

16 October 2014

**WH SMITH PLC**  
**PRELIMINARY RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 AUGUST 2014**

**Good performance across the Group with Headline EPS up 18%**

**Group Financial Summary**

	12 months to		%
	Aug 2014	Aug 2013 <sup>1</sup>	change
Group profit before tax <sup>2</sup>	£112m	£103m	9%
Diluted earnings per share	76.0p	63.8p	19%
Travel trading profit <sup>3</sup>	£73m	£66m	11%
High Street trading profit <sup>3</sup>	£58m	£56m	4%
Group profit from trading operations <sup>3</sup>	£131m	£122m	7%
Headline Group profit before tax <sup>4</sup>	£114m	£106m	8%
Headline diluted earnings per share <sup>4</sup>	77.7p	66.1p	18%

- Total ordinary dividend per share of 35.0p, a 14% increase on the prior year; including final dividend proposed of 24.2p, up 14% on the prior year
- Strong cash generation and balance sheet; free cash flow<sup>5</sup> of £98m and net funds of £22m as at 31 August 2014
- Additional share buyback announced today of up to £50m, having completed the £50m share buyback announced in October 2013
- Group total sales down 2% with like-for-like (LFL) sales down 3%
  - Travel total sales up 4% with LFL sales flat
  - High Street total sales down 6% with LFL sales down 5%
- Gross margin improved by 160 basis points
- 30 international units won during the year, giving a total of 165 units internationally
- Increased target cost savings in High Street to £21m over the next three years
- Revised pension deficit funding schedule agreed with Trustees of £3m per annum (2014: £14m)

1 Restated to reflect adoption of IAS 19 Revised (IAS19R). See Note 1 to the financial statements

2 2014 includes £1m past service credit (see Note 3 to the Financial Statements)

3 Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Note 3 to the financial statements

4 Headline Group profit before tax excludes the non-cash income statement charge for pensions and pension service credit. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 11

5 Free cash flow is net cash flow from operating activities adjusted for net capital expenditure, pension deficit funding, net interest and settlement of contingent consideration provisions. See analysis of cash flow (page 7)

## **Stephen Clarke, Group Chief Executive said:**

“The Group has delivered a strong performance with EPS up 18% year on year. The distinct strategies for each of our businesses continue to deliver good profit growth. We had another record year in Travel, with profits up 11% to £73m, driven by an increase in total sales of 4% and continued improvement in like-for-like sales, which were up 1% in the second half. In our High Street business profits increased by 4% to £58m, demonstrating the continued success of our profit focused strategy.

“The Group is highly cash generative and as a result we have announced today a further share buyback of up to £50m and a 14% increase in the full year dividend.

“It is important to acknowledge that this performance would not be possible without the continued commitment and hard work of all our colleagues across the business.

“Looking ahead, our focus will remain on profitable growth, cash generation and investing in new opportunities that position us well for the future.”

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WH Smith PLC's Preliminary Results 2014 are available at [www.whsmithplc.co.uk](http://www.whsmithplc.co.uk). A copy of the Preliminary Results 2014 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

## **FINANCIAL REVIEW SUMMARY**

Group profit from trading operations<sup>3</sup> increased 7% on the prior year to £131m (2013: £122m) and Headline Group profit before tax<sup>4</sup> of £114m (2013: £106m), increased 8%. Total Group sales were £1,161m (2013: £1,186m) with Group LFL sales down 3%.

### **Travel**

Travel delivered another strong performance with trading profit<sup>3</sup> increasing by 11% to £73m with further improvement in gross margin and good cash generation. Sales were up 4% compared to last year and were flat on a LFL basis, reflecting an improvement in passenger trends. We continue to invest in the business and we opened 30 new units in the UK during the year, taking us to a total of 596 units in this country. We won a further 30 units in our international channel in the year, making a total of 165 units won in this channel, of which 138 are open.

### **High Street**

High Street delivered another good performance with trading profit<sup>3</sup> up 4% to £58m and good cash generation. Total sales were down 6% and down 5% on a LFL basis. We saw a strong gross margin performance and costs were tightly controlled with cost savings of £14m delivered in the year, in line with plan. An additional £11m of cost savings have been identified over the next three years making a total of £21m, of which £11m are planned for 2014/15.

### **Group**

Headline diluted earnings per share<sup>4</sup> increased by 18% to 77.7p (2013: 66.1p)<sup>1</sup>. This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback, and a decrease in the effective tax rate from 21%<sup>1</sup> to 18%.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £22m at 31 August 2014, with a Group free cash flow<sup>5</sup> of £98m. During the year we agreed a new five year committed revolving credit working capital facility of £93m, which will expire in June 2019, with our four relationship banks: Barclays Bank PLC, HSBC, Lloyds Banking Group and Santander UK PLC.

We completed the £50m return of cash to shareholders on 13 October 2014, and today we have announced a further return of cash to shareholders of up to £50m, through a rolling share buyback programme.

The Board has proposed a final dividend of 24.2p per share, a 14% increase on last year, giving a total ordinary dividend per share of 35.0p, a 14% increase on the prior year. The proposed increase in final dividend reflects the Board's confidence in the future prospects of the Group, the strong cash generative nature of the business, and our progressive dividend policy.

We continue to invest in both businesses, including capital expenditure in the year of £32m, whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced today and the proposed final dividend, we will have returned £627m of cash to shareholders since our 2007 financial year. We have done this through a combination of ordinary dividends, share buybacks and a special dividend.

Since 2006 we have reduced our issued share capital by 35% through the buyback programme and special dividend.

Financial Year	Ordinary Dividend <sup>6</sup>	Buyback	Special Dividend	Total
	£m		£m	
2015	28 <sup>7</sup>	50 <sup>8</sup>	-	78
2014	38	50	-	88
2013	34	50	-	84
2012	31	50	-	81
2011	29	55	-	84
2010	26	35	-	61
2009	23	-	-	23
2008	21	33	57	111
2007	17	-	-	17
	<b>247</b>	<b>323</b>	<b>57</b>	<b>627</b>

<sup>6</sup> Cash dividend paid

<sup>7</sup> Proposed final dividend for year ended 31 August 2014

<sup>8</sup> Buyback announced on 16 October 2014

## Trading Operations

### Travel

Travel delivered another strong performance with good cash generation. Trading profit<sup>3</sup> increased by 11% to £73m (2013: £66m) with a further improvement in gross margin and good cost control.

