15 October 2015

**WH SMITH PLC**
**PRELIMINARY RESULTS ANNOUNCEMENT**
**FOR THE YEAR ENDED 31 AUGUST 2015**

**Distinct strategies for each business continue to deliver a good performance**

**Group Financial Summary**

| | 12 months to Aug 2015 | 12 months to Aug 2014 | % change |
|---|---|---|---|
| Group profit before tax[1] | £121m | £112m | 8% |
| Diluted earnings per share | 85.6p | 76.0p | 13% |
| Travel trading profit[2] | £80m | £73m | 10% |
| High Street trading profit[2] | £59m | £58m | 2% |
| Group profit from trading operations[2] | £139m | £131m | 6% |
| Headline Group profit before tax[3] | £123m | £114m | 8% |
| Headline diluted earnings per share[3] | 87.3p | 77.7p | 12% |
| Dividend per share | 39.4p | 35.0p | 13% |
| | **Total** | **LFL[4]** | |
| Travel revenue | 9% | 4% | |
| High Street revenue | (4)% | (3)% | |
| Group revenue | 1% | -% | |

**Stephen Clarke, Group Chief Executive, commented:**

"We have delivered a good performance across the Group.

"Our Travel business continues to perform well with strong sales across all channels in the UK, reflecting our ongoing investment and growth in passenger numbers. Internationally, we have made good progress in growing our sales and profit.

"In the High Street business, our profit focused strategy continues to deliver sustainable growth. In our core categories of stationery and books we had a stronger second half helped by the new phenomenon of 'colour therapy' for adults.

"The Group is highly cash generative delivering a free cash flow of £109m and we have today announced a further share buyback of up to £50m and a 13% increase in the final dividend.

"This performance would not be possible without the ongoing hard work and commitment of all our colleagues across the business and I'm grateful for their continued support.

"Looking ahead, our focus will remain on profitable growth, cash generation, investing in new opportunities and evolving our customer proposition, all to ensure we are well positioned for the future."

[1] 2014 includes £1m past service credit (see Note 3 to the Financial Statements)
[2] 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
[3] Headline Group profit before tax excludes the non-cash income statement charge for pensions and pension past service credit. A reconciliation of Headline Group profit before tax to statutory Profit before tax is provided in the Group Income Statement on page 12
[4] Like-for-like sales are calculated on stores with a similar selling space that have been open for more than a year (constant currency basis)

**Highlights**

- Group total sales up 1% with like-for-like (LFL) sales flat
  - Travel total sales up 9% with LFL sales up 4%
  - High Street total sales down 4% with LFL sales down 3%

- Gross margin improved by 90 basis points

- 200 international units now won, 163 units open
  - Total sales up 33% to £57m
  - LFL sales up 4%

- High Street cost savings of £11m delivered in line with plan; increased cost saving target to £20m over the next three years

- Total ordinary dividend per share of 39.4p, a 13% increase on the prior year; including final dividend proposed of 27.3p, up 13% on the prior year

- Strong cash generation and balance sheet; free cash flow[5] of £109m and net funds of £15m as at 31 August 2015

- Additional share buyback of up to £50m announced today, having completed the £50m share buyback announced in October 2014

**Enquiries:**


| | | |
|---|---|---|
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WH Smith PLC's Preliminary Results 2015 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2015 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

## FINANCIAL REVIEW

### Group Summary

Total Group sales were up 1% at £1,178m (2014: £1,161m) with Group LFL sales flat.

Group profit from trading operations[2] increased 6% on the prior year to £139m (2014: £131m) and Headline Group profit before tax[3] of £123m (2014: £114m), increased 8%.

***Travel***

Travel delivered a strong performance across all channels with total sales compared to last year up 9% and LFL sales up 4% reflecting the impact of our key growth initiatives as well as improved passenger numbers. Trading profit[2] increased by 10% to £80m which includes £5m (2014: £3m) from our growing International channel. We continue to invest in the business and opened 18 new units in the UK during the year, taking us to a total of 573 units in this country. We won a further 30 units in our international channel in the year, making a total of 200 units won here, of which 163 are open. As at 31 August 2015 Travel operated from 736 units.

[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 8)

***High Street***

High Street delivered another good performance. Trading profit[2] was up 2% to £59m. Compared to last year, total sales were down 4% and down 3% on a LFL basis. We saw a strong gross margin performance and costs were tightly controlled. Cost savings of £11m were delivered in the year, in line with plan. An additional £10m of cost savings have been identified over the next three years making a total of £20m of which £11m are planned for 2015/16. As at 31 August 2015 High Street operated from 615 units.

***Group***

Headline diluted earnings per share[3] increased by 12% to 87.3p (2014: 77.7p). 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 18% to 17%.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £15m at 31 August 2015, with a Group free cash flow[5] of £109m. The Group has a committed revolving credit working capital facility of £93m through to June 2019.

We completed the £50m return of cash to shareholders announced in October 2014 on 25 September 2015. Today we have announced a further return of cash to shareholders of up to £50m through a rolling on-market share buyback programme.

The Board has proposed a final dividend of 27.3p per share, a 13% increase on last year, giving a total ordinary dividend per share of 39.4p, a 13% 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. The annual dividend has increased every year since demerger from 11.8p in 2007 to 39.4p for 2015.

Both the Travel and High Street businesses are cash generative and we utilise our cash efficiently: investing in the business and new opportunities (capital expenditure in the year was £39m), and making appropriate acquisitions 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 £722m of cash to shareholders. We have reduced our issued share capital by 37% since our 2007 financial year.

| **Financial Year** | **Ordinary Dividend[6] £m** | **Buyback £m** | **Special Dividend £m** | **Total £m** |
|---|---|---|---|---|
| 2016 | 31[7] | 50[8] | - | 81 |
| 2015 | 42 | 50 | - | 92 |
| 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 |
| | **292** | **373** | **57** | **722** |

[6] Cash dividend paid
[7] Proposed final ordinary dividend for year ended 31 August 2015
[8] Buyback announced on 15 October 2015

## Trading Operations

### *Travel*

Travel delivered a strong performance in the year with trading profit[2] up 10% to £80m. Full year total sales were up 9%, with LFL sales up 4%. Second half LFL sales were up 5%.

