

12 October 2017

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2017**

Good performance across the Group with EPS up 10% and full year dividend up 10%

Group Financial Summary

| | 12 months to Aug 2017 | 12 months to Aug 2016 | % change |
|---|--------------------------|--------------------------|-------------|
| Group profit before tax | £140m | £131m | 7% |
| Diluted earnings per share | 103.6p | 93.9p | 10% |
| Travel trading profit ¹ | £96m | £87m | 10% |
| High Street trading profit ¹ | £62m | £62m | -% |
| Group profit from trading operations ¹ | £158m | £149m | 6% |
| Dividend per share | 48.2p | 43.9p | 10% |
| Revenue performance | Total | LFL² | |
| Travel revenue | 9% | 4% | |
| High Street revenue | (5)% | (4)% | |
| Group revenue | 2% | -% | |

Stephen Clarke, Group Chief Executive, commented:

“We have delivered a good performance across the Group.

“The Travel business continues to perform well with strong revenue growth, up 9% in the year. For the first time, revenue in Travel has overtaken High Street and Travel is now the largest part of the Group in both revenue and profit. Profit in Travel is up 10% to £96m, now over 60% of Group trading profit.

“During our 225th anniversary year, we were delighted to open our 225th international store and now have 233 stores open. We have won 273 stores across 25 countries, including new stores in Singapore and Rome.

“The High Street business performed well - matching the particularly strong profit performance from last year. Our investment in new product design continues to drive stationery revenue and we have been pleased with the success of the recently launched Tom Fletcher Kids Book Club.

“The Board has proposed a 10% increase in the final dividend and we have today announced a further share buyback of up to £50m reflecting the Group’s cash generation and our confidence in the future prospects of the Group.

“This performance is only possible through the hard work and commitment of our 14,000 colleagues across the business and I am grateful for their continued support.

“Looking ahead, we will focus on profitable growth, cash generation and new opportunities to profitably invest in the future. While the economic environment remains uncertain, we are well positioned for the current year and beyond.”

¹ 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 unallocated costs, finance costs and taxation. See Note 3 to the financial statements and Glossary on page 31 for an explanation of the definition and purpose of the Group’s alternative performance measures.

² 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)

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WH Smith PLC's Preliminary Results 2017 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2017 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

GROUP OVERVIEW

The distinct strategies of our Travel and High Street businesses have been successful in driving profit growth and creating shareholder value, underpinned by our disciplined approach to cash generation and capital allocation.

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

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

In International Travel, we aim to expand profitably by:

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

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

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

Group Summary

Total Group revenue was up 2% at £1,234m (2016: £1,212m) with Group LFL revenue flat compared to last year.

Group profit from trading operations¹ increased 6% on the prior year to £158m (2016: £149m) with Group profit before tax increasing by £9m to £140m (2016: £131m), up 7%.

Travel

Travel delivered a strong revenue performance across all channels with total revenue compared to last year up 9% (of which 3% relates to forex benefits) and LFL revenue up 4%, reflecting investment in our key initiatives and improved passenger numbers. For the first time, revenue in Travel has overtaken High Street and Travel is now the largest part of the Group in both revenue and profit. Trading profit¹ increased by 10% to £96m which includes £9m (2016: £7m) from our growing international business. Travel now represents over 60% of Group profit from trading operations¹. We continue to invest in the business and opened 15 new units in the UK during the year, taking us to a total of 582 units in the UK.

During the year we won a further 41 units in our international business, including the significant win of Changi Airport in Singapore in the first half, making a total of 273 units won, of which 233 are open.

As at 31 August 2017 Travel operated from 815 units (31 August 2016: 768 units) and, excluding franchises, operates from 0.6m square feet.

High Street

High Street delivered a good performance matching a strong profit performance last year. As expected, trading profit¹ was £62m (2016: £62m). Compared to last year, total revenue was down 5% and down 4% on a LFL basis. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £12m were delivered in the year. An additional £9m of cost savings have been identified over the next three years making a total of £18m of which £9m are planned for 2017/18. As at 31 August 2017 High Street operated from 611 stores (31 August 2016: 612 stores) and occupied 2.8m square feet (31 August 2016: 2.8m square feet).

Group

Diluted earnings per share increased by 10% to 103.6p (2016: 93.9p). This reflects the increase in profit and a lower basic weighted average number of shares in issue following the share buyback.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £4m at 31 August 2017, with a Group free cash flow³ of £105m. The Group has a committed revolving credit working capital facility of £140m through to December 2021.

We completed £41m of the share buyback announced on 13 October 2016 and 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 33.6p per share, a 10% increase on last year, giving a total ordinary dividend per share of 48.2p, a 10% increase on the prior year. The proposed increase in final dividend reflects our progressive dividend policy, the Board's confidence in the future prospects of the Group and the strong cash generative nature of the business.

Both the Travel and High Street businesses are cash generative and we allocate our capital efficiently: investing in the business and new opportunities where we can achieve an attractive return ahead of our cost of capital (capital expenditure in the year was £48m), 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 on 12 October 2017 and the declared final dividend, since our 2007 financial year we will have returned over £900m of cash to shareholders, increased the dividend each year and reduced our issued share capital by 40%.

| Financial Year | Ordinary Dividend⁴ | Buyback⁶ | Special Dividend | Total |
|-----------------------|--------------------------------------|----------------------------|-------------------------|---------------|
| | £m | £m | £m | £m |
| 2018 | 53 ⁵ | 50 ⁷ | - | c. 103 |
| 2017 | 50 | 41 | - | 91 |
| 2016 | 46 | 47 | - | 93 |
| 2015 | 42 | 54 | - | 96 |
| 2014 | 38 | 41 | - | 79 |
| 2013 | 34 | 50 | - | 84 |
| 2007 - 2012 | 147 | 173 | 57 | 377 |
| | 410 | 456 | 57 | c. 923 |

³ Free cash flow is cash generated from operating activities adjusted for capital expenditure, repayments to HMRC (see Note 5 to the financial statements), pension funding and net interest paid. See analysis of cash flow (page 8). Refer to the Glossary on page 31 for an explanation of the definition and purpose of the Group's alternative performance measures.

⁴ Cash dividend paid

⁵ Proposed final ordinary dividend for year ended 31 August 2017 and for illustrative purposes only assumes 2018 interim dividend to be the same as in 2017

⁶ Buyback in financial year

⁷ Buyback of up to £50m announced on 12 October 2017

Trading Operations

Travel

During the year Travel delivered another strong performance with trading profit¹ up 10% to £96m. Full year total revenue was up 9%, which includes 3% from forex benefits from our growing international business. LFL revenue was up 4% on a constant currency basis.