Total Travel sales were up 4%, with LFL sales flat for the year and second half LFL sales up 1%, reflecting the improvement in passenger trends over the year and our continued focus on space management. By channel in the UK, full year LFL sales in air were up 2%, rail down 2% and hospitals up 2%. Gross margin increased by 100bps during the period, driven by better buying and active category mix management.

We continue to identify opportunities for growth in Travel. We are investing in new space while at the same time evolving our offer to meet the changing needs of both our customers and landlords. Category mix can vary substantially by channel and even by location within a channel, so actively focusing on our category mix management enables us to best meet customer and landlord needs, improve service and efficiency, grow market share and drive margins. Following investment in our

space management systems we are able to better understand the space and category elasticities in our stores and how they change over time. This has resulted in further changes to our customer offer as we evolve our formats and trial new initiatives in each of our key channels.

In air, we have invested in improving store layouts and design by creating product zones and improving navigation, while also allocating additional space to growth areas such as, souvenirs, travel accessories and digital and electronic accessories. In rail, customer needs are different and our space and category mix management reflects this. We had positive results from our food-to-go trial in rail stores, with the meal deal promotion proving to be particularly successful. Following the success of this trial we have extended the food-to-go offer into all our key rail, airport and hospital stores across the country.

We continue to open new space in Travel. In the UK we opened 30 new units during the year including 7 in air, 7 in rail and 8 in hospitals. We plan to open a similar number of units in the current year. Looking forward, we anticipate opening around 20 stores each year over the following three years, with around 10 each year in hospitals.

In hospitals, we continue to offer our operating expertise to partners, such as M&S Simply Food, where there is a mutually beneficial opportunity. During the year we opened 4 M&S Simply Food units in locations such as Blackpool Hospital and Royal Free Hospital. We now have 6 M&S Simply Food units open, with further openings planned.

While our international business is profitable and growing fast it still remains a small part of our overall business and we continue to see opportunities to grow this business further. The WHSmith brand and offer continue to be well received by customers and landlords and we have demonstrated that we can add value and deliver improved performance. Where we have opened new stores, sales per passenger continue to outperform previous incumbents.

We have made further progress in our main hubs of Australia, South-East Asia, Middle East, India and Europe, and we now have 138 units open across four channels (air, rail, hospitals and malls), with a further 27 units won, but not yet open. We won 30 new units in the year including units in Melbourne Domestic Terminal, Bali International and Domestic Terminals, Pudong Airport, Shanghai and Stockholm Airport; and further *Fresh Plus* cafés in Australia. Additionally, we acquired a small cards and gift franchisor in Australia, *Wild Card and Gifts*, which has 40 franchisees enabling us to offer an additional brand to landlords in Australia and to develop our international wholesaling.

We will continue to utilise our three operating models and, of the 165 units we have already won, 58% are franchise, 34% direct lease and the remainder are joint venture.

As at 31 August, the Travel business operated from 725 units (2013: 675 units), including motorway service area franchise units. 15 UK units were closed in the year, primarily due to landlord redevelopment. We renewed 21 contracts and completed 29 refits during the year. Excluding franchise units, Travel occupies 0.55m square feet (2013: 0.52m square feet).

### **High Street**

High Street delivered a good profit performance, with an increase in trading profit<sup>3</sup> to £58m (2013: £56m), up 4% on the prior year. This was achieved by continuing to actively manage our space to optimise our core categories, gross margin growth and tight cost control, thereby delivering sustainable profit and good cash generation.

High Street sales were down 6% in total and down 5% on a LFL basis, reflecting our profit focused strategy, the evolving nature of some of our markets and the quality of publishing in the year. Gross margin improved by around 190bps, through rebalancing the mix of our business, better buying, improved sourcing and markdown management.

Optimal use of space is key to our strategy. We consider space as a strategic asset, as we look to maximise profitability in the current year in ways that are sustainable for future years. We work our space to maximise return on every metre drop in every store through improving margins, reducing

costs and driving third party income opportunities. Each individual store has a specific space reconfiguration twice a year driven by detailed space and product elasticity data. During the year space changes have included the addition of a further 21 Post Offices, giving us 103 in total in our stores; more space for new stationery ranges; and the installation of self-checkouts. Going forward, we will continue to manage space in this way.

Cost savings remain a core part of our strategy and we focus on all areas of cost in the business. We have made good progress again this year, delivering cost savings of £14m. These came from right across the business, including the books operating model, more targeted marketing spend and productivity improvements in our distribution centres.

We have identified an additional £11m of new cost savings, taking the target to £21m over the next three years. Of these, £11m are planned for 2014/15 and include renegotiating marketing contracts, extending energy efficient lighting to stores' back office space, and investing in technology to improve operational efficiency and enable more time to be spent on the shop floor.

We have made further progress with our trial of franchising to local newsagents under the brand WHSmith LOCAL. In exchange for a franchise fee, the franchisee benefits from our brand, space management, sourcing and stationery ranges. We initially trialled the concept with five stores and, after encouraging results, we have extended this to 30 stores, most of which have only recently opened.

We have also announced today that we plan to trial a small number of standalone greeting cards stores, branded *cardmarket*. In contrast to our existing greeting cards offer, which is at the premium end of the market, these stores will provide customers with a value based proposition in this growing part of the market. The trial will be in relatively low rent, short term leases in non prime pitch locations.

The High Street business now operates from 604 stores (2013: 615), which occupy 2.94m square feet (2013: 3.00m square feet). 11 stores were closed in the year.

## **Category Performance**

### Stationery:

Our strategy to build on our strong market position remains unchanged. Our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; the ability to source competitively through our Far East sourcing office, and our scale enable us to differentiate ourselves in this category. Like-for-like sales were down 1% in the year with the second half up 1% and we saw further gross margin improvement. During the year, Stationery has continued to benefit from additional space with range development in areas such as fashion stationery and filing. As a result of our new ranges, we saw a strong performance over the key Back to School period.

Our online personalised greetings card and gifting website, Funkypigeon.com, continues to grow its profit and performed well over the key seasons in the year. Following further investment in the website and apps, we saw increased conversion across all devices. Looking forward we continue to see investment opportunities in the website, apps, marketing and customer offer to grow the business further.