We saw a good sales performance across all our channels driven by investment in our growth initiatives and improved passenger numbers. In air, total sales were up 7% with LFL sales up 6%; in rail, total sales were up 3% with LFL sales also up 3%; and in hospitals, total sales were up 19% with LFL sales up 6%. Total sales in hospitals were supported by the opening of 9 new stores, including 4 M&S Simply Food stores. The growth in LFL sales in hospitals reflects our active space management and the introduction of new ranges. Gross margin increased by 50 bps during the year, driven by active category mix management.

We see further opportunities for growth in our UK and International channels through opening new space, growing passenger numbers and our key growth initiatives.

Space in Travel is expensive and complex to manage. It varies substantially by channel, location and within location. Active space management and investment in our stores enables us to evolve the offer in each channel to best meet the changing needs of our customers and landlords. We have a very good understanding of the space and category elasticities for every metre of display space in every store and how they are changing over time. This active space management enables us to improve our customer offer by tailoring our ranges in each specific location.

During the year we made further investments in our Travel stores, including store design; extending opening hours; improving layouts and introducing clearer product zoning, particularly in our larger air, rail and hospital stores. In air, for example, we have made improvements to 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 accessories. During the second half, a number of these initiatives were rolled out to our smaller stores. In addition, we have focused on staff training and customer service in all our stores. These improvements meant we were well positioned for peak summer trading and helped drive the strong sales performance over the summer months.

A key initiative across all our channels is our ‘Food to Go’ range which has been extended to include additional healthy eating options and has been very popular with customers. We have seen a high penetration of the ‘meal deal’ promotion. During the second half we also extended our digital and headphone ranges into a number of rail stores.

We continue to identify opportunities to open new space in Travel. In the year we opened 18 new units in the UK including 2 in air, 7 in rail and 9 in hospitals. In hospitals, we offer our operating expertise to partners and now operate 10 M&S Simply Food stores. Looking forward, we anticipate opening around 20 stores each year over the following three years, of which around 10 each year will be in hospitals.

Our international business is still relatively small but is profitable and growing rapidly. Total sales for the year were £57m, up 33% versus the previous year and up 4% on a like-for-like basis. Profit for the year was £5m, an increase of £2m on the previous year.

We have built a successful Travel business in the UK based on the different operating models in each channel, our active space management and our focus on providing a compelling offer to customers and landlords. We have been successful in exporting this model overseas where the WHSmith brand has been well received and we have consistently demonstrated we can deliver improved performance and add value relative to the previous incumbent. Where we have replaced existing operators our sales per passenger have outperformed the previous incumbents by up to 25%. For example, in Sydney International Airport, we saw an immediate increase in sales per passenger versus the previous operator of approximately 10% following the rebrand and reconfiguration to WHSmith.

During the year we won 30 new units, including units at Sydney International Airport, Brisbane Airport and a number of franchise stores in the Middle East. In addition, we made a small acquisition in Australia of a news, books and convenience retailer, *Supanews*, whose main asset is a large store at Brisbane railway station. In total, excluding the Australian franchisees, we have 163 stores open across four channels: air, rail, hospitals and malls, of which 39% are directly run, 53% franchised and the remainder joint venture.

We are now present in 20 countries and 28 airports outside of the UK. However, our share of the news, books and convenience travel market is still very small. We continue to see opportunities to grow using our three operating models of directly-run, joint venture and franchise.

As at 31 August 2015, the Travel business operated from 736 units (2014: 712 units), including motorway service area franchise units. 28 UK units were closed in the year, primarily due to landlord redevelopment. We renewed 21 contracts and completed 25 refits during the year. Excluding franchise units, Travel occupies 0.58m square feet (2014: 0.55m square feet).

***High Street***

High Street delivered a good performance with an increase in trading profit[2] to £59m (2014: £58m), up 2% on the prior year. Our strategy of actively managing our space to optimise our core categories, gross margin growth and tight cost control continues to deliver sustainable profit growth and good cash generation.

High Street sales were down 3% on a LFL basis with total sales down 4%. This reflects our profit focused strategy, the evolving nature of some of our markets and better publishing in the second half. Gross margin improved by around 140 bps, through rebalancing the mix of our business, better buying, improved sourcing and markdown management.

Optimal use of space is a fundamental part of the strategy for High Street. We consider space as a strategic asset and we work 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 work our space to maximise the return on every metre of display space in every store through improving margins, reducing costs and driving third party concession income opportunities. During the year, space changes have included extending our Stationery category, by giving more and better located space in our larger stores to new Stationery ranges and installing a further 5 Post Offices (giving us a total of 108 Post Offices in our stores). Going forward, we will continue to manage space in this way.

Cost savings remain a core part of our strategy and we continue to focus on all areas of cost in the business. We have made good progress again this year, delivering cost savings of £11m. These came from right across the business, including rent savings at lease renewal, the store operating model, renegotiated marketing contracts and productivity improvements in our distribution centres. We have identified an additional £10m of new cost savings, taking the target to £20m over the next three years. Of these, £11m are planned for 2015/16.

We have made further progress with our franchise initiative under the brand WHSmith LOCAL and are seeing consistently good results across all stores. We now have a total of 40 stores converted to WHSmith LOCAL and a further 40 contracts signed. There is a large number of small, independent newsagents and, whilst the signing up process is slow, we believe this initiative has long-term potential to grow further.

We opened 20 *Cardmarket* stores in the first quarter of the financial year. Sales are still building and performance continues to vary by store. We plan to open an additional 10 trial stores before Christmas to test the concept further and will be in a better position in the spring of next year to determine if there is rollout potential.

Including the *Cardmarket* stores, the High Street business now operates from 615 stores (2014: 604), which occupy 2.89m square feet (2014: 2.94m square feet). 10 stores were closed in the year.