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

- i. focusing in our existing stores on improved execution and customer service; investment in store layouts; space and category management
- ii. developing new formats and opening new space in the UK, and
- iii. expanding profitably overseas

Travel - UK

We delivered another strong revenue performance across all our key channels as a result of an improvement in passenger numbers and our initiatives in managing space, ranges and customer service. In air, total revenue was up 7% with LFL revenue up 6%; in rail, total revenue was up 1% with LFL revenue also up 1%; and in hospitals, total revenue was up 6% with LFL revenue up 5%. Gross margin increased by 100 bps, driven by mix.

Retail space in Travel is often very constrained, it varies substantially by channel and location and is expensive. We seek to maximise the return from every square metre of this space through our detailed analysis of the space and category elasticities of each square metre of display space. This, along with our operational capabilities to make space changes three or four times a year even in our busiest stores, means we are able to respond to the changes in our customers' needs, growth opportunities and adapt to seasonal variations. This process has, over the years, led to a significant evolution of our formats and ranges. During the year we added to our digital ranges, introducing brands such as Apple, while also opening our first standalone 'Tech Express' unit in Southampton Airport. We also further improved our food offer by re-launching our sandwich and salad ranges, and extended our healthy eating ranges including fruit and protein pots.

We have continued to invest to drive improved customer service. With around 100,000 transactions in a peak week in some of our busiest stores, maintaining availability and customer throughput is critical. For peak trading this year we invested in additional labour for replenishment and fitted additional staffed tills as part of our Customer First initiative.

During the year we have invested in store layouts and store environment, as well as developing new formats that position us well for the future. One area of particular focus is our large airport format where our experience and analysis shows that we can deliver superior average transaction value and sales per passenger from larger store footprints. Larger stores enable improved customer circulation which drives customer conversion. Our first UK store showcasing a new design is due to open in Gatwick Airport South Terminal in November with a further store of a similar design due to open in Stansted Airport also in the autumn.

In rail, we have created a new format for smaller regional rail stations which combines the traditional WHSmith format with a coffee offer. We have opened our first store which is trading well. This new format gives us opportunities to open stores in smaller stations in the rail network. In addition, following the successful opening of our standalone bookshop in Euston Station earlier in the year, we will open a further two new bookshops in the first half of the current financial year. These dedicated bookshops provide an enhanced customer experience with a unique look and feel and have been well received by customers, publishers and landlords. We now have 11 bookshops open in air and rail.

Our hospital business is an important channel and we continue to invest here. During the second half we developed and began trialling a new format within the WHSmith footprint that also includes an M&S Food to Go range, with an emphasis on healthy eating, and a WHSmith Coffee House counter. We are pleased with the two trial stores we have opened and customer feedback has been positive.

During the year, we opened 15 stores in the UK, including 3 in air, 5 in rail and 6 in hospitals, including 3 M&S Simply Food stores. We now have a total of 18 M&S Simply Food stores open.

Looking ahead, we anticipate opening around 15 new units in total in the UK in each of the next three years across all three of our channels, while at the same time driving sales per passenger in existing stores through improvements to customer offer and active space and margin mix management.

Travel - International

We have built a successful Travel business based on the different operating models applied in each channel. Our active space management and our focus on providing a compelling offer to customers and to landlords enables us to win and retain business.

We continue to be successful in exporting this model overseas where the WHSmith brand is well received and we have demonstrated we can deliver improved performance and add value relative to the previous incumbent.

Our international business is growing rapidly. We have now won 273 units and opened 233. However, our share of the global news, books and convenience (NBC) travel market is still very small and we see opportunities to grow using our three economic models of directly-run, joint venture and franchise.

Total revenue for the year was £108m (2016: £79m), up 37% versus the previous year. Approximately 17% of this increase relates to forex benefits. LFL revenue was up 6% on a constant currency basis. Trading profit¹ for the year was £9m, an increase of £2m on the previous year.

During the year we won 41 new units including the significant tender win at Changi Airport in Singapore and, in the second half, 7 units in Italy, including 4 at Rome Fiumicino Airport and 2 in Rome Ciampino Airport. Our first unit in Changi Airport is due to open in November with the remaining 9 units opening during the first half of 2018. Four of the units in Rome are now open. In addition to the 23 units won in the first half, we won a further 18 new units in the second half, including the 7 units in Italy and further units in Malta, Oman, India, Indonesia and Malaysia.

Of the units we have won, approximately 50% are franchised, 10% joint venture and 40% directly run. We will continue to use these three economic models flexibly in order to create value and win new business.

We are now present in 45 airports and 25 countries outside of the UK with 62 units open in Europe, 84 in the Middle East and India and 87 in Asia Pacific.

High Street

High Street delivered a good performance in line with our expectations, matching a strong profit performance from last year with trading profit¹ flat at £62m (2016: £62m). Our strategy of actively managing our space to optimise our core categories, gross margin growth and good cost control continues to deliver sustainable profit and good cash generation.

As expected, High Street total revenue was down 5% and down 4% on a LFL basis. Gross margin improved by around 110 bps, through rebalancing the mix of our business, better buying and markdown management.

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

Nearly all our stores are located in the best retail locations in the catchments in which we operate. This, and the huge variability in the size and shape of our stores, continues to give us opportunities to reconfigure our space to deliver margin mix benefits and efficiencies in the store operating model.

During the year space changes have included further extending our Stationery ranges and providing more, better quality space in store to this category.

We have conducted a number of trials to explore opportunities to further improve Stationery in our larger stores. These trials have ranged from lower cost initiatives that deliver key benefits, to additional space with new features, such as a dedicated pen shop and digital area, through to a complete store refurbishment, as we have done in Reading.

Post Offices continue to be an important area of investment. We now have 166 Post Offices open within our High Street stores of which 133 are franchises and 33 are run by Post Office Ltd under a concession agreement. During the year, we opened 58 Post Offices from the deal we announced in April 2016. Customer feedback continues to be positive with customers commenting on the modern layout and environment as well as extended opening hours. The contract for all 166 Post Offices runs to 2026. The Post Offices further cement our position in the heart of the communities in which we operate.

Driving efficiencies remains a core part of our strategy and we focus on all areas of cost in the business. We continue to deliver savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. During the year we achieved cost savings of £12m. These savings come from right across the business, including rent savings at lease renewal, a more efficient store operating model through greater use of technology and contract renegotiations. Over the next three years, the leases on 250 stores expire giving us further opportunities to renegotiate our occupation costs. An additional £9m of cost savings have been identified over the next three years making a total of £18m of which £9m are planned for 2017/18.

Funkypigeon.com performed well over the key seasons in the year. Mobile continues to be the main and growing source of traffic to the site and our investment in web development reflects this. During the second half, in line with our plan, we successfully opened a new 36,000 sq ft fulfilment centre having reached capacity in the original site which opened in 2011. This future proofing gives us scope to develop our gifting offer further and bring the majority of our fulfilment in-house.