### Books:

In Books, the market continues to be challenging and vary by category, with the quality of publishing still the biggest driver of market performance. Kids book sales have been more resilient than Adult books, helped by the successful *Minecraft* series, and we continue to adapt our space in this category to optimise market dynamics. Our approach is to focus on areas of market growth, build on areas of relative strength and drive the overall net profitability of the category. An example of this is the recent improvements to our books operating model which helps us to deliver margin improvements and efficiency savings.

While the eBooks market continues to see growth, it is evolving as we had expected with rates of growth and value penetration slowing. eBooks remain a relatively small proportion of the consumer

books market with the biggest penetration in Fiction. Over 75% of our book sales are Non-Fiction and Kids, reflecting our core book customers who are lighter, less affluent book buyers. According to publishers the rate of growth and penetration of eBooks has slowed with value penetration estimated to be around 15% - 18%, with growth closer to 20% than the 100% we have seen in recent years. Our partnership with Kobo continues to develop with the Kobo shops performing well. As a result, we have extended our contract with Kobo to 2018. As the focus of eReading moves towards multi-function tablets through apps, our plans with Kobo reflect this.

#### News and Impulse:

News and Impulse like-for-like sales were down 1% for the full year with the second half flat on last year. We saw a further improvement in gross margin. The newspaper and magazine market continues to be challenging but we held our market share through a number of successful promotions across key titles. We continue to develop the growing bookazine category which helps improve our margins and our range now includes over 400 titles. As we actively manage our space, we have extended our food-to-go offer in Travel to all key rail, airport and hospital stores.

#### Group profit

The Group generated a Headline profit before tax<sup>4</sup> of £114m (2013: £106m)<sup>1</sup>, an increase of 8% on the prior year.

£m	2014	2013 <sup>1</sup>	Growth %
Travel trading profit <sup>3</sup>	73	66	11%
High Street trading profit <sup>3</sup>	58	56	4%
<b>Group profit from trading operations<sup>3</sup></b>	<b>131</b>	<b>122</b>	<b>7%</b>
Unallocated central costs	(15)	(15)	
<b>Group operating profit<sup>9</sup></b>	<b>116</b>	<b>107</b>	<b>8%</b>
Net finance cost <sup>10</sup>	(2)	(1)	
<b>Headline Group profit before taxation</b>	<b>114</b>	<b>106</b>	<b>8%</b>
Pension past service credit	1	-	
IAS19 (R) pension interest charge	(3)	(3)	
<b>Profit before taxation</b>	<b>112</b>	<b>103</b>	<b>9%</b>

<sup>9</sup> Headline, excludes £1m pension past service credit.

<sup>10</sup> Excluding IAS 19 (R) pension interest charge

#### Tax

The effective tax rate was 18% (2013: 21%)<sup>1</sup>, reflecting the lower statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate also to be around 18%. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

#### Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.6 times (2013: 1.6 times)<sup>1</sup> by profit before tax and fixed charges.

#### Dividends

The Board has proposed a final dividend of 24.2p per share, an increase of 14% on the prior year, giving a total ordinary dividend per share of 35.0p, a 14% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 29 January 2015 to shareholders registered at the

close of business on 9 January 2015. 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.

## Cash Flow

The Group generated free cash flow of £98m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2014	2013
Group operating profit	116 <sup>11</sup>	107
Depreciation, amortisation & amounts written off fixed assets	36	37
Working capital	2	1
Employers payroll tax on exercised share awards	(5)	-
Capital expenditure	(32)	(38)
Tax paid	(21)	(19)
Net interest paid	(1)	-
Net provisions	(2)	-
Other items	5	7
<b>Free cash flow</b>	<b>98</b>	<b>95</b>

<sup>11</sup> Headline excludes £1m pension past service credit.

Cash inflows from working capital were £2m as we continue to focus on working capital management, and capital expenditure was £32m in the year. This was £6m lower than the prior year which included spend on new tills. We expect capex spend to be around £38m for the current year reflecting additional new stores and further investment in technology and our existing stores.

Capex £m	2014	2013
New stores and store development	11	9
Refurbished stores	12	12
Systems	7	14
Other	2	3
<b>Total capital expenditure</b>	<b>32</b>	<b>38</b>

Net corporation tax paid was £21m, compared to £19m last year, following the increase in Group profit. During the year we also paid the employers' payroll tax on the MIP and LTIP grants following the vesting of the 2010 MIP and LTIP awards. We do not anticipate a similar level of cost this year.

## Net Funds

The movement in net funds is as follows:

£m	2014	2013
Opening net funds	31	36
Free cash flow	98	95
Equity dividends paid <sup>12</sup>	(38)	(34)
Pension deficit funding	(14)	(12)
Net purchase of own shares for employee share schemes	(10)	(1)
Purchase of own shares for cancellation	(41)	(50)
Acquisitions and earnout payments	(3)	(3)
Other	(1)	-
<b>Closing net funds</b>	<b>22</b>	<b>31</b>

<sup>12</sup> Dividends paid include current year interim and prior year final dividends paid.

In addition to the £98m of free cash flow generated in the year, the Group has seen a net cash outflow of £66m in relation to non-trading operations. This includes £38m of dividend payments, £14m pension funding and net ESOP trust purchases of £10m.

As at 31 August 2014 net funds were £22m. The £50m return of cash to shareholders announced on 10 October 2013 was completed on 13 October 2014. £41m of this buyback was completed by 31 August 2014. A further buyback of up to £50m was announced on 16 October 2014.

During the year we agreed a five year committed revolving credit working capital facility of £93m. This facility is provided equally by Barclays PLC, HSBC, Lloyds Banking Group and Santander UK PLC and will mature on 9 June 2019.

## Balance Sheet

The Group had net assets of £146m (2013: £152m) at the end of the period, before the net effect of the pension liability and associated deferred tax asset, reflecting the cash generated during the year and the £41m return of cash to shareholders through the share buyback.