### *Category Performance*

Stationery:
We saw a good performance in Stationery driven by a number of initiatives. LFL sales were up 2% in the year and up 3% in the second half. We also saw further gross margin improvement. Strong promotional offers; 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. During the year Stationery has continued to benefit from additional space with range development in key areas such as pens and fashion stationery. As a result of our new ranges, we saw a strong performance over the key Back to School period. Our new 'Brights' initiative, which brings together new product in new fixturing at the front of store has been very popular with our customers and has now been rolled out to 75 of our largest 100 High Street stores.

Our online personalised greetings card and gifting website, Funkypigeon.com, continued its good performance, particularly over the key events in the year. As a consequence, we saw good profit growth versus last year. We continue to invest in the customer experience and apps and saw increased levels of traffic from mobile devices. Looking forward we continue to see investment opportunities in the website, apps, marketing and customer offer to grow this business further.

Books:
In Books, the market continues to evolve with the quality of publishing still the biggest driver of market performance. Kids book sales remain the most resilient category and our space allocation reflects market dynamics. Fiction has benefitted from better publishing versus last year, with strong titles such as EL James' '*Grey*' and Harper Lee's '*Go Set a Watchman*'.

'Colour therapy' (colouring for adults) has driven our Non-Fiction performance, particularly in the second half, with illustrators such as Millie Marotta and Johanna Basford performing well. LFL sales in physical books were down 2% for the year with the second half flat to last year. Our approach in Books is to 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. During the year we renewed our contract for the Richard and Judy Book Club, the UK's biggest Book Club. This and other recommended reads such as the Fresh Talent promotion have been popular in Travel.

In eBooks, market growth of eBook content has slowed as eBook consumption continues to migrate to apps on tablets rather than dedicated eReading devices. The latest data in both the US and UK suggests eBook share of the total book market is static or declining a little. Whilst there is no official data, UK publisher estimates suggest the eBook share of the total book market is around 15%.

News and Impulse:
News and Impulse like-for-like sales were flat for the full year and up 1% in the second half and 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 bookazine category which helps improve our margins and our range now includes over 400 titles, including a number of very successful 'colour therapy' titles. Our 'Food to Go' offer in Travel continues to be well received and has been rolled out to most of our Travel stores.

### *National living wage (nlw)*

In July, the Government announced the introduction of the nlw from April 2016. We anticipate the impact of it in the 2015/16 financial year to be slightly over £1m for the Group, with around two thirds of the cost impacting the High Street business. While identifying the impact is complex, we have calculated that without any actions to offset the impact, the additional annual cost across the Group would be around £2- 3m, or around 0.5% of the Group's total cost base each year. As with all inflationary pressures, we will look to offset these increases through our existing pipeline of initiatives as well as identifying further opportunities for improved productivity and efficiency.

## Group profit

The Group generated a Headline profit before tax[3] of £123m (2014: £114m), an increase of 8% on the prior year.

| £m | 2015 | 2014 | Growth % |
|---|---|---|---|
| Travel trading profit[2] | 80 | 73 | 10% |
| High Street trading profit[2] | 59 | 58 | 2% |
| **Group profit from trading operations[2]** | 139 | 131 | 6% |
| Unallocated central costs | (15) | (15) | |
| **Group operating profit[9]** | 124 | 116 | 7% |
| Net finance cost[10] | (1) | (2) | |
| **Headline Group profit before taxation** | 123 | 114 | 8% |
| IAS19 (R) pension interest charge | (2) | (3) | |
| Pension past service credit | - | 1 | |
| **Profit before taxation** | 121 | 112 | 8% |

[9] Excludes £1m pension past service credit in 2014.
[10] Excluding IAS 19 (R) pension interest charge

### *Tax*

The effective tax rate was 17% (2014: 18%), 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 17%. 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 (2014: 1.6 times) by profit before tax and fixed charges.

### *Dividends*

The Board has proposed a final dividend of 27.3p per share, an increase of 13% on the prior year, giving a total ordinary dividend per share of 39.4p, a 13% 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 4 February 2016 to shareholders registered at the close of business on 15 January 2016. 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[5] of £109m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

| £m | 2015 | 2014 |
|---|---|---|
| Group operating profit | 124 | 116[11] |
| Depreciation, amortisation & amounts written off fixed assets | 38 | 36 |
| Working capital | 6 | 2 |
| Employers payroll tax on exercised share awards | (1) | (5) |
| Capital expenditure | (39) | (32) |
| Tax paid | (23) | (21) |
| Net interest paid | (1) | (1) |
| Net provisions | (1) | (2) |
| Other items | 6 | 5 |
| **Free cash flow** | **109** | **98** |

[11]Excludes £1m pension past service credit

Cash inflows from working capital were £6m which reflects some timing and also our ongoing focus on working capital management. Payments relating to employers payroll tax were £1m compared to £5m in 2014 when the 2010 MIP and LTIP awards were exercised. Capital expenditure was £39m in the year and is analysed below. This was £7m higher than the prior year and includes higher investment in both Travel and High Street. We expect capex spend to be around £38m in the current year reflecting additional new stores in Travel and further investment in the store operating model. Net corporation tax paid was £23m, compared to £21m last year, following the increase in Group profit.

| Capex £m | 2015 | 2014 |
|---|---|---|
| New stores and store development | 12 | 11 |
| Refurbished stores | 13 | 12 |
| Systems | 12 | 7 |
| Other | 2 | 2 |
| **Total capital expenditure** | **39** | **32** |

***Net Funds***

The movement in net funds is as follows:

| £m | 2015 | 2014 |
|---|---|---|
| Opening net funds | 22 | 31 |
| Free cash flow | 109 | 98 |
| Equity dividends paid[12] | (42) | (38) |
| Pension deficit funding | (4) | (14) |
| Net purchase of own shares for employee share schemes | (4) | (10) |
| Purchase of own shares for cancellation | (54) | (41) |
| Acquisitions | (3) | (3) |
| Proceeds from the sale and leaseback of equipment | 3 | - |
| Other | (2) | (1) |
| | **25** | **22** |
| Net movement on finance leases | (10) | - |
| **Closing net funds** | **15** | **22** |

[12] Dividends paid include current year interim and prior year final dividends paid.