As at 31 August 2017, the High Street business operates from 611 stores (2016: 612), which occupy 2.8m square feet (2016: 2.8m square feet). Three stores were closed in the year.

Category Performance

Stationery:

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like revenue was up 3%, with gross margin slightly lower than last year reflecting mix. Stationery remains an attractive category for us with good economics and growth potential. Our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; our ability to source competitively through our Far East sourcing office; and our promotional offers and scale mean we can differentiate ourselves in this category.

During the year, Stationery has continued to be the main beneficiary of space with more stores benefitting from additional space towards the front of store and further range improvements. This additional space, combined with our range development initiatives drove good like-for-like revenue growth over the Christmas period (in categories such as calendars, single Christmas cards, wrap, diaries and decorations) and at back to school.

Books:

In Books, the General Retail Market remains fairly stable however the quality of publishing is still the biggest driver of market performance. Ebooks continue to decline across the market. During the first half, spoof humour books were a key driver of revenue while revenue from 'colour therapy' titles reduced significantly versus last year. In the second half, we annualised good publishing from 2016 including, *Harry Potter and The Cursed Child*. Like-for-like revenue was down 4% with gross margin up compared to last year.

We continue to focus on areas of strength and the net profitability from this category. For example, spoof humour titles over Christmas and our book clubs where we continue to drive good results. The

Richard and Judy Book Club remains the UK's biggest book club and we are now in the second year of our successful Zoella book club targeting young adult readers. In September 2017, we launched a new Kids book club fronted by Tom Fletcher. We also see opportunities to improve the efficiency of our books operating model both in store and in the supply chain, reducing stock levels and increasing productivity. In Travel, we opened a new standalone bookshop in Euston Station and we have increased the space given to book recommendations. Our online readers' poll to announce the best book of the last 225 years proved popular with our customers.

News and Impulse:

News and Impulse like-for-like revenue was up 1% for the full year and we saw a further improvement in gross margin. The newspaper and magazine market continues to be challenging. In Travel we continue to extend our 'Food to Go' offer. During the year we launched our 'Munch' range with new packaging and extended the offer with healthier snacks and ready- to-eat convenience lines, including fruit and protein pots. Our breakfast meal deal launched in the summer and has been well received by customers.

Group

The Group generated profit before tax of £140m (2016: £131m), an increase of 7% on the prior year.

| £m | 2017 | 2016 | Growth % |
|---|------------|------------|-------------|
| Travel trading profit ¹ | 96 | 87 | 10% |
| High Street trading profit ¹ | 62 | 62 | -% |
| Group profit from trading operations¹ | 158 | 149 | 6% |
| Unallocated costs | (16) | (16) | |
| Group operating profit | 142 | 133 | 7% |
| Net finance costs | (2) | (2) | |
| Group profit before taxation | 140 | 131 | 7% |

Tax

The effective tax rate was 17% (2016: 17%), reflecting the statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 18%. The exact tax rate achieved will depend on the underlying profitability of the Group 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 1.7 times (2016: 1.7 times) by profit before tax and fixed charges.

Dividends

The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis. The Board has proposed a final dividend of 33.6p per share, an increase of 10% on the prior year, giving a total ordinary dividend per share of 48.2p, a 10% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the continuing cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval, the dividend will be paid on 1 February 2018 to shareholders registered at the close of business on 12 January 2018. The final dividend will be paid gross.

Cash Flow

The Group generated free cash flow³ of £105m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

| £m | 2017 | 2016 |
|---|-------------|-------------|
| Group operating profit | 142 | 133 |
| Depreciation, amortisation and impairment of fixed assets | 42 | 41 |
| Working capital | (7) | (8) |
| Employers payroll tax on exercised share awards | (2) | (2) |
| Capital expenditure | (48) | (42) |
| Net tax paid ⁸ | (25) | (23) |
| Net interest paid | (1) | (1) |
| Movement in provisions | (1) | 2 |
| Non cash items | 5 | 8 |
| Free cash flow | 105 | 108 |

⁸ Excludes £13m repayment on account made in 2016 (See Note 5 to the Financial Statements)

Cash outflow from working capital was £7m which reflects our new store opening programme and some timing. Payments relating to employers payroll tax resulting from the exercise of share based awards were £2m compared to £2m last year. Net corporation tax paid on trading profits was £25m, compared to £23m last year.

Capital expenditure was £48m in the year and was £6m higher than the prior year due to the investment in Post Offices and the store operating model. Capex includes new stores in Travel in the UK and International, further investment in the store operating model, IT and our existing stores, and further format trials in Travel and High Street.

This year we expect capex spend to also be around £48m. Going forward after this year, we expect capex to be around £45m per annum although this will depend on the number of new stores we open.

| Capex £m | 2017 | 2016 |
|----------------------------------|-------------|-------------|
| New stores and store development | 23 | 20 |
| Refurbished stores | 13 | 12 |
| Systems | 10 | 7 |
| Other | 2 | 3 |
| Total capital expenditure | 48 | 42 |

Net Funds

The movement in net funds is as follows:

| £m | 2017 | 2016 |
|---|----------|-----------|
| Opening net funds | 7 | 15 |
| Free cash flow generated | 105 | 108 |
| Dividends paid ⁹ | (50) | (46) |
| Pension funding | (3) | (3) |
| Net purchase of own shares for employee share schemes | (9) | (6) |
| Purchase of own shares for cancellation | (40) | (47) |
| Return of payment on account to HMRC ¹⁰ | (2) | (13) |
| Proceeds from the sale and leaseback of property, plant and equipment | - | 3 |
| Repayments of obligations under finance leases | (4) | (3) |
| Other | (1) | 2 |
| Closing net funds before net movement in finance leases | 3 | 10 |
| Net movement in finance leases | 1 | (3) |
| Closing net funds | 4 | 7 |

⁹ Dividends paid include current year interim and prior year final dividends paid.

¹⁰ £2m in 2017 relates to the interest on the £13m repayment to HMRC made in 2016. See Note 5 to the Financial Statements.

In addition to the £105m of free cash flow generated in the year, the Group has seen a net cash outflow of £62m in relation to non-trading operations. This includes £50m of dividend payments, £3m pension funding and the net purchase of own shares for employee share schemes of £9m.

In total we returned £41m to shareholders through an on-market buyback of which £40m had been cash settled by 31 August 2017. A further buyback of up to £50m has been announced today.

As at 31 August 2017 net funds were £4m being net cash of £16m and finance leases of £12m.