£m	2014	2013
Goodwill and other intangible assets	56	55
Property plant and equipment	147	149
	203	204
Inventories	144	148
Payables less receivables	(189)	(194)
Working capital	(45)	(46)
Derivative financial asset	-	1
Net current and deferred tax liability	(29)	(31)
Provisions	(5)	(7)
<b>Operating assets employed</b>	<b>124</b>	<b>121</b>
Net funds	22	31
<b>Net assets excluding pension liability</b>	<b>146</b>	<b>152</b>
IFRIC 14 pension liability	(55)	(62)
Deferred tax asset on IFRIC 14 pension liability	10	12
<b>Total net assets</b>	<b>101</b>	<b>102</b>

## Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m <sup>13</sup>	ROCE <sup>14</sup> %	ROCE% with operating leases capitalised <sup>15</sup>
Travel	69	106	28
High Street	108	54	19
<b>Retail</b>	<b>177</b>	<b>74</b>	<b>23</b>
Unallocated central items	(53)		
<b>Operating assets employed</b>	<b>124</b>	<b>94</b>	<b>23</b>

<sup>13</sup> Net assets adjusted for net funds and retirement benefit obligations (and associated deferred tax asset).

<sup>14</sup> Return on capital employed is calculated as the operating profit as a percentage of operating capital employed.

<sup>15</sup> Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.



For the prior year, comparable ROCE was 88 per cent (20 per cent - after capitalised operating leases).

### ***Pensions***

On the 15 October 2014, the Group agreed a revised deficit funding schedule for the main defined benefit pension scheme, the WHSmith Trust, based on an actuarial revaluation at 31 March 2014. This was a year earlier than under the triennial regime to reflect the improvement in the scheme's position since the last revaluation at 31 March 2012. As at 31 March 2014, the Group had an actuarial deficit of £24m compared to £75m at 31 March 2012. A new schedule of contributions has been agreed with the Trustees from October 2014 of around £3m per annum for nine years.

For this financial year the revised schedule of contributions will result in a contribution of approximately £4m, compared to £14m last year, a net reduction after tax of approximately £8m.

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 85% of the inflation and interest rate risks hedged.

As at 31 August 2014, the Group has an IFRIC 14 minimum funding requirement of £55m (2013: £62m) and an associated deferred tax asset of £10m (2013: £12m). This was based on the funding requirement in place at the balance sheet date. The revised schedule of contributions based on the 31 March 2014 revaluation will be used to calculate the current year IFRIC 14 liability which is anticipated to be around £20m net of deferred tax.

As at 31 August 2014, the scheme had an IAS 19(R) surplus of £155m (2013: surplus of £108m) 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(R).

The adoption of IAS 19(R) in the financial year ending 31 August 2014 is a mandatory change in accounting policy to require pension interest in the Income Statement to be calculated on the net balance sheet position at the beginning of the period. The resulting non-cash pension charge is £3m. The comparatives for the year ending 31 August 2013 have been restated and also reflect a non-cash charge of £3m following this required change in accounting policy. We anticipate the pension interest charge for the current year to be around £2m.

In addition, in the year ended 31 August 2014 we have recognised a credit of £1m (2013: £nil) relating to a trivial commutation exercise, which represents a settlement of liabilities and is accounted for as a past service credit under IAS 19(R). We have excluded this amount from Headline Group profit before tax as this is a one-off gain and is unrelated to the underlying performance of the Group.

The IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £nil (2013: £nil).

### ***Operating leases***

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

The business has an annual minimum net rental commitment of £165m (2013: £167m) (net of £2m of external rent receivable (2013: £2m)). The total future rental commitment at the balance sheet date amounted to £881m (2013: £987m) with the leases having an average life of five years.

### **Contingent liabilities**

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Connect Group PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Connect Group PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £7m (2013: £12m).

### **Principal risks and uncertainties**

There are a number of potential risks and uncertainties that could have a material impact on the Group's financial performance and position. These include: economic, political, competitive and market risks; reliance on the WHSmith brand; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; and treasury, financial and credit risk. A full description of these risks and our mitigating actions will be provided in the Annual Report and Accounts 2014.

*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.*

### **Interim Management Statement**

The Group will issue its Interim Management Statement on 12 November 2014.

**WH Smith PLC**  
**Group Income Statement**  
For the year ended 31 August 2014

£m	Note	2014			2013 Restated <sup>1</sup>		
		Headline	Non-underlying items <sup>2</sup>	Total	Headline	Non-underlying items <sup>2</sup>	Total
<b>Continuing operations</b>							
Revenue		1,161	-	1,161	1,186	-	1,186
<b>Operating profit</b>	2	116	1	117	107	-	107
Investment income		-	-	-	-	-	-
Finance costs	4	(2)	(3)	(5)	(1)	(3)	(4)
<b>Profit before tax</b>		114	(2)	112	106	(3)	103
Income tax expense	5	(20)	-	(20)	(22)	-	(22)
<b>Profit for the year</b>		94	(2)	92	84	(3)	81
<b>Earnings per share</b>							
Basic	6			77.3p			66.4p
Diluted	6			76.0p			63.8p
<b>Non GAAP measures</b>							
<b>Headline earnings per share</b>							
Basic	6			79.0p			68.9p
Diluted	6			77.7p			66.1p
<b>Equity dividends per share<sup>3</sup></b>				35.0p			30.7p
<b>Fixed charges cover</b>	10			1.6x			1.6x

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

<sup>2</sup> Non-underlying items include the non-cash income statement charge for pensions and for 31 August 2014 a one off pension past service credit (Note 11).