In addition to the £109m of free cash flow generated in the year, the Group has seen a net cash outflow of £52m in relation to non-trading operations. This includes £42m of dividend payments, £4m pension funding and net ESOP trust purchases of £4m. We also spent £3m in the first half on the acquisition of *Supanews* in Australia.

As at 31 August 2015 net funds were £15m. In total for the year we returned £54m to shareholders via an on market share buyback of which £45m related to the up to £50m buyback announced on 16 October 2014. This buyback was completed on 25 September 2015. A further buyback of up to £50m has been announced today.

**Balance Sheet**

The Group had net assets of £147m (2014: £101m) at the end of the period. The increase in net assets reflects the cash generation of the business, capital spend, the return of cash to shareholders and the reduction in the pension liability and deferred tax asset following the actuarial revaluation of the main defined benefit pension scheme and the revised schedule of contributions agreed with the Trustees.

| £m | 2015 | 2014 |
|---|---|---|
| Goodwill and other intangible assets | 59 | 56 |
| Property plant and equipment | 155 | 147 |
| | 214 | 203 |
| | | |
| Inventories | 141 | 144 |
| Payables less receivables | (191) | (189) |
| Working capital | (50) | (45) |
| | | |
| Net current and deferred tax liability | (23) | (29) |
| Provisions | (4) | (5) |
| **Operating assets employed** | **137** | **124** |
| Net funds | 15 | 22 |
| **Net assets excluding pension liability** | **152** | **146** |
| Pension liability | (6) | (55) |
| Deferred tax asset on pension liability | 1 | 10 |
| **Total net assets** | **147** | **101** |

***Return on Capital Employed***

Total capital employed and ROCE were as follows:

| | Operating Capital Employed £m[13] | ROCE[14] % | ROCE% with operating leases capitalised[15] |
|---|---|---|---|
| Travel | 72 | 111 | 30 |
| High Street | 106 | 56 | 21 |
| **Retail** | **178** | **78** | **25** |
| Unallocated central items | (41) | | |
| **Operating assets employed** | **137** | **91** | **24** |

For the prior year, comparable ROCE was 94% (Travel 106% and High Street 54%) and 23% after capitalised operating leases (Travel 28% and High Street 19%).

[13] Net assets adjusted for net funds and retirement benefit obligations (and associated deferred tax asset).
[14] Return on capital employed is calculated as the operating profit as a percentage of operating capital employed.
[15] 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.

### *Pensions*

On 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. At that date, the Group had an actuarial deficit of £24m compared to £75m as at 31 March 2012. A new schedule of contributions was agreed with the Trustees from October 2014 of around £3m per annum for nine years. The Group has agreed to pay pension investment management fees directly. From 1 September 2015, the annual payment to the Trustees will be approximately £1m and approximately £3m in total in relation 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 85% of the inflation and interest rate risks hedged.

As at 31 August 2015, the Group has an IFRIC 14 minimum funding requirement of £5m (2014: £55m) and an associated deferred tax asset of £1m (2014: £10m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2015, the scheme had an IAS 19(R) surplus of £214m (2014: surplus of £155m) 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).

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

The IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2014: £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 £167m (2014: £165m) (net of £2m of external rent receivable (2014: £2m)). The total future rental commitment at the balance sheet date amounted to £856m (2014: £881m) with the leases having an average life of 5 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 £4m (2014: £7m).

## 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; brand and reputation; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; treasury, financial and credit risk; and cyber risk and data security. A full description of these risks and our mitigating actions will be provided in the Annual Report and Accounts 2015.

*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 20 January 2016.

**WH Smith PLC**
**Group Income Statement**
For the year ended 31 August 2015

| £m | Note | 2015 Headline | 2015 Non-underlying items[1] | 2015 Total | 2014 Headline | 2014 Non-underlying items[1] | 2014 Total |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 3 | **1,178** | **-** | **1,178** | 1,161 | - | 1,161 |
| **Operating profit** | 2,3 | **124** | **-** | **124** | 116 | 1 | 117 |
| Finance costs | 4 | **(1)** | **(2)** | **(3)** | (2) | (3) | (5) |
| **Profit before tax** | | **123** | **(2)** | **121** | 114 | (2) | 112 |
| Income tax expense | 5 | **(20)** | **-** | **(20)** | (20) | - | (20) |
| **Profit for the year** | | **103** | **(2)** | **101** | 94 | (2) | 92 |

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | 6 | **87.1p** | 77.3p |
| Diluted | 6 | **85.6p** | 76.0p |
| **Non GAAP measures** | | | |
| **Headline earnings per share** | | | |
| Basic | 6 | **88.8p** | 79.0p |
| Diluted | 6 | **87.3p** | 77.7p |
| **Equity dividends per share[2]** | | **39.4p** | 35.0p |
| **Fixed charges cover** | 10 | **1.6x** | 1.6x |

[1] 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).
[2] Dividend per share is the final proposed dividend of 27.3p (2014: 24.2p) and the interim dividend of 12.1p (2014: 10.8p)

**WH Smith PLC**
## Group Statement of Comprehensive Income
For the year ended 31 August 2015

| £m | Note | 2015 | 2014 |
|---|---|---|---|
| **Profit for the year** | | **101** | 92 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified subsequently to the income statement:** | | | |
| Actuarial gains / (losses) on defined benefit pension schemes | 11 | **47** | (5) |
| Tax on defined benefit pension schemes | | **(9)** | 1 |
| | | **38** | (4) |
| **Items that may be reclassified subsequently to the income statement:** | | | |
| Cash flow hedges | | **-** | (1) |
| Exchange differences on translation of foreign operations | | **(2)** | (1) |
| | | **(2)** | (2) |
| **Other comprehensive income / (loss) for the year, net of tax** | | **36** | (6) |
| **Total comprehensive income for the year** | | **137** | 86 |