Balance Sheet

The Group had net assets of £187m (2016: £168m) at the end of the year. The increase in net assets reflects the cash generation of the business, the return of cash to shareholders and capex investment.

| £m | 2017 | 2016 |
|---|------------|------------|
| Goodwill and other intangible assets | 67 | 63 |
| Property plant and equipment | 164 | 158 |
| Investments in associates | 1 | - |
| | 232 | 221 |
| Inventories | 150 | 146 |
| Payables less receivables | (184) | (188) |
| Working capital | (34) | (42) |
| Derivative financial asset | - | 2 |
| Net current and deferred tax liability | (5) | (8) |
| Provisions | (5) | (6) |
| Operating assets employed | 188 | 167 |
| Net funds | 4 | 7 |
| Net assets excluding pension liability | 192 | 174 |
| Pension liability | (6) | (7) |
| Deferred tax asset on pension liability | 1 | 1 |
| Total net assets | 187 | 168 |

Return on Capital Employed (ROCE)

Operating capital employed and ROCE were as follows:

| | Operating capital employed £m¹¹ | ROCE¹² % | ROCE% with operating leases capitalised¹³ |
|----------------------------------|---|----------------------------|---|
| Travel | 75 | 128 | 29 |
| High Street | 130 | 48 | 23 |
| Trading operations | 205 | 77 | 26 |
| Unallocated central items | (17) | | |
| Operating assets employed | 188 | 76 | 25 |

For the prior year, comparable ROCE was 80% (Travel 116% and High Street 54%) and 27% after capitalised operating leases (Travel 36% and High Street 22%).

¹¹ Net assets adjusted for net funds and retirement benefit obligations (and associated deferred tax asset).

¹² Return on capital employed is calculated as the trading profit as a percentage of operating capital employed.

¹³ Return on capital employed after capitalised net operating leases is calculated as the adjusted trading profit as a percentage of operating assets after capitalising operating leases. Adjusted trading profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2017 at which point the deficit was £11m (31 March 2014 actuarial revaluation deficit of £24m). The Group has agreed a revised annual funding schedule with the Trustees from September 2017 for the next six years of just under £3m, a reduction of approximately £0.5m. This includes the deficit recovery contributions and other running costs. During the year ended 31 August 2017, the Group made a contribution of £3m to the scheme.

The scheme has been closed to new members since 1996 and closed to defined benefit service accrual since 2007. The Liability Driven Investment (LDI) policy adopted by the scheme continues to perform well with around 85% of the inflation and interest rate risks hedged.

As at 31 August 2017, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £4m (2016: £5m) and an associated deferred tax asset of £1m (2016: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2017, the scheme had an IAS 19(R) surplus of £269m (2016: surplus of £164m) 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 IAS 19(R) pension deficit on the relatively small UNS defined benefit pension scheme was £2m (2016: £2m).

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 £182m (2016: £159m) (net of £1m of external rent receivable (2016: £2m)). The total future rental commitment at the balance sheet date amounted to £841m (2016: £769m) 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 £3m (2016: £3m).

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain those detailed on pages 20 to 24 of the Group's Annual Report and Accounts 2016, a copy of which is available on the Group's website at www.whsmithplc.co.uk. These include: economic, political, competitive and market risks; brand and reputation; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; international expansion; treasury, financial and credit risk management; and cyber risk and data security.

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

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

Trading update

The Group will issue its next trading update on 24 January 2018.

WH Smith PLC
Group Income Statement
For the year ended 31 August 2017

| £m | Note | 2017 | 2016 |
|---|------|---------------|-------|
| Continuing operations | | | |
| Revenue | 3 | 1,234 | 1,212 |
| Group operating profit | 2, 3 | 142 | 133 |
| Finance costs | 4 | (2) | (2) |
| Profit before tax | | 140 | 131 |
| Income tax expense | 5 | (24) | (23) |
| Profit for the year | | 116 | 108 |
| Earnings per share | | | |
| Basic | 6 | 104.5p | 95.6p |
| Diluted | 6 | 103.6p | 93.9p |
| Equity dividends per share¹ | | 48.2p | 43.9p |
| Alternative Performance Measures² | | | |
| Fixed charges cover | 10 | 1.7x | 1.7x |

¹ Dividend per share is the final proposed dividend of 33.6p (2016: 30.5p) and the interim dividend of 14.6p (2016: 13.4p).

² The Group has defined and outlined the purpose of its alternative performance measures in the Glossary on page 31.

WH Smith PLC
Group Statement of Comprehensive Income
For the year ended 31 August 2017

| £m | Note | 2017 | 2016 |
|--|------|------------|------------|
| Profit for the year | | 116 | 108 |
| Other comprehensive (loss)/income: | | | |
| Items that will not be reclassified subsequently to the income statement: | | | |
| Actuarial losses on defined benefit pension schemes | 11 | (2) | (3) |
| | | (2) | (3) |
| Items that may be reclassified subsequently to the income statement: | | | |
| Gains / (losses) on cash flow hedges | | | |
| - Net fair value gains / (losses) | | - | 2 |
| - Reclassified and reported in the income statement | | (2) | - |
| Exchange differences on translation of foreign operations | | 2 | 5 |
| | | - | 7 |
| Other comprehensive (loss)/income for the year, net of tax | | (2) | 4 |
| Total comprehensive income for the year | | 114 | 112 |

WH Smith PLC
Group Balance Sheet
As at 31 August 2017

| £m | Note | 2017 | 2016 |
|--------------------------------------|------|--------------|-------|
| Non-current assets | | | |
| Goodwill | | 38 | 38 |
| Other intangible assets | | 29 | 25 |
| Property, plant and equipment | | 164 | 158 |
| Investments in joint ventures | | 1 | – |
| Deferred tax assets | | 8 | 9 |
| Trade and other receivables | | 6 | 4 |
| | | 246 | 234 |
| Current assets | | | |
| Inventories | | 150 | 146 |
| Trade and other receivables | | 54 | 50 |
| Derivative financial assets | | – | 2 |
| Cash and cash equivalents | 8 | 38 | 38 |
| | | 242 | 236 |
| Total assets | | 488 | 470 |
| Current liabilities | | | |
| Trade and other payables | | (232) | (229) |
| Bank overdrafts and other borrowings | 8 | (22) | (18) |
| Retirement benefit obligations | 11 | (1) | (1) |
| Obligations under finance leases | 8 | (4) | (3) |
| Current tax liabilities | | (12) | (16) |
| Short-term provisions | | (1) | (1) |
| | | (272) | (268) |
| Non-current liabilities | | | |
| Retirement benefit obligations | 11 | (5) | (6) |
| Long-term provisions | | (4) | (5) |
| Obligations under finance leases | 8 | (8) | (10) |
| Other non-current liabilities | | (12) | (13) |
| | | (29) | (34) |
| Total liabilities | | (301) | (302) |
| Total net assets | | 187 | 168 |

