COMPANY NUMBER: 5202036

WH Smith PLC

Annual Report
and Accounts
2020

THURSDAY

AA5DC5I3
A20 27/05/2021 #12
COMPANIES HOUSE

- WH Smith PLC is a global travel retailer with a smaller business located on the UK high street.
- WHSmith Travel is a world-leading travel retailer with a presence in over 30 countries across the globe, mainly in airports. The UK Travel business is in a wide range of locations including airports, hospitals, railway stations and motorway service areas. Outside of the UK, our biggest market is in North America.

- WHSmith High Street is present on most of the significant high streets and shopping centres in the UK, mainly in prime locations.
- WHSmith reaches customers online via whsmith.co.uk, its specialist personalised greetings cards and gifts website funkypigeon.com, its specialist online pen shop cultpens.com and through its personalised stationery websites treeofhearts.co.uk and dottyaboutpaper.co.uk.

- WHSmith employs approximately 14,000 colleagues.
- WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index.
- A commitment to the principles of sustainability is a key focus for WHSmith as it continues on its journey to be a better business.
- Find out more about WHSmith at whsmithplc.co.uk.

Contents

Group at a glance
Page 2

Business model and strategy
Page 4

Chief Executive's review
Page 8

Principal risks
Page 21

Employees
Page 32

@whsmith

youtube.com/WHSmithDirect

@whsmithofficial

linkedin.com/company/whsmith

Find out more at **whsmithplc.co.uk**

Group at a glance

WH Smith PLC is made up of two core businesses: Travel and High Street

Our goal

to be the leading retailer in news, books and convenience for the world's travelling customer.

Highlights

Operating in

1,174 units

(2019: 1,019)

30 countries

Revenue

£553m

(2019: £817m)

Travel

WHSmith Travel is a global travel retailer with a strong presence in UK travel locations and an increasing portfolio of stores around the world. During the year, we acquired Marshall Retail Group (MRG), a leading and fast-growing US travel retailer, further accelerating our international reach in the world's largest travel retail market.

WHSmith Travel sells a range of products serving customers in travel locations or in need of a convenience offer.

Our goal is to be the leading retailer in news, books and convenience for the world's travelling customer.

As at 31 August 2020, the business operated from 1,174 units (2019: 1,019 units), mainly in the UK, in airports, hospitals, railway stations and motorway service areas. 584 of these units (2019: 433 units) are outside the UK across 30 countries and mainly in airports.

Following a strong performance in the first half of the financial year, the business was significantly impacted in the second half by Covid-19 with a large number of stores temporarily closed across the globe.

High Street

High Street sells a wide range of Stationery, Books, Newspapers, Magazines and Impulse products.

Our goal is to be Britain's most popular high street stationer, bookseller and newsagent.

As at 31 August 2020, the business operated from 568 WHSmith High Street stores[1] (2019: 576 stores[1]), located on most of the UK's significant high streets and shopping centres. We operate over 200 Post Offices from within our High Street stores further cementing our position on the high street and at the heart of the communities we serve.

Our online digital business operates through five websites: whsmith.co.uk, funkypigeon.com, cultpens.com, treeofhearts.co.uk and dottyaboutpaper.co.uk.

Like Travel, High Street was impacted by Covid-19 in the second half of the financial year after a resilient first half performance.

Our goal

to be Britain's most popular high street stationer, bookseller and newsagent.

Highlights

WHSmith Stores[1]

568

(2019: 576)

Revenue

£468m

(2019: £580m)

Our online digital business operates through five websites:

- funkypigeon.com;
- whsmith.co.uk;
- cultpens.com;
- treeofhearts.co.uk; and
- dottyaboutpaper.co.uk.

[1] Excludes 3 Cardmarket stores (2019: 18 Cardmarket stores).

Our business model and strategy to create value

WHSmith is a global travel retailer with a smaller business based on UK high streets. Our business model and strategy seeks to create value for all stakeholders through improving our profitability and cash flow to deliver sustainable returns.

Our business model

Travel UK

Travel International

To be the leading retailer in news, books and convenience for the travelling customer

Travel UK

- Driving like-for-like sales in existing stores through improved execution and service;
- Investment in store environments and layouts;
- A forensic store by store focus on space and category management;
- Winning new space and retaining existing space; and
- Developing new formats

Travel International

- Winning new tenders and retaining existing space;
- Expanding our North American business;
- Building critical mass in our emerging hubs;
- Driving like-for-like sales in existing stores; and
- Executing the same retail and operational disciplines and insights as we do in the UK

High Street

To be Britain's most popular stationer, bookseller and newsagent

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

Focused use of cash

Disciplined approach to cash generation and capital allocation

- Investing in the business where returns are greater than our cost of capital;
- Value accretive acquisitions in attractive markets with good growth prospects; and
- Return surplus cash to shareholders through a progressive dividend policy and share buybacks

Operating responsibly

You can read more about our approach to Environmental, Social and Corporate Governance (ESG) on pages 29 to 34.

Right people and skills

You can read more about our values, employees and diversity on pages 32 and 33.

Our customers

You can read more about our markets on pages 5 and 6.

Our markets

Travel

Travel sells a range of products serving customers in travel locations and in need of a convenience offer. Travel's typical customer has less time to browse and is more interested in purchasing convenience and impulse products such as food, drink and confectionery, travel and digital accessories and souvenirs, as well as reading materials for a journey.

Travel units are typically located in high footfall locations with higher operating and occupation costs and rents paid as a percentage of sales (subject to minimum guarantees). Travel is less affected by the Christmas trading period than high street retailers. Increased passenger traffic during the summer holiday season, particularly in airports, contributes to a summer peak in sales.

Our main markets are in the UK (air, hospitals and rail) and in North America (air and resorts in Las Vegas). All our markets have been impacted by Covid-19. The rate at which passengers return to travel locations will have the biggest impact on our markets.

In the UK, air passenger numbers have been significantly impacted. According to the Airport Council International (ACI), UK passenger numbers were down 80 per cent in October 2020 compared to 2019. Rail passenger numbers have also been significantly impacted by government restrictions and according to concourse data from Network Rail, have been down 65 per cent to 70 per cent in October 2020 compared to October 2019. Hospitals are impacted by the fall in the number of visitors and elective surgeries as well as the number of staff.

In North America, airport passenger numbers have slowly recovered. Based on TSA data, passenger numbers had recovered to c.35 per cent of 2019 by the end of October 2020. In Las Vegas, visitor numbers have also slowly recovered with occupancy levels 49 per cent of 2019 levels in September 2020.

Long term, Travel will be impacted by the speed by which a vaccine or other mitigating medical solutions to Covid-19 are widely available, macroeconomic trends (including any impact arising from the process of exiting the European Union) and other factors which influence the number and nationality of travelling customers. These include levels of employment and investment, the cost of travelling, as well as specific category trends such as the growth of consumable products and digital accessories.

Our markets continued

High Street

High Street sells a wide range of products in the following categories: Stationery (including greetings cards, general stationery, art and craft, and gifting), News and Impulse (including newspapers, magazines, confectionery and drinks) and Books. High Street's trading is seasonal, peaking at Christmas and in August/September for 'Back to School'.

High Street also includes our online businesses:

- whsmith.co.uk
  which sells a range of Stationery, Books, Magazines and Gifts.
- funkypigeon.com
  our online personalised greetings card site.
- cultpens.com our specialist pen site.
- treeofhearts.co.uk and dottyaboutpaper.co.uk our specialist wedding stationery sites.

These websites complement our core in-store and stationery offers and have been growing very fast and accelerating during the Covid-19 pandemic.

High Street's performance is dependent upon overall growth in consumer spending (including any impact arising from the process of exiting the European Union) and the levels of footfall on the UK high street. Since Covid-19, we have seen further declines in the level of footfall on UK high streets. Going forward, national and local lockdowns will impact our High Street stores depending on the severity of any lockdown and restrictions imposed on retailing in any one lockdown. These restrictions are likely to vary depending on the seriousness of infection rates. To date, city centres and destination locations have been most heavily impacted by Covid-19. The impact in smaller market towns and affluent catchments has been less.

Chairman's statement

66
I am immensely proud of how our colleagues have responded to this pandemic."

Henry Staunton
Chairman

Our 2019/20 financial year has been a year of two halves. The Group traded very well in the first six months of the year prior to the outbreak of Covid-19, delivering a strong performance. Within Travel, our UK and international businesses delivered strong like-for-like growth and we completed the acquisition of MRG, a leading and fast-growing travel retailer in North America, in December 2019. This acquisition broadly doubles the size of our international business and provides us with a platform to accelerate our growth opportunities in North America, the world's largest travel retail market, as the market recovers.

Since March, the Group has been adversely impacted by Covid-19. Across our Travel business, passenger numbers have been significantly impacted and our High Street business has been affected by reduced footfall. Despite these challenges, the Group responded quickly and took decisive actions to protect our colleagues, our customers and the business, including strengthening the financial position of the Group.

I am immensely proud of how our colleagues have responded to this pandemic. Across our Travel and High Street businesses, we committed to playing our part in the communities we serve; keeping over 200 High Street stores open with Post Offices throughout the first lockdown period to ensure those high street communities continued to have access to vital postal and banking services. Similarly, we kept c.130 stores open in hospitals in order to support frontline NHS workers.

We have an exceptionally strong team at WHSmith and the Group has worked hard to implement a robust plan across the entire business. This plan places greater focus on initiatives within our control that support us in the immediate term and position us well to emerge stronger when our markets recover. I am pleased to report that we are seeing some encouraging results.

Looking ahead, value creation remains central to our plans and we will continue to invest for the longer term where we see attractive opportunities for profitable growth.

Corporate governance

Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy. A more detailed explanation of our approach to corporate governance can be found in our Corporate governance report on pages 38 to 77.

Sustainability

This year we have completed progress against our 2020 goals covering environmental stewardship, responsible trade, looking after our workforce and our community donation programme. We are now launching our new strategy for sustainability: Our Journey to a Better Business which sets aims and objectives to protect the planet, support our people and those working on our behalf and caring for our communities. Our work is underpinned by policies, programmes and governance for all areas of environmental, social and corporate governance. We will be focusing our activities on those areas where we believe we can make the biggest difference to people's lives and will build upon our long-standing programme to help improve standards of children's literacy.

Further information on all aspects of our sustainability programmes can be found on pages 29 to 37.

People

It has been an unprecedented year for all our colleagues and I am sincerely proud of the way every one of them has responded to the challenges we have faced across the Group. From our colleagues across our stores to our teams in our distribution centres and our head offices, I would like to take this opportunity to thank each and every colleague. We have a very strong team across the entire business and their contribution and support has been remarkable throughout this challenging year.

Outlook

While we remain cautious in our approach, we are a resilient and versatile business and we have positioned the Group well to navigate our way through this period of continued uncertainty. We are financially strong and we are well placed to benefit in due course from further opportunities as our markets recover. We remain very disciplined with our capital allocation and going forward we remain committed to delivering value for our shareholders.

Henry Staunton
Chairman

19 November 2020

Chief Executive's review

> Prior to the outbreak of Covid-19, the Group delivered a strong first half performance."

Carl Cowling
Group Chief Executive

Prior to the outbreak of Covid-19, the Group delivered a strong first half performance with Headline Group profit before tax[1] of £80m*. Our Travel business was trading very well having delivered its seventh year of like-for-like sales growth and delivering Headline trading profit[1] of £49m*. The second half, however, was significantly impacted by Covid-19 across our UK and international markets, resulting in a Headline Group loss before tax[2] of £69m* in the year.

In December 2019, we completed the acquisition of MRG, a leading and fast-growing travel retailer in the US. The combination of WHSmith, MRG and InMotion now enables the Group to participate in the entire North American airport specialty retail market as the market recovers. We were also successful in winning a number of significant tenders internationally during the year.

As in Travel, we saw our High Street business significantly impacted by Covid-19 following a resilient first half where we delivered Headline trading profit[1] of £44m*.

I have enormous admiration for how all our colleagues across WHSmith have responded to these unprecedented times. From our colleagues across our stores, particularly those who continued to serve their communities throughout the lockdown periods, to our teams in our distribution centres and head offices. Their support and commitment has been outstanding throughout this challenging year, and I would like to thank each and every one of them for their contribution.

Group overview

While the first half of the financial year was largely unaffected by Covid-19, delivering a strong performance, we saw a significant impact in the second half. The vast majority of our stores closed across the world and we saw a sharp decline in passenger numbers and customer footfall. Despite the many challenges faced, the Group acted fast to take a number of actions to support our colleagues, customers and our business.

Our number one priority is the health and wellbeing of our colleagues and our customers. All stores, distribution centres and head offices have effective safety measures in place, including social distancing measures, PPE for colleagues' use, protective screens and guidelines to limit the number of customers in-store. In addition, all head office staff have worked from home throughout the lockdown periods.

We immediately focused on cost and cash management, including the following activities:

- Reduced stock purchases to reflect ongoing demand, returning sale or return stock and negotiating extended payment terms
- Reviewed all capital expenditure to focus on essential and strategic projects
- Stopped all discretionary expenditure and reduced corporate overheads
- Worked with landlords to significantly reduce or remove rent payments and to link as far as possible with revenue
- Significant reduction in headcount across stores and head offices through furlough arrangements; including participating in the UK Government Job Retention Scheme, and subsequently restructuring to ensure headcount is in line with business requirements and reduced sales
- Deferred tax payments in line with UK Government announcements
- The Board has decided not to recommend the payment of a dividend in respect of the financial year ended 31 August 2020
- Focused on strengthening the balance sheet and the Group's liquidity position including bank covenant waivers for February 2021 and August 2021

Throughout the first lockdown period, and in line with government guidance, we committed to keeping a number of our stores open to serve those communities that most needed our services. As a result, 203 High Street stores which host Post Offices remained open and c.130 Travel stores located within hospitals across the UK continued to serve NHS frontline workers.

The Group adopted IFRS 16 'Leases' with effect from 1 September 2019 using the modified retrospective approach to transition, and has therefore not restated prior periods. The results for the year ended 31 August 2020 are not directly comparable with those reported in prior periods under the previous applicable accounting standard, IAS 17 'Leases'. In order to aid comparability, the results for the year ended 31 August 2020 have also been presented on a pre-IFRS 16 (IAS 17) basis and commentary throughout this report will refer to these pre-IFRS 16 numbers. Measures presented under IAS 17 are identified with a ''. All prior year measures are presented on an IAS 17 basis. Reconciliations from IAS 17 measures to IFRS 16 measures are provided in the Glossary on page 146. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue, and like-for-like revenue are based on statutory measures.

[1] Headline Group profit before tax, and Travel and High Street trading profit, as reported in the Interim results announcement on 14 May 2020. These are Alternative Performance Measures as defined and explained in the Glossary on page 146.

As lockdown restrictions were eased, we focused on the re-opening of our store estate based on the safety of our colleagues and customers, where we were able to make a cash contribution from each individual unit and taking into account passenger and customer traffic flows, and the opening of transport infrastructure. We were able to open 570 High Street stores by the end of June 2020, and at the end of August 2020, we had 285 Travel stores open in the UK and 365 stores open outside of the UK.

Following the announcement of a second lockdown in England, we have 558 stores open in High Street and 243 stores open in Travel, including 206 Post Offices and 135 hospital stores. We were able to apply the learnings from the first lockdown to act fast where necessary to return stock, furlough staff and manage our supply chain. We also took measures to make sure our stores can open swiftly as lockdown eases.

As we have re-opened our stores, we have focused on initiatives within our control that support us in the immediate term and position us well to emerge stronger as our markets recover. These key areas of focus include:

- Driving average transaction value and sales per passenger and we have seen increases across all our businesses
- Extending our categories and ranges to reflect the specific needs of our customers in each location. For example, health and beauty and hygiene and wellbeing products across our Travel stores and working from home and electrical accessories ranges across our High Street stores
- Forensic focus on costs; completing the previously announced restructures in stores and head office and minimising discretionary spend
- Working with landlords building on our strong relationships to create opportunities for business development as the recovery continues
- Investing capex in completing strategically important projects which set us up well for the future. These deliver unique and creative propositions for landlords and customers, such as our new store at London Heathrow Airport Terminal 2 and Bowery Bay at La Guardia Airport, New York
- Integrating our North American businesses into Las Vegas, saving c.£5m of costs annually
- Building our internet proposition by extending our ranges, increasing our distribution capacity and building customer engagement through social media

As lockdown restrictions eased throughout the world we saw a gradual recovery. Total Group revenue as a percentage of 2019 total revenue has been:

Percentage of 2019 Revenue

	Travel	High Street	Group
April 2020	8%	29%	17%
May 2020	9%	35%	18%
June 2020	16%	59%	31%
July 2020	27%	75%	43%
August 2020	37%	83%	55%
September 2020	41%	89%	59%
October 2020	39%	92%	59%

As a result of the adverse impact from Covid-19, the Headline Group loss from trading operations[2] for the year was £43m* (2019: profit of £177m) with Headline Group loss before tax[2] at £69m* (2019: profit of £155m). Including non-underlying items, the Group loss before tax (on a pre-IFRS 16 basis) was £226m* (2019: profit of £135m). The Group loss before tax, after non-underlying items and including IFRS 16, was £280m.

Total Group revenue was down 27 per cent compared to last year at £1,021m (2019: £1,397m) with Group like-for-like revenue[3] down 33 per cent (down 64 per cent in the second half).

Following the significant disruption to the business, the Board has announced that it will not be recommending the payment of a dividend in respect of the financial year ended 31 August 2020.

As announced on 6 April 2020, we raised net proceeds of c.£160m via a share placing and at the same time agreed a £120m 12-month (plus seven months at the option of the Group) committed banking facility from BNP Paribas, HSBC Bank PLC and Santander UK PLC. This was in addition to our existing facilities. The Group has also agreed waivers for the bank covenant tests at August 2020, February 2021 and August 2021.

As at 31 August, net debt[2] was £301m* (2019: £180m). Group free cash flow[2] was an outflow of £41m* (2019: free cash flow generated of £109m). At that point, the Group had cash of £108m of which £82m was cash on deposit[4] giving us access to £402m of liquidity (undrawn revolving credit facility (RCF) of £200m, liquidity loan of £120m and cash on deposit[4] of £82m.)

[2] Alternative Performance Measure defined and explained in the Glossary on page 146.

[3] Like-for-like ('LFL') revenue is calculated on stores with a similar selling space that have been open for more than one year (constant currency basis). LFL revenue is an Alternative Performance Measure defined and explained in the Glossary on page 146.

[4] Cash and cash equivalents of £108m is £82m cash at bank plus £26m cash in transit/held at stores.

Chief Executive's review continued

The Group had the following debt facilities as at 19 November 2020:

	Amount drawn at 31 August 2020 and 19 November 2020	Maturity
Available facilities		
£120m 'Liquidity' Facility	£nil	November 2021[2]
£200m Revolving Credit Facility	£nil	December 2023
Existing debt		
£200m Term Loan	£200m	October 2022
£200m MRG Loan	£200m	October 2022[2]

As at 30 October 2020, the Group had cash on deposit of £83m and access to £320m of committed facility through the RCF and liquidity loan. At that point, the Group owed approximately £80m primarily relating to rent, restructuring charges and outstanding creditors as we entered the second lockdown. We anticipate these payments will be made during the first half of the financial year. Therefore, the Group had £323m of available cash and facilities at the end of October 2020. We have worked hard to reduce the cash outflow, managing costs, stock intake, capex projects and negotiating rent reductions as well as improved trading. The Group's underlying monthly cash burn[3] for November is expected to be c.£20m including any furlough mitigation. The improved trading and good cash management resulted in our underlying cash burn in September and October being £5m to £10m per month which was better than we had originally expected.

In April, the Group secured eligibility to the Government's Covid Corporate Financing Facility (CCFF) for up to £300m. The Group never utilised the facility. The CCFF is currently being reviewed and like many companies, the Group is in dialogue with the Bank of England concerning its eligibility.

Travel performance

Prior to Covid-19, our Travel business was trading very well having delivered its seventh year of like-for-like sales growth. The second half however was significantly impacted by Covid-19 across our UK and international markets resulting in a full year trading loss[1] of £33m* (2019: profit of £117m), of which £32m* (2019: profit of £20m) relates to our international business including MRG and InMotion. Total revenue was £553m (2019: £817m), down 32 per cent compared to last year and down 43 per cent on a like-for-like basis.

We continue to invest in the business where we see attractive opportunities for profitable growth. In addition, we completed the acquisition of MRG, a leading and fast-growing US travel retailer in December 2019. The combination of WH Smith, MRG and InMotion now enables the Group to participate in the entire North American airport specialty retail market.