**WH Smith PLC**
**Group Balance Sheet**
As at 31 August 2015

| £m | Note | 2015 | 2014 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | 36 | 34 |
| Other intangible assets | | 23 | 22 |
| Property, plant and equipment | | 155 | 147 |
| Deferred tax assets | | 10 | 17 |
| Trade and other receivables | | 2 | 2 |
| | | **226** | **222** |
| **Current assets** | | | |
| Inventories | | 141 | 144 |
| Trade and other receivables | | 52 | 54 |
| Current tax asset | | 3 | 3 |
| Derivative financial assets | | - | - |
| Cash and cash equivalents | 8 | 34 | 34 |
| | | **230** | **235** |
| **Total assets** | | **456** | **457** |
| **Current liabilities** | | | |
| Trade and other payables | | (231) | (230) |
| Bank overdrafts and other borrowings | 8 | (9) | (12) |
| Retirement benefit obligations | 11 | (1) | (11) |
| Obligations under finance leases | 8 | (2) | - |
| Current tax liabilities | | (35) | (39) |
| Short-term provisions | | (1) | (2) |
| | | **(279)** | **(294)** |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 11 | (5) | (44) |
| Deferred tax liabilities | | - | - |
| Long-term provisions | | (3) | (3) |
| Obligations under finance leases | 8 | (8) | - |
| Other non-current liabilities | | (14) | (15) |
| | | **(30)** | **(62)** |
| **Total liabilities** | | **(309)** | **(356)** |
| **Total net assets** | | **147** | **101** |
| **Total equity** | | **147** | **101** |

**WH Smith PLC**
**Group Balance Sheet**
As at 31 August 2015 (continued)

| £m | Note | 2015 | 2014 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Called up share capital | | 25 | 26 |
| Share premium | | 5 | 4 |
| Capital redemption reserve | | 12 | 11 |
| Revaluation reserve | | 2 | 2 |
| ESOP reserve | | (11) | (11) |
| Hedging reserve | | - | - |
| Translation reserve | | (5) | (3) |
| Other reserve | | (239) | (235) |
| Retained earnings | | 358 | 307 |
| **Total equity** | | **147** | **101** |

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 15 October 2015 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 2015

| £m | Note | 2015 | 2014 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 9 | **145** | **116** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (34) | (28) |
| Purchase of intangible assets | | (5) | (4) |
| Acquisition of business | | (3) | (2) |
| **Net cash outflow from investing activities** | | **(42)** | **(34)** |
| **Financing activities** | | | |
| Interest paid | | (1) | (1) |
| Dividend paid | | (42) | (38) |
| Purchase of own shares for cancellation | | (54) | (41) |
| Purchase of own shares for employee share schemes | | (4) | (10) |
| Repayments of borrowings | 8 | (3) | - |
| Proceeds from borrowings | 8 | - | 12 |
| Repayments of obligations under finance leases | | (1) | - |
| Proceeds from sale and leaseback of property, plant and equipment | | 3 | - |
| **Net cash used in financing activities** | | **(102)** | **(78)** |
| | | | |
| **Net increase in cash and cash equivalents in year** | | **1** | **4** |
| | | | |
| Opening net cash and cash equivalents | | 34 | 31 |
| Effect of movements in foreign exchange rates | | (1) | (1) |
| **Closing net cash and cash equivalents** | | **34** | **34** |

**Reconciliation of net cash flow to movement in net funds**

| £m | Note | 2015 | 2014 |
|---|---|---|---|
| **Net funds at beginning of the year** | | **22** | **31** |
| Increase in cash and cash equivalents | | 1 | 4 |
| Decrease / (increase) in debt | | 3 | (12) |
| Net movement in finance leases | | (10) | - |
| Effect of movements in foreign exchange rates | | (1) | (1) |
| **Net funds at end of the year** | 8 | **15** | **22** |

**WH Smith PLC**
# Group Statement of Changes in Equity
For the year ended 31 August 2015

| £m | Share capital and share premium | Capital redemption reserve | Revaluation reserve | ESOP reserve | Hedging and translation reserves[1] | Other reserve[2] | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 September 2014** | **30** | **11** | **2** | **(11)** | **(3)** | **(235)** | **307** | **101** |
| **Profit for the year** | - | - | - | - | - | - | 101 | **101** |
| **Other comprehensive income / (expense):** | | | | | | | | |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | - | - | 47 | **47** |
| Tax on defined benefit pension schemes | - | - | - | - | - | - | (9) | **(9)** |
| Exchange differences on translation of foreign operations | - | - | - | - | (2) | - | - | **(2)** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(2)** | **-** | **139** | **137** |
| Recognition of share-based payments | - | - | - | - | - | - | 5 | **5** |
| Current tax on share-based payments | - | - | - | - | - | - | 1 | **1** |
| Deferred tax on share-based payments | - | - | - | - | - | - | 1 | **1** |
| Premium on issue of shares | 1 | - | - | - | - | - | - | **1** |
| Dividends paid (Note 7) | - | - | - | - | - | - | (42) | **(42)** |
| Employee share schemes | - | - | - | - | - | (4) | - | **(4)** |
| Purchase of own shares for cancellation | (1) | 1 | - | - | - | - | (53) | **(53)** |
| **Balance at 31 August 2015** | **30** | **12** | **2** | **(11)** | **(5)** | **(239)** | **358** | **147** |
| | | | | | | | | |
| **Balance at 1 September 2013** | **31** | **10** | **2** | **(21)** | **(2)** | **(215)** | **297** | **102** |
| **Profit for the year** | - | - | - | - | - | - | 92 | **92** |
| **Other comprehensive income / (expense):** | | | | | | | | |
| Actuarial losses on defined benefit pension schemes | - | - | - | - | - | - | (5) | (5) |
| Tax on defined benefit pension schemes | - | - | - | - | - | - | 1 | 1 |
| Cash flow hedges | - | - | - | - | - | - | (1) | (1) |
| Exchange differences on translation of foreign operations | - | - | - | - | (1) | - | - | (1) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(1)** | **-** | **87** | **86** |
| Recognition of share-based payments | - | - | - | - | - | - | 5 | **5** |
| Deferred tax on share-based payments | - | - | - | - | - | - | (2) | **(2)** |
| Dividends paid (Note 7) | - | - | - | - | - | - | (38) | **(38)** |
| Employee share schemes | - | - | - | 10 | - | (20) | - | **(10)** |
| Purchase of own shares for cancellation | (1) | 1 | - | - | - | - | (42) | **(42)** |
| **Balance at 31 August 2014** | **30** | **11** | **2** | **(11)** | **(3)** | **(235)** | **307** | **101** |

[1] Included within the Hedging and translation reserves is a cumulative loss of £5m (2014: £3m) relating to foreign currency translation.