WH Smith PLC
Group Balance Sheet (continued)
As at 31 August 2017

| £m | Note | 2017 | 2016 |
|-----------------------------|------|------------|------------|
| Shareholders' equity | | | |
| Called up share capital | | 24 | 25 |
| Share premium | | 6 | 6 |
| Capital redemption reserve | | 13 | 12 |
| Revaluation reserve | | 2 | 2 |
| ESOP reserve | | (9) | (10) |
| Hedging reserve | | – | 2 |
| Translation reserve | | 2 | – |
| Other reserve | | (257) | (247) |
| Retained earnings | | 406 | 378 |
| Total equity | | 187 | 168 |

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 12 to 30 were approved by the Board of Directors and authorised for issue on 12 October 2017 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 2017

| £m | Note | 2017 | 2016 |
|---|------|--------------|-------------|
| Operating activities | | | |
| Cash generated from operating activities | 9 | 149 | 135 |
| Interest paid | | (1) | (1) |
| Net cash inflow from operating activities | | 148 | 134 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (39) | (34) |
| Purchase of intangible assets | | (9) | (8) |
| Net cash outflow from investing activities | | (48) | (42) |
| Financing activities | | | |
| Dividend paid | 7 | (50) | (46) |
| Issue of new shares for employee share schemes | | – | 1 |
| Purchase of own shares for cancellation | | (40) | (47) |
| Purchase of own shares for employee share schemes | | (9) | (7) |
| Proceeds from borrowings | 8 | 4 | 9 |
| Revolving credit facility arrangement fees | | (1) | – |
| Repayments of obligations under finance leases | | (4) | (3) |
| Proceeds from sale and leaseback of property, plant and equipment | | – | 3 |
| Net cash outflow from financing activities | | (100) | (90) |
| Net increase in cash and cash equivalents in year | | – | 2 |
| Opening cash and cash equivalents | | 38 | 34 |
| Effect of movements in foreign exchange rates | | – | 2 |
| Closing cash and cash equivalents | 8 | 38 | 38 |
| Reconciliation of net cash flow to movement in net funds | | | |
| £m | Note | 2017 | 2016 |
| Net funds at beginning of the year | | 7 | 15 |
| Increase in cash and cash equivalents | | – | 2 |
| Increase in debt | | (4) | (9) |
| Net movement in finance leases | | 1 | (3) |
| Effect of movements in foreign exchange rates | | – | 2 |
| Net funds at end of the year | 8 | 4 | 7 |

WH Smith PLC
Group Statement of Changes in Equity
For the year ended 31 August 2017

| £m | Called up share capital and share premium | Capital redemption reserve | Revaluation reserve | ESOP reserve | Hedging and translation reserves ¹ | Other reserve ² | Retained earnings | Total equity |
|---|---|----------------------------|---------------------|--------------|---|----------------------------|-------------------|--------------|
| Balance at 1 September 2016 | 31 | 12 | 2 | (10) | 2 | (247) | 378 | 168 |
| Profit for the year | – | – | – | – | – | – | 116 | 116 |
| Other comprehensive income/(expense): | | | | | | | | |
| Actuarial losses on defined benefit pension schemes | – | – | – | – | – | – | (2) | (2) |
| Cash flow hedges | – | – | – | – | (2) | – | – | (2) |
| Exchange differences on translation of foreign operations | – | – | – | – | 2 | – | – | 2 |
| Total comprehensive income for the year | – | – | – | – | – | – | 114 | 114 |
| Recognition of share-based payments | – | – | – | – | – | – | 5 | 5 |
| Current tax on share-based payments | – | – | – | – | – | – | 1 | 1 |
| Deferred tax on share-based payments | – | – | – | – | – | – | (1) | (1) |
| Dividends paid (Note 7) | – | – | – | – | – | – | (50) | (50) |
| Employee share schemes | – | – | – | 1 | – | (10) | – | (9) |
| Purchase of own shares for cancellation | (1) | 1 | – | – | – | – | (41) | (41) |
| Balance at 31 August 2017 | 30 | 13 | 2 | (9) | 2 | (257) | 406 | 187 |
| Balance at 1 September 2015 | 30 | 12 | 2 | (11) | (5) | (239) | 358 | 147 |
| Profit for the year | – | – | – | – | – | – | 108 | 108 |
| Other comprehensive income/(expense): | | | | | | | | |
| Actuarial losses on defined benefit pension schemes | – | – | – | – | – | – | (3) | (3) |
| Cash flow hedges | – | – | – | – | 2 | – | – | 2 |
| Exchange differences on translation of foreign operations | – | – | – | – | 5 | – | – | 5 |
| Total comprehensive income for the year | – | – | – | – | 7 | – | 105 | 112 |
| Recognition of share-based payments | – | – | – | – | – | – | 7 | 7 |
| Current tax on share-based payments | – | – | – | – | – | – | 2 | 2 |
| Deferred tax on share-based payments | – | – | – | – | – | – | (1) | (1) |
| Premium on issue of shares | 1 | – | – | – | – | – | – | 1 |
| Dividends paid (Note 7) | – | – | – | – | – | – | (46) | (46) |
| Employee share schemes | – | – | – | 1 | – | (8) | – | (7) |
| Purchase of own shares for cancellation | – | – | – | – | – | – | (47) | (47) |
| Balance at 31 August 2016 | 31 | 12 | 2 | (10) | 2 | (247) | 378 | 168 |

¹ Included within the Hedging and translation reserves is a cumulative gain of £2m (2016: £nil) 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 £10m (2016: £8m).

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

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 2017 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 2017 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:

| | |
|---|--|
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidated Exception |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Annual improvements 2012–2014 | |

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. Except as outlined below, the directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group’s financial statements. IFRS 15 may impact on the timing of recognition of revenue. IFRS 16 ‘Leases’ is effective for periods beginning on or after 1 January 2019 (subject to endorsement by the EU). The Group anticipates that the adoption of IFRS 16 will have a material impact on the Income statement and Balance sheet including operating profit, profit before tax, property plant and equipment and net debt. There is no cash impact of adoption of this standard. The Group is in the process of assessing the impact of IFRS 16 in relation to its existing lease estate which comprises approximately 1,300 property leases, as well as equipment leases.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed lease-by-lease review has been completed. The undiscounted amount of the Group’s operating lease commitments at 31 August 2017 disclosed under IAS 17, the current leasing standard was £841 million (see Note 12).

Alternative Performance Measures

The Group has identified certain alternative performance measures (“APMs”) that it believes will assist the understanding of the performance of the business. The Group believes that High Street and Travel trading profit, Group profit from trading operations, Fixed charges cover, Gross margin, Like-for-like revenue, Free cash flow, Return on capital employed and Net funds provide useful information to users of the financial statements. The terms are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, IFRS measures. The Group has defined and outlined the purpose of its APMs in the Glossary on page 31.