High Street performance

High Street delivered a resilient performance despite a very challenging second half with a full year trading loss[1] of £10m* (2019: profit of £60m). Total revenue was down 19 per cent with like-for-like revenue down 19 per cent. Cost savings of £23m were delivered in the year. An additional £34m of cost savings have been identified over the next three years, of which £21m are planned for 2020/21.

1 Alternative Performance Measure defined and explained in the Glossary on page 146.
2 The maturity dates include extension options at the Group's control.
3 Monthly recurring cash burn before any cost deferrals or one-off savings/costs.

Highlights

Revenue

£553m

(2019: £817m)

Trading loss[1]

£(33)m*

(2019: profit £117m)

Total revenue

(32)%

Like-for-like revenue (43)%

Retail selling space** (sq ft '000s) **and Number of units[4]

Travel

“

During the year, we completed the acquisition of MRG, a leading and fast-growing US travel retailer.”

Performance review 2019/20

Prior to Covid-19, our Travel business was trading very well having delivered its seventh year of like-for-like sales growth. *The second half however was significantly impacted by Covid-19* across our UK and international markets resulting in a full year trading loss[1] of £33m* (2019: profit of £117m), of which £32m* (2019: profit of £20m) relates to our international business including MRG and InMotion. Total revenue was £553m (2019: £817m), down 32 per cent compared to last year and down 43 per cent on a like-for-like basis.

The table below shows the impact of Covid-19 in the second half of our financial year:

Travel	H1	H2	Full Year
YOY movement in Revenue (%)	+19%	(73)%	(32)%
Trading profit/(loss)*[1] (£m)	49m	(82)m	(33)m

We have worked hard across all our channels and territories to implement a robust plan focusing on key priorities within our control that support us in the immediate term and will enable us to emerge stronger when our markets recover. Our key areas of focus include: cost management, increasing customer conversion and average transaction value, category development and identifying opportunities for further growth.

UK Travel

In our UK Travel business, we saw a significant decline in passenger numbers as a result of travel restrictions in the second half of the financial year. Total revenue in the year was £344m, (2019: £565m), down 39 per cent on the previous year. In air, total revenue was down 48 per cent with like-for-like revenue also down 48 per cent; in our hospital channel, total revenue was down 15 per cent with like-for-like revenue down 20 per cent, and in rail, total revenue was down 42 per cent with like-for-like revenue down 40 per cent. This resulted in a trading loss[1] of £1m* (2019: profit of £97m).

Recent trading in UK Travel has been impacted by quarantine measures and reduced passenger numbers on public transport. Revenue in September and October 2020 was 32 per cent of 2019 sales. Hospital revenue continues to track at around 64 per cent of 2019 sales. Following the announcement of the second lockdown in England, we expect to be further impacted and for the recovery not to begin until the second half of the current financial year.

In air, whilst we saw some early signs of recovery from leisure passengers in July as lockdown restrictions were eased, passenger numbers stalled as quarantine requirements were broadened. Despite the reduction in passenger numbers, we have continued to build on our strong position in this channel by focusing on increasing conversion and our average transaction value. This has been achieved by further extending our categories and existing ranges into new categories such as health and beauty and hygiene and wellbeing products. We have seen some positive results with scope to do more.

4 Travel units include motorway and international joint ventures and franchise units and exclude kiosks in China and India, and Wild Cards and Gifts franchisees in Australia.

Review of operations continued

During the second half, we opened a new flagship store at London Heathrow Airport Terminal 2. This new format store builds upon the success of our combined WHSmith and pharmacy format store that opened at London Gatwick Airport in the prior year. Our experience shows that we can deliver higher sales per passenger from these large stores, through improved layouts, increased capacity and by providing a one-stop-shop for time pressed passengers. With over 5,000 square feet of selling space, this flagship store features an extensive news, books and convenience offer with the addition of a world class health and wellbeing department with specialist staff. The health and wellbeing department comprises a comprehensive range of over 3,000 products curated through our partnership with market leading, global brands. In addition, the pharmacy counter offers healthcare advice along with a wide selection of medicines. We have received very positive feedback from both our customers and landlords. While this format is not suitable for all locations, we expect it to be of interest to landlords as they reconfigure their space in the future.

Hospitals are an important channel for us and this is now our second largest channel by sales in UK Travel. This channel is a great example of how we continue to innovate to meet the specific needs of each hospital. We have developed a strong customer offer and aligned our ranges to the NHS strategy on healthy eating. Our broad suite of brands, which include Costa and M&S Simply Food, also ensure that we can tailor and adapt our proposition to each hospital's requirements. We believe there are further opportunities to improve the hospital retail offer in the UK and we are well positioned to grow this channel further.

Throughout the second half during the height of the pandemic, and in the second lockdown, we committed to keeping our stores open in c.130 hospitals across the UK in order to support frontline NHS staff. We also extended our grocery ranges in these stores to further support these staff, ensuring we continued to play our part in the communities we serve.

Rail remains an important channel with significant long-term investment in new lines and station redevelopments. During the year, our performance was impacted by travel restrictions in the second half. We saw some improvement in performance in July, however this was stalled by further announcements in early September. Similar to air, we have focused on extending our ranges and increasing average transaction value.

We have focused on all areas of cost across our UK Travel business. As a result of the significant decline in passenger numbers, we took the difficult decision to review our store operations in August 2020, reducing headcount across the Travel business.

International Travel

Within our International Travel business, North America now represents c.50 per cent of our stores outside of the UK and we continue to see further opportunities to grow this business. Outside of North America, we still have a relatively small market share of the international news, books and convenience (NBC) market and we believe there is good long-term potential for us to continue to grow our space. During the first half of the financial year, our strategy to grow our International Travel business progressed well. In line with our UK Travel business, the second half was adversely impacted by Covid-19.

Total revenue for the year, including MRG and InMotion, was £209m (2019: £252m), down 17 per cent versus the previous year. Like-for-like revenue, on a constant currency basis, was down 43 per cent. The trading loss[1] for the year was £32m* (2019: profit £20m).

North America

We completed the acquisition of MRG, a leading and fast-growing US travel retailer in December 2019. The combination of WHSmith, MRG and InMotion now enables the Group to participate in the entire North American airport specialty retail market. Differentiated from its competitors by its strategy of developing highly customised retail experiences tailored to local customers and landlords, MRG has a highly successful and proven business model with a strong track record of concession and tender wins. Although impacted by Covid-19 in the second half, MRG won a further eight stores, including stores at San Francisco, Denver and Newark airports, and, along with InMotion, have a further 39 stores won but yet to open.

During the second half, MRG opened a new walk-through format of stores at La Guardia Airport, New York. This format is a first in North America. The Bowery Bay showcases around 15,000 square feet of selling space, curating a number of travel essential and specialty international retailers and brands including Kate Spade and Kiehl's. All these stores are operated by MRG with the digital accessories range provided by InMotion. This is the first InMotion implant within MRG and we believe there is scope for further opportunities for InMotion to be part of the MRG assortment of products and brands and for InMotion to open further stores in resorts.

InMotion has an excellent store portfolio with 116 stores across 43 airports in North America. During the year, InMotion opened eight units, including units at San Francisco, Washington Dulles and Salt Lake City international airports.

[1] Alternative Performance Measure defined and explained in the Glossary on page 146.

While Covid-19 has had a significant impact on our North American business, approximately 85 per cent of passengers in the US are domestic with leisure passengers an important segment, and we therefore anticipate a faster recovery in this market versus the rest of the world. TSA data continues to show a consistent, gradual recovery in passenger numbers week on week, with passenger numbers now at 35 per cent of 2019 levels. In addition, the Las Vegas resorts business is proving resilient with occupancy rates continuing to improve, particularly at the weekend. Importantly, a significant number of visitors travel by car to Las Vegas. Data from the Las Vegas Conventions and Visitors Authority suggests that vehicle movements between California and Nevada remain robust with volumes up 10 per cent in September compared to 2019. Our sales performance has reflected these trends with overall sales in North America at 44 per cent of 2019 levels. We currently have 224 stores open (136 MRG and 88 InMotion).

During the second half, we accelerated the integration of InMotion into the MRG head office in Las Vegas. Given the exceptional circumstances, with the majority of stores closed, we acted quickly to integrate the businesses much earlier than we originally planned at acquisition. The integration is progressing well, and we expect it to be complete by the end of the calendar year. Going forward, we expect this to deliver savings of c.£5m per annum.

Rest of the world

Outside of the UK and North America, our WHSmith International business is seeing broadly similar trends with passenger numbers significantly down year on year. Similar to the UK, we remain focused on areas within our control, including increasing average transaction value, renegotiating rents and extending our leases. Of the 307 WHSmith stores outside the UK, we have re-opened 159 stores to date. Recovery in these markets is likely to take some time and we are planning accordingly. We will temporarily close stores if they become uneconomic and as airlines adjust volumes and schedules. Revenue in September and October 2020 was at 18 per cent of 2019 levels.

Despite the disruption in the second half, outside of North America we won 26 new WHSmith units internationally in the year and opened 16 units, making a total of 307 WHSmith international units as at 31 August 2020. Forty per cent are directly run, 52 per cent are franchised with the balance being joint ventures. We will continue to use these three economic models flexibly in order to create value and win new business.

In total, across our global Travel business outside of the UK, we are now present in over 100 airports and 30 countries with 277 units open in North America, 83 units open in Europe, 104 in the Middle East and India, and 120 in Asia Pacific.

As at 31 August 2020, our global Travel business including MRG and InMotion operated from 1,174 units[2] (2019: 1,019 units) and, excluding franchises, operates from 1.0m square feet (2019: 0.7m square feet).

[2] Travel units include motorway and international joint ventures and franchise units and exclude kiosks in China and India, and Wild Cards and Gifts franchisees in Australia.

Review of operations continued

Highlights

Revenue

£468m

(2019: £580m)

Trading loss[1]

£(10)m*

(2019: profit £60m)

Total revenue

(19)%

Like-for-like revenue (19)%

Retail selling space (sq ft '000s) and Number of units[2]

High Street

High Street delivered a resilient performance despite a very challenging second half."

Performance review 2019/20

High Street delivered a resilient performance despite a very challenging second half with a full year trading loss[1] of £10m* (2019: profit of £60m). Total revenue was down 19 per cent with like-for-like revenue down 19 per cent.

The table below shows the impact of Covid-19 on the second half of our financial year:

Travel	H1	H2	Full Year
YOY movement in Revenue (%)	(5)%	(39)%	(19)%
Trading loss*[1] (£m)	44m	(54)m	(10)m

Throughout the first lockdown period we kept 203 stores open to ensure that those stores that include a Post Office could continue to serve their local communities and provide access to vital postal and banking services. Following the announcement of a second lockdown in England, we kept open 558 stores on the basis that our customers could continue to shop safely with us in a Covid-secure environment and we had essential status.

We consider retail space as a strategic asset and we utilise our space to maximise a return 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. This approach remains as appropriate today as it has ever been.

As with our Travel business, we have focused on initiatives within our control with a greater focus on: increasing average transaction value, where we have seen some very positive results; category development, introducing new ranges such as health and hygiene, electrical accessories and working from home ranges; and good cost control.

Driving efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. We achieved cost savings of £23m in the year. These savings come from right across the business, including rent savings at lease renewal (on average over 45 per cent) which continue to be a significant proportion, government property rates holiday, marketing efficiencies and productivity gains from our distribution centres. An additional £34m of cost savings have been identified over the next three years of which £21m are planned for 2021.

[1] Alternative Performance Measure defined and explained in the Glossary on page 146.

[2] Excluding 3 Cardmarket stores that have not yet closed (2019: 18 Cardmarket stores) and including branches in Guernsey and Isle of Man.

Over the years, we have actively looked to put as much flexibility into our store leases as we can, and this leaves us well positioned in the current environment. The average lease length in our High Street business, including where we are currently holding over at lease end is two and a half years. We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.420 leases due for renewal over the next three years, including 120 where we are holding over and in negotiation with the landlord. Depending on the negotiations with our landlords and the government's future approach to property rates, we anticipate closing c.25 stores in the current financial year as the leases on these stores expire. While this is not an easy decision to make for our colleagues or the communities we serve, it is vital we retain a strong and cash generative high street portfolio going forward.

Our online businesses have delivered strong growth, particularly in the second half.

i. Our online personalised greetings card business, funkypigeon.com, has delivered high levels of growth with record sales over key trading events and good profit growth.

ii. whsmith.co.uk provides customers with a comprehensive book and stationery offer and, during the year we invested in a new website. In addition, we have focused on extending our ranges and building our customer base. In the second half, we delivered growth of over 240 per cent.

iii. Our specialist pen website, cultpens.com, has continued to perform well in the year. During the year, we have focused on extending our luxury pen range which now includes a full range of Montblanc pens and accessories.

As at 31 August 2020, the High Street business operated from 568 WHSmith stores[2] (2019: 576) which occupy 2.7m square feet (2019: 2.7m square feet). Eight WHSmith stores were closed in the year.

Outlook

Despite the challenges and uncertainties faced in the second half, the Group responded quickly to protect the business and we are in a stronger position than forecast in August 2020. We had reduced our cash burn to £5m - £10m per month in September and October 2020, managed our cash position well and entered November with access to £323m of liquidity. We expect cash burn in November 2020 of approximately £20m. We have a robust plan in place, and we expect to emerge stronger operationally as our markets recover.

We have a resilient hospital channel and we are committed to playing our part to support NHS staff on the frontline. In air, we expect a gradual improvement in domestic passenger numbers first, particularly in the US where c.85 per cent of passengers are domestic, followed by international and inter-continental passengers. In rail, as government restrictions are lifted, and more people return to work, we expect to see a gradual improvement in sales. Outside the UK, we will continue to focus on our key initiatives and we expect to see a continued improvement in passenger traffic in North America.

We are financially strong and we are an important retail partner for our travel landlords. As a result, we are well positioned to benefit from further opportunities, including extending our user clauses to drive spend per passenger. We will continue to invest in new stores and new store formats in the UK and North America where we see attractive opportunities for profitable growth.

In view of the continuing uncertainty from the impact of Covid-19, we continue to plan cautiously for a wide range of outcomes. As we have done since March, we will manage the business by focusing on the short-term actions that manage cash and costs along with ensuring we are well positioned for economic recovery, particularly in our Travel business.

Carl Cowling
Group Chief Executive

19 November 2020

Financial review

> Despite a strong first half to the financial year, the second half has been significantly impacted by Covid-19."

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group

Despite a strong first half to the financial year, the second half has been significantly impacted by Covid-19. Total Group revenue was down 27 per cent at £1,021m (2019: £1,397m) reflecting the adverse impact in the second half. Total Travel revenue was down 32 per cent at £553m of which MRG contributed £48m (2019: £817m). Excluding MRG, total revenue in Travel was down 38 per cent. High Street generated revenue of £468m, 19 per cent down on the prior year (2019: £580m).

As lockdown restrictions eased throughout the world, post the first national lockdown, we saw some encouraging signs of improvement in our sales performance. In October, our High Street business had recovered to 92 per cent of 2019 performance. In Travel, we had also seen some signs of improvement.

Throughout the first lockdown, we evaluated whether to open an individual store based on cash generation and passenger forecasts. Given the ongoing uncertainty and the second lockdown in England, we plan to take this same approach. We will continue to plan cautiously and throughout the second lockdown in England we expect sales in UK Travel to revert to similar levels seen in May 2020.

In North America, we are continuing to see encouraging signs of improvement and we expect these trends to continue given the high domestic passenger mix. In addition, we are also seeing encouraging occupancy trends in Las Vegas.

Despite the adverse impact on the Group, and as a result of our trading initiatives, we had consistently delivered an improved sales performance, since April, prior to the second lockdown, ahead of both passenger and footfall data.

The Group generated a Headline loss before tax[1] of £69m* (2019: Headline profit before tax £155m) and, after non-underlying items and IFRS 16, a statutory loss before tax of £280m (2019: profit before tax £135m). During the second half, the Group received a total of £22m from the UK Government's Job Retention Scheme and similar schemes in other countries.

The Group also benefited from the business rates holiday implemented by the UK Government which was worth £20m in the year.

£m	2020 (IFRS)	2020 (IAS 17)*	2019 (IAS 17)
Travel trading (loss)/profit[1]	**(27)**	**(33)**	117
High Street trading (loss)/profit[1]	**(4)**	**(10)**	60
Group (loss)/profit from trading operations[1]	**(31)**	**(43)**	177
Unallocated costs	**(17)**	**(17)**	(17)
Headline Group operating (loss)/profit[1]	**(48)**	**(60)**	160
Net finance costs	**(20)**	**(9)**	(5)
Headline Group (loss)/profit before tax[1]	**(68)**	**(69)**	155
Non-underlying items	**(212)**	**(157)**	(20)
Group (loss)/profit before tax	**(280)**	**(226)**	135

Non-underlying items

Items which are not considered part of the normal operating costs of the business, are non-recurring and are exceptional because of their size, nature and incidence, are treated as non-underlying items and disclosed separately. Non-underlying items this year include items relating to the acquisition of MRG, a pension past service charge and items specifically relating to the impact of Covid-19 on the business. The majority of these items are non-cash.

Non-underlying items included in the year ended 31 August 2020 (2019: £20m) are shown in the table below. The expected cash impact in the year to 31 August 2021 relating to these items is £27m. See reconciliation of net debt on page 18 for the cash spend in the year ended 31 August 2020 in relation to non-underlying items.

£m	Ref.	Income statement 2020 IFRS	Income statement 2020 IAS 17*	Cash Outflow 2021
Costs directly attributable to Covid-19				
Impairment	(1)	**(135)**	**(55)**	-
Onerous leases	(2)	**n/a**	**(13)**	-
Stock	(3)	**(14)**	**(14)**	-
Restructuring	(4)	**(25)**	**(25)**	24
Other property costs	(5)	**n/a**	**(12)**	3
Other		**(1)**	**(1)**	-
		(175)	**(120)**	27
Other non-underlying costs				
Transaction costs	(6)	**(11)**	**(11)**	-
Integration costs	(6)	**(9)**	**(9)**	-
Amortisation	(7)	**(3)**	**(3)**	-
Pensions past service cost	(8)	**(14)**	**(14)**	-
		(212)	**(157)**	**27**

* The Group adopted IFRS 16 'Leases' with effect from 1 September 2019 using the modified retrospective approach to transition, and has therefore not restated prior periods. The results for the year ended 31 August 2020 are not directly comparable with those reported in prior periods under the previous applicable accounting standard, IAS 17 'Leases'. In order to aid comparability, the results for the year ended 31 August 2020 have also been presented on a pre-IFRS 16 (IAS 17) basis and commentary throughout this report will refer to these pre-IFRS 16 numbers. Measures presented under IAS 17 are identified with a '*'. All prior year measures are presented on an IAS 17 basis. Reconciliations from IAS 17 measures to IFRS 16 measures are provided in the Glossary on page 146. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue, and like-for-like revenue are based on statutory measures.

[1] Alternative Performance Measure defined and explained in the Glossary on page 146.

Items 1-5 in the table on page 16 have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of store closures, and downward revisions to budgeted revenues following government interventions.

(1) Impairment of Property, plant and equipment and Right-of-use assets
The impact on the Group's operations of Covid-19 is expected to continue during the next year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on management's assumptions regarding likely future trading performance taking into account the effect of Covid-19 to the carrying values at 31 August 2020. Following this review, a charge of £55m* was recorded for impairment of retail store assets on an IAS 17 basis, and £135m on an IFRS 16 basis which includes an impairment of the right-of-use assets of £95m.

(2) Onerous leases
As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. This resulted in a charge for the year of £13m*. This concept relates to IAS 17 only and does not exist under IFRS 16.

(3) Stock provisions and write-offs
Provisions of £9m have been recorded against inventory mainly relating to dated and perishable stock and stock subject to obsolescence such as technology and apparel where the sell through rate has significantly reduced due to store closures and lower footfall as a consequence of Covid-19. In addition, since the outbreak of Covid-19 the Group has incurred stock write-offs of £5m mainly relating to perishable and dated product.

(4) Restructuring costs
As a result of the impact of Covid-19 on passenger numbers and lower footfall on the UK high street, in August 2020 the Group announced a review of store operations across both our Travel and High Street businesses. The charge of £21m is principally attributable to redundancies and restructuring costs relating to that along with other corporate office restructuring undertaken by the Group. In addition, the Group has incurred £4m relating to costs of exiting WHSmith France and the Brazil joint venture both of which were as a result of Covid-19.

(5) Other property costs
Property costs relate to reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19. Under IFRS 16 these costs are included in right-of-use assets and are therefore included within the impairment figure of £135m.

(6) Costs relating to business combinations
During the year, the Group incurred transaction and integration costs of £20m in relation to the acquisition of Marshall Retail Group ('MRG'), which completed on 20 December 2019. Integration costs relate to the integration of MRG into the Group and the merging of the InMotion and MRG corporate offices in Las Vegas.