[2] 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 £4m (2014: £20m).

**WH Smith PLC**
**Notes to the Financial Statements**
For the year ended 31 August 2015

## 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 2015 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 2014 except as described below.

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

| | |
|---|---|
| IAS 27 (2011) | Separate Financial Statements |
| IAS 28 (2011) | Investments in Associates and Joint Ventures |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| Amendments to IFRS 10,11 and 12 | Transition guidance |
| Amendments to IFRS 10,12 and IAS 27 | Consolidation for Investment Entities |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRIC 21 | Levies |

**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 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 2015 and 12 months to 31 August 2014 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 2014 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2015 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 2015 and 12 months to 31 August 2014 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 2015.

## 2. Group operating profit

| £m | 2015 | 2014 |
|---|---|---|
| **Revenue** | **1,178** | **1,161** |
| Cost of sales | (498) | (502) |
| **Gross profit** | **680** | **659** |
| Distribution costs[1] | (479) | (473) |
| Administrative expenses[2] | (79) | (72) |
| Other income [3] | 2 | 3 |
| **Group operating profit** | **124** | **117** |

[1] During the period there was a £2m (2014: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.
[2] Includes £1m non-underlying pension past service credit in 2014 which is excluded from Headline profit before tax. See Note 11.
[3] Other income is profit attributable to property and the sale of plant and equipment.

| £m | 2015 | 2014 |
|---|---|---|
| Cost of inventories recognised as an expense | 499 | 502 |
| Write-down of inventories in the period | 3 | 3 |
| Depreciation and amounts written off property, plant and equipment | 32 | 31 |
| Amortisation and amounts written off intangible assets | 6 | 5 |
| Net operating lease charges | | |
| - land and buildings | 189 | 184 |
| - equipment and vehicles | 1 | 1 |
| Other occupancy costs | 67 | 66 |
| Staff costs | 189 | 183 |

## 3. Segmental analysis of results

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

### a) Group revenue

| £m | 2015 | 2014 |
|---|---|---|
| **Continuing operations:** | | |
| Travel | 521 | 477 |
| High Street | 657 | 684 |
| **Group revenue** | **1,178** | **1,161** |

### 3. Segmental analysis of results (continued)
### b) Group results

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **£m** | **Headline** | **Non-underlying items[1]** | **Total** | **Headline** | **Non-underlying items[1]** | **Total** |
| **Continuing operations:** | | | | | | |
| Travel | 80 | - | 80 | 73 | - | 73 |
| High Street | 59 | - | 59 | 58 | - | 58 |
| **Profit from trading operations** | **139** | **-** | **139** | **131** | **-** | **131** |
| Unallocated costs | (15) | - | (15) | (15) | - | (15) |
| **Group operating profit before non-underlying items** | **124** | **-** | **124** | **116** | **-** | **116** |
| Non-underlying operating items (Note 11) | - | - | - | - | 1 | 1 |
| **Group operating profit** | **124** | **-** | **124** | **116** | **1** | **117** |
| Finance costs | (1) | (2) | (3) | (2) | (3) | (5) |
| Income tax expense | (20) | - | (20) | (20) | - | (20) |
| **Profit for the year** | **103** | **(2)** | **101** | **94** | **(2)** | **92** |

[1] 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).

Included within Travel revenue and trading profit is International revenue of £57m (2014: £43m) and International trading profit of £5m (2014: £3m).

### c) Balance sheet and other segmental information

| | 2015 | | | | |
|---|---|---|---|---|---|
| **£m** | **Travel** | **High Street** | **Continuing operations** | **Discontinued operations** | **Group** |
| **Assets** | | | | | |
| Segment assets | 149 | 265 | 414 | - | 414 |
| Unallocated assets | - | - | 42 | - | 42 |
| **Consolidated total assets** | **149** | **265** | **456** | **-** | **456** |
| | | | | | |
| **Liabilities** | | | | | |
| Segment liabilities | (77) | (159) | (236) | (3) | (239) |
| Unallocated liabilities | - | - | (70) | - | (70) |
| **Consolidated total liabilities** | **(77)** | **(159)** | **(306)** | **(3)** | **(309)** |
| **Net assets / (liabilities)** | **72** | **106** | **150** | **(3)** | **147** |
| | | | | | |
| Capital additions | 21 | 26 | 47 | - | 47 |
| Depreciation and amortisation of non-current assets | (13) | (23) | (36) | - | (36) |
| Impairment losses | - | (2) | (2) | - | (2) |

## WH Smith PLC
## Notes to the Financial Statements
For the year ended 31 August 2015

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

| | 2014 | | | | |
|---|---|---|---|---|---|
| **£m** | **Travel** | **High Street** | **Continuing operations** | **Discontinued operations** | **Group** |
| **Assets** | | | | | |
| Segment assets | 135 | 270 | 405 | - | 405 |
| Unallocated assets | - | - | 52 | - | 52 |
| **Consolidated total assets** | **135** | **270** | **457** | **-** | **457** |
| **Liabilities** | | | | | |
| Segment liabilities | (66) | (162) | (228) | (3) | (231) |
| Unallocated liabilities | - | - | (125) | - | (125) |
| **Consolidated total liabilities** | **(66)** | **(162)** | **(353)** | **(3)** | **(356)** |
| **Net assets / (liabilities)** | **69** | **108** | **104** | **(3)** | **101** |
| Capital additions | 17 | 16 | 33 | - | 33 |
| Depreciation and amortisation of non-current assets | (11) | (23) | (34) | - | (34) |
| Impairment losses | - | (2) | (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.