<sup>3</sup> Dividend per share is the final proposed dividend of 24.2p (2013: 21.3p) and the interim dividend of 10.8p (2013: 9.4p)

**WH Smith PLC**  
**Group Statement of Comprehensive Income**  
For the year ended 31 August 2014

£m	Note	2014	2013 Restated <sup>1</sup>
<b>Profit for the period</b>		<b>92</b>	<b>81</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified subsequently to the income statement:</b>			
Actuarial losses on defined benefit pension schemes	11	<b>(5)</b>	-
Tax on defined benefit pension schemes		<b>1</b>	-
		<b>(4)</b>	-
<b>Items that may be reclassified subsequently to the income statement:</b>			
Mark to market valuation of derivative financial assets		<b>(1)</b>	1
Exchange differences on translation of foreign operations		<b>(1)</b>	-
		<b>(2)</b>	1
<b>Other comprehensive loss for the period, net of tax</b>		<b>(6)</b>	<b>1</b>
<b>Total comprehensive income for the period</b>		<b>86</b>	<b>82</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

**WH Smith PLC**  
**Group Balance Sheet**  
As at 31 August 2014

<b>£m</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Non-current assets</b>			
Goodwill		34	33
Other intangible assets		22	22
Property, plant and equipment		147	149
Deferred tax assets		17	23
Trade and other receivables		2	3
		<b>222</b>	<b>230</b>
<b>Current assets</b>			
Inventories		144	148
Trade and other receivables		54	51
Current tax asset		3	2
Derivative financial asset		-	1
Cash and cash equivalents	8	34	31
		<b>235</b>	<b>233</b>
<b>Total assets</b>		<b>457</b>	<b>463</b>
<b>Current liabilities</b>			
Trade and other payables		(230)	(232)
Bank overdrafts and other borrowings	8	(12)	-
Retirement benefit obligation	11	(11)	(11)
Current tax liabilities		(39)	(42)
Short-term provisions		(2)	(3)
		<b>(294)</b>	<b>(288)</b>
<b>Non-current liabilities</b>			
Retirement benefit obligation	11	(44)	(51)
Deferred tax liabilities		-	(2)
Long-term provisions		(3)	(4)
Other non-current liabilities		(15)	(16)
		<b>(62)</b>	<b>(73)</b>
<b>Total liabilities</b>		<b>(356)</b>	<b>(361)</b>
<b>Total net assets</b>		<b>101</b>	<b>102</b>
<b>Total equity</b>		<b>101</b>	<b>102</b>

**WH Smith PLC**  
**Group Balance Sheet**  
As at 31 August 2014 (continued)

£m	Note	2014	2013
<b>Shareholders' equity</b>			
Called up share capital		26	27
Share premium		4	4
Capital redemption reserve		11	10
Revaluation reserve		2	2
ESOP reserve		(11)	(21)
Hedging reserve		-	1
Translation reserve		(3)	(3)
Other reserve		(235)	(215)
Retained earnings		307	297
<b>Total equity</b>		<b>101</b>	<b>102</b>

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 16 October 2014 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 2014

<b>£m</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Net cash inflow from operating activities</b>	9	<b>116</b>	<b>119</b>
<b>Investing activities</b>			
Interest received		-	-
Purchase of property, plant and equipment		(28)	(32)
Purchase of intangible assets		(4)	(6)
Acquisition of business		(2)	(1)
<b>Net cash outflow from investing activities</b>		<b>(34)</b>	<b>(39)</b>
<b>Financing activities</b>			
Interest paid		(1)	-
Dividend paid		(38)	(34)
Purchase of own shares for cancellation		(41)	(50)
Purchase of own shares for employee share schemes		(10)	(1)
Proceeds from borrowings		12	-
<b>Net cash used in financing activities</b>		<b>(78)</b>	<b>(85)</b>
<b>Net increase / (decrease) in cash and cash equivalents in year</b>		<b>4</b>	<b>(5)</b>
Opening net cash and cash equivalents		31	36
Effect of movements in foreign exchange rates		(1)	-
<b>Closing net cash and cash equivalents</b>		<b>34</b>	<b>31</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>£m</b>	<b>Note</b>	<b>2014</b>	<b>2014</b>
<b>Net funds at beginning of the year</b>		<b>31</b>	<b>36</b>
Decrease in cash and cash equivalents		3	(5)
(Increase) / decrease in debt		(12)	-
<b>Net funds at end of the year</b>	8	<b>22</b>	<b>31</b>

**WH Smith PLC**  
**Group Statement of Changes in Equity**  
For the year ended 31 August 2014

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve <sup>1</sup>	Retained earnings	Total
<b>Balance at 1 September 2013</b>	<b>31</b>	<b>10</b>	<b>2</b>	<b>(21)</b>	<b>(2)</b>	<b>(215)</b>	<b>297</b>	<b>102</b>
Total comprehensive income for the period	-	-	-	-	(1)	-	87	86
Recognition of share-based payments	-	-	-	-	-	-	5	5
Deferred tax on share-based payments	-	-	-	-	-	-	(2)	(2)
Premium on issue of shares	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(38)	(38)
Employee share schemes	-	-	-	10	-	(20)	-	(10)
Purchase of own shares for cancellation	(1)	1	-	-	-	-	(42)	(42)
<b>Balance at 31 August 2014</b>	<b>30</b>	<b>11</b>	<b>2</b>	<b>(11)</b>	<b>(3)</b>	<b>(235)</b>	<b>307</b>	<b>101</b>
<b>Balance at 1 September 2012</b>	<b>32</b>	<b>8</b>	<b>2</b>	<b>(22)</b>	<b>(3)</b>	<b>(212)</b>	<b>290</b>	<b>95</b>
Total comprehensive income for the period	-	-	-	-	1	-	81	82
Recognition of share-based payments	-	-	-	-	-	-	7	7
Deferred tax on share-based payments	-	-	-	-	-	-	3	3
Premium on issue of shares	1	-	-	-	-	-	-	1
Dividends paid	-	-	-	-	-	-	(34)	(34)
Employee share schemes	-	-	-	1	-	(3)	-	(2)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(50)	(50)
<b>Balance at 31 August 2013</b>	<b>31</b>	<b>10</b>	<b>2</b>	<b>(21)</b>	<b>(2)</b>	<b>(215)</b>	<b>297</b>	<b>102</b>

<sup>1</sup> 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, as well as movements relating to employee share schemes of £20m (2013: £3m).



**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**1. Preparation of the preliminary announcement**

**a) Basis of preparation**

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

The preliminary announcement for the 12 months to 31 August 2014 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 2013 except as described below.