(7) Amortisation of acquired intangible assets
Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands.

(8) Pension past service cost
Past service cost of £14m has been recognised in the year ended 31 August 2020. This relates to equalisation of pension benefits between men and women between 1 April 1992 and 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a Barber equalisation window of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993.

A tax credit of £25m has been recognised in relation to these items (£18m* under IAS 17).

Net finance costs

£m	2020 (IFRS)	2020 (IAS 17)[1]	2019 (IAS 17)
Interest payable on bank loans and overdrafts	**9**	**9**	5
Interest on lease liabilities	**11**	**–**	–
Net finance costs	**20**	**9**	5

Net finance costs relating to bank loans were £9m compared with £5m last year. The non-cash pension interest charge was £nil (2019: £nil). Lease interest of £11m in the current year arises on lease liabilities recognised under IFRS 16.

Taxation

The effective tax rate[1] was 23 per cent* (2019: 18 per cent), with a tax credit being recognised on the loss made in the year. The effective tax rate is higher than the prior year rate due to the mix of losses in the UK and overseas and the different tax rates that apply. The current year effective tax rate will depend on the mix of results in the UK and overseas.

In August 2020 the Group received an early UK corporation tax refund of £5m due to the ability to offset 2020 losses against prior year profits made in the UK. The Group does not expect to make any corporation tax payments in the current year.

[1] Calculated on a pre-IFRS 16 basis. See Glossary on page 146 for an explanation of the Group's Alternative Performance Measures.

Financial review continued

Fixed charges cover[1]

£m	2020	2019
Net finance charges (IAS 17)	**9**	5
Net operating lease rentals (IAS 17)	**210**	236
Total fixed charges	**219**	241
Headline (loss)/profit before tax[1]	**(69)**	155
Headline (loss)/profit before tax and fixed charges[1]	**150**	396
Fixed charges cover – times	**0.7x**	1.6x

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 0.7 times* (2019: 1.6 times) by Headline loss/profit before tax and fixed charges.

Cash flow

Free cash flow[1] reconciliation

£m	2020	2019
Headline Group operating (loss)/profit*[2]	**(60)**	160
Depreciation, amortisation and impairment*[2]	**60**	49
Non-cash items	**3**	5
	3	214
Capital expenditure	**(79)**	(59)
Working capital*[2]	**40**	(13)
Net tax refunded/(paid)	**5**	(27)
Net interest paid*	**(7)**	(4)
Other	**(3)**	(2)
Free cash flow	**(41)**	109

The Group had a free cash outflow[1] of £41m in the year, heavily impacted by Covid-19 in the second half. The Group delivered a net £3m* EBITDA and non-cash items compared to £214m in 2019. Capital expenditure was £79m, £20m higher than last year reflecting new stores primarily in Travel and additional capex in 2020 relating to MRG. Following the outbreak of Covid-19 we reviewed all our capital commitments and plans and saved £24m compared to our expectations at the end of February 2020. We continued to invest in strategically important projects such as our new flagship store in London Heathrow Airport Terminal 2 and The Bowery Bay in La Guardia Airport, New York.

We expect capex spend for the current financial year to be around £55m although we retain some discretion over part of this.

£m	2020	2019
New stores and store development	**34**	31
Refurbished stores	**17**	16
Systems	**14**	11
Other	**14**	1
Total capital expenditure	**79**	59

We worked hard to manage our working capital as lockdown fell, managing our payment profile whilst continuing to pay our small suppliers promptly. We utilised government schemes and payment initiatives such as the UK Government's moratorium on rent payments for the UK High Street and the deferral of the March quarter VAT payment. Overall for the year we saw a working capital net inflow of £40m*.

Net corporation tax refunded in the year was £5m, compared to a payment of £27m last year, as a result of the refund of corporation tax payments on account due to Covid-19.

Reconciliation of net debt*

Net debt is presented on an IAS 17 basis. See Note 19 of the financial statements for the impact of IFRS 16 on net debt, and refer to the Glossary on page 146 for an explanation of the Group's alternative performance measures.

As at 31 August 2020 the Group had net debt[1] of £301m* comprising term loans of £400m relating to the acquisitions of InMotion and MRG, £9m* of finance lease liabilities and net cash[3] of £108m, of which £82m was on deposit (2019: net debt of £180m, comprising term loan of £200m relating to the acquisition of InMotion, £14m of finance lease liabilities and net cash of £34m).

£m	2020	2019
Opening net debt*	**(180)**	(2)
Movement in year		
Free cash flow	**(41)**	109
Dividends	**(47)**	(60)
Pensions	**(3)**	(3)
Non-underlying items	**(20)**	(16)
Net purchase of own shares for employee share schemes	**(2)**	(6)
Purchase of own shares for cancellation	**-**	(32)
Acquisition of businesses, net of cash acquired – MRG/InMotion	**(316)**	(161)
Proceeds from placings	**312**	-
Other	**(4)**	(9)
Closing net debt*	**(301)**	(180)
Cash[3]	**108**	34
Term loans	**(400)**	(200)
Finance leases[4]	**(9)**	(14)
	(301)	(180)

The Group had a movement in net debt[1] of £121m in the year. In addition to the free cash outflow[1], the Group paid, in January 2020, the final dividend relating to the 2019 financial year of £47m; pension funding of £3m (see Note 5 on pensions); and £20m of non-underlying items which mainly relate to the acquisition and integration costs of MRG.

[1] Alternative Performance Measure defined and explained in the Glossary on page 146.

[2] Stated on an IAS 17 Headline basis, and excludes non-underlying items as described in Note 4 and the Glossary on page 146.

[3] Net cash is Cash and cash equivalents (£108m; 2019: £49m) less bank overdrafts and other borrowings (£nil; 2019 £15m). See Group balance sheet on page 90.

[4] Finance lease liabilities include those leases that were treated as finance leases under IAS 17.

During the year, the Group raised £312m through two share placings, firstly for the acquisition of MRG raising £152m, and secondly raising £160m as part of the refinancing announced on 6 April 2020 following the impact of Covid-19. We spent £316m on the acquisition of MRG on 20 December 2019 funded through the above placing and a £200m term loan. At the same point we also extended our RCF from £140m to £200m.

Refinancing

The Group undertook an equity raise on 6 April 2020 which raised net proceeds of c.£160m through a 13.7 per cent placing of new shares. The Group also secured a new £120m 12-month (plus seven months at the option of the Group) committed banking facility from BNP Paribas, HSBC Bank PLC and Santander UK PLC. In addition, the maturity on the Group's two £200m term loans was extended to October 2022.

£m	31 Aug 2020	31 Aug 2019
Net cash at bank[5]	**108**	34
Revolving Credit Facility[6]	**200**	140
Further Liquidity Facility[6]	**120**	
InMotion – Term Loan	**200**	200
MRG – Term Loan	**200**	

Balance sheet

£m	2020 (IFRS)	2020 (IAS 17)[1]	2019 (IAS 17)
Goodwill and other intangible assets	**493**	**495**	225
Property, plant and equipment	**192**	**190**	201
Right-of-use assets	**413**	**–**	–
Investments in joint ventures	**2**	**2**	4
	1,100	**687**	430
Inventories	**150**	**150**	174
Payables less receivables	**(183)**	**(226)**	(178)
Working capital	**(33)**	**(76)**	(4)
Derivative financial asset	**–**	**–**	2
Net current and deferred tax asset/(liability)	**28**	**17**	(3)
Provisions	**(14)**	**(27)**	(5)
Operating assets employed	**1,081**	**601**	420
Net debt	**(851)**	**(301)**	(180)
Net assets excluding pension liability	**230**	**300**	240
Pension liability	**(4)**	**(4)**	(4)
Deferred tax asset on pension liability	**1**	**1**	1
Total net assets	**227**	**297**	237

The Group had net assets of £300m* before pension liabilities and associated deferred tax assets, £60m higher than last year end, reflecting the acquisition of MRG along with share placements in October 2019 and April 2020. Net assets after the pension liability and associated deferred tax asset were £297m* compared to £237m at 31 August 2019. Under IFRS the Group had net assets of £227m.

[5] Net cash at bank includes cash at bank and, for 2019, drawdown on the revolving credit facility.

[6] Undrawn as at 19 November 2020.

Pensions

The latest actuarial revaluation of the main defined benefit pension scheme, the WHSmith Pension Trust, was at 31 March 2020 at which point the deficit was £9m (31 March 2017 actuarial revaluation deficit of £11m). The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the next five years, which includes the deficit recovery contributions and other running costs just under £3m per annum. During the year ended 31 August 2020, 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 94 per cent of the inflation and interest rate risks hedged.

As at 31 August 2020, the Group has an IFRIC 14 minimum funding requirement in respect of the WHSmith Pension Trust of £3m (2019: £3m) and an associated deferred tax asset of £1m (2019: £1m) based on the latest schedule of contributions agreed with the Trustees. As at 31 August 2020, the scheme had an IAS 19 surplus of £268m (2019: surplus of £354m) which the Group has continued not to recognise. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2019: £1m).

IFRS 16

The Group has adopted IFRS 16 'Leases' with effect from 1 September 2019 using the modified retrospective approach to transition, and has accordingly not restated prior periods. IFRS 16 superseded the lease accounting requirements of IAS 17, and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed.

The adoption of IFRS 16 resulted in the recognition of right-of-use assets of £457m, and lease liabilities of £493m as at 1 September 2019.

During the year ended 31 August 2020, the Group recognised £105m of additional depreciation charges on right-of-use assets, £11m of additional interest costs and a gain of £15m due to Covid-19 related rent reductions in respect of IFRS 16 leases compared to recognising the IAS 17 rent expense of £102m, resulting in a net impact on profit of £1m (before non-underlying items).

The full impact of adoption of IFRS 16 is described in Note 29. There is no impact on cash flow.

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

19 November 2020

Key performance indicators

Revenue (£m)
Total revenue including retail sales, wholesale sales to franchisees, and commission and fee income on concession and franchise arrangements.

Travel
£553m
(2019: £817m)

High Street
£468m
(2019: £580m)

Group
£1,021m
(2019: £1,397m)

Gross margin[1] (Basis points)
Gross profit divided by revenue.

Year-on-year (decrease)/increase expressed in basis points.

Travel
(480) bps
(2019: 100 bps)

High Street
(280) bps
(2019: 70 bps)

Group
(370) bps
(2019: 70 bps)

Headline (loss)/profit[1] (£m)
The below profit/(loss) measures are stated on a pre-IFRS 16 basis.

Travel trading (loss)/profit[1]
£(33)m
(2019: £117m)

High Street trading (loss)/profit[1]
£(10)m
(2019: £60m)

Headline Group (loss)/profit before tax[1]
£(69)m*
(2019: £155m)

Headline (loss)/earnings per share[1] (p)
Headline earnings per share is the Headline diluted earnings per share in pence per share, stated on a pre-IFRS 16 basis.

(44.2)p*
(2019: 114.7p)

Dividend per share (p)
Total dividend per share.

Nil
(2019: 58.2p)

Return of cash to shareholders (£m)
Total cash returned to shareholders through dividends and buybacks.

£47m
(2019: £91m)

Free cash flow[1] (£m)
Free cash flow is defined as net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, less capital expenditure. See reconciliation of free cash flow on page 18.

£(41)m*
(2019: £109m)

[1] Alternative Performance Measure defined and explained in the Glossary on page 146.

Principal risks and uncertainties

Risk management framework

Our risk management framework is designed so that material business risks throughout the Group can be identified, assessed and effectively managed. This framework incorporates the following core elements:

Identify – Risk mapping to identify emerging issues:
– Risk registers are compiled by each *business function;*

Assess – Evaluating the potential impact and determining the likelihood of risk occurrence;

Mitigate – Agreeing actions to manage the identified risks and ensuring appropriate controls are in place;

Monitor – Maintaining continued oversight and tracking the effectiveness of the controls.

All principal business functions compile risk registers and summary risk maps to identify key risks, assess them in terms of their likelihood and potential impact, and determine appropriate control strategies to mitigate the impact of these risks, taking account of risk appetite. The ongoing monitoring of this framework is overseen by the respective Business Risk Committees and the Group Audit Committee.

During the year, the Board reviewed the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and review of the risk registers and the internal controls across all business functions, as part of an annual exercise facilitated by the Internal Audit team. During the year, the Board also received presentations from management on specific risk areas such as the impact and actions taken in relation to Covid-19, cyber risk, international expansion, the ongoing risk monitoring processes and appropriate mitigating controls.

Board review of principal risks and uncertainties

The Board has undertaken a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those emerging and principal risks are described on the following pages, along with explanations of how they are managed and mitigated. The Group recognises that the profile of risks constantly changes and additional risks not presently known, or that may be currently deemed immaterial, may also impact the Group's business objectives and performance. Our risk management framework is therefore designed to manage rather than eliminate the risk of failure to achieve business objectives, and, as such, can only provide reasonable and not absolute assurance against these principal uncertainties impacting on business performance.

Changes in principal risks compared to last year

The following section summarises the emerging and principal risks and uncertainties agreed by the Board. These incorporate further information relating to the movement in the level of these risk exposures during the year, to highlight whether, in our view, exposure to each of the principal risks is increasing, decreasing or remains broadly the same.

Where the consequences of the Covid-19 pandemic may impact the business, we have incorporated these considerations into our assessment in relation to each of these principal risk headings, in addition to the specific commentary provided on page 22.

Principal risks and uncertainties

Overriding risk impact from Covid-19

Impact on Principal risks and uncertainties	How the Group has responded
Covid-19 is the most significant risk currently facing the Group, impacting all aspects of the business, our customers, colleagues, stores, supply chain and offices, and across all of the markets in which we operate. Areas of uncertainty include: the extent and timing of lifting of international and local travel restrictions and the re-opening of our stores; the speed and extent of recovery in the travel industry more widely and the resulting impact on passenger numbers and sales; and the speed and confidence of customers in restoring previous shopping habits across all of the channels in which we operate. To the extent that the pandemic may have a longer and more prolonged impact on global economic conditions, this may have a further negative impact on consumer spending, customer footfall and sales, and therefore create further potential disruption to all of our areas of operation. During the course of the pandemic, the safety of our customers and colleagues has been at the forefront of our response and has shaped all of the measures we have taken across the business.	In order to limit the impact of the pandemic on the Group we have pursued a series of mitigating actions to protect our customers, colleagues and our financial position. These have included: • Maintaining regular communications across the Executive team to monitor all aspects of our response; • Operating some of our stores through the lockdown serving those communities which most need our services, including stores in hospitals supporting NHS key workers, and Post Offices providing vital postal and banking services in the communities where we operate; • We have undertaken a phased re-opening across the rest of our global store estate, ensuring the same effective safety measures are in place, including social distancing, hand sanitiser stations, controlled numbers on site via customer marshalling, providing PPE for colleagues, protective screens at till points, and enhanced cleaning regimes; • Working with our suppliers to adjust our sourcing and supply chains to reflect the reduced volumes of demand, and process increased levels of returns; • Ensuring our offices and distribution centres are Covid-secure with reduced capacity reflecting social distancing, controlled access and exit, freely available hand sanitiser and a rigorously maintained cleaning regime; • Reducing the Group's cost base, capex and discretionary expenditure and managing our cash flow and ongoing commitments wherever possible; • Restructuring our corporate offices and stores to increase efficiency, speed of decision-making and reflecting lower levels of sales; • Engaging with landlords to manage rental obligations and property costs, and agree amended lease terms where possible; • Successfully implementing our existing business continuity plans, to facilitate a transition to more agile working, with remote access to core systems and use of technology to manage ongoing communications; • Entering into new funding arrangements with our relationship banks, utilising the various government support schemes including the Job Retention Scheme and other similar schemes in other countries in which we operate; and • Continuing to adapt our Covid-19 response measures to comply with developing Government and regulatory guidance.

Changes to the risk profile due to Covid-19

The table below explains where the potential risk implications of the pandemic link with, and impact upon, our other emerging and principal risks that are further summarised on the pages that follow.

Relevant principal risk	Covid-19 impact
Economic, political, competitive and market risks	The Group may fail to effectively respond to the pressures of an increasingly changing retail environment, where Covid-19 materially changes consumer spending patterns and habits, such as shifting from physical to online shopping, and from any longer-term damage to the travel industry and reductions in the level of international travel.
Brand and reputation	The reputation of the brand may be impacted in the event that customers were to perceive that our store environments are insufficiently safe and secure in response to the continuing experience of the virus.
Key suppliers and supply chain management	Given that large elements of our sourcing rely on factories and shipment from the Far East, these supply chains and principal product flows could be negatively impacted by any interruptions due to any further shutdown of factories and supply routes or growing international outbreaks.
Store portfolio	The Group's performance is reliant upon trading from our wide portfolio of prime shopping locations, where our performance may be negatively impacted in the event of further store closures, constraints on trading and travel restrictions, or further extensions in the scale and nature of local lockdowns.
Business interruption	The business could be negatively impacted by any concentration of illness in a particular location such as head office, distribution centres or particular stores, should these need to close temporarily and large numbers staff were required to self-isolate.
Reliance on key personnel	The business could be negatively impacted in the event that any of the senior leadership team were to fall ill or be personally impacted by the virus.
International expansion	The ongoing growth of the business has been generated through continued international expansion. Such ongoing growth could therefore be negatively impacted from further enforced store closures, constraints on trading and the longer-term continuation of international travel restrictions or curtailment in passenger numbers.
Treasury, financial and credit risk management	Significantly reduced trading over an extended period from further outbreaks of Covid strains and the the lack of an effective vaccine could cause further negative impact on the Group's financial position in the longer term.
Cyber risk, data security and GDPR compliance	Further risks from significant increases in industry-wide phishing activity and cyber threats could pose further risks of potential systems interruption.

Principal risks and uncertainties continued

The table below summarises our other continuing Principal risks and uncertainties.