## 4. Finance costs

| **£m** | **2015** | **2014** |
|---|---|---|
| Interest payable on bank loans and overdrafts | 1 | 1 |
| Unwinding of discount on provisions | - | 1 |
| Net interest cost on defined benefit pension liabilities | 2 | 3 |
| | **3** | **5** |

## 5. Income tax expense

| £m | 2015 | 2014 |
|---|---|---|
| Tax on profit | 32 | 32 |
| *Standard rate of UK corporation tax 20.58% (2014: 22.16%)* | | |
| Adjustment in respect of prior year UK corporation tax | (11) | (12) |
| **Total current tax charge** | **21** | **20** |
| Deferred tax – current year | (1) | - |
| **Tax on profit** | **20** | **20** |
| *Effective tax rate* | *17%* | *18%* |

### Reconciliation of the taxation charge

| £m | 2015 | 2014 |
|---|---|---|
| Tax on profit at standard rate of UK corporation tax 20.58% (2014: 22.16%) | 25 | 25 |
| Tax effect of items that are not deductible or not taxable in determining taxable profit | 6 | 7 |
| Adjustment in respect of prior years | (11) | (12) |
| **Income tax expense** | **20** | **20** |

The UK corporation tax rate fell to 20 per cent with effect from 1 April 2015 (previously 21 per cent). Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020 As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements.

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 £35m 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 received a payment on account for £13m, which will be repaid to HMRC during the current financial year, pending final resolution of this matter.

**WH Smith PLC**
**Notes to the Financial Statements**
For the year ended 31 August 2015

## 6. Earnings per share

### a) Earnings

| £m | 2015 | 2014 |
|---|---|---|
| **Earnings attributable to shareholders** | **101** | **92** |
| Adjusted for non-headline items (net of taxation): | | |
| Non-cash income statement charge for pensions | 2 | 3 |
| Operating exceptional items | - | (1) |
| **Headline earnings attributable to shareholders** | **103** | **94** |

### b) Weighted average share capital

| Millions | 2015 | 2014 |
|---|---|---|
| Weighted average ordinary shares in issue | 118 | 121 |
| Less weighted average ordinary shares held in ESOP Trust | (2) | (2) |
| **Weighted average ordinary shares for earnings per share** | **116** | **119** |
| Add weighted average number of ordinary shares under option | 2 | 2 |
| **Weighted average ordinary shares for diluted earnings per share** | **118** | **121** |

### c) Basic and diluted earnings per share

| Pence | 2015 | 2014 |
|---|---|---|
| Basic earnings per share | 87.1 | 77.3 |
| Adjustments for non-headline items | 1.7 | 1.7 |
| Basic headline earnings per share | 88.8 | 79.0 |
| | | |
| Diluted earnings per share | 85.6 | 76.0 |
| Adjustments for non-headline items | 1.7 | 1.7 |
| Diluted headline earnings per share | 87.3 | 77.7 |

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

## 7. Dividends

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

| £m | 2015 | 2014 |
|---|---|---|
| **Dividends** | | |
| Interim dividend of 12.1p per ordinary share (2014: 10.8p per ordinary share) | 14 | 12 |
| Final dividend of 24.2p per ordinary share (2014: 21.3p per ordinary share) | 28 | 26 |
| | **42** | **38** |

The proposed dividend of 27.3p per share, amounting to a final dividend of £31m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2016 to shareholders on the register at the close of business on 15 January 2016.

## 8. Analysis of net funds

Movements in net funds can be analysed as follows:

| £m | 2014 | Cash flow | Non cash | Currency translation | 2015 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 34 | 1 | - | (1) | 34 |
| Borrowings | | | | | |
| - Revolving credit facility | (12) | 3 | - | - | (9) |
| - Obligations under finance leases | - | 1 | (11) | - | (10) |
| **Net funds** | **22** | **5** | **(11)** | **(1)** | **15** |

| £m | 2013 | Cash flow | Currency translation | 2014 |
|---|---|---|---|---|
| Cash and cash equivalents | 31 | 4 | (1) | 34 |
| Borrowings | | | | |
| - Revolving credit facility | - | (12) | - | (12) |
| **Net funds** | **31** | **(8)** | **(1)** | **22** |

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 2015 was £9m (2014: £12m).

## 9. Net cash inflow from operating activities

| £m | 2015 | 2014 |
|---|---|---|
| **Operating profit from continuing operations** | **124** | **117** |
| Depreciation of property, plant and equipment | 30 | 29 |
| Impairment of property, plant and equipment | 2 | 2 |
| Amortisation of intangible assets | 6 | 5 |
| Share-based payments | 6 | 5 |
| Decrease in inventories | 3 | 4 |
| Decrease / (increase) in receivables | 2 | (2) |
| Decrease in payables | - | (5) |
| Pension funding | (4) | (14) |
| Non-cash pension past service credit | - | (1) |
| Income taxes paid | (23) | (21) |
| Charge to provisions | - | 1 |
| Cash spend against provisions | (1) | (4) |
| **Net cash inflow from operating activities** | **145** | **116** |

## 10. Fixed Charges Cover

| £m | 2015 | 2014 |
|---|---|---|
| Net finance charges (Note 4) | 3 | 5 |
| Net operating lease rentals (Note 2) | 190 | 185 |
| **Total fixed charges** | **193** | **190** |
| **Profit before tax and non-underlying operating items** | **121** | **111** |
| **Profit before tax, non-underlying operating items and fixed charges** | **314** | **301** |
| **Fixed charges cover - times** | **1.6x** | **1.6x** |

## 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 | 2015 | 2014 |
|---|---|---|
| WHSmith Pension Trust | (5) | (55) |
| United News Shops Retirement Benefits Scheme | (1) | - |
| **Retirement benefit obligation recognised in the balance sheet** | **(6)** | **(55)** |

## 11. Retirement benefit obligation (continued)

### 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 £1,162m as at 31 August 2015 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. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2014 by independent actuaries using the projected unit credit method. At 31 March 2014 the deficit was £24m, and a revised deficit funding schedule of approximately £3m per annum, with effect from 1 October 2014 for the following nine years, was agreed with the Trustee. During the year ending 31 August 2015, the Group made a contribution of £4m to the WHSmith Pension Trust (2014: £14m) in accordance with the agreed pension deficit funding schedule. The weighted average duration of the defined benefit obligation is 19 years.