Going concern

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

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

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2017 and 12 months to 31 August 2016 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 2016 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2017 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 2017 and 12 months to 31 August 2016 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in November 2017.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

2. Group operating profit

| £m | 2017 | 2016 |
|---------------------------------|--------------|-------|
| Revenue | 1,234 | 1,212 |
| Cost of sales | (501) | (503) |
| Gross profit | 733 | 709 |
| Distribution costs ¹ | (509) | (495) |
| Administrative expenses | (87) | (86) |
| Other income ² | 5 | 5 |
| Group operating profit | 142 | 133 |

¹ During the period there was a £1m (2016: £3m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

² Other income is profit attributable to property and the sale of plant and equipment.

| £m | 2017 | 2016 |
|--|------------|------|
| Cost of inventories recognised as an expense | 501 | 503 |
| Write-down of inventories in the year | 5 | 4 |
| Depreciation and amounts written off property, plant and equipment | 36 | 35 |
| Amortisation and amounts written off intangible assets | 6 | 6 |
| Net operating lease charges | | |
| – land and buildings | 200 | 192 |
| – equipment and vehicles | 1 | 1 |
| Other occupancy costs | 67 | 67 |
| Staff costs | 212 | 202 |

3. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments – Travel and High Street.

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

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

a) Group revenue

| £m | 2017 | 2016 |
|-------------------------------|--------------|-------|
| Continuing operations: | | |
| Travel | 624 | 573 |
| High Street | 610 | 639 |
| Group revenue | 1,234 | 1,212 |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

3. Segmental analysis of results (continued)

b) Group results

| £m | 2017 | 2016 |
|---------------------------------------|------------|------------|
| Continuing operations: | | |
| Travel | 96 | 87 |
| High Street | 62 | 62 |
| Profit from trading operations | 158 | 149 |
| Unallocated costs | (16) | (16) |
| Group operating profit | 142 | 133 |
| Finance costs | (2) | (2) |
| Income tax expense | (24) | (23) |
| Profit for the year | 116 | 108 |

Included within Travel revenue and trading profit is International revenue of £108m (2016: £79m) and International trading profit of £9m (2016: £7m).

c) Balance sheet and other segmental information

| £m | 2017 | | |
|---------------------------------------|--------------|--------------|--------------|
| | Travel | High Street | Group |
| Assets | | | |
| Segment assets | 180 | 266 | 446 |
| Unallocated assets | - | - | 42 |
| Consolidated total assets | 180 | 266 | 488 |
| Liabilities | | | |
| Segment liabilities | (105) | (136) | (241) |
| Unallocated liabilities | - | - | (60) |
| Consolidated total liabilities | (105) | (136) | (301) |
| Net assets | 75 | 130 | 187 |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

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

| £m | 2016 | | |
|---------------------------------------|-------------|--------------|--------------|
| | Travel | High Street | Group |
| Assets | | | |
| Segment assets | 165 | 262 | 427 |
| Unallocated assets | – | – | 43 |
| Consolidated total assets | 165 | 262 | 470 |
| Liabilities | | | |
| Segment liabilities | (90) | (148) | (238) |
| Unallocated liabilities | – | – | (64) |
| Consolidated total liabilities | (90) | (148) | (302) |
| Net assets | 75 | 114 | 168 |

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities. Included within Travel segment assets are International non-current assets of £27m (2016: £19m).

| £m | 2017 | | |
|---|--------|-------------|-------|
| | Travel | High Street | Group |
| Capital additions | 22 | 28 | 50 |
| Depreciation and amortisation of non-current assets | (17) | (24) | (41) |
| Impairment losses | (1) | – | (1) |

| £m | 2016 | | |
|---|--------|-------------|-------|
| | Travel | High Street | Group |
| Capital additions | 22 | 22 | 44 |
| Depreciation and amortisation of non-current assets | (14) | (24) | (38) |
| Impairment losses | (1) | (2) | (3) |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

4. Finance costs

| £m | 2017 | 2016 |
|--|----------|----------|
| Interest payable on bank loans and overdrafts | 2 | 1 |
| Net interest cost on defined benefit pension liabilities | – | 1 |
| | 2 | 2 |

5. Income tax expense

| £m | 2017 | 2016 |
|--|------------|------------|
| Tax on profit | 29 | 30 |
| <i>Standard rate of UK corporation tax 19.58% (2016: 20.00%)</i> | | |
| Adjustment in respect of prior year UK corporation tax | (5) | (7) |
| Total current tax charge | 24 | 23 |
| Deferred tax – current year | (1) | (2) |
| Deferred tax – prior year | 1 | 2 |
| Tax on profit | 24 | 23 |
| <i>Effective tax rate</i> | 17% | 17% |

Reconciliation of the taxation charge

| £m | 2017 | 2016 |
|--|-----------|-----------|
| Tax on profit at standard rate of UK corporation tax 19.58% (2016: 20.00%) | 27 | 26 |
| Tax effect of items that are not deductible or not taxable in determining taxable profit | 2 | 2 |
| Adjustment in respect of prior years | (5) | (5) |
| Total income tax expense | 24 | 23 |

The UK corporation tax rate has been 19 per cent with effect from 1 April 2017. The UK corporation tax rate will reduce to 17 per cent from 1st April 2020. The effects of these changes are 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. During 2016, we made a £13m repayment to HMRC of a previous payment on account in respect of an historical commercial structure put in place in the year ended 31 August 2009. During the year ended 31 August 2017 we also made a £2m payment of interest on the above amount.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

6. Earnings per share

a) Earnings

| £m | 2017 | 2016 |
|--|-------------|-------------|
| Earnings attributable to shareholders | 116 | 108 |

b) Weighted average share capital

| Millions | 2017 | 2016 |
|--|-------------|-------------|
| Weighted average ordinary shares in issue | 112 | 114 |
| Less weighted average ordinary shares held in ESOP Trust | (1) | (1) |
| Weighted average shares in issue for earnings per share | 111 | 113 |
| Add weighted average number of ordinary shares under option | 1 | 2 |
| Weighted average ordinary shares for diluted earnings per share | 112 | 115 |

c) Basic and diluted earnings per share

| Pence | 2017 | 2016 |
|-----------------------------------|--------------|-------------|
| Basic earnings per share | 104.5 | 95.6 |
| Diluted earnings per share | 103.6 | 93.9 |

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 2017

7. Dividends

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

| £m | 2017 | 2016 |
|---|-----------|-----------|
| Dividends | | |
| Interim dividend of 14.6p per ordinary share (2016: 13.4p per ordinary share) | 16 | 15 |
| Final dividend of 30.5p per ordinary share (2016: 27.3p per ordinary share) | 34 | 31 |
| | 50 | 46 |

The proposed dividend of 33.6p per share, amounting to a final dividend of £37m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 1 February 2018 to shareholders on the register at the close of business on 12 January 2018. The final dividend will be paid gross.