Key: Change in risk level (↑) higher (↔) no change (↓) lower

Risk/description	Mitigation	Change in risk level
Economic, political, competitive and market risks		
The Group operates in highly competitive markets and in the event of failing to compete effectively with travel, convenience and other similar product category retailers, this may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. Factors such as the economic climate, levels of household disposable income, seasonality of sales, changing demographics and customer shopping patterns, and raw material costs could impact on profit performance. Consumer shopping habits, confidence and spending will also continue to be significantly impacted by the ongoing impact of the pandemic. The Group may also be impacted by political developments both in the UK and internationally such as exiting the European Union (for example the removal of Extra Statutory Concession 9.1 which provides export VAT relief to airport customers travelling outside the EU), regulatory and tax changes, increasing scrutiny by competition authorities and other changes in the general condition of retail and travel markets.	The Group's performance is dependent on the levels of consumer confidence and the Group's performance is dependent upon effectively predicting and quickly responding to changing consumer demands, both in the UK and internationally. The Group conducts customer research to understand current demands and preferences in order to help translate market trends into saleable merchandise and store formats. Significant efforts have been applied to implement the necessary Covid-19 protective measures in all stores, including social distancing, sanitiser stations, and the provision of protective screens and PPE for staff. The Group continues to monitor the implications arising from the process of exiting the European Union and is a member of a number of key industry bodies which provide insight and updates on this process. The Group works in conjunction with trade bodies, other airport retailers and landlords to understand the impact and implementation requirements of the removal of Extra Statutory Concession 9.1.	(↑) Uncertainties relating to the ongoing effects of Covid-19, on store trading, footfall, travel restrictions, and customer confidence and shopping habits as well as the impact of the UK's exit from the EU.
Brand and reputation		
The WHSmith brand is an important asset and failure to protect it from unfavourable publicity could materially damage its standing and the wider reputation of the business, adversely affecting revenues. As the Group continues to develop its convenience food offer in travel locations, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. We operate a framework for monitoring compliance with all regulatory, hygiene and safety standards, encompassing supplier and store audits and clearly defined sourcing policies and procedures. This includes all of the measures put in place to remain Covid-secure. Our sustainability programme monitors our performance in respect of our key themes of the Environment, People and our Communities.	(↔)
Key suppliers and supply chain management		
The Group has agreements with key suppliers in the UK, Europe and the Far East and other countries in which it operates. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade. The Group may be impacted by: increased cost prices arising from a 'no deal' Brexit; the application of the UK Global Tariff to imports from the EU, as well as the need to implement new business procedures in relation to new import/export documentation requirements; and the potential for inventory supply issues from 1 January 2021.	The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. Suppliers are required to comply with the conditions laid out in our Supplier Code of Conduct which covers areas such as production methods, employee working conditions, and quality control. The Group has contractual and other arrangements with numerous third parties in support of its business activities. None of these arrangements alone are individually considered to be essential to the business of the Group. The Group is liaising directly with suppliers to understand and mitigate the potential impact of Brexit on product cost and supply risks. In addition the Group has implemented new systems to facilitate the correct compliance with import/export documentation requirements.	(↔)

Risk/description	Mitigation	Change in risk level
Store portfolio		
The quality and location of the Group's store portfolio are key contributors to the Group's strategy. Retailing from a portfolio of good quality real estate in prime retail areas and key travel hubs at commercially reasonable rates remains critical to the performance of the Group. During the year, a large proportion of our global store estate has been subject to temporary closure due to the lockdowns and travel restrictions from the pandemic, where some stores still remain closed at the current time. All of High Street's stores are held under operating leases, and consequently the Group is exposed, to the extent that any store becomes unviable as a result of rental costs. Most Travel stores are held under concession agreements on average for five to ten years, although there is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts.	The Group undertakes research of key markets and demographics to ensure that we continue to occupy prime sites and identify appropriate locations to acquire new space. We maintain regular dialogue and good relationships with all our key landlords. The Group also conducts extensive customer research and analysis to gather feedback on changing consumer requirements, which is shared with landlords as part of this ongoing relationship management programme.	↔
Business interruption		
Acts of terrorism, war, or other global incidents could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. Our Travel business has previously been impacted by geopolitical events such as major terrorist attacks, and the closure of travel routes from natural disasters or weather-related events. The Group operates from three distribution centres and the closure of any one of them may cause disruption to the business. In common with most retail businesses, the Group also relies on a number of important IT systems, where any system performance problems, cyber risks or other breaches in data security could affect our ability to trade. Our global business has been negatively impacted this year from the pandemic causing the temporary closure of a large part of our store estate and head offices and extended working from home. The longevity of the pandemic until effective vaccinations become available may continue to impact the business through extended travel restrictions and public lockdowns.	The Group has a framework of operational procedures and business continuity plans that are regularly reviewed, updated and tested. The Group also has a comprehensive insurance programme covering our global assets, providing cover ranging from property damage and product and public liability, to business interruption and terrorism. Back-up facilities and contingency plans are in place and are reviewed and tested regularly to ensure that business interruptions are minimised. Various elements of these plans have been applied in response to the challenges of the pandemic, such as extending the number of head office staff who continue remote working from home. The Group's IT systems receive ongoing investment to ensure that they are able to respond to the needs of the business. Back-up facilities and contingency plans are in place and are tested regularly to ensure that data is protected from corruption or unauthorised use. Effective application and testing of these previous plans enabled us to respond swiftly and effectively to large numbers of staff continuing to work from home.	↑ Interruptions occurring this year due to the effect of Covid-19, causing temporary closures of offices and stores.
Reliance on key personnel		
The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment.	The Group reviews key roles and succession plans. The Remuneration Committee monitors the levels and structure of remuneration for directors and senior management and seeks to ensure that they are designed to attract, retain and motivate the key personnel to run the Group successfully.	↔
International expansion		
The Group continues to expand internationally. In each country in which the Group operates, the Group may be impacted by political or regulatory developments, or changes in the economic climate or the general condition of the travel market. In December 2019 we acquired Marshall Retail Group, a leading and fast-growing US travel retailer, operating from 160 stores across 16 states, that together with our previous acquisition of InMotion enables us to consolidate our presence in the US.	The Group utilises three business models to manage risk in our overseas locations: directly run, joint venture and franchise. The Group uses external consultants to advise on compliance with international legislative and regulatory requirements, to monitor developments that may impact our operations in overseas territories and to conduct reputational due diligence on potential new business partners. Our geographical spread of activity mitigates against the material concentration of risk in any one area.	↑ MRG acquisition and continued growth of international operations.

Principal risks and uncertainties continued

Risk/description	Mitigation	Change in risk level
Treasury, financial and credit risk management		
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 22 on page 124 of the financial statements. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a five-year committed multi-currency revolving credit facility of £200m due to mature in December 2023. In addition, the Group has two loans; a syndicated £200m term loan to fund the previous acquisition of InMotion and a £200m term loan to fund the acquisition of MRG, both bearing interest at LIBOR plus margin. In April, in response to Covid-19, we raised net funding of £160m via a share placing and we secured a new £120m 12-month (plus seven months at the option of the Group) committed banking facility. In addition, the maturity of the two existing term loans has been extended to October 2022. A waiver has been secured on the existing bank covenants at August 2020, February 2021 and August 2021.	↑ Change in historic gearing from new loan funding to finance MRG acquisition and in response to the Covid-19 pandemic.
Cyber risk and data security		
The Group is subject to the risk of systems breach or data loss from various sources including external hackers or the infiltration of computer viruses. Theft or loss of Company or customer data or potential damage to any systems from viruses, ransomware or other malware, or non-compliance with data protection legislation, could result in fines and reputational damage to the business that could negatively impact our sales.	The Group employs a framework of IT controls to protect against unauthorised access to our systems and data, including monitoring developments in cyber security. This control framework encompasses the maintenance of firewalls and intruder detection, encryption of data, regular penetration testing conducted by our appointed external quality assurance providers and engagement with third party specialists, where appropriate. We have a Steering Group overseeing our approach and response to cyber risk, and monitoring our programme.	↑ Continuing increase in number of externally reported cyber attacks.

Assessing the impact of our principal risks on our strategic priorities

The table below maps our strategic priorities with our principal risks, to demonstrate where these risks may impact the ongoing achievement of these strategic priorities.

	Covid-19 pandemic	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	Cyber risk and data security
1. Travel i. Winning new space/ developing new formats in UK and internationally	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
ii. Managing our space to meet the changing needs of our customers	✓	✓	✓	✓	✓			✓		✓
iii. Improved execution and service	✓	✓	✓	✓	✓			✓		✓
2. High Street i. Optimise returns on space	✓	✓	✓	✓	✓					✓
ii. Margin growth from mix management	✓	✓	✓	✓	✓					✓
iii. Cost efficiency	✓	✓	✓	✓	✓					✓
iv. Utilising our assets and third party partnerships	✓	✓	✓	✓	✓					✓
3. Focused use of cash	✓	✓	✓	✓	✓			✓	✓	✓

Brexit

Following the UK's withdrawal from the EU, there remains a period of further uncertainty until a trading agreement has been agreed between the UK and the EU. In these circumstances, the extent to which our operations and financial performance are affected both in the longer term and at the end of the current transition period up to 31 December 2020, will only become clear as details of any agreement are clarified. We have continued to review the possible consequences that Brexit could have upon our business and have concluded that it does not raise any principal new risks, although it does have the potential to impact a number of our existing risks, for example, regulatory changes and economic uncertainty, including impacts from changes in foreign exchange rates. We will continue to monitor the risks and uncertainties arising from Brexit as part of the Company's risk management and control processes, as set out more fully on page 21 of the Annual report and accounts. Where the consequences of Brexit may impact the business we have incorporated these considerations in relation to each of the principal risk headings listed on page 27.

Principal risks and uncertainties continued

Viability statement

In accordance with the UK Corporate Governance Code 2018, the directors are required to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities over a period greater than 12 months, taking into account its current position and principal risks.

The Group's strategy is highlighted on page 4.
The key factors are:

- In Travel: driving like-for-like sales, profit growth and cash generation; better understanding of space and category returns to meet changing consumer needs; winning new space; and developing new formats both in the UK and internationally.
- In High Street: optimising returns from a forensic focus on space; margin growth from category mix management; and a continuous focus on efficiency and hence cost reduction.

The Strategic report incorporates plans at both the Group and operating division level. The plans consider the Group's cash flows, committed funding liquidity positions, forecast future funding and key financial metrics.

A three-year period is considered the appropriate timeframe to assess the Group's prospects as it will cover the impact of the current Covid-19 pandemic and it is consistent with the Group's strategic planning and review period.

The directors have assessed the prospects of the Group over this period, taking into account its recent historical performance, forecasts, a robust assessment of the emerging and principal risks facing the Group and mitigating factors, all of which consider the impact of Covid-19 given its impact on the Group's trading. In assessing viability, the directors considered the position presented in the Budget and three year plan recently approved by the Board (the 'Base Case').

These plans include management's forecast of the financial impact of the current pandemic over the next three years. The Base Case has been further adjusted for the lockdown across England announced by the UK Government on 31 October 2020. The Base Case has also been used in the Group's assessment of going concern.

In the context of the current challenging environment, a severe but plausible downside scenario was applied to the Base Case in a manner consistent with our assessment of going concern. A summary of the key assumptions included in the severe but plausible scenario is shown on page 93 in the context of going concern. The additional period from 1 March 2022 to 31 August 2023 assumes a return to three year plan results. These results are still substantially below pre-Covid levels.

We have included certain additional mitigating actions, mainly in the form of deferred capital expenditure. The Group will also continue to avail of government support schemes, such as furlough, to the extent that such schemes are available and required by the Group. The benefit of recently announced extension to these schemes has not been included in the scenarios modelled.

As announced on 6 April 2020, the Group agreed a £120m 12-month (plus seven months at the option of the Group) multi-currency revolving credit facility. This facility is due to expire in November 2021. The viability assessment assumes that this facility expires and is not renewed. The Group has not drawn down on this facility, and no drawdown is assumed during the viability assessment under either the Base Case or the Severe but Plausible scenario.

The Group's term loans of £400m mature in October 2022, which is within the timeframe under review. The assessment assumes that these facilities will be refinanced on similar terms, and therefore the repayment of these loans has not been included in the viability assessment.

In both the Base Case and the Severe but Plausible scenarios, the Group would continue to have sufficient liquidity headroom on its existing facilities.

The covenants on the above facilities, tested half-yearly, are based on fixed charges cover and net borrowings. In response to the impact of the Covid-19 pandemic on the Group's operations, the Group has secured waivers on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021.

The Group will next be tested on its covenants at 28 February 2022, over 15 months from the date of signing these financial statements. Under current conditions, it is likely that the Group would require a further waiver or amendment to its February 2022 covenant tests. If this situation prevailed, the Group would engage its lending banks in advance of this date to secure a further covenant waiver. Throughout the pandemic we have received excellent support from our banks who have granted covenant waivers for February 2021 and August 2021.
The Strategic report also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position.

As disclosed in the Strategic report, the Board has undertaken a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The process of mitigating and managing these risks is described on pages 21 to 28 of the Strategic report.

Taking account of the above matters, and the Group's current position and principal risks, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 August 2023.

Non-financial information statement – our journey to a better business

Our approach

Our customers and wider stakeholders expect us to be a responsible, sustainable business and we believe we can make a significant contribution to a better society and a cleaner environment. We have been serving customers for nearly 230 years and to maintain their trust, we need to adapt to shifting patterns in sustainable production and consumption and to changes in the global environment in which we operate.

WHSmith has a long-standing commitment to high standards of environmental, social and corporate governance. Our approach has played an important role in risk management, business development and delivering the expectations of our stakeholders.

Our new strategic plan for sustainability concentrates on those areas that our stakeholders have told us are important and where we believe we can make a meaningful difference. The three areas of planet, people and communities will provide a framework for our activities and reporting, underpinned by a strong foundation of responsible business principles and practices. We have defined a series of objectives for each of these areas that will drive our activities for at least the next five years.

Our Journey to a Better Business

People	Planet	Communities
Diversity and inclusion	Climate change	Education and literacy
Human rights in our supply chain	Packaging and waste	Supporting local causes
Safety and wellbeing	Forests	

Principles and responsible practice

Our Environmental, Social and Corporate Governance (ESG) Committee, chaired by our Group Chief Executive, meets monthly to monitor progress of our sustainability activities. More detailed information, including governance, performance data and future targets, is available on our website and in our full Sustainability Report at whsmithplc.co.uk/sustainability/.

Environment

Our main environmental impacts relate to:

- Our impact on climate change from Scope 1 and 2 greenhouse gas (GHG) emissions from the energy used to power our offices, stores and distribution centres; and from wider value chain Scope 3 emissions including the fuel used for transport and distribution of products to store and business travel.
- The treatment and disposal of waste materials from our operations, from the packaging used to protect our products and from the products themselves when they come to their end of life.
- Ensuring that any timber-based materials used in our own-brand products come from recycled sources or have been certified as originating from sustainable forests.

Our environmental policy commits us to minimising the impact on the environment from our operations and the products that we sell. We regularly review progress against our objectives and targets, aiming for continual improvement year on year. A copy of our Environmental Policy is available at whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/EnvironmentalPolicy_Jul20.pdf.

Climate change

Climate change remains one of the most pressing, challenging issues facing our world and we acknowledge we need to play our part. We have a long-standing commitment to reducing carbon emissions from our operations and have been improving energy efficiency and minimising fuel use for over a decade.

We are committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and continue to integrate them into our reporting. The following section also fulfils our obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government's policy on Streamlined Energy and Carbon Reporting (SECR).

Strategy and risk management

In line with TCFD's recommendations, we have assessed the risk and opportunities that our business may face in 2030 using two climate scenarios: a scenario where the world introduces the changes that are needed to limit global warming to two degrees; and a scenario where policy and regulatory interventions are limited, and global warming exceeds four degrees.

Under the two-degree scenario, there would be widespread interventions to limit global warming, including the implementation of a global carbon price at a level which results in universal change, a rapid shift in energy sector mix from fossil fuels to renewables and a reversal of global deforestation. Afforestation and a rapid growth in biofuels may lead to pressure on land for other uses. In the transport sector, electric vehicles would be widely adopted, there would be systemic improvements in operations and logistics and international fiscal and regulatory support would be increased for the use of alternative fuels for road freight and aviation.

Non-financial information statement continued

The main potential risks to WHSmith under a two-degree scenario include increased operational costs from higher electricity and fuel prices caused by a higher carbon price; higher trading costs for certain products because of more expensive raw materials caused by land use pressures and policy disincentives for carbon-intensive or unsustainable materials such as single-use plastics; and changes in consumer behaviour such as reductions in business travel leading to lower footfall in some of our stores, or a switch to lower-carbon products leading to reduced sales of some of our current lines.

Under the four-degree scenario, the world fails to address climate change, leading to global temperatures continuing to rise to four degrees or more by the end of the century. There would be no new policy or regulatory interventions and the physical impacts of climate change would be much greater in this scenario. Winters would generally be warmer and wetter in the Northern Hemisphere and there would be more frequent extreme weather events such as heavy rainfall and heatwaves. Water scarcity would be exacerbated in many regions and many coastal cities would be inundated because of rising sea levels.

Under a four-degree scenario, incidences of major flooding or extreme heat could have a significant impact on our warehouses, stores or distribution networks. Changes in precipitation patterns could exacerbate water scarcity, leading to shortages in key raw materials for products such as bottled drinks or paper, leading to supply disruption and the potential for higher costs. There could also be higher costs to pay for renewable energy if demand outstrips supply.

Our analysis shows that both scenarios present potential financial and operational risks to WHSmith by 2030, predominantly due to increased costs. However, while these risks would need to be managed, we would not have to materially change our business model. We are taking action to manage climate-related risk by:

- Investing in energy efficiency to reduce consumption, and switching to renewable sources of electricity;
- Optimising route planning and logistics operations to minimise fuel consumption;
- Reviewing our risk management processes to ensure they include the climate-risks identified in our scenario analysis;
- Ensuring business continuity plans include for any disruption from major weather events, such as flooding and extreme heat;
- Factoring the impact of higher carbon prices into decision-making for long-term projects; and
- Continuing to diversify products and packaging away from carbon-intensive single-use and hard to recycle plastic materials.

Energy efficiency measures

We have taken a number of measures to improve energy efficiency in our buildings. We continue to install building management systems across our estate to monitor energy consumption and to optimise energy settings for lighting, heating and air conditioning to reduce consumption, whilst maintaining a welcoming and comfortable environment for all. We are replacing our current LED lights which are coming to the end of their life with new equipment which provides a wider beam of light for wall displays and till points, reducing the need for more energy-intensive perimeter lighting in-store. We have also introduced aerofoils to the front of our refrigeration units to minimise additional energy consumption to deal with cold air losses.

Climate change governance

Climate change is an important component of WHSmith's sustainability programme which includes carbon emission reduction targets for our own operations and our wider value chain. Our ESG Committee is responsible for climate change related issues and for monitoring performance against objectives and targets. Climate change forms part of a bi-annual update report to the Board on our sustainability activities. In addition, climate-related risks and opportunities are integrated into the management processes and reporting frameworks for the Group Risk report to the Audit Committee as described on page 46.

Management of climate-related risks

Identification, assessment and management of the risks from climate change follow our established risk management process, as described on page 21. Emerging climate change risks are part of the Brand and reputation principal risk on page 24 and the Business interruption principal risk on page 25. These principal risks are monitored by the Audit Committee to ensure effective management and risk mitigation through appropriate policies, processes and performance improvements.

Metrics and targets

As part of our roadmap to 2020, we set two climate-related targets for our business:

- to reduce carbon emissions from stores and distribution centres by 45 per cent per square foot by 2020 (from a 2007 baseline); and
- to reduce carbon emissions per pallet by 20 per cent by 2020 (from a 2007 baseline).

Earlier this year we met both targets, achieving a 66 per cent reduction in carbon emissions per square foot and a 24 per cent reduction in carbon emissions per pallet. Since the outbreak of Covid-19, our logistics operations have been disrupted with a greater number of non-routine deliveries and a resulting increase in the rate of carbon emissions per pallet. This should be a temporary setback and we anticipate that carbon emissions per pallet will improve again soon.

We have set ourselves new carbon-reduction targets for our own operations and our supply chain. We are aiming to achieve net zero emissions for our own operations (Scope 1 and 2) by 2025 through greater energy efficiency and use of renewable electricity. This target is science-based and aligned with the Paris Agreement's aspiration to limit global warming to 1.5 degrees centigrade.

In order to lower our supply chain emissions, we will be working with key suppliers responsible for 50 per cent of our supply chain emissions to ensure that by 2025 they have plans in place to reach net zero by 2040.

Further information on climate change metrics and our approach is available in our Sustainability Report 2020.

Global greenhouse gas emissions (tonnes of CO_2e)

	2020	2019	2018
Scope 1 emissions			
Combustion of gas to heat and cool WHSmith stores, offices and distribution centres.	**6,025**	2,653	2,659
Percentage of emissions from UK-based operations.	**100%**	100%	100%
Scope 2 emissions			
Electricity purchased to power WHSmith stores, offices and distribution centres.	**21,005**	22,192	21,724
Percentage of emissions from UK-based operations.	**60%**	73%	86%
Total Scope 1 and 2 emissions	**27,030**	24,845	24,383
Percentage of emissions from UK-based operations.	**69%**	76%	87%
Carbon intensity metric (tonnes CO_2e per £m revenue)	**26.4**	17.8	19.3
Scope 3 emissions			
Indirect emissions from the combustion of fuel for the transport of products from distribution centres to stores and from business travel.	**4,696**	6,940	6,430
Percentage of emissions from UK-based operations.	**100%**	100%	100%
Total	**31,726**	31,785	30,813

Carbon emissions are reported for our operations in the UK and our directly-run international businesses where we have operational control in accordance with GHG Reporting Protocol standards. Scope 2 emissions are quoted using the location-based method. Further data and full details of the scope and methodology for reporting carbon emissions are available in our Sustainability Report 2020. Assurance for Scope 1 and 2 carbon emissions has been provided by Corporate Citizenship.

Energy consumption (MWH)

	2020	2019	2018
UK	**86,782**	77,619	80,396
Non-UK	**17,301**	12,695	6,406
Total	**104,083**	90,314	86,802

Waste management

Waste is not only damaging to the environment but adds additional cost to our business, so we are focused on reducing excess materials and maximising recycling wherever we can. In our High Street stores, we operate a recycling system which enables us to recycle most forms of waste, including cardboard, paper, plastics and metals. Waste is also segregated in our distribution centres and offices. Overall, 88 per cent of our waste was recycled during 2020.

The number of food lines that we sell is growing, and we are working hard to eliminate food waste. One of the main sources of food waste is from unsold sandwiches which have reached their use-by date. We have implemented a number of initiatives, including stock control systems to improve forecasting of chilled food sales, so that we only stock food that we expect to sell, reducing waste volumes. We operate a discounting strategy in all our stores; engaging store colleagues to reduce the price of any sandwiches that are approaching but have not yet exceeded their use-by date.

Packaging materials are designed to protect items to maintain quality and enhance product shelf life. However, excessive packaging can negatively impact the environment, because energy and raw materials such as forestry products or oil are used in the manufacturing process. Inappropriate disposal of packaging can also impact the air, land and marine environments when it is no longer needed.

We regularly review the type and quantities of packaging we use, including primary packaging of our own-brand products and the secondary packaging used to protect goods during transit and distribution. We seek to identify opportunities to minimise packaging where possible and use more environmentally-sustainable solutions such as cardboard for products and reusable skips for internal transfer of stock.