The Group has adopted the following standards and interpretations which became mandatory during the current financial year. With the exception of IAS 19, the impact of which is outlined below, these changes have had no material impact on the Group’s financial statements:

Amendments to IAS 19	Employee Benefits
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Amendments to IFRS 1	Government Loans
Annual Improvements 2009-2011	(issued May 2012)

**IAS 19 (Revised)**

In June 2011 the IASB issued amendments to IAS 19 “Employee Benefits” (IAS 19 (Revised)). The revised standard is effective for the Group for the first time during the year ended 31 August 2014. The impact on the Group’s defined benefit pension schemes is to replace the interest expense on retirement benefit obligations and the expected return on plan assets with a single net interest amount that is calculated by applying the discount rate to the net retirement benefit surplus or deficit. In addition, the administration costs of the pension scheme, previously charged against the expected return on plan assets, are now charged within operating costs. The impact of the amendment for the year ended 31 August 2014 has been to reduce profit before tax by £6m and reduce basic and diluted EPS by 3.4p and 3.3p respectively (Headline basic and diluted EPS have been increased by 1.7p). Prior year comparatives have been restated in accordance with IAS 8, and the impact of these restatements is set out below.

£m	31 August 2013		
	Previously reported	Impact of IAS 19 (Revised)	Restated
Headline profit before tax	106	-	106
Non-cash income statement income / (charge) for pensions	2	(5)	(3)
Profit before tax	108	(5)	103
Income tax expense	(21)	(1)	(22)
Profit after tax	87	(6)	81
Earnings per share			
Basic	71.3p	(4.9p)	66.4p
Diluted	68.5p	(4.7p)	63.8p
Headline earnings per share			
Basic	69.7p	(0.8p)	68.9p
Diluted	66.9p	(0.8p)	66.1p

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

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

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

£m	31 August 2013		
	Previously reported	Impact of IAS 19 (Revised)	Restated
Statement of comprehensive income			
Profit after tax	87	(6)	81
Actuarial (losses) / gains	(5)	5	-
Tax on items taken directly to equity	(1)	1	-
Other items of comprehensive income	1	-	1
<b>Total comprehensive income</b>	<b>82</b>	<b>-</b>	<b>82</b>

**Going concern**

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

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

**b) Preliminary announcement**

The financial information contained within this preliminary announcement for the 12 months to 31 August 2014 and 12 months to 31 August 2013 do not comprise statutory financial statements for the purpose of the Companies Act 2006, but are derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2013 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2014 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 2014 and 12 months to 31 August 2013 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in December 2014.

**2. Group operating profit**

£m	2014	2013
<b>Revenue</b>	<b>1,161</b>	<b>1,186</b>
Cost of sales	(502)	(531)
<b>Gross profit</b>	<b>659</b>	<b>655</b>
Distribution costs <sup>1</sup>	(473)	(475)
Administrative expenses <sup>2</sup>	(72)	(76)
Other income <sup>1</sup>	3	3
<b>Group operating profit</b>	<b>117</b>	<b>107</b>

<sup>1</sup> Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m (2013: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

<sup>2</sup> Includes £1m non-underlying pension past service credit in 2014 which is excluded from Headline profit before tax. See Note 11.

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**2. Group operating profit (continued)**

£m	2014	2013
Cost of inventories recognised as an expense	502	531
Write-down of inventories in the period	3	4
Depreciation and amounts written off property, plant and equipment	31	31
Amortisation and amounts written off intangible assets	5	6
Net operating lease charges		
- land and buildings	184	181
- equipment and vehicles	1	1
Other occupancy costs	66	67
Staff costs	183	186

**3. Segmental analysis of results**

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

**a) Group revenue**

£m	2014	2013
<b>Continuing operations:</b>		
Travel	477	460
High Street	684	726
<b>Group revenue</b>	<b>1,161</b>	<b>1,186</b>

**b) Group results**

£m	2014			2013 Restated <sup>1</sup>		
	Headline	Non-underlying items <sup>2</sup>	Total	Headline	Non-underlying items <sup>2</sup>	Total
<b>Continuing operations:</b>						
Travel	73	-	73	66	-	66
High Street	58	-	58	56	-	56
<b>Profit from trading operations</b>	<b>131</b>	<b>-</b>	<b>131</b>	<b>122</b>	<b>-</b>	<b>122</b>
Unallocated costs	(15)	-	(15)	(15)	-	(15)
<b>Group operating profit before non-underlying items</b>	<b>116</b>	<b>-</b>	<b>116</b>	<b>107</b>	<b>-</b>	<b>107</b>
Non-underlying operating items (Note 11)	-	1	1	-	-	-
<b>Group operating profit</b>	<b>116</b>	<b>1</b>	<b>117</b>	<b>107</b>	<b>-</b>	<b>107</b>
Investment income	-	-	-	-	-	-
Finance costs	(2)	(3)	(5)	(1)	(3)	(4)
Income tax expense	(20)	-	(20)	(22)	-	(22)
<b>Profit for the year</b>	<b>94</b>	<b>(2)</b>	<b>92</b>	<b>84</b>	<b>(3)</b>	<b>81</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

<sup>2</sup> Non-underlying items include the non-cash income statement charge for pensions and for 31 August 2014 a one off pension past service credit (Note 11).

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**3. Segmental analysis of results (continued)**  
**c) Balance sheet and other segmental information**

£m	2014				Group
	Travel	High Street	Continuing operations	Discontinued operations	
<b>Assets</b>					
Segment assets	135	270	405	-	405
Unallocated assets	-	-	52	-	52
<b>Consolidated total assets</b>	<b>135</b>	<b>270</b>	<b>457</b>	<b>-</b>	<b>457</b>
<b>Liabilities</b>					
Segment liabilities	(66)	(162)	(228)	(3)	(231)
Unallocated liabilities	-	-	(125)	-	(125)
<b>Consolidated total liabilities</b>	<b>(66)</b>	<b>(162)</b>	<b>(353)</b>	<b>(3)</b>	<b>(356)</b>
<b>Net assets / (liabilities)</b>	<b>69</b>	<b>108</b>	<b>104</b>	<b>(3)</b>	<b>101</b>
Capital additions	17	16	33	-	33
Depreciation and amortisation of non-current assets	(11)	(23)	(34)	-	(34)
Impairment losses	-	(2)	(2)	-	(2)
<b>2013</b>					
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
<b>Assets</b>					
Segment assets	126	285	411	-	411
Unallocated assets	-	-	52	-	52
<b>Consolidated total assets</b>	<b>126</b>	<b>285</b>	<b>463</b>	<b>-</b>	<b>463</b>
<b>Liabilities</b>					
Segment liabilities	(66)	(166)	(232)	(3)	(235)
Unallocated liabilities	-	-	(126)	-	(126)
<b>Consolidated total liabilities</b>	<b>(66)</b>	<b>(166)</b>	<b>(358)</b>	<b>(3)</b>	<b>(361)</b>
<b>Net assets / (liabilities)</b>	<b>60</b>	<b>119</b>	<b>105</b>	<b>(3)</b>	<b>102</b>
Capital additions	14	17	31	-	31
Depreciation and amortisation of non-current assets	(10)	(25)	(35)	-	(35)
Impairment losses	(1)	(1)	(2)	-	(2)

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities.