With effect from 1 September 2015 the Group agreed to pay certain investment management costs on behalf of the Trustee. The annual deficit funding agreement is around £1m per annum with effect from 1 September 2015. The minimum funding requirement liability recognised on the balance sheet as at 31 August 2015 reflects this revised deficit funding schedule. The Group expects the cash payments for the year ended 31 August 2016, payable to the Trustee, to be £1m, and approximately £3m in total in relation to the scheme.

**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** | **2015** | **2014** |
|---|---|---|
| Present value of the obligations | (948) | (932) |
| Fair value of plan assets | 1,162 | 1,087 |
| **Surplus before consideration of asset ceiling** | **214** | **155** |
| Amounts not recognised due to effect of asset ceiling | (214) | (155) |
| Additional liability recognised due to minimum funding requirements | (5) | (55) |
| **Retirement benefit obligation recognised in the balance sheet** | **(5)** | **(55)** |

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 £214m (2014: £155m) available on a reduction of future contributions is £nil (2014: £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.

**WH Smith PLC**
**Notes to the Financial Statements**
For the year ended 31 August 2015

## 11. Retirement benefit obligation (continued)

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

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

**Amounts recognised in the Financial Statements (continued)**

**Income Statement**

The amounts recognised in the income statement were as follows:

| £m | 2015 | 2014 |
|---|---|---|
| Current service cost | - | - |
| Administration expenses | - | - |
| Past service credit[1] | - | 1 |
| Net interest cost on the defined benefit liability | (2) | (3) |
| | **(2)** | **(2)** |

[1] The past service credit in the prior year 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.

In the year ended 31 August 2014, 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 in the prior year, 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.

**Statement of Comprehensive Income**

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

| £m | 2015 | 2014 |
|---|---|---|
| Actuarial gain on defined benefit obligations arising from experience | 15 | 2 |
| Actuarial loss on defined benefit obligations arising from changes in financial assumptions | (21) | (80) |
| Actuarial (loss) / gain on defined benefit obligations arising from changes in demographic assumptions | (12) | 5 |
| Total actuarial loss before consideration of asset ceiling | (18) | (73) |
| Return on plan assets excluding amounts included in net interest cost | 67 | 100 |
| Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost | (52) | (43) |
| Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost | 51 | 11 |
| Total actuarial gain / (loss) recognised in other comprehensive income | **48** | **(5)** |

In addition, a £1m debit (2014: £nil) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

**WH Smith PLC**
**Notes to the Financial Statements**
For the year ended 31 August 2015

## 11. Retirement benefit obligation (continued)

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

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

**Amounts recognised in the Financial Statements (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:

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| **£m** | 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 | 1,087 | (932) | (210) | (55) | 964 | (856) | (170) | (62) |
| Current service cost | - | - | - | - | - | - | - | - |
| Interest income / (cost) | 41 | (35) | (8) | (2) | 43 | (38) | (8) | (3) |
| Past service credit | (1) | 1 | - | - | (6) | 7 | - | 1 |
| Actuarial gains / (losses) | 67 | (18) | (1) | 48 | 100 | (73) | (32) | (5) |
| Contributions from sponsoring companies | 4 | - | - | 4 | 14 | - | - | 14 |
| Benefits paid | (36) | 36 | - | - | (28) | 28 | - | - |
| **At 31 August** | **1,162** | **(948)** | **(219)** | **(5)** | **1,087** | **(932)** | **(210)** | **(55)** |

The actual return on scheme assets was a gain of £108m (2014: gain of £143m).

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

| **%** | **2015** | **2014** |
|---|---|---|
| Rate of increase in pension payments | 3.22 | 3.17 |
| Rate of increase in deferred pensions | 2.20 | 2.37 |
| Discount rate | 3.75 | 3.84 |
| RPI Inflation assumption | 3.30 | 3.27 |
| CPI Inflation assumption | 2.20 | 2.37 |

| | **2015** | | **2014** | |
|---|---|---|---|---|
| **Years** | **Male** | **Female** | **Male** | **Female** |
| **Life expectancy at age 65** | | | | |
| Member currently aged 65 | 22.4 | 24.7 | 22.1 | 24.3 |
| Member currently aged 45 | 24.1 | 26.6 | 23.4 | 25.8 |

**Sensitivity to changes in assumptions**

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2015, while keeping all other assumptions consistent.

| **£m** | **Effect on liabilities at 31 August 2015** |
|---|---|
| Discount rate + / - 0.1% per annum | -19/+19 |
| Inflation assumptions + / - 0.1% per annum | -18/+17 |
| Life expectancy + / - 1 year | +30/-30 |

## 11. Retirement benefit obligation (continued)

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

#### 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 2015 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** | **2015** | **2014** |
|---|---|---|
| Present value of the obligations | (6) | (6) |
| Fair value of plan assets | 5 | 6 |
| **Retirement benefit obligation recognised in the balance sheet** | **(1)** | **-** |

A £1m debit (2014: £nil) was recognised in the statement of comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

### b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2015 (2014: £3m).

## 12. Acquisitions

On 24 November 2014, the Group acquired the trade and assets of Supanews, a business operating in Australia, for a cash consideration of £3m. The business is a retailer of news, books and convenience products. The fair value of assets acquired is £3m and has been allocated as follows; £1m intangible assets (representing the brand asset and franchise agreements), £2m goodwill (representing expected synergies and future growth potential).

## 13. Events after the balance sheet date

As at 14 October 2015, the Company has repurchased a further 590,000 of its own shares in the open market as part of the Company's share buyback programme.

On 15 October 2015, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.