This year, we analysed the primary and secondary packaging for our 200 best-selling own-brand lines and identified a number of opportunities for reducing the amount of packaging used and for switching from hard-to-recycle materials to materials that can be more easily recycled. We have already redesigned the packaging for many of our Christmas lines, removing surplus plastic and switching to card where packaging is needed. We are continuing discussions with our suppliers to look for further opportunities to reduce the materials we use.

We have now switched our best-selling line of bottled water to a product contained in 100 per cent recycled plastic and have introduced a much wider range of refillable water bottles into our stores. Our new London Heathrow Airport Terminal 2 store hosts our first water refilling station, where customers can refill their reusable water bottles free of charge.

Non-financial information statement continued

Sustainable forestry

Paper-based products are a core part of WHSmith's business and we are committed to minimising the environmental impacts from paper sourcing for our own-brand products. We will only use recycled material or virgin (i.e. non-recycled) material from known, legal, well-managed and credibly-certified forests.

As part of our work towards this objective, and in line with the requirements of national and international timber regulations, we carry out an in-depth and rigorous assessment of supplier timber-sourcing systems. We have set recycled or certified timber materials as a minimum standard, which gives additional assurance that materials originate from low risk sources. A copy of our Sustainable Forests Policy is available at whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/SustainableForestsPolicy_Jul20.pdf.

Our sourcing teams work with our suppliers to help them understand our requirements and how the data they provide is needed to demonstrate that any paper, card or wood used in a WHSmith product is sourced from a certified or recycled source. We can now demonstrate through certification that 99 per cent of our stationery products contain materials originating from certified and recycled material.

Employees

Our employees and those who work for us in our supply chain and for our business partners are vital to our success. They make our business and are critical to our customers' experiences and perceptions of WHSmith. We want to attract, motivate and retain the best people to deliver great customer service and help our business to grow.

The Group employs approximately 14,000 people, primarily in the UK, and is proud of its long history of being regarded as a responsible and respected employer. We have a full suite of employee policies and further information is produced below and in our Code of Business Conduct available at whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/CodeofBusinessConductPolicy_Jul20.pdf.

Diversity and inclusion

WHSmith recognises that talented people are core to the success of our business, whatever their age, race, religion, gender, sexual orientation or physical ability. We are committed to promoting a culture of equality and diversity through our policies, procedures and working practices. We want to ensure that all our employees receive equal and fair treatment, and this applies to recruitment and selection, terms and conditions of employment, promotion, training, development opportunities and employment benefits. We believe in creating a culture throughout the Company that is free from discrimination and harassment and will not permit or tolerate discrimination in any form.

We have a range of activities designed to promote more women into senior positions, including developing our succession pipeline to ensure we have sufficient women ready for promotion. Mentoring plays a critical role in the development of our talent pipeline at all levels, providing targeted one-to-one support from a more senior role model. We continue to work with 'Everywoman' who provide a host of personal development tools aimed at women, including monthly webinars, workbooks and relevant career development articles. The partnership also provides our employees with links to an external network of professional women in other organisations so that contact, connections and relationships can be made easily.

We are continuing to build our understanding of diversity and inclusion and to look at ways to increase ethnic diversity at senior levels in our organisation. We have signed the Race at Work Charter and have established a Diversity Forum, chaired by our Group Chief Executive, where employees are encouraged to provide feedback, commentary and suggestions for improving diversity and inclusion in WHSmith.

We benchmark our diversity profile versus our peers and the national average to ensure that our employee profile and that of our management team reflect our commitment to diversity. Our latest gender pay gap report can be found on our website.

In terms of equal opportunities, the Company gives full and fair consideration to applications for employment when these are received from disabled people. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

Learning and development

Our learning and development programmes are designed to support our employees as they develop their careers. We provide a range of learning opportunities and initiatives that are designed to help our employees develop their skills and experience. These include online courses, workshops, mentoring and coaching. We review and develop these activities to ensure that they continue to meet the requirements of our business and the learning and development needs for our employees.

Individuals have regular career conversations with their managers during the year, with more formal performance reviews taking place annually. In addition to monitoring performance, we also use a model of employee potential to help us to identify, develop and retain our talent within the business.

To ensure the safety of all employees and customers during the Covid-19 outbreak, we rolled out online training for all store colleagues to ensure they were fully aware of the operational changes and health and safety precautions introduced in response to the pandemic. All employees in store-based roles were required to complete and pass the training course prior to returning to work.

Employee involvement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded via team briefings, employee events, intranet sites and e-newsletters. We rapidly adapted our usual methods for employee engagement this year to use channels that could be accessed remotely by colleagues working from home, and for many of our colleagues, video and tele-conferencing replaced face-to-face engagement.

We conduct regular employee engagement surveys. The results are shared with all staff and actions are agreed to respond to specific points of feedback, with employee focus groups used to help understand the staff feedback in more depth.

Employee share ownership

The Company operates an HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 875 employees participate in the scheme.

Our employees: key information

The table below shows a breakdown of the composition of the Board as at year end.

Tenure		Male/Female		
0–1 year	0	Male	5	71%
1–3 years	3	Female	2	29%
3–6 years	0			
6–9 years	3	**Executive/non-executive**		
10+ years	1	Executive	2	29%
		Non-executive	5	71%

The tables below show the number and percentage of women and men in the Group Executive Team and their direct reports, the senior management team, the management team and the mix of UK-based employees across the Group as at year end.

Group Executive Team and direct reports[1]		
Women	17	35%
Men	32	65%

1 This group comprises employees who are members of the Group Executive Committees (who are not also members of the Board) and their direct reports.

Senior management team[2]		
Women	8	32%
Men	17	68%

2 This group comprises employees who are members of the executive committees (who are not also members of the Board).

Management team[3] (UK based)		
Women	542	52%
Men	500	48%

3 This wider group includes store leaders and senior head office staff (who are not also members of the senior management team).

All employees (UK)		
Women	7,217	64%
Men	4,003	36%

Safety and wellbeing

We are committed to maintaining high standards of health and safety. The management team monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business has a Health and Safety Committee that comprises employee representatives and professional health and safety advisers. We provide an ongoing programme for staff in stores, consisting of safety training tailored to specific roles within store and that focus on key issues such as fire safety, manual handling and slips, trips and falls. A copy of our Health and Safety at Work Policy is available at whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/HealthSafetyPolicy_Mar19.pdf.

We believe that it is just as important to support our colleagues' mental wellbeing as it is to look after their physical wellbeing. Our strategy to promote mental wellbeing has three main objectives: to improve awareness and reduce stigma; to raise the level of mental health support across the business; and develop a culture which promotes good mental health.

We work in partnership with accredited organisations, such as Time to Change, and mental health charities including MQ, the mental health research charity; Place2Be, the leading national children's mental health charity; and CALM, a movement against male suicide.

We worked closely with Mental Health First Aid (MHFA) England to create a tailored approach to training and over 1,100 line managers have received a half-day MHFA awareness course. We have an equal number of mental and physical health first aiders.

Social matters

Sourcing responsibly

One of our key social risks is the need for us to source products sustainably, ensuring that workers in our supply chain are treated well, and that their human rights are respected. WHSmith is a member of the Ethical Trading Initiative, an alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our Responsible Sourcing Standards (whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/ResponsibleSourcingPolicy_Jul20.pdf) are based on the ETI Base Code and underpin our strategy and sustainable sourcing activities. We will only place orders with suppliers who are committed to working towards compliance with these standards, and we endeavour to bring about continual improvement through a programme of factory audits and ongoing engagement.

Our in-house audit and engagement team conducts audits of our own-brand suppliers at least every two years, assessing compliance with our Code of Conduct and grading suppliers Gold, Silver, Bronze and Unacceptable. We use a mix of announced and unannounced audits and a factory must be graded Bronze or above if we are to work with them. The Board reviews our responsible sourcing strategy annually, looking in detail at our audit and engagement programmes, emerging trends and risks, targets and performance.

To supplement the information we gain from supplier audits, our team also spends a significant part of its time engaging with suppliers on an ongoing basis to build stronger and more transparent relationships. The team's engagement focuses on resolving specific issues identified during audits and on delivering wider projects to help suppliers deliver on key areas such as worker representation or health and safety. We have an independent hotline for workers to report issues they are concerned about, which we then investigate and follow-up with suppliers to ensure they are addressed.

Non-financial information statement continued

Communities

WHSmith is at the heart of communities across the UK and we are committed to making a positive impact wherever we operate. As a major retailer of books and stationery, we are particularly passionate about literacy and life-long learning. We are a long-term advocate for the development of literacy skills and we have provided help over many years to children and young people who need additional support.

This year marked the 15th anniversary of our partnership with the National Literacy Trust, and we supported their Young Readers' Programme with books and other materials for schools in socio-economically disadvantaged areas of the country. In addition, the WHSmith Charitable Trust provided financial support for the programme, supported by donations from WHSmith customers and employees. Over the past decade we have directly helped over 76,000 children to develop their reading and writing skills.

The outbreak of Covid-19 presented an unprecedented challenge and we were inundated with requests for donations and support. We donated notepads and pens to support frontline NHS workers and stationery packs to support disadvantaged children with their home-learning. We also donated a large quantity of confectionery, Easter eggs and other food items to the charity FareShare and community hubs, ambulance stations and hospitals across the country.

Over the year we invested nearly £1.2m into local communities, including cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in our Sustainability Report 2020.

Respect for human rights

We are committed to ensuring full respect for the human rights of anyone working for us in any capacity and we take a zero-tolerance approach to modern slavery. We have developed a due diligence process to make sure we are identifying and assessing any potential and actual risks, and that we are providing appropriate risk control, mitigation and remedy where needed. Our approach to human rights is laid out in our Human Rights Policy (available at: whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/HumanRightsPolicy_Jul20.pdf) which provides further information on our due diligence processes and the minimum requirements that everyone working for and on behalf of WHSmith must meet.

Our Modern Slavery Statement (available at: whsmithplc.co.uk/investors/results-reports-and-presentations/modern-slavery-statement) sets out the steps we have taken to prevent modern slavery in our own operations and supply chain.

Anti-bribery and anti-corruption

WHSmith prides itself on its values and commitment to acting with integrity throughout the organisation and we will not tolerate bribery, corruption or extortion in any form, either within our own business or in those working on our behalf. Our Code of Business Conduct sets out in detail how those working for us should behave and what they should do if they are confronted with bribery or corruption. We require all employees and anyone working for us in any capacity to comply with the UK Bribery Act, in addition to any local anti-bribery and anti-corruption laws. Our Code states that employees or others working on our behalf must never offer or accept any kind of bribe, and that our subcontractors, consultants, agents and others we work with must have similar anti-bribery and corruption measures in place.

All employees are required to confirm that they have read and accept our Code of Business Conduct on an annual basis and are encouraged to report any suspected breaches using our confidential Speak Up helpline. Further details of our policy on anti-bribery and anti-corruption are provided at whsmithplc.co.uk/sites/whsmith-corp/files/CompanyPolicies/CodeofBusinessConductPolicy_Jul20.pdf.

Section 172(1) statement

This statement describes how the directors have had regard to the matters set out in Section 172 of the Companies Act 2006 (the 'Act') in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Section 172 of the Act requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard amongst other matters to the:

a) Likely consequences of any decisions in the long-term.

b) Interests of the company's employees.

c) Need to foster the company's business relationships with suppliers, customers and others.

d) Impact of the company's operations on the community and environment.

e) Desirability of the company maintaining a reputation for high standards on business conduct.

f) Need to act fairly as between members of the company.

Information on how the Board operates can be found in the Corporate governance report on pages 38 to 45.

Examples of how the directors have had regard to the matters set out in Section 172 when discharging their duties are set out in the following pages.

Key stakeholder groups can be impacted in different ways by decisions which are taken by the Board. The directors consider that the groups listed below are the Company's key stakeholders. They are identified as those most likely to be affected by the principal decisions of the Board:

- Employees: the people at WH Smith are its greatest resource and the strength of the business depends on their commitment and hard work. They depend on the Company for stable employment and expect to be treated with respect and dignity and to be given opportunities to reach their potential.
- Customers: customers are why we exist. They expect that the Company offers a wide range of products at an accessible price, are responsive to their needs and trades fairly and responsibly.
- Shareholders: the Company relies on its shareholders for investment and capital. They rely on the Company to generate value for their investments in a responsible and sustainable way.
- Suppliers: mutually trusted partnerships with suppliers and landlords are vital in enabling the Company to offer a wide range of quality products at affordable prices. They look to the Company for a productive business relationship.
- Communities and the environment: the Company is committed to operating responsibly, to helping local communities and good causes where it can add the most value and to minimising its impact on the environment.
- Pensioners: the Company is committed to ensuring that it meets its obligations to past employees who rely upon it to fund their pensions.

The Company engages with these stakeholder groups regularly to ensure that the Board is aware of their views and interests. These stakeholder views and concerns are integral to ensuring a considered and balanced approach to the Board's decision-making processes.

The Board accesses information from stakeholders through a number of methods including direct engagement by Board members, for example, through store visits and meetings with employees across the businesses, and the review of reports and updates from senior executives who meet regularly with stakeholder groups.

Employees

The Board engages with employees through a number of different methods:

- the Group Chief Executive and other senior executives hold regular face-to-face updates with employees on matters including the Group's strategy and business performance;
- senior executives attend regular business meetings during the year, including individual business executive meetings, trading meetings and risk committee meetings;
- employee engagement surveys are held regularly to gather staff views on working for WH Smith. In the Company's head offices, the businesses run quarterly employee forums where team representatives are encouraged to raise any issues or concerns. The Company has extensive programmes to promote employee wellbeing, for example, through our mental health first aider programme and annual Wellbeing at Work week. More detailed information on how we promote awareness of mental health issues is available in our full Sustainability Report, available at whsmithplc.co.uk/sustainability;
- Simon Emeny is the designated non-executive director for workforce engagement and leads on ensuring effective engagement with the workforce. Simon Emeny has, during the year, joined senior executives on calls with their teams; for example, he joined Heidi Reynolds, Retail Director, High Street, on her regular 'Ask Heidi' call with her team;
- during the Covid-19 pandemic, the Group Chief Executive and other senior executives held weekly briefings via webinars for all employees. At the briefings, employees were given the opportunity to ask questions on any issues relating to the operation of the Company; and
- employees are given regular written updates and reminders on operational issues. This year, this included more regular communications on the Company's wide-ranging support programmes, such as our Employee Assistance Programme to support with counselling services, the WHSmith Benevolent Fund to support employees and their families with financial hardship and access to trained Mental Health First Aiders.

Section 172(1) statement continued

The Group HR Director provides regular updates to the Board on employee related matters, including staff retention rates, learning and development, gender pay gap, diversity, staff surveys and workforce remuneration. The Group HR Director also provided updates to the Board on the redundancies which were made during the year as a result of the impact of Covid 19 on the Company. The Audit Committee has oversight of the Company's whistleblowing policy on behalf of the Board. The Company's whistleblowing helpline allows employees to raise concerns regarding misconduct and breach of the Company's policies. The Audit Committee receives reports on any matters of concern raised by employees.

The key topics and feedback that the Board obtained from our engagement with our employees included questions on some of the principal decisions of the Board made during the year such as those relating to furlough and Company restructuring and redundancies which regrettably the Board considered to be necessary to safeguard the long term sustainability of the Group. In conjunction with HR, employees have been provided with information and guidance on these matters in order to help provide clarity in an uncertain and worrying time. In addition, there were also questions from employees on safety at work, working from home arrangements and holiday entitlement.

Employees also raised the importance of diversity in the workplace during the weekly briefings. The Board continues to be highly supportive of the initiatives the Company has in place to promote diversity throughout the business and has set up a Diversity and Inclusion committee, comprising employees from across the Group together with the Group Chief Executive and HR Director. Further information can be found in the Nominations Committee report on pages 52 and 53.

The safety and wellbeing of our staff has been a priority throughout the pandemic. The Board is very proud of our store colleagues who have done an outstanding job in serving customers. The Board oversaw the adoption of safety measures for employees in line with Government guidelines and advice, and include social distancing measures, PPE for colleague use, hygiene stations, protective screens at till points, enhanced cleaning and encouraged use of self-checkout or contactless payment. The Company's distribution centres remain operational with effective social distancing measures in place and head office staff working from home, where possible.

As a result of the impact of Covid-19, the Company commenced a collective consultation on a restructuring of the Travel and High Street businesses which resulted in approximately 1,500 employees being made redundant. This was a very difficult decision and the Board took steps to ensure that all colleagues were supported throughout this process and ensured that it was conducted fairly. The Board also took the decision to continue the Company's policy of paying enhanced redundancy. The Company has also set up an alumni programme to keep in touch with those employees that have been made redundant so that they can be kept informed of job vacancies when the Company starts to recover from the impact of Covid-19.

Customers

The Company regularly listens to its customers and responds to their feedback. The Company's store teams and dedicated customer service team are in constant dialogue with customers, and ensure that customer feedback is communicated to the relevant parts of the business and taken into account as the business develops and implements its policies, operational activities and product ranges.

The Board receives regular updates on customer feedback and service standards across the stores and has put systems in place to ensure that it complies with all relevant product safety legislation. During the Covid-19 crisis, the Board took all necessary steps to help ensure the safety of customers whilst visiting the stores by ensuring that the Company complied with all relevant social distancing measures. The Board took the decision to keep the stores open in the specific communities that most needed the Company's services. These included the stores in hospitals, where the Company supported NHS staff by giving them a 20 per cent discount on all purchases from hospital stores during the Covid-19 crisis and, in collaboration with Sainsbury's, increased the grocery range in these stores enabling NHS staff to obtain the items they needed with greater ease. In addition, the stores on the high street that host Post Offices continue to provide the communities they serve with access to vital banking and postal facilities.

Customers who may not be able to visit our stores can shop online with us at whsmith.co.uk.

Other key feedback that the Board obtained from engagement with customers related to the nature of store environments, the availability of products, value for money, online offerings, customer service and ethical trading. As a result of this feedback, we sought to invest in store environments and layouts and have sought to develop new store formats. The Company aims to offer customers a choice of products at competitive prices across all store formats. The Board took the decision to invest in the Company's online businesses this year, offering a wider range of products and an enhanced customer experience. The Board has also approved a new package of environmental and ethical trade activities and further details are provided in the Non-financial information statement on pages 29 to 34.

Shareholders

The Board recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. The Group Chief Executive and CFO/COO update the Board following meetings with major shareholders, and when requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

During the Covid-19 pandemic the Company provided updates on developments in trading in the form of stock market announcements to ensure that all shareholders were informed about the impact of the pandemic on the business.

The Company engages with investors in one-to-one meetings to discuss specific elements of the business. We communicate with shareholders through our results presentation, AGM, investor roadshows, and our investor relations department.

The Board receives reports and updates on shareholder relations at each meeting to ensure that the Board and its Committees are kept informed of investors' and advisers' views on strategy and corporate governance.

A key issue for the Board during the year was the approach that it took to improve the Company's liquidity position as a result of the impact of Covid-19 on its trading and financial position, and when taking decisions, carefully considered the interests of its employees, customers, shareholders and suppliers. In April 2020 the Company consulted with shareholders and banks in order to secure new financing arrangements to strengthen its balance sheet, working capital and liquidity position. Following this consultation, the Board approved a placing of 15,802,768 new ordinary shares raising gross proceeds of approximately £165.9m and the package of new bank financing arrangements, including a new £120m committed banking facility in addition to its existing facilities. You can read more about the Company's finances on pages 16 to 19.

More information on how the Board engages with its shareholders can be found in the Corporate governance report on page 44.

Suppliers/landlords

The Board is provided with information about key suppliers as and when relevant to Board discussions, including when approval of material contracts/leases is required. The Company aims to be a trusted partner for suppliers and landlords, with established policies covering the way in which we transact with them. The Company engages with its suppliers and landlords in a number of ways including:

- direct engagement via individual supplier and landlord meetings;
- supplier conferences for major groups of suppliers such as trade suppliers for individual businesses or geographies, or suppliers of Goods Not for Resale; and
- supplier feedback surveys.

The Company has a well-established ethical trade programme aimed at improving labour standards for workers in our supply chain and to ensure that our products are sourced responsibly. The Board receives an annual update from the Company's Head of Sustainability on how the Company is meeting its obligations and to ensure the Board is kept informed of developing best practice.

The Board has ensured that, during the Covid-19 pandemic, the Company has maintained a dialogue with suppliers and landlords to mitigate disruption and understand their concerns. The Board will also ensure that the Company will continue to work closely with our suppliers to manage any changes in the supply chain as a result of Brexit.

