10)
Interest-bearing loans	(40)	–	(40)
Net identifiable assets / (liabilities)	(5)	3	(2)
Non-controlling interest	(2)	–	(2)
Goodwill on acquisition			126
Total consideration - satisfied in cash			122

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14. Acquisitions (continued)

Revenue of £94m and profit of £8m is included in the results for the financial year in respect of InMotion. If the acquisition had taken place on 1 September 2018, total Group revenue would have been £1,429m and Group profit before tax would have been £137m.

Reconciliation of consideration

£m	
Cash consideration	122
Cash acquired	(2)
Repayment of interest-bearing loans	40
Net outflow of cash - investing activities	160

On 4 July 2019, the Group acquired the entire issued share capital of The Card Gallery (UK) Limited, for cash consideration of £1m and contingent consideration of £1m, payable over three years based on certain performance and profit target criteria. The business is a leading online supplier of stationery and event invitations, trading as www.dottyaboutpaper.co.uk and www.treeofhearts.co.uk. This acquisition complements our existing stationery ranges in both our High Street stores and online at www.whsmith.co.uk. The fair value of assets acquired was £nil, resulting in recognition of goodwill of £2m.

Costs related to acquisitions in the year are included in the income statement in non-underlying items.

In the prior year, the Group acquired the entire share capital of The SQL Workshop Limited, for a cash consideration of £2m and contingent consideration of £1m, payable over two years based on certain performance and profit target criteria. The fair value of assets acquired was £1m of stock and other working capital, resulting in the recognition of goodwill of £2m.

15. Events after the balance sheet date

On 17 October 2019, the Group agreed the acquisition of Marshall Retail Group ('MRG') for consideration of \$400m. MRG is a fast growing independent travel retailer operating in high footfall airport and tourist locations in the United States. The acquisition, which is subject to shareholder approval, is expected to complete in the first quarter of 2020.

The Transaction will be financed through a new £200m term loan facility provided by the Group's existing relationship banks, alongside a £155m fully underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility will be expanded to £200m (from the current £140m).

WH Smith PLC

Glossary

Alternative Performance Measures

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

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

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose																								
Income Statement Measures																											
Headline Group profit before tax	Group profit before tax	Non-underlying items	Headline Group profit before tax excludes non-underlying items. A reconciliation from Headline Group profit before tax to Group profit before tax is provided in the Income Statement on page 14.																								
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	Refer to definition	Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 4 to the financial statements.																								
Non-underlying items	None	Refer to definition	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence are treated as non-underlying items and disclosed separately. The Group believes the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group’s underlying financial performance. An explanation of the nature of the items identified as non-underlying is provided in Note 3 to the financial statements.																								
Headline earnings per share	Earnings per share	Non-underlying items and dilutive effect of shares under option	Profit for the year attributable to equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of any potentially dilutive share options. See Note 7.																								
Effective tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax. See Note 6.																								
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 11.																								
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Preliminary Announcement, gross margin is calculated as gross profit divided by revenue.																								
Like-for-like revenue	Movement in revenue per the income statement	- Revenue change from non like-for-like stores - Foreign exchange impact	Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below.																								
			<table border="1"> <thead> <tr> <th></th> <th>Travel</th> <th>High Street</th> <th>Group</th> </tr> </thead> <tbody> <tr> <td>LFL revenue change</td> <td>3%</td> <td>(2)%</td> <td>1%</td> </tr> <tr> <td>Net new space impact</td> <td>4%</td> <td>-%</td> <td>2%</td> </tr> <tr> <td>Acquisitions</td> <td>15%</td> <td>-%</td> <td>8%</td> </tr> <tr> <td>Foreign exchange impact</td> <td>-%</td> <td>-%</td> <td>-%</td> </tr> <tr> <td>Total revenue change</td> <td>22%</td> <td>(2)%</td> <td>11%</td> </tr> </tbody> </table>		Travel	High Street	Group	LFL revenue change	3%	(2)%	1%	Net new space impact	4%	-%	2%	Acquisitions	15%	-%	8%	Foreign exchange impact	-%	-%	-%	Total revenue change	22%	(2)%	11%
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Balance Sheet Measures																											
Net debt	None	Reconciliation of net debt	Net debt is defined as Cash and cash equivalents, less Bank overdrafts and other borrowings and both current and non-current Obligations under finance leases. A reconciliation of Net debt is provided in Note 9.																								

WH Smith PLC Glossary

Alternative Performance Measures (continued)

Other measures

Free cash flow	Net cash inflow from operating activities	Refer to definition	Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, less net capital expenditure. The components of free cash flow are shown on page 10.
Return on capital employed (ROCE)	None	Not applicable	Return on capital employed is calculated as trading profit expressed as a percentage of operating capital employed. The calculation of ROCE is shown on page 12.