Discontinued operations include property provisions relating to reversionary leases and provisions for discontinued operations (USA Travel).

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**4. Finance costs**

<b>£m</b>	<b>2014</b>	<b>2013</b> <b>Restated<sup>1</sup></b>
Interest payable on bank loans and overdrafts	1	-
Unwinding of discount on provisions	1	1
Net interest cost on the defined benefit pension liability	3	3
	<b>5</b>	<b>4</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

**5. Income tax expense**

<b>£m</b>	<b>2014</b>	<b>2013</b> <b>Restated<sup>1</sup></b>
Tax on profit from continuing operations	32	37
<i>Standard rate of UK corporation tax 22.16% (2013: 23.58%)</i>		
Adjustment in respect of prior year UK corporation tax	(12)	(15)
<b>Total current tax charge - continuing operations</b>	<b>20</b>	<b>22</b>
Deferred tax – current year	-	-
Deferred tax – prior year	-	-
<b>Tax on profit – continuing operations</b>	<b>20</b>	<b>22</b>
<i>Effective tax rate on continuing activities</i>	<i>18%</i>	<i>21%</i>
<b>Tax on Headline profit – continuing operations</b>	<b>20</b>	<b>22</b>
<i>Effective tax rate on Headline profit – continuing activities</i>	<i>18%</i>	<i>21%</i>

**Reconciliation of the taxation charge**

<b>£m</b>	<b>2014</b>	<b>2013</b> <b>Restated<sup>1</sup></b>
Tax on profit from continuing operations at standard rate of UK corporation tax 22.16% (2013: 23.58%)	25	24
Tax effect of items that are not deductible or not taxable in determining taxable profit	7	13
Adjustment in respect of prior years	(12)	(15)
<b>Tax charge - continuing operations</b>	<b>20</b>	<b>22</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

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

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. Included in the total tax creditor of £39m is a provision of approximately £13m which relates to a commercial structure put in place in the year ending 31 August 2009. This historical structure is the subject of ongoing discussions with HMRC and the Group has received a payment on account for this £13m which could be repaid to HMRC prior to the conclusion of this matter.

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**6. Earnings per share**

**a) Earnings**

	2014	2013
£m		Restated <sup>1</sup>
<b>Earnings attributable to shareholders</b>	<b>92</b>	<b>81</b>
Adjusted for non-headline items (net of taxation):		
Non-cash income statement charge for pensions	3	3
Operating exceptional items	(1)	-
<b>Headline earnings attributable to shareholders</b>	<b>94</b>	<b>84</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

**b) Weighted average share capital**

	2014	2013
Millions		
Weighted average ordinary shares in issue	121	127
Less weighted average ordinary shares held in ESOP Trust	(2)	(5)
<b>Weighted average ordinary shares for earnings per share</b>	<b>119</b>	<b>122</b>
Add weighted average number of ordinary shares under option	2	5
<b>Weighted average ordinary shares for diluted earnings per share</b>	<b>121</b>	<b>127</b>

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

	2014	2013
Pence		Restated <sup>1</sup>
Basic earnings per share	77.3	66.4
Adjustments for non-headline items	1.7	2.5
Basic headline earnings per share	79.0	68.9
Diluted earnings per share	76.0	63.8
Adjustments for non-headline items	1.7	2.3
Diluted headline earnings per share	77.7	66.1

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

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

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**7. Dividends**

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

<b>£m</b>	<b>2014</b>	<b>2013</b>
<b>Dividends</b>		
Interim dividend of 10.8p per ordinary share (2013: 9.4p per ordinary share)	12	11
Final dividend of 21.3p per ordinary share (2013: 18.6p per ordinary share)	26	23
	<b>38</b>	<b>34</b>

The proposed dividend of 24.2p per share, amounting to a final dividend of £28m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 29 January 2015 to shareholders on the register at the close of business on 9 January 2015.

**8. Analysis of net funds**

Movements in net funds can be analysed as follows:

<b>£m</b>	<b>2013</b>	<b>Cash flow</b>	<b>2014</b>
Cash and cash equivalents	31	3	34
Borrowings	-	(12)	(12)
<b>Net cash</b>	<b>31</b>	<b>(9)</b>	<b>22</b>

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

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

The Group has in place a five-year committed multi-currency revolving credit facility of £93.3m with Barclays Bank PLC, HSBC, Lloyds Banking Group and Santander UK PLC. The revolving credit facility is due to mature on 9 June 2019. The utilisation is interest-bearing at LIBOR plus 90 basis points. Utilisation at 31 August 2014 was £12m, and the utilisation of the previous facility as at 31 August 2013 was £nil.

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

<b>£m</b>	<b>2014</b>	<b>2013</b>
<b>Operating profit from continuing operations</b>	<b>117</b>	<b>107</b>
Depreciation of property, plant and equipment	29	29
Impairment of property, plant and equipment	2	2
Amortisation of intangible assets	5	6
Share-based payments	5	7
Decrease in inventories	4	3
(Increase) / decrease in receivables	(2)	4
Decrease in payables	(5)	(6)
Pension funding	(14)	(12)
Non-cash pension past service credit	(1)	-
Income taxes paid	(21)	(19)
Charge to provisions	1	1
Cash spend against provisions	(4)	(3)
<b>Net cash inflow from operating activities</b>	<b>116</b>	<b>119</b>

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

**10. Fixed Charges Cover**

£m	2014	2013 Restated <sup>1</sup>
Net finance charges	5	4
Net operating lease rentals	185	182
<b>Total fixed charges</b>	<b>190</b>	<b>186</b>
<b>Profit before tax and non-underlying items</b>	<b>111</b>	<b>103</b>
<b>Profit before tax, non-underlying items and fixed charges</b>	<b>301</b>	<b>289</b>
<b>Fixed charges cover - times</b>	<b>1.6x</b>	<b>1.6x</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

**11. Retirement benefit obligation**

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WH Smith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 11 a) i).