Community and environment

The Board places great importance on ensuring that the Company helps community groups and good causes that are closely aligned with the business, and that it operates in a way which minimises the impact on the environment. Engagement with community groups and others includes:

- regular meetings with key charity partners, including the National Literacy Trust, mental health charity partners and other charities benefiting from the sale of products such as Christmas cards;
- engagement through meetings, correspondence and survey responses with non-governmental organisations, trade bodies and others with an interest in community and environmental activities, including the Ethical Trade Initiative, WWF and CDP; and
- questions, views and concerns through the corporate.responsibility@whsmith.co.uk inbox which is available for anyone to make contact with the Company on any issues relating to community or the environment.

The Board receives an update twice a year on the Company's key community and environment activities from the Head of Sustainability. This year, the Board signed off a new set of sustainability objectives relating to the most important environmental and social issues for the business. These include a new target to minimise the impact on climate change by reaching net zero emissions for the Company's UK operations by 2021 and for the international operations by 2025. The Board also decided to continue with the long-term focus on children's literacy and to work in partnership with others to tackle inequalities in the ability of children to read and write. Further details are provided in our 2020 Sustainability Report available at whsmithplc.co.uk/investors/results-reports-and-presentations/corporate-responsibility-reports.

Feedback from some stakeholders this year indicated that a number of the Company's policies required an update to ensure that they were in line with best practice. The Board signed off amendments to the Company's policies this year, including the Code of Business Conduct, Responsible Sourcing Requirements, and policy statements on Human Rights, Environment and Sustainable Forests.

During the initial months of the Covid-19 pandemic the Company received an unprecedented number of requests for support from charities, community groups and others seeking donations of products or money to support their particular cause. The Board agreed, in line with the corporate giving strategy, to make a number of charitable donations. Further details are provided in the Strategic report on pages 29 to 34.

Defined benefit pension fund

During the year the Board engaged with the Trustees of the WHSmith Pension Trust, who have a fiduciary duty to the members and beneficiaries of the Company's defined benefit pension scheme, to ensure that the scheme is sufficiently funded. The CFO/COO and the Finance Director – Group regularly meet with the Chair of the Trustees and attend the Trustee meetings to report on annual and interim results. The Board agreed with the Trustees the latest triennial valuation and funding plan to ensure that the Company's defined benefit pension scheme remains well positioned to meet its liabilities.

On behalf of the Board

Carl Cowling
Group Chief Executive

19 November 2020

Corporate governance report

> "The Board is committed to achieving the highest standards of corporate governance."

Henry Staunton
Chairman

Board role and effectiveness

The Board is committed to achieving the highest standards of corporate governance. This is our first report discussing how the revised UK Corporate Governance Code (the 'Code'), which was published in 2018, applied to the Company. You can read about how we complied with the Code in this report.

As Chairman, my role is to run the Board to ensure that the Company operates effectively and ensure that the Board works collaboratively and has the right balance of skills, knowledge, independence and experience to assess, manage and mitigate risks.

Culture

We have been serving customers through our presence in town centres, travel hubs and hospitals for 228 years, providing a retail destination of choice and a sense of community for thousands of customers every day. We have a presence in 30 countries, employ 14,000 employees, source products from thousands of suppliers and play an important part in creating vibrant and sustainable local economies.

We recognise we have an obligation to grow our business sustainably, providing financial returns for our shareholders, whilst maintaining high standards of environmental stewardship and social equity. In delivering these obligations, it is important that our colleagues, business partners and suppliers are able to make the right decisions. We support them with a strong values-based culture, ongoing training and development, and a solid foundation of responsible business governance, policies and programmes. You can read more about our culture on page 43.

Stakeholder engagement

As a Company, we have a long-standing commitment to high standards of corporate responsibility, which includes considering the interests of a broad stakeholder group in making business decisions. The Board remains focused on all our stakeholders, including our workforce, customers, shareholders and the communities we are part of. You can read about our engagement with shareholders on page 44, our commitments to customers, workforce and community matters on pages 29 to 37 and our approach to rewarding our workforce in the Remuneration report on page 59.

There are already a number of effective employee engagement processes in place across the Group, including the employee satisfaction survey and employee forums. Simon Emeny is the designated non-executive director for workforce engagement and leads on ensuring effective engagement with the workforce. Feedback relating to workforce engagement has been reported to the Board and Committees. The plan is for Simon to have regular meetings with employee representatives in order to gain a better understanding of their views and concerns. The intention was to hold a number of meetings during the first half of 2020, however these were put on hold as a result of Covid-19. When normal business activity resumes, the meetings will be rescheduled and the results of those meetings reported back to the Board and Committees. Section 172 of the Companies Act 2006 (the 'Act') sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the Company. You can read how the Board has had regard to Section 172 of the Act on pages 35 to 37.

Board changes

The Board has during the year given extensive thought to the rotation of long-serving directors given the ongoing impact of Covid-19 on the Company. As part of the succession plan, Suzanne Baxter, who is the Chair of the Audit Committee and has served on the Board for eight years, agreed to step down from the Board at the Company's forthcoming Annual General Meeting ('AGM') in order that the Company can take orderly steps to continue to refresh itself over the next few years. Accordingly, the Board commenced a search for a new non-executive director to replace Suzanne Baxter. A number of candidates were shortlisted and, following meetings, Nicky Dulieu was appointed as a non-executive director and will be appointed as the Chair of the Audit Committee with effect from the end of the forthcoming AGM. As part of the Company's ongoing succession plan, Annemarie Durbin, Chair of the Remuneration Committee, who will have served on the Board for nine years, will step down from the Board at the Company's AGM in 2022 and, at the request of the Board, I have agreed to stay on as Chairman until 2022. Accordingly, the Company will initiate a search for my replacement following the AGM in January 2022. The Board believes that this staggered approach to replacing long-standing directors is in the best interests of the Company and its shareholders as it will allow the Board to refresh itself whilst at the same time retaining valuable expertise and knowledge as the Company looks to recover from the impact of Covid-19.

I would like to thank Suzanne for her valuable contribution and strong commitment to the Company.

Covid-19 response

Unfortunately, as with the wider economy and society more generally, the Company has been severely impacted by Covid-19. The Board has, throughout this crisis, taken decisive action in order to mitigate the impact of Covid-19 on the Company. You can read more about the action the Board took as a result of Covid-19 on page 42 and the impact that Covid-19 has had on the Company in the Strategic report on pages 8 to 37.

Acquisition of MRG

As part of the Company's goal to be the leading retailer in news, books and convenience for the world's travelling customer, the Board considered and approved the acquisition of the Marshall Retail Group (MRG) in December 2019, a fast-growing independent travel retailer operating in high footfall airport, hotel resort and tourist locations in the United States, for a consideration of $402m. The Board believes that the acquisition will accelerate the growth of WH Smith's International Travel business in the $3.2 billion US airport travel retail market. The combination of MRG with WH Smith's existing operations, including InMotion, will strengthen the Group's International Travel offering. The Board believes that this acquisition will ultimately benefit the Company's customers, employees and shareholders. The Board took care to consider all the risks associated with the acquisition. Considerable due diligence was carried out, particularly in the area of change of control in respect of MRG's concession agreements.

Henry Staunton
Chairman

19 November 2020

Corporate governance

Corporate governance report continued

Corporate governance statement

This report, which forms part of the Directors' report, together with the Strategic report and Directors' remuneration report provides details of how the Company has applied the principles of the Code. A copy of the Code is available publicly from frc.org.uk.

Throughout the year ended 31 August 2020 and up to the date of this report, the Board considers that it has complied with the provisions of the Code except as follows:

1. Chairman: Henry Staunton's tenure of appointment as Chairman of the Company. The Board has during the year given extensive thought to the rotation of long-serving directors given the ongoing impact of Covid-19 on the Company. Henry Staunton was appointed to the Board in September 2010 and became Chairman in September 2013. The Board believes that it is important to the future success of the Company that Henry Staunton remains as Chairman during the next critical period as the Company looks to recover from the impact of Covid-19. Henry Staunton provides invaluable help and support to Carl Cowling, who was appointed as Group Chief Executive in November 2019. He will help lead the recovery of the Company following the impact of Covid-19 and will also help oversee the integration of the Company's new US businesses into the Group. The Board believes that Henry Staunton continues to act and perform effectively as Chairman. For these reasons, while mindful of the 2018 Code provision that requires that the Chairman should not remain in post beyond nine years from the date of their first appointment to the Board, the Board believes that it is in the best interests of the Company and its shareholders that Henry remains as Chairman of the Board for an extended period with a view that he will step down in 2022.
2. External Board Evaluation: The Board recognises the importance of having a regular externally facilitated Board evaluation in accordance with provision 21 of the Code. The Company was due to undertake an external evaluation in accordance with the Code this year and had appointed Equity Communications to carry out this evaluation. However, after careful consideration, the Board decided to defer this external evaluation given that the impact of Covid-19 would have severely limited the value of an external evaluation this year. An internal evaluation was carried out instead and the Board intends for Equity Communications to carry out a Board evaluation in 2021.
3. Pension Alignment: The pension contributions for Carl Cowling and Robert Moorhead reflect the historical retirement benefits available to employees that joined WH Smith at similar times. The Board recognises that the contribution rates under these arrangements are higher than the majority of the current workforce and, as such, the pension contribution for any new executive director is now aligned with the majority of the workforce which is approximately 3.5 per cent. The pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate from 1 January 2023.

The information that is required by Disclosure Guidance and Transparency Rules ('DTR') 7.2 to be contained in the Company's Corporate governance statement is included in this Corporate governance report, in the Directors' remuneration report on pages 56 to 73 and in the Directors' report on pages 74 to 76.

Operation of the Board

As at the date of this report, the Board comprised the Chairman, two executive directors and five independent non-executive directors. Short biographies of each of these directors, which illustrate their range of experience, are set out on pages 54 and 55. There is a clear division of responsibility at the head of the Company: Henry Staunton (Chairman) being responsible for running the Board and Carl Cowling (Group Chief Executive) being responsible for implementing strategy, leadership of the Company and managing it within the authorities delegated by the Board. Simon Emeny is the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All the directors, whose biographies are on pages 54 and 55, served throughout the financial year ended 31 August 2020 and up to the date of this report with the exception of Nicky Dulieu who was appointed as a non-executive director on 9 September 2020.

All of the non-executive directors who served during the year and up to the date of this report are considered by the Board to be independent.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, with Board and Committee papers normally being sent out a week before meetings take place. The need for director training is regularly assessed by the Board.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share awards, are contained in the Directors' remuneration report on pages 56 to 73.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

Attendance at Board meetings

The Board met 16 times during the year. The number of Board meetings significantly increased this year as a result of the impact of Covid-19 on the Company. It is expected that all directors attend Board meetings and Committee meetings unless they are prevented from doing so by prior commitments. The minimum time commitment expected from the non-executive directors is one day per month attendance at meetings, together with attendance at the AGM, Board away days and site visits, plus adequate preparation time.
Where directors are unable to attend meetings, they receive the papers for that meeting giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting, the Chairman briefs any director not present on the discussions and any decisions taken at the meeting.

The following table shows the number of Board and Committee meetings held during the year ended 31 August 2020 and the attendance record of individual directors:

Directors and role	Number of meetings attended Board 16	Audit 5	Nominations 3	Remuneration 6
Henry Staunton Chairman	16 of 16	–	3 of 3	6 of 6
Suzanne Baxter Non-executive director	16 of 16	5 of 5	3 of 3	6 of 6
Carl Cowling Group Chief Executive	16 of 16	–	3 of 3	–
Annemarie Durbin Non-executive director	16 of 16	5 of 5	2 of 3	6 of 6
Simon Emeny Non-executive director	16 of 16	5 of 5	3 of 3	6 of 6
Robert Moorhead CFO/COO	16 of 16	–	–	–
Maurice Thompson Non-executive director	16 of 16	5 of 5	3 of 3	6 of 6

a) Nicky Dulieu was appointed as a director of the Company on 9 September 2020.

b) Annemarie Durbin was unable to attend one meeting of the Nominations Committee due to a prior commitment which had been arranged before the meeting was convened. She received the papers in advance of the meeting and gave her comments to the Chairman.

c) Henry Staunton, Carl Cowling and Robert Moorhead were invited to and attended all five meetings of the Audit Committee.

d) Robert Moorhead was invited to and attended all three meetings of the Nominations Committee.

e) Carl Cowling was invited to and attended all six meetings of the Remuneration Committee.

f) Stephen Clarke left the Company on 31 October 2019. Prior to leaving the Company he attended three meetings of the Board.

The Board and the Remuneration Committee have met three times and the Audit Committee has met twice since 31 August 2020. All the directors attended the meetings.

Matters Reserved for the Board

The Board manages the Company through a formal schedule of matters reserved for its decision, with its key focus being on creating long-term sustainable shareholder value. The significant matters reserved for its decision include: the overall management of the Company; approval of the business model and strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the Annual report and financial statements, material agreements and non-recurring projects; treasury and dividend policy; control, audit and risk management; executive remuneration; and environmental, social and corporate governance matters.

The Board has a forward timetable to ensure that it allocates sufficient time to key areas of the business. The timetable is flexible enough for items to be added to any agenda as necessary. The Board's annual business includes Chief Executive's reports, including business reports; financial results; strategy and strategy updates, including in-depth sessions on specific areas of the business and strategic initiatives; consideration of potential acquisitions and meeting with new management teams; risk management; dividend policy; investor relations; health and safety; whistleblowing; Board evaluation; governance and compliance; communications and the Annual report.

During the year, the Board assessed the basis on which the Company generates and preserves value over the long-term and considered the opportunities and risks to the ongoing future success of the business, the sustainability of the Company's business model and how its governance contributes to the delivery of its strategy. Further information on the risks and opportunities to the future success of the Company can be found in the Strategic report on pages 21 to 28.

Corporate governance report continued

Covid-19

Unfortunately, as with the wider economy and society more generally, this year's results have been severely impacted by Covid-19 and, as a result of which, the Company made a Headline loss before tax[1] of £69m* in the financial year ended 31 August 2020. The Board has also taken the difficult decision to restructure the Company's businesses around the world which resulted in a significant reduction in headcount. You can read more about the actions the Company has undertaken on pages 8 to 19. The Company will also not pay any dividends in respect of the financial year ended 31 August 2020.

The Board took the following steps in response to the Covid-19 pandemic:

Board actions: During the lockdown period and up until 31 August 2020, the Board increased the frequency of its meetings and met at least weekly during the initial crisis and then every two weeks, by phone or online in order to ensure it was kept fully informed of the impact of the pandemic upon the Company's operations. The Board was provided with regular updates from senior executives on all aspects of the pandemic, including the safety of our employees and customers, Government advice, lockdowns, financing, supplier and landlord impacts, consumer behaviour and scenario planning.

The Board also received regular information on the Company's liquidity position, trading and financial data. In April 2020 the Company consulted with shareholders and banks in order to secure new financing arrangements to strengthen its balance sheet, working capital and liquidity position. A placing of 15,802,768 new ordinary shares was completed in April, raising gross proceeds of approximately £165.9m (net of issue costs £160m) at a placing price of 1050 pence per placing share, representing approximately 13.7 per cent of the issued ordinary share capital. The Company also secured a package of new bank financing arrangements, including a new £120m committed banking facility in addition to its existing facilities. In addition, the maturity on the Group's two £200m term loans was extended to October 2022. The Company also secured eligibility for the Government's Covid Corporate Financing Facility ('CCFF'). You can read more about the Company's finances on pages 16 to 19.

Community support: During the Covid-19 pandemic, the Board took the decision to keep the Company's Post Office and hospital stores open so that we could continue to serve the communities in which we operate. The Board also took all necessary steps to help ensure the safety of customers whilst visiting our stores by ensuring that we complied with all relevant social distancing measures.

NHS support: In addition, the Company took the decision to support all NHS staff by giving them a 20 per cent discount on all purchases from our hospital stores during lockdown and, in collaboration with Sainsbury's, increased the grocery range in these stores enabling NHS staff to obtain the items they needed with greater ease. We donated 14,000 notepads and pens to support frontline healthcare workers at the NHS Nightingale Hospital in London and our hospital stores offered free essentials to NHS staff, including bottled water, donated by our suppliers.

Protecting our employees: The safety and wellbeing of our staff has been a priority throughout the pandemic. We are very proud of our store colleagues who have done an outstanding job in serving our customers. Safety measures are in place across our stores in line with Government guidelines and advice, and include social distancing measures, PPE for colleague use, hygiene stations, protective screens at till points, enhanced cleaning and encouraged use of self-checkout or contactless payment. Our distribution centres remain operational with effective social distancing measures in place and head office staff may work from home, where possible. Since the start of lockdown, Carl Cowling and other senior management held weekly online briefings for all employees. At the briefings, employees were given the opportunity to ask questions on any issues relating to the operation of the Company. Additionally, we have provided regular reminders to staff on our wide-ranging support plan, which includes access to trained Mental Health First Aiders across our business in the UK and our Employee Assistance Programme which offers all employees access to free, 24/7 confidential telephone, online and face-to-face advice for problems they may be experiencing at home or work. Employees also have access to the Company's Benevolent Fund charity, which can provide financial assistance in cases of significant hardship and provide recuperative holidays and care breaks.

Board evaluation

The performance of the Board, its Committees and its individual directors is a fundamental component of the Company's success. The Board regularly reviews its own performance. The Board had, in accordance with the Code, appointed an external evaluator, Equity Communications, to carry out the Board evaluation this year. However, in the light of the Covid-19 pandemic, the Board made the decision to defer the external evaluation until 2021. The Board recognises the importance of having a regular externally facilitated Board evaluation in accordance with provision 21 of the Code but believes the impact of Covid-19 would have severely limited the value of an external evaluation this year. It is the Board's intention that Equity Communications will carry out the external evaluation of the Board in 2021. In the circumstances, an internally facilitated evaluation was carried out in August 2020. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of discussions with each director. The main areas considered during the evaluation were strategy, operations and risk; succession planning; Board composition; culture and Board Committees.

The findings were presented to the Board in October 2020. The results of the assessment were considered by the Board and confirmed the strength of the management of the Company, a shared focus and deep understanding of the business, a sound governance framework and practices compliant with the Code. Additionally, the culture of the Board remains very good, being open and frank, whilst also supportive and collaborative. As a result of the review, the Board agreed an action plan that will be implemented in the financial year ending 31 August 2021 and will include continued focus on executive and non-executive

[1] Headline loss before tax is on a pre-IFRS 16 basis, and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.

succession planning and the overall composition of the Board, keeping the strategy under review in light of Covid-19 and focusing on the priorities of each business to deliver shareholder returns and holding detailed discussions on the drivers of trading performance and value creation; and steps to improve the Board's procedures and effectiveness. The Board reviewed the agreed actions following the evaluation carried out in 2019 and agreed that good progress had been made in respect of these actions, including in respect of the Company's Board succession plan and improvements in the Board's procedures. In addition to the Board and Committee evaluation process, the Group Chief Executive reviews the performance of the Chief Financial Officer/ Chief Operating Officer ('CFO/COO') and other senior executives. The Chairman reviews the performance of the Group Chief Executive.

The Chairman also undertook a rigorous review with each of the non-executive directors to assess their effectiveness and commitment to the role. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to maintain the best possible team. The Board is satisfied that each of the non-executive directors dedicates sufficient time to the business of the Company and contributes to its governance and operations. The Senior Independent Director met the other non-executive directors to undertake a rigorous assessment of Henry Staunton's performance given that he has served as Chairman for seven years and has been on the Board for ten years. The non-executive directors confirmed that there are no relationships or circumstances which are likely to affect, or could appear to affect, his judgement. The non-executive directors, taking into account the views of the executive directors, concluded that Henry Staunton continues to act and perform effectively as Chairman and demonstrates his commitment to the role.

Succession planning and culture

Under the Company's Articles of Association, directors are required to retire and submit themselves for re-election every three years and new directors appointed by the Board offer themselves for election at the next AGM following their appointment. However, in accordance with the Code, the Board has agreed that all directors wishing to be appointed will stand for election or re-election at the forthcoming AGM. At the last AGM on 22 January 2020, all the directors stood for re-election and were duly elected with a range of 96.48 per cent to 99.49 per cent of votes cast by shareholders.

The Company's Articles of Association give a power to the Board to appoint directors and, where notice is given and signed by all the other directors, to remove a director from office.

During the year ahead, the Board will continue to focus on succession planning to ensure the readiness of internal candidates for all key roles across the business. The Board is committed to good governance, culture and leadership, recognising that these are key considerations for a strong, sustainable business and that the tone comes from the top. Our business model on page 4 outlines the importance of having the right people and skills; and operating responsibly. The Company's values, behaviours and culture will continue to form an important part of the Board's discussions. The Nominations Committee will continue to support the Board by ensuring that culture is built into recruitment and succession considerations.