8. Analysis of net funds

Movements in net funds can be analysed as follows:

| £m | 2016 | Cash flow | Non cash | Currency translation | 2017 |
|------------------------------------|----------|-----------|------------|----------------------|----------|
| Cash and cash equivalents | 38 | – | – | – | 38 |
| Borrowings | | | | | |
| - Revolving credit facility | (18) | (4) | – | – | (22) |
| - Obligations under finance leases | (13) | 4 | (3) | – | (12) |
| Net funds | 7 | – | (3) | – | 4 |

| £m | 2015 | Cash flow | Non cash | Currency translation | 2016 |
|------------------------------------|-----------|------------|------------|----------------------|----------|
| Cash and cash equivalents | 34 | 2 | – | 2 | 38 |
| Borrowings | | | | | |
| - Revolving credit facility | (9) | (9) | – | – | (18) |
| - Obligations under finance leases | (10) | 3 | (6) | – | (13) |
| Net funds | 15 | (4) | (6) | 2 | 7 |

An explanation of Alternative Performance Measures, including Net funds is provided in the Glossary on page 31.

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

The Group has in place a five-year committed multi-currency revolving credit facility of £140m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Abbey National Treasury Services PLC. The revolving credit facility is due to mature on 9 December 2021. The utilisation is interest-bearing at LIBOR plus 85 basis points. As at 31 August 2017 the Group has drawn down £22m (2016: £18m) on this facility.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

9. Cash generated from operating activities

| £m | 2017 | 2016 |
|---|------------|------|
| Group operating profit | 142 | 133 |
| Depreciation of property, plant and equipment | 35 | 32 |
| Impairment of property, plant and equipment | 1 | 3 |
| Amortisation of intangible assets | 6 | 6 |
| Share-based payments | 5 | 8 |
| Increase in inventories | (4) | (5) |
| Increase in receivables | (5) | – |
| Decrease in payables | – | (5) |
| Pension funding | (3) | (3) |
| Income taxes paid | (27) | (36) |
| Movement on provisions | (1) | 2 |
| Cash generated from operating activities | 149 | 135 |

10. Fixed charges cover

| £m | 2017 | 2016 |
|--|-------------|------|
| Net finance charges (Note 4) | 2 | 2 |
| Net operating lease rentals (Note 2) | 201 | 193 |
| Total fixed charges | 203 | 195 |
| Profit before tax | 140 | 131 |
| Profit before tax and fixed charges | 343 | 326 |
| Fixed charges cover – times | 1.7x | 1.7x |

An explanation of Alternative Performance Measures, including Fixed charges cover is provided in the Glossary on page 31.

11. Retirement benefit obligations

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

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

| £m | 2017 | 2016 |
|--|------------|------|
| WHSmith Pension Trust | (4) | (5) |
| United News Shops Retirement Benefits Scheme | (2) | (2) |
| Retirement benefit obligation recognised in the balance sheet | (6) | (7) |
| Recognised as: | | |
| Current liabilities | (1) | (1) |
| Non-current liabilities | (5) | (6) |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

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

The WHSmith Pension Trust, has assets valued at £1,340m as at 31 August 2017 managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges 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 2017 by independent actuaries using the projected unit credit method. At 31 March 2017 the deficit was £11m. The Group has agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs, of just under £3m. During the year ending 31 August 2017, the Group made a contribution of £3m to the WHSmith Pension Trust (2016: £3m) in accordance with the agreed pension deficit funding schedule, being £1m of deficit funding payable to the Trustee and £2m in relation to investment management costs. The Group expects the cash payments for the year ended 31 August 2018, to be £3m. The weighted average duration of the defined benefit obligation is 19 years.

Amounts recognised in the financial statements

Balance Sheet

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

| £m | 2017 | 2016 |
|--|----------------|---------|
| Present value of the obligations | (1,071) | (1,260) |
| Fair value of plan assets | 1,340 | 1,424 |
| Surplus before consideration of asset ceiling | 269 | 164 |
| Amounts not recognised due to effect of asset ceiling | (269) | (164) |
| Additional liability recognised due to minimum funding requirements | (4) | (5) |
| Retirement benefit obligation recognised in the balance sheet | (4) | (5) |

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £4m (2016: £5m). The defined benefit pension schemes are closed to further accrual and the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £269m (2016: £164m) available on a reduction of future contributions is £nil (2016: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. There is an ongoing actuarial deficit primarily due to the different assumptions and calculation methodologies used compared to those on interpretation of IAS 19.

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

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

Income Statement

The amounts recognised in the income statement were as follows:

| £m | 2017 | 2016 |
|--|-------------|-------------|
| Net interest cost on the defined benefit liability | – | (1) |
| | – | (1) |

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.

Statement of Comprehensive Income

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

| £m | 2017 | 2016 |
|---|--------------|-------------|
| Actuarial gain on defined benefit obligations arising from experience | 111 | 20 |
| Actuarial gain/(loss) on defined benefit obligations arising from changes in financial assumptions | 28 | (330) |
| Actuarial gain/(loss) on defined benefit obligations arising from changes in demographic assumptions | 11 | (5) |
| Total actuarial gain/(loss) before consideration of asset ceiling | 150 | (315) |
| Return on plan assets excluding amounts included in net interest cost | (51) | 255 |
| (Loss)/gain resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost | (101) | 58 |
| Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost | – | – |
| Total actuarial loss recognised in other comprehensive income | (2) | (2) |

There were no adjustments (2016: £1m debit) 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 2017

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

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

| £m | 2017 | | | | 2016 | | | |
|---|--------------|----------------|--|--|--------------|----------------|--|--|
| | 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 | 1,424 | (1,260) | (169) | (5) | 1,162 | (948) | (219) | (5) |
| Current service cost | – | – | – | – | – | – | – | – |
| Interest income/(expense) | 28 | (25) | (3) | – | 42 | (35) | (8) | (1) |
| Past service credit | (12) | 12 | – | – | (1) | 1 | – | – |
| Actuarial gains/(losses) | (51) | 150 | (101) | (2) | 255 | (315) | 58 | (2) |
| Contributions from the sponsoring companies | 3 | – | – | 3 | 3 | – | – | 3 |
| Benefits paid | (52) | 52 | – | – | (37) | 37 | – | – |
| At 31 August | 1,340 | (1,071) | (273) | (4) | 1,424 | (1,260) | (169) | (5) |

The actual return on scheme assets was a loss of £23m (2016: gain of £297m) due to a decrease in the value of the bonds held to match the pension scheme liabilities. The reduction in the value of the scheme liabilities as a result of decreases in the value of bonds, as well as reduced longevity expectations, were greater than then the reduction in scheme assets, resulting in an increase in the IAS 19 surplus of £105m.