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

£m	2014	2013
WHSmith Pension Trust	(55)	(62)
United News Shops Retirement Benefits Scheme	-	-
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>(55)</b>	<b>(62)</b>

**a) Defined benefit pension schemes**

**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, has assets valued at £1,087m as at 31 August 2014 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 and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges and equity option agreements, 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. As at the balance sheet date on 31 August 2014, the latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2012 by independent actuaries using the projected unit credit method. The March 2012 deficit was £75m, and a revised deficit funding schedule of approximately £13m per annum (subject to indexation) over the following seven years was agreed with the Trustee. During the year ending 31 August 2014, the Group made a contribution of £14m to the WHSmith Pension Trust (2013: £12m) in accordance with the agreed pension deficit funding schedule. The weighted average duration of the defined benefit obligation is 18 years.

Since the balance sheet date the Trustees have completed a full actuarial valuation of the WHSmith Pension Trust as at 31 March 2014. As at 31 March 2014 the deficit was £24m. A revised deficit funding schedule of approximately £3m per annum with effect from 1 October 2014, for the following nine years, has been agreed with the Trustee. The expected pension contributions for the year ended 31 August 2015 will be approximately £4m to reflect the higher contribution paid in September 2014 under the previous schedule of contributions. This valuation has not been reflected in the minimum funding requirement recognised at the balance sheet date.



**WH Smith PLC**  
**Notes to the Financial Statements**  
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**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:

<b>£m</b>	<b>2014</b>	<b>2013</b>
Present value of the obligations	(932)	(856)
Fair value of plan assets	1,087	964
<b>Surplus before consideration of asset ceiling</b>	<b>155</b>	<b>108</b>
Amounts not recognised due to effect of asset ceiling	(155)	(108)
Additional liability recognised due to minimum funding requirements	(55)	(62)
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>(55)</b>	<b>(62)</b>

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £155m (2013: £108m) available on a reduction of future contributions is £nil (2013: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. Scheme assets are stated at their market value at the reporting date.

**Income Statement**

The amounts recognised in the income statement were as follows:

<b>£m</b>	<b>2014</b>	<b>2013</b>
Current service cost	-	-
Administration expenses	-	-
Past service credit <sup>1</sup>	1	-
Net interest cost on the defined benefit liability	(3)	(3)
	<b>(2)</b>	<b>(3)</b>

<sup>1</sup> The past service credit is a one-off non-underlying item and has been excluded from Headline profit before tax.

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

Following a change to the trivial commutation limit from £18,000 to £30,000 announced in the 2014 Budget, members of the WHSmith Pension Trust were given the opportunity to take a trivial commutation payment. The result of this exercise was the recognition of a past service credit of £1m, as a result of £6m of liabilities being removed from the Trust compared to £5m of assets paid out for trivial commutation. This has been disclosed in the Group Income Statement as a non-underlying one-off item and is excluded from Headline Group profit before tax.

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

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

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

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

**Statement of Comprehensive Income**

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

<b>£m</b>	<b>2014</b>	<b>2013</b> <b>Restated<sup>1</sup></b>
Actuarial gain / (loss) on defined benefit obligations arising from experience	2	(2)
Actuarial (loss) on defined benefit obligations arising from changes in financial assumptions	(80)	(71)
Actuarial gain / (loss) on defined benefit obligations arising from changes in demographic assumptions	5	(2)
Total actuarial (loss)/gain before consideration of asset ceiling	(73)	(75)
Return on plan assets excluding amounts included in net interest cost	100	53
(Loss)/gain resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	(43)	10
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	11	11
<b>Total actuarial loss recognised in other comprehensive income</b>	<b>(5)</b>	<b>(1)</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

In the prior year, a £1m credit was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme. In the current year this is £nil.

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

<b>£m</b>	<b>2014</b>				<b>2013 Restated<sup>1</sup></b>			
	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding requirement	Net defined benefit liability	Assets	Liabilities	Effect of asset ceiling and recognition of minimum funding requirement	Net defined benefit liability
At 1 September	964	(856)	(170)	(62)	889	(776)	(183)	(70)
Current service cost	-	-	-	-	-	-	-	-
Interest income / (cost)	43	(38)	(8)	(3)	37	(32)	(8)	(3)
Past service credit	(6)	7	-	1	-	-	-	-
Actuarial gains / (losses)	100	(73)	(32)	(5)	53	(75)	21	(1)
Contributions from sponsoring companies	14	-	-	14	12	-	-	12
Benefits paid	(28)	28	-	-	(27)	27	-	-
<b>At 31 August</b>	<b>1,087</b>	<b>(932)</b>	<b>(210)</b>	<b>(55)</b>	<b>964</b>	<b>(856)</b>	<b>(170)</b>	<b>(62)</b>

<sup>1</sup> Restated for adoption of IAS 19 Revised. See Note 1.

<sup>2</sup> The actual return on scheme assets was a gain of £143m (2013: gain of £90m).

**WH Smith PLC**  
**Notes to the Financial Statements**  
For the year ended 31 August 2014

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

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

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

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

%	2014	2013
Rate of increase in pension payments	3.17	3.36
Rate of increase in deferred pensions	2.37	2.59
Discount rate	3.84	4.50
RPI Inflation assumption	3.27	3.49
CPI Inflation assumption	2.37	2.59

Years	2014		2013	
	Male	Female	Male	Female
<b>Life expectancy at age 65</b>				
Member currently aged 65	22.1	24.3	22.2	24.5
Member currently aged 45	23.4	25.8	23.6	26.0

**Sensitivity to changes in assumptions**

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2014, while keeping all other assumptions consistent.

%	Effect on liabilities at 31 August 2014
Discount rate + / - 0.1% per annum	-18/+19
Inflation assumptions + / - 0.1% per annum	+18/-16
Life expectancy + / - 1 year	+32/-32

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

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

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

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

£m	2014	2013
Present value of the obligations	(6)	(5)
Fair value of plan assets	6	5
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>-</b>	<b>-</b>

In the prior year a £1m credit was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme. In the current year this is £nil.

**b) Defined contribution pension scheme**

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2014 (2013: £3m).