The Board monitors the culture of the business in a number of ways, including: through interaction with executives, members of the senior management team, and other employees in Board meetings and on visits to stores and other Company locations; through regular Board agenda items and supporting papers, covering risk management, internal audit reports and follow-up actions, customer engagement, health and safety, employee engagement and retention, whistleblowing and regulatory breaches; reviewing the results of staff surveys, looking at a range of employee indicators, including engagement, retention, absence, learning and development, gender pay, diversity, workforce composition and demographics; and engaging with other stakeholders, as described in the Corporate governance report. During the year, the Board was satisfied that the policy, practices and behaviour of the Board and employees were aligned with the Company's purpose, values and strategy.

The Board recognises the importance of being visible and accessible to customers and employees. During the year the non-executive directors accompanied management on site visits to the High Street and Travel stores. The Board believes that site visits provide directors with valuable insights into the business, helping to deepen their knowledge and understanding of the Company. When joining the Board, a new non-executive director typically meets individually with each Board member and senior management to give them insight into all aspects of the business, including our strategy, culture, values, sustainability, governance, and the opportunities and challenges facing the business. The Company Secretary briefs them on policies, Board and Committee procedures, and core governance practice. They visit a number of business locations and meet key advisers. They also receive induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, Matters Reserved for the Board and the Board Committees' Terms of Reference.

The Board considered and approved that Annemarie Durbin could be appointed as a non-executive director of Persimmon PLC, with effect from 1 July 2020. The Board concluded that there was no conflict in Annemarie Durbin being appointed as a non-executive director of Persimmon PLC and that it would not affect her commitment to the Company.

Corporate governance report continued

Diversity policy

The Board values diversity in all its forms, both within its own membership and at all levels of the Group. The Board is highly supportive of the initiatives the Company has in place to promote diversity throughout the business. The Board believes that diversity in its widest sense is a key component to the success of the Company and receives reports on the Company's diversity profile to ensure that our workforce reflects our commitment to diversity. The Board aims to ensure its membership, and that of the wider Group, reflects diversity in its broadest sense so that it has a combination of demographics, skills, experience, race, age, gender, education and professional background thereby providing a wide range of perspectives, insights and challenge needed to support good decision-making. The Board's diversity policy aims to ensure that the Board nominations/appointments process is based on fairness, respect and inclusion, and that the search for candidates will be conducted with due regard to the benefits of diversity. It is the Company's aim to achieve a minimum of 30 per cent of women at Board and senior levels. In order to improve the diversity of the Company's senior management team, the Company has introduced a new recruitment policy requiring that there is a shortlist of a minimum of six candidates for each vacancy of which 50 per cent must be female and at least one must be from a BAME background.

Further information on diversity can be found in the Nominations Committee section on pages 52 and 53 and is set out in the Employees section of the Strategic report on pages 32 and 33.

Risk management

The Board has overall responsibility for the Group's system of risk management and internal control (including financial controls, controls in respect of the financial reporting process and operational and compliance controls) and has conducted a detailed review of its effectiveness during the year to ensure that management has implemented its policies on risk and control. This review included receiving reports from management, discussion, challenge, and assessment of the principal risks.

No significant failings or weaknesses were identified from this review. In addition, the Board also received presentations from management on higher risk areas, for example, the impact of Covid-19, cyber risk, risks arising from the process of exiting the European Union and growing international expansion. The Board has established an organisational structure with clearly defined lines of responsibility which identify matters requiring approval by the Board. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas that require improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing emerging and principal risks faced by the Group, including those risks relating to social, environmental and ethical matters. The Board undertakes a robust assessment of the emerging and principal risks.
The Board confirms that the processes have been in place for the year under review and up to the date of this report and that they accord with the Financial Reporting Council ('FRC') Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the 'Risk Management and Internal Control Guidance'). The processes are regularly reviewed by the Board.
The principal risks and uncertainties facing the Group together with the procedures and processes for identifying, managing and the steps taken to mitigate principal and emerging risks can be found in the Strategic report on pages 21 to 28.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 46 to 51.

Engagement with shareholders

The Board's primary role is to promote the success of the Company and the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group. The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. This is achieved principally through the Annual report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website whsmithplc.co.uk.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders.
All directors normally attend the AGM and are available to answer questions that shareholders may wish to raise.
As explained in the Notice of AGM, in light of the ongoing Covid-19 pandemic we strongly encourage shareholders not to attend the AGM in person and to appoint the Chair of the meeting as their proxy to ensure that their vote is counted.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and CFO/COO update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. The Head of Investor Relations also carries out a regular programme of work and reports to the Board the views and information needs of institutional and major investors. This is part of the regular contact that the Group maintains with its institutional shareholders. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders. The Chair of the Remuneration Committee sought the views of the Company's largest shareholders and shareholder representatives in respect of the Company's remuneration policy.

Anti-corruption

The Company has continued to enhance its policies and procedures in order to meet the requirements of the Bribery Act 2010. These policies and procedures include training for individuals to ensure awareness of acts that might be construed as contravening the Bribery Act. The Group's policy on anti-bribery and corruption is included in the Company's Code of Business Conduct at whsmithplc.co.uk/corporate_responsibility/our_policies/.

Fair, balanced and understandable

The Board confirms that it considers the 2020 Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Discussion of the Board's assessment of the Annual report and accounts is described in the Audit Committee report on page 49.

Board Committees

The Board delegates specific responsibilities to the Board Committees, being the Audit, Nominations and Remuneration Committees. Details of the role and responsibilities of the Audit Committee can be found on pages 46 to 51, the Nominations Committee on pages 52 and 53 and the Remuneration Committee on pages 56 to 73. The role and responsibilities of each Committee are set out in formal terms of reference which are available on the Company's website whsmithplc.co.uk.

Approvals Committee

The Approvals Committee facilitates the internal approvals process by approving matters as delegated by the Board. The Approvals Committee comprises the Group Chief Executive and the CFO/COO.

Disclosure Committee

The Disclosure Committee is responsible for ensuring compliance with the Company's obligations under MAR and the maintenance of disclosure controls and procedures. The Disclosure Committee comprises all of the directors of the Company and the Company Secretary.

Remuneration Committee

Information on the composition and activities of the Remuneration Committee can be found in the Directors' remuneration report on pages 56 to 73.

Corporate governance report continued
Audit Committee report

"

I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2020."

Suzanne Baxter
Chair of the Audit Committee

Audit Committee report

Dear Shareholder
As Chair of the Audit Committee, I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2020. Our principal objectives are to oversee and assist the Board in its responsibility to produce a set of Annual report and accounts which are fair, balanced and understandable and to provide effective financial governance in respect of the Group's financial results, the performance of both the internal audit function and the external auditors, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Nicky Dulieu, Annemarie Durbin, Simon Emeny and Maurice Thompson, who are all independent non-executive directors. The Board considers that I have recent and relevant financial experience, as required by the Code and that the Committee, as a whole, has competence relevant to the sector in which the Company operates. The Board also considers that Nicky Dulieu, who will replace me as the Audit Committee Chair at the end of the forthcoming AGM, has recent and relevant financial experience. At the invitation of the Committee, the Chairman of the Board, the Group Chief Executive, the CFO/COO, the Director of Audit and Risk, representatives of the Group's senior management team and of the external auditors attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

A summary of the activities undertaken by the Committee during the year is as follows:

- considering the impact of Covid-19 on the Company and its financial results, including the asset impairment charges that have been recognised at the year end;
- considering papers from management on the key financial reporting judgements made in the preparation of the Interim report and the Annual report and accounts;
- considering the Company's going concern statement and papers from management which consider the liquidity of the Group;
- considering the Company's viability statement and papers from management, which considers the long-term viability of the Group;
- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk, including cyber security and tax;
- monitoring the integrity of the Group's financial statements and trading statements;
- assessing and recommending to the Board that the Annual report is fair, balanced and understandable;
- reviewing the Interim report and the Annual report and accounts, including, where relevant, compliance with the Listing Rules, Code and statutory reporting requirements and recommending those documents for Board approval;
- considering the Company's emerging and principal risks and uncertainties and reviewing the mitigating actions that management has taken to ensure that these risks are appropriately monitored and controlled;
- considering the Company's systems and framework of controls designed to detect and report fraud and money laundering;
- the Committee received reports from Internal Audit in respect of calls to the Company's confidential Speak Up helpline;
- receiving reports and presentations from members of the Company's senior management and its business risk committees on areas of the Company's control and risk management processes, with detailed presentations including a post-acquisition controls and systems assessment in the Marshall Retail Group, updates on systems change programmes, Post Office operating procedures and the development of the operating and control environments in the International Travel business;
- receiving and reviewing reports from the Internal Audit and Risk teams and reviewing and agreeing their annual plans;
- holding private meetings with the external and internal auditors;
- considering the potential impact of Brexit on the Company;
- agreeing the scope of PricewaterhouseCoopers LLP's ('PwC') annual audit plans, assessing the effectiveness of the external audit process and considering the accounting, financial control and audit issues reported by PwC that flowed from their work;
- reviewing external Auditor independence and approving the policy on the engagement of PwC to supply non-audit services;
- negotiating and agreeing the audit fee;
- undertaking a performance review of Internal Audit and the external auditors;
- reviewing the Company's treasury policy;
- approval of the Group Tax Strategy;
- receiving updates on the policies and procedures for the General Data Protection Regulations (GDPR);
- considering and approving the report on the Company's payment practices;
- assessing new accounting standards, in particular, the impact of IFRS16 (Leases) on the Company; and
- reviewing the Committee's terms of reference.

FRC Corporate Reporting Review

The Company received a letter on 1 June 2020 from the Financial Reporting Council (FRC) noting that it had carried out a limited review of the Annual report and accounts for the year ended 31 August 2019. The letter indicated that the FRC had not identified any matters on which it wished to raise specific questions but made some observations relating to certain disclosures included in the Annual report. As a result, the Company has sought to improve its disclosures in the Annual report this year.

The FRC's letter points out that its review was solely based on a review of the Company's Annual report and accounts for the year ended 31 August 2019. It states that the review did not benefit from a detailed knowledge of the Company's business or an understanding of the underlying transactions entered into and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements and, as a result, the review provides no assurance that the Company's Annual report and accounts are correct in all material respects.

Significant financial reporting issues and areas of judgement

In preparing the financial statements, there are a number of areas requiring the exercise by management of particular judgement. The Committee's role is to assess whether the judgements made by management are reasonable and appropriate. In order to assist in this evaluation, the CFO/COO presents an accounting paper to the Committee twice a year, setting out the key financial reporting judgements, and other papers as required. The main areas of judgement that have been considered by the Committee in the preparation of the financial statements are as follows:

Going concern

The Committee reviewed papers from management on the adoption of the going concern basis of preparation of the financial statements. The business plan and cash flows that had been reviewed and approved by the Board as part of the Group's three-year plan and budget, adjusted for the estimated impact of the lockdowns enacted in the UK in November 2020, formed the Base Case for the going concern assessment along with consideration of the Group's financing facilities and future funding plans.

In reviewing going concern, the Committee considered the Group's plans and related cash flows for the period to 28 February 2022, a 15-month period from the date of this report, along with analyses to illustrate the sensitivity of those plans to trading variances, and to the potential impact of uncertainties including the Covid-19 pandemic and Brexit.

The Committee also considered the Group's financing facilities and its future funding plans, including the Group's ability to comply with, or if necessary, obtain a waiver or adjustment to its financial covenants, recognising that covenants had been waived within the forthcoming 12-month period and that the first point at which the Company will be subjected to a test of its covenants is February 2022.

The Committee challenged management on the assumptions made to derive its Base Case cash flow models and those used to derive the sensitivity tests applied in a severe but plausible stress test, reflecting a heightened risk scenario principally caused by further disruption from the Covid-19 pandemic; and a reverse stress test that sought to identify the changes in assumptions that would be required to result in the full use of the Group's financing facilities.

The Committee received a report from PwC on the work undertaken to assess going concern and specifically discussed the content of the disclosures made in the going concern statement in the Annual report and the basis of preparation within Note 1 of the financial statements.

Based on this, and after consideration of the disclosures made in the Annual report and accounts, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements and the related going concern disclosures were appropriate.

The going concern statement is set out in the Directors' report on page 76.

Impairment review of store assets

The Committee received and considered a paper from management covering the judgements made in respect of the impairment testing of the Group's property, plant and equipment and right-of-use store assets. The paper recognised that there was an increased risk of asset impairment at 31 August 2020 given that sales and cost pressures and the resultant forecast reduction of future profitability in some stores caused by Covid-19 or otherwise may adversely impact the recoverable value of assets used within the store portfolio. The Committee noted that management had considered the trading results of each store for the year and noted that where a store is loss making and is not expected to return to profitability in the near future, an impairment charge is recognised over the assets that cannot be recycled and their value recovered through the generation of future trading profits within the store portfolio. Given that management has continued to report on the performance of the business on a pre-IFRS 16 (IAS 17) basis within its Alternative Performance Measures alongside the statutory measures derived under IFRS 16, the paper and discussions considered impairment assessment of store assets on both bases.

Corporate governance report continued

The Committee challenged management on the assumptions used within the impairment models and received and discussed a paper from PwC on their work in this area, which specifically considered and reported on their challenge and assessment of the key assumptions used and that the resultant charges were allocated appropriately and classified as non-underlying charges where they were caused by the Covid-19 pandemic.
The Committee was satisfied that the approach adopted by management was sufficiently robust to identify when an impairment charge of store assets needs to be recognised and how it should be assessed and reported.

Goodwill
The Committee considered a paper from management on goodwill. This set out the determination of the cash-generating units ('CGUs') to which goodwill has been allocated across the Group, the carrying value of goodwill, the results of the value-in-use calculations and the outcomes from impairment testing.
The Committee noted the increase in goodwill in the current year as the result of the Marshall Retail Group acquisition.
It discussed the Company's approach to allocating individual store CGUs to two CGU groups of Travel (incorporating UK Travel, International Travel and US Travel) and High Street, reflecting the operating segments of the Company and the lowest level at which goodwill is monitored for internal management purposes.
The disclosures in respect of goodwill were also reviewed.

The Committee discussed PwC's paper to the Committee which set out their work done in respect of goodwill and considered the approach to the accounting, CGU determination, impairment testing and disclosure used by the Company.

Inventory valuation
The Committee received a paper from management on accounting for and valuation of inventory, noting in particular the impact of Covid-19 on trading. It discussed the judgements made by management, with specific consideration given to inventory provisioning, including provision for out of date, slow moving or obsolete stock and the classification and disclosure of related charges in the income statement and financial statements.
The Committee also received a paper from PwC regarding the audit work they performed over the valuation of inventory and the classification of inventory provision charges in the income statement. The Committee is satisfied that the process and judgement adopted by management for the valuation of inventory is sufficiently robust to establish the value of inventory held and is satisfied as to the appropriateness of the Company's provisioning policy.

Recognition of supplier income
The Committee considered, and reviewed in detail, management's paper which set out the nature and value of these arrangements and the policy for recognition in the financial statements. The Committee is satisfied with management's conclusion that the level of complexity and judgement is low in relation to establishing the accounting entries and estimates, and the timing of recognition. The Committee also considered the disclosure included by management in the Annual report and accounts.

IFRS 16 Leases
IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group has adopted the new financial reporting standard from 1 September 2019 and the financial statements for the financial year ended 31 August 2020 are prepared under the new standard. The Group adopted IFRS 16 using the modified retrospective approach. As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right-of-use asset and corresponding liability for future lease payables. The Committee has received regular updates from management outlining the impact of the new accounting standard and the judgements and key assumptions used in the estimation of the impact of the new standard, including the approach to the transition from IAS 17, the previous accounting standard for leases. The Committee has reviewed these with management and discussed them with PwC and is satisfied that the approach taken in the Group is appropriate.

One-off transactions
The Committee considered the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of non-underlying items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax in determining an alternative performance measure where charges are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence. The Committee received detailed reports from management outlining the judgements applied in relation to the non-underlying costs incurred during the year. These costs were attributable to the costs of acquiring and integrating the Marshall Retail Group acquisition, the amortisation of acquisition related intangible assets relating to Marshall Retail Group, past service costs identified in respect of a closed defined benefit pension scheme and costs arising as a result of the impact of Covid-19 on the Group including restructuring costs, asset impairment charges and the cost of writing down slow moving or obsolete inventory. This was an area of major focus for the Committee which was cognisant of the need to ensure that costs were appropriately classified and that

the disclosure of the non-underlying items was sufficient for users of the financial statements to understand the nature and reason for the costs. The Committee challenged management on the nature of costs classified as non-underlying, particularly discussing the factors underpinning the Covid-19 related costs and seeking specific input from PwC. PwC outlined the details and nature of the audit work carried out by them in this area, along with their consideration of the disclosures presented by management and the appropriateness of the cost classifications adopted.

Acquisition accounting for Marshall Retail Group
The Committee received a paper on the accounting treatment and related disclosures adopted by management in respect of the acquisition of Marshall Retail Group in December 2019. The Committee reviewed the outcome from the assessment of asset fair values (including consideration of accounting policy alignment) at the acquisition date, the determination of the carrying value of goodwill for the Marshall Retail Group and the establishment of the valuation of acquired intangible assets.

The Committee considered the CGU to which the goodwill arising on the acquisition of Marshall Retail Group was allocated, along with the assumptions used in, and results of, the sensitivity testing undertaken by management in their asset impairment assessments. The Committee also considered the assumptions used in the acquired intangibles valuation model, primarily the budgets and forecasts, discount rates and royalty rates used, along with the conclusions of the advice taken by management in determining the valuation of the acquired intangible asset.

PwC provided the Committee with a detailed explanation of their review of all aspects of the Marshall Retail Group acquisition accounting and related disclosures, including their challenge of management's key assumptions.

Pensions
The Committee assessed the accounting treatment adopted by management and the application of IAS 19 in relation to the WH Smith defined benefit pension scheme. The Committee considered the current guidance and requirements in respect of pensions accounting, reviewed the judgements made in respect of the assumptions used in the valuation of the Company's obligations under the scheme and the recognition of future liabilities in respect of committed scheme contributions on the balance sheet. The Committee also considered the nature and disclosure of a charge in respect of past service costs relating to this scheme which is included within non-underlying items in the income statement. A detailed report on pensions accounting and related disclosures was provided by the auditor which set out the work performed including their challenge and assessment of key scheme valuation assumptions compared to their independently observed ranges.

Viability statement

The Committee reviewed the process and assessment of the Company's prospects made by management in support of its longer-term viability statement, including:

- the review period and alignment with the Company's internal plans and forecasts and with its work to support the going concern basis of presentation for the financial statements;
- the assessment of the capacity of the Company to remain viable after consideration of future cash flows, borrowings and mitigating factors; and
- the modelling of the potential financial impact of certain of the Company's principal risks materialising using severe but plausible scenarios, including the impact of Covid-19, on the Company's financial performance.

The Committee considered the viability statement and related analyses alongside its work on going concern, as set out in this report on page 47. It also discussed the clarity and appropriateness of the disclosures made within the viability statement and discussed these with PwC.

The viability statement is set out in the Strategic report on page 28.

Fair, balanced and understandable assessment

At the request of the Board, the Committee has considered whether, in its opinion, the 2020 Annual report and accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee was assisted in its review by a number of processes, including the following:

- the Annual report and accounts is drafted by senior management with overall co-ordination by a member of the Group Finance team to ensure consistency across the relevant sections;
- an internal verification process is undertaken to ensure factual accuracy;
- an independent review is undertaken by the Director of Audit and Risk to assess whether the Annual report and accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information and investor communications);
- comprehensive reviews of drafts of the Annual report and accounts are undertaken by the executive directors and other senior management;
- an advanced draft is reviewed by the Board and the Company's Legal Director and, in relation to certain sections, by external legal advisers; and
- the final draft of the Annual report and accounts was reviewed by the Committee prior to consideration by the Board.

Corporate governance report continued

In the current year, the Committee specifically considered the disclosures made in respect of the impact on the business of the Covid-19 pandemic and the presentation and explanation of the statutory and alternative performance measures. This included consideration of the use of measures derived consistently with IFRS 16 (Leases) and APMs derived on a pre-IFRS 16 basis (IAS 17). These pre-IFRS 16 APMs have been adopted to help to demonstrate the underlying, year on year performance of the business following the introduction of IFRS 16 during the financial year and its material impact on the Group's results.