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

| % | 2017 | 2016 |
|---------------------------------------|------|------|
| Rate of increase in pension payments | 3.26 | 2.91 |
| Rate of increase in deferred pensions | 2.25 | 1.85 |
| Discount rate | 2.50 | 2.00 |
| RPI inflation assumption | 3.35 | 2.95 |
| CPI inflation assumption | 2.25 | 1.85 |

The mortality assumptions in years underlying the value of the accrued liabilities for 2017 and 2016 are:

| Years | 2017 | | 2016 | |
|----------------------------------|------|--------|------|--------|
| | Male | Female | Male | Female |
| Life expectancy at age 65 | | | | |
| Member currently aged 65 | 23.2 | 24.6 | 23.0 | 24.6 |
| Member currently aged 45 | 24.2 | 26.1 | 24.3 | 26.5 |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

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

Sensitivity to changes in assumptions

Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2017, while keeping all other assumptions consistent; in practice changes in some of the assumptions may be correlated.

| £m | Effect on liabilities at 31 August 2017 |
|--|--|
| Discount rate + / - 0.1% per annum | -20/+21 |
| Inflation assumptions + / - 0.1% per annum | +19/-19 |
| Life expectancy + / - 1 year | +47/-47 |

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme ('UNSRBS') is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members based on salary at the date of closure, with increases based on inflation. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out at 5 April 2015 by independent actuaries. Following this valuation, the deficit was £1m.

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

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

| £m | 2017 | 2016 |
|--|------------|------------|
| Present value of the obligations | (8) | (8) |
| Fair value of plan assets | 6 | 6 |
| Retirement benefit obligation recognised in the balance sheet | (2) | (2) |

There were no adjustments (2016: £1m debit) 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 £4m for the year ended 31 August 2017 (2016: £3m).

12. Operating lease commitments

Amounts recognised in operating profit:

| £m | 2017 | 2016 |
|---|------------|------------|
| Minimum lease payments | 182 | 181 |
| Contingent rent payments | 20 | 15 |
| Total rent paid | 202 | 196 |
| Sublease rentals received on operating leases | (1) | (3) |
| Net operating lease charges | 201 | 193 |

WH Smith PLC
Notes to the Financial Statements
For the year ended 31 August 2017

12. Operating lease commitments (continued)

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

| £m | 2017 | | | 2016 | | |
|--------------------------|--------------------|------------------------|------------|--------------------|------------------------|------------|
| | Land and buildings | Equipment and vehicles | Total | Land and buildings | Equipment and vehicles | Total |
| Within one year | 182 | – | 182 | 158 | 1 | 159 |
| Within two to five years | 465 | 1 | 466 | 425 | 2 | 427 |
| In more than five years | 191 | 2 | 193 | 183 | – | 183 |
| | 838 | 3 | 841 | 766 | 3 | 769 |

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £2m (2016: £5m). The average remaining lease length across the Group is five years with Travel at four years and High Street at five years.

13. Events after the balance sheet date

On 12 October 2017, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.

WH Smith PLC

Glossary

Alternative Performance Measures

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

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

| APM | Closest equivalent IFRS measure | Reconciling items to IFRS measure | Definition and purpose | | | | | | | | | | | | | | | | | | | | |
|---|--|---|---|--|--------|-------------|-------|---------------------------|-----------|-------------|-----------|----------------------|----|------|----|-------------------------|----|----|----|-----------------------------|-----------|-------------|-----------|
| Income Statement Measures | | | | | | | | | | | | | | | | | | | | | | | |
| Fixed charges cover | None | Refer to definition | This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 10. | | | | | | | | | | | | | | | | | | | | |
| Gross margin | Gross profit margin | Not applicable | Where referred to throughout the Preliminary Announcement, gross margin is calculated as gross profit divided by revenue. | | | | | | | | | | | | | | | | | | | | |
| Like-for-like revenue | Movement in revenue per the income statement | - Revenue change from non like-for-like stores - Foreign exchange impact | Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below. <table border="1" data-bbox="798 1052 1500 1198"> <thead> <tr> <th></th> <th>Travel</th> <th>High Street</th> <th>Group</th> </tr> </thead> <tbody> <tr> <td>LFL revenue change</td> <td>4%</td> <td>(4)%</td> <td>-%</td> </tr> <tr> <td>Net new space impact</td> <td>2%</td> <td>(1)%</td> <td>1%</td> </tr> <tr> <td>Foreign exchange impact</td> <td>3%</td> <td>-%</td> <td>1%</td> </tr> <tr> <td>Total revenue change</td> <td>9%</td> <td>(5)%</td> <td>2%</td> </tr> </tbody> </table> | | Travel | High Street | Group | LFL revenue change | 4% | (4)% | -% | Net new space impact | 2% | (1)% | 1% | Foreign exchange impact | 3% | -% | 1% | Total revenue change | 9% | (5)% | 2% |
| | Travel | High Street | Group | | | | | | | | | | | | | | | | | | | | |
| LFL revenue change | 4% | (4)% | -% | | | | | | | | | | | | | | | | | | | | |
| Net new space impact | 2% | (1)% | 1% | | | | | | | | | | | | | | | | | | | | |
| Foreign exchange impact | 3% | -% | 1% | | | | | | | | | | | | | | | | | | | | |
| Total revenue change | 9% | (5)% | 2% | | | | | | | | | | | | | | | | | | | | |
| High Street and Travel trading profit, and Group profit from trading operations | Group operating profit | Refer to definition | Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 3 to the financial statements. | | | | | | | | | | | | | | | | | | | | |
| Balance Sheet Measures | | | | | | | | | | | | | | | | | | | | | | | |
| Net funds | None | Reconciliation of net debt | Net debt is defined as Cash and cash equivalents, less Bank overdrafts and other borrowings and both current and non-current Obligations under finance leases. A reconciliation of Net funds is provided in Note 8. | | | | | | | | | | | | | | | | | | | | |
| Other measures | | | | | | | | | | | | | | | | | | | | | | | |
| Free cash flow | Net cash inflow from operating activities | See Financial Review | Free cash flow is defined as the net cash inflow from operating activities before pension deficit funding, less capital expenditure on property, plant and equipment and intangible assets, net interest paid/received and for 2016, repayments to HMRC (see Note 5). The components of free cash flow are shown on page 8, as part of the Financial Review. | | | | | | | | | | | | | | | | | | | | |
| Return on capital employed (ROCE) | None | Not applicable | Return on capital employed is calculated as trading profit expressed as a percentage of operating capital employed. The calculation of ROCE is shown on page 10, as part of the Financial Review. | | | | | | | | | | | | | | | | | | | | |