Following its review, the Committee advised the Board that the Annual report and accounts, taken as a whole, was considered to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Risk management and internal controls

The Committee monitors and regularly reviews the effectiveness of the Group's risk management processes and internal financial and non-financial controls. The key features of the risk management process that were in place during the year are as follows:

- each business conducts risk assessments based on identified business objectives, which are reviewed and agreed annually by the executive management of each business. Risks are considered in respect of strategy, reputation, operations, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly and are reported to the Committee;
- a Group risk assessment is also undertaken by the Internal Audit team, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment, together with the business risk assessments, forms the basis for determining the Internal Audit Plan. Audit reports in relation to areas reviewed are discussed and agreed with the Committee;
- the Internal Audit team meets annually with all senior executives, to undertake a formal review and certification process in assessing the effectiveness of the internal controls across the Group. The results of this review are reported to the Committee;
- the Committee confirmed to the Board that it has reviewed the effectiveness of the systems of internal control, including financial, operational, and compliance controls and risk management for the period of this report, in accordance with the Code and the Risk Management and Internal Control Guidance;
- the Board is responsible for approving the annual budget and the three-year plan, for approving major acquisitions and disposals and for determining the financial structure of the Company, including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee invites input and attendance from members of the senior management team of the Group at its meetings to discuss the design and operation of key business and internal controls and the assessment of risks that affect the Group. The Committee provides a link between the Board and PwC through regular meetings;
- the Company has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these systems are that management regularly monitors and considers developments in accounting regulations and best practice in financial reporting and, where appropriate, reflects developments in the consolidated financial statements. PwC also keeps the Committee appraised of these developments; the Committee and the Board review the draft consolidated financial statements. The Committee receives reports from management and PwC on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements, and provides robust and independent challenge to management where appropriate; and the full year financial statements are subject to external audit and the half year financial statements are reviewed by the external auditor.
- the Internal Audit team advises and assists management in the establishment and maintenance of adequate internal controls and reports to the Committee on the effectiveness of those controls;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in light of actual performance. These results and forecasts cover profits, cash flows, capital expenditure and balance sheets;
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Committee covering tax, treasury policies, insurance and pensions;
- a new sustainability strategy was approved by the Board, including objectives and targets to address the impact that our activities have on people, the planet and communities. More detailed information is available in our full Sustainability Report, available at whsmithplc.co.uk/sustainability; and
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy, which is regularly reviewed by the Board. A copy of our Health and Safety Policy is available at whsmithplc.co.uk/investors/results-reports-and-presentations/whsmith-company-policies. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All reportable accidents are investigated and targets are set to reduce the level of incidence.

The Director of Audit and Risk attends the meetings of the Committee to discuss the above matters.

External auditor

During the year PwC reported to the Committee on their independence from the Company. The Committee and the Board are satisfied that PwC has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The Committee has recommended to the Board the re-appointment of the external Auditors for the 2021 financial year and the directors will be proposing the re-appointment of PwC at the forthcoming AGM.

PwC were first appointed as external auditors at the 2015 AGM, following a competitive tender process completed in 2014. As PwC have audited the WH Smith Group of companies for six years, in accordance with their rules on audit partner rotation and to maintain auditor independence, Jonathan Lambert replaced John Ellis as the PwC audit partner and Senior Statutory Auditor.

In line with the Company's policy for the external audit contract to be put out to tender at least every ten years, and in compliance with the rules on mandatory audit rotation, the Committee propose that a competitive tender process is likely to be held in 2024. The Committee will continue to monitor the appointment, effectiveness and independence of PwC as external auditors, as well as considering whether this proposed timing remains appropriate in light of business developments, applicable law and regulation. A competitive tender is in the best interests of our shareholders.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2019 year end audit provided by PwC. The Director of Audit and Risk prepared a questionnaire seeking the views and feedback of the Board, together with those of Group and divisional management, and it formed the basis of further discussion with respondents. We sought input from Committee members and from members of the management team on areas including the auditor's expertise, professionalism, independence and challenge; their planning and audit approach; the quality and content of reporting and the outputs from the audit; and governance of the audit including assessment of team members' performance and independence. The findings of the survey were considered by the Committee who specifically recognised the importance of the handover of the Senior Statutory Auditor responsibility during the year and concluded that PwC continued to perform effectively and remains independent. As a result, PwC's re-appointment as external auditors at the forthcoming AGM is recommended to shareholders.

The Committee has a formal policy on the Company's relationship with its external auditors in respect of non-audit work to ensure that auditor objectivity and independence are maintained. The policy is reviewed annually by the Committee and was updated this year following the introduction of the FRC Revised Ethical Standard 2019. The majority of non-audit work undertaken by PwC in the financial year ended 31 August 2020 related to work done in respect of the Class 1 Shareholder Circular in relation to the acquisition of MRG and the interim review. The Company decided to use PwC in respect of the Class 1 Shareholder Circular after considering alternative approaches and taking into account their understanding of our business and the tight timescales for publishing the Shareholder Circular. PwC used a specialist team which was separate from the audit team for this work. The auditors may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. The Committee made enquires of PwC and management and were satisfied that no such conflict existed.

In future, and in keeping with developing best practice, the Committee has approved that the Company will not use the external auditors to undertake financial due diligence work. On behalf of the Audit Committee, my approval is required before the Company uses PwC for non-audit services as specifically set out in the policy, or if the fees exceed £25,000 per matter. The Committee is satisfied that the Company was compliant during the year with both the Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum level of permitted fees incurred for non-audit services provided by PwC. For the financial year ended 31 August 2020 the non-audit fees paid to PwC were £450,400, of which £366,400 related to preparation of the Shareholder Circular in respect of the acquisition of MRG, and the audit fees payable to PwC were £1,225,000.

The Company has complied during the financial year under review, and up to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Audit Committee Chair succession

This is my last letter to you as Chair of the Audit Committee. I will be stepping down as Chair of the Committee at the forthcoming AGM in line with our Board succession plan and handing over to Nicky Dulieu, who will take up the position from January 2021. Nicky has substantial finance and retail expertise and will be an excellent Audit Committee Chair.

Suzanne Baxter
Chair of the Audit Committee

19 November 2020

Corporate governance report continued

Nominations Committee report

"The Committee will continue to focus on succession planning and talent management for key roles in the business."

Henry Staunton
Chairman

Nominations Committee

Dear Shareholder
As Chair of the Nominations Committee, I am pleased to present my report on the activities of the Nominations Committee for the financial year ended 31 August 2020. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge, independence and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee comprises a majority of independent non-executive directors. The other members of the Committee are Suzanne Baxter, Carl Cowling, Nicky Dulieu, Annemarie Durbin, Simon Emeny and Maurice Thompson. In the event of any matters arising concerning my membership of the Board, I would absent myself from the meeting as required by the Code and the Senior Independent Director would take the Chair.

The Committee met three times during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, the appointment of a new non-executive director and Audit Committee Chair designate, career planning and identifying talent across the businesses and reviewing the work that has been undertaken in respect of improving diversity in the Company's senior executive group.

In accordance with the Board's succession plan which aims to broaden the diversity of candidates to join the Board, the Committee appointed external recruitment consultants, Lygon Group, to assist in the process of identification of potential candidates to join the Board as a replacement for Suzanne Baxter who will, after eight years, step down from the Board at the forthcoming AGM. The Lygon Group initiated a search which produced a longlist of candidates, which was then reduced to a shortlist of candidates. These shortlisted candidates were interviewed by members of the Committee, the Group Chief Executive and other members of the Board, and feedback on each candidate was compiled. As a result of this search, Nicky Dulieu was appointed as a non-executive director on 9 September 2020. I confirm that Lygon have no other relationship with the Company or individual directors and have signed up to the voluntary Code of Conduct covering Board appointments established following the Davies Review.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity. Information on diversity, including gender, in respect of the Board and the Company is set out in the Employees section of the Strategic report on pages 32 and 33. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. The Board believes that the benefits of a diverse workforce will help the Company achieve its strategic objectives.

The Board is a member of 'the 30% Club', which aims to achieve a minimum of 30 per cent of women on FTSE 350 Boards and in senior management within FTSE 100 companies by 2020. The organisation runs targeted initiatives and campaigns to improve diversity and accelerate the pace of change. The Board is mindful of the recommendations of the Hampton-Alexander and Parker Reviews on gender and ethnic diversity. During the year under review, the Company had 29 per cent women on the Board, 35 per cent in the Group Executive Team and their direct reports and 52 per cent in the management team. The Board is committed to strengthening the pipeline of women in senior roles across the business and continues to take steps to ensure there are no barriers to women succeeding at the highest level of the Company. An action plan has been agreed to take further steps to improve workplace diversity. Actions include the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company. During the year the Company set up a Diversity and Inclusion committee consisting of employees from across the Group together with the Group Chief Executive and the Group HR Director. The committee has met three times and has made recommendations on recruitment, and connecting with our customers and employees on dates of significance.
These recommendations have been acted upon and adopted by the Company.

To ensure we attract more women at senior level, we have introduced a requirement for gender balanced shortlists for internal and external recruitment at a senior executive level. Further information on the gender balance of those in senior management and their direct reports is set out in the Strategic report on page 33. The Company continues to work with 'Everywoman' who provide a host of personal development tools aimed at women and also provide our employees with links to an external network of professional women in other organisations.

The Board recognises that diversity is not limited to gender, but includes skills, experience, ethnicity, disability and sexual orientation. The Board is committed to having a diverse and inclusive leadership team and will monitor ethnic diversity across the Group. The Company has, during the year, introduced a new recruitment policy requiring that there is a shortlist of a minimum of six candidates for each vacancy of which 50 per cent must be female and at least one must be from a BAME background. We will continue to appoint on merit, whilst aiming to broaden the diversity of the talent pipeline.

Further information on diversity is set out in the Employees section of the Strategic report on pages 32 and 33.

The Committee will continue to focus on succession planning and talent management for key roles across the business, to ensure the Company develops a pipeline of high-quality internal candidates for senior management roles. Work is being undertaken to ensure succession arrangements are in place for Board members and key management.

The latest Board evaluation confirmed that the culture of the Board is excellent, being very open and collaborative. The Board continues to have a broad mix of skills, diversity, experience and talent, which enables the Board and the Committees to work effectively.

Henry Staunton
Chair of the Nominations Committee

19 November 2020

Directors' biographies

Henry Staunton
Chairman

Date of appointment: 1 September 2010. Henry was appointed as Chairman on 1 September 2013.

Committee membership: Chair of the Nominations Committee and a member of the Remuneration Committee.

Skills and experience: Henry brings a breadth of experience and leadership in both executive and non-executive roles. He has extensive finance, media and retail expertise and is Chairman of Capital and Counties Properties plc. He was previously the Finance Director of Granada and ITV, Chairman of Ashtead Group, Phoenix Group Holdings and Vice Chairman of Legal and General PLC.

Carl Cowling
Group Chief Executive

Date of appointment: 26 February 2019. Carl was appointed as Group Chief Executive on 1 November 2019.

Committee membership: Nominations Committee

Skills and experience: Carl has considerable retail experience and has been instrumental in the development and execution of the Company's strategy. His strong leadership and strategic expertise enable him to lead the Group and create shareholder value. He joined WH Smith as Managing Director, Travel in November 2014. In 2017, he was appointed Managing Director, High Street. Prior to joining WH Smith, Carl was Managing Director of Global partnerships at Carphone Warehouse and previously spent over a decade at Dixons where he held the roles of Ecommerce Director, Commercial Director and Managing Director of the airport retailing business, Dixons Travel.

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Date of appointment: 1 December 2008.

Skills and experience: Robert has over 25 years of retail and financial management experience, which has proved invaluable in his role as Chief Financial Officer and Chief Operating Officer. He has a deep understanding of the Group's businesses and strategy and has a strong track record of creating shareholder value. He is a Chartered Accountant and joined WH Smith in 2004 as Retail Finance Director. He is a non-executive director and Chair of the Audit Committee of The Watches of Switzerland Group PLC. Previously, he was Group Finance Director at Specsavers Optical Group and Finance and IT Director of World Duty Free Europe. He also held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse.

Suzanne Baxter
Non-executive director

Date of appointment: 4 February 2013. Suzanne will step down as a non-executive director following the Company's forthcoming AGM.

Committee membership: Chair of the Audit Committee and a member of the Nominations Committee and Remuneration Committee.

Skills and experience: Suzanne has extensive finance, commercial and operational experience gained from working internationally with large workforces and complex contracts across multi-site locations. She is a Chartered Accountant having trained at Price Waterhouse, and is Chair of the Audit Committee. She has extensive executive and non-executive Board experience that enables her to provide substantial insight into the Company's reporting and risk management processes. She is a non-executive Board member and Nominations Committee Chair for Pinsent Masons International LLP, and a Commissioner on the Board of the Equality and Human Rights Commission where she is also a member of its Audit and Risk Assurance Committee and UN Treaty Monitoring Group. She was formerly the Group Finance Director of Mitie Group Plc and has 30 years of experience gained in the services industry. She was also previously the Chair of the Business in the Community South West Strategic Advisory Board, Deputy Chair of Opportunity Now and Chair of the Business Services Association.

Annemarie Durbin
Non-executive director

Date of appointment: 3 December 2012.

Committee membership: Chair of the Remuneration Committee and a member of the Audit Committee and Nominations Committee.

Skills and experience: Annemarie's international background and her legal experience and knowledge of regulatory and compliance matters provides a valuable contribution to the operation of WH Smith. She is a non-executive director and Chair of the Remuneration Committee of both Santander UK plc and Persimmon PLC, Chair of Cater Allen Limited and Chair of Merryck & Co. Limited. Previously, she was a non-executive director of Ladbrokes Coral Group plc and was Chair of the Listing Authority Advisory Panel. She has 25 years' international banking experience, particularly across Asia, Africa and the Middle East, operating at Board and Executive Committee level. In addition to her directorships, Annemarie is an executive coach and a conflict mediator.

Simon Emeny
Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee. Simon was appointed as the Senior Independent Director following the Company's AGM on 22 January 2020.

Skills and experience: Simon has a wealth of consumer facing experience, including transport hub sites, and brings this broad range of skills and commercial expertise to the Board and its Committees. He is Group Chief Executive of Fuller, Smith & Turner PLC, a role he has held since 2013. Simon was previously the Senior Independent Director of Dunelm Group PLC.

Maurice Thompson
Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee.

Skills and experience: Maurice has substantial Board and financial expertise, with over 30 years of experience in the international banking industry. He is able to draw upon his extensive knowledge of financial and strategic experience to assist the Board and its Committees. He is Chairman of Greensill Capital and previously held the position of Chief Executive of Citibank in the UK.

Nicky Dulieu
Non-executive director

Date of appointment: 9 September 2020.

Committee membership: Audit Committee, Remuneration Committee and Nominations Committee. Nicky will become Chair of the Audit Committee following the Company's forthcoming AGM.

Skills and experience: Nicky has substantial financial and retail expertise. She trained as an accountant and held various strategic and financial roles within Marks & Spencer Group plc over a 23-year period. In 2006, Nicky joined the Board of Hobbs Limited as Chief Operating Officer and Finance Director and was Chief Executive from 2008 until 2014. With her finance and retail expertise, she will be a valuable member of the Board and Chair of the Audit Committee. She is a non-executive Director at Redrow Plc, Marshall Motor Holdings Plc and Adnams Plc.

Ian Houghton is Company Secretary and Legal Director and was appointed in September 1998.

Previous directors who served during the financial year ended 31 August 2020:

Stephen Clarke stepped down as Group Chief Executive on 31 October 2019.

Drummond Hall stepped down as a director of the Company on 22 January 2020.

Directors' remuneration report

"The Company believes that its approach to total compensation has served the Company well."

Annemarie Durbin
Chair of the Remuneration Committee

Annual statement from the Remuneration Committee Chair

Dear Shareholder
On behalf of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' remuneration report for the financial year ended 31 August 2020 which is in line with the Company's approved remuneration policy. The Directors' remuneration policy was supported by 98.78 per cent of our shareholders at our AGM in 2019.

Our remuneration policy focuses on an approach to pay which we believe is in our shareholders' best interests and promotes the long-term success of the Company. Whilst it provides executive remuneration packages which are competitive, there is a very clear bias to variable pay with stretching and rigorous performance measures and conditions designed to deliver superior returns for shareholders. Our remuneration policy has worked well supporting the Company's long-term strategy to create shareholder value over the past ten years. You can see how the Company has generated shareholder value over this period in the TSR graph on page 63.

The Company's remuneration policy can be summarised as providing at or below the median of market levels of fixed pay but with the opportunity to earn upper quartile levels of remuneration if the executives deliver superior returns for shareholders.

Executive remuneration packages are structured so that they:

- are aligned to the Company's strategy to deliver shareholder returns and promote its long-term success;
- are aligned with the interests of shareholders;
- are competitive and provide a very clear bias to variable pay with stretching and rigorous performance measures and conditions;
- do not promote unacceptable behaviours or encourage unacceptable risk taking;
- include robust malus/clawback provisions and holding periods which permit the recoupment of variable pay if the pay-out was based on misstated financial results, an error or incorrect information, if the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned or if there is an insolvency having regard to the Committee's assessment of the involvement of the individual to such event; and
- take into account Company-wide pay and employment conditions.

Covid-19

Unfortunately, as with the wider economy and society more generally, this year's financial results have been impacted by Covid-19 with the Company making a Headline loss before tax[1] of £69m* in the financial year ended 31 August 2020. As a result, no bonuses were paid to the executive directors in respect of the year.

The Company has been significantly affected by the Covid-19 pandemic. As a result of this the Company has accessed Government support since the start of the lockdown. This allowed the Company time to reflect on what would be necessary in terms of long-term structural changes to support a recovery plan. Given the fact that the recovery period will take a number of years, the Board took the difficult decision to make a significant headcount reduction. Although regretting that this was necessary, the situation was handled sensitively, in full consultation with the unions and employee representative groups, and on enhanced redundancy terms. The Company has also maintained a dialogue with suppliers and landlords to mitigate disruption and understand their concerns as a result of the impact of Covid-19. Given the Company's loss for the full year no dividends have been declared for the financial year ended 31 August 2020.

The executive directors, alongside the wider leadership team and the Board, took a voluntary 20 per cent reduction in salary/fees during the lockdown period in April to June 2020. Following the Committee assessing that Carl Cowling had performed well against his personal objectives, we agreed to delay payment of the salary increase which he was due to receive on 1 April 2020 to the end of the lockdown period. He subsequently voluntarily donated the increased amount to charity until October 2020.

The Committee took the decision not to adjust the financial targets for the Company's annual bonus plan and, therefore, no bonuses under the annual bonus plan were awarded to the executive directors and senior management in respect of the financial year ended 31 August 2020.

Furthermore, the Committee also took the decision not to adjust the performance targets in respect of the Company's 'in flight' LTIP awards notwithstanding the fact that the Committee believes that management has performed extremely well in protecting the Company during the Covid-19 pandemic. This will mean that little or no 'in flight' LTIP awards are expected to vest in 2021 and 2022. There is a 13 per cent vesting of the LTIP award maturing in 2020 which management has voluntarily agreed will all be subject to a two-year holding period.

Due to the uncertainty around Covid-19 and its impact on domestic and international travel in the coming months, the Committee will delay finalising the performance measures and targets for the bonus plan for the financial year ending 31 August 2021 until December 2020. ESG measures will be included in the Group Chief Executive's personal objectives. These personal objectives operate as a downward-only modifier to the annual bonus out-turn.

The Committee considers it essential that management is clearly incentivised to restructure the business to deliver long-term shareholder returns both through the current market uncertainty and to have the right platform to maximise sustainable and significant returns as and when the travel sector returns to some form of normality. To this end, the Committee consulted with the Company's largest shareholders and the principal advisory firms in respect of redesigning the Company's long-term incentive arrangements to better align with the expected recovery period. A clear majority of those shareholders with whom we engaged confirmed support for such a change in the Company's incentive arrangements. While the Committee believes that it is in the best interests of the Company and its shareholders to develop such a plan linked to the Board's strategy of returning the Company to pre-Covid levels of profitability, it decided that it is not appropriate to make any change to these arrangements now given the current uncertainty around the ongoing impact of Covid-19 on the Company and the wider economy. The current policy is due for renewal in the normal course at the 2022 AGM and the Committee will continue discussing its plans with the Company's largest shareholders and the principal advisory firms during 2021 and will, if appropriate, submit proposals to shareholders for approval at the AGM in 2022. The Committee will only do so if an approach can be agreed which ensures that the long-term interests of the Company, its shareholders and other stakeholders are aligned.

Following the decision to retain the current policy for the financial year ending 31 August 2021, the Committee approved the regular annual award of LTIPs which will be granted in November 2020 on their normal terms except that, given the difficulty of setting a suitable EPS target range in the current climate, all of the award will be granted subject to the relative total shareholder return condition. Previously this measure had applied to 40 per cent of the award with 60 per cent relating to EPS.
When considering the quantum of the award, the Committee actively considered whether to apply a discount to the award levels. Given the current levels of uncertainty the Committee decided that it would be in a better position at the end of the award period to assess whether and to what extent there had been circumstances that would warrant exercising its discretion to reduce the vesting levels. Consistent with the Code, the Committee retains a broad discretion to reduce vesting levels, including if it considers that there would otherwise be a windfall gain.

[1] Headline loss before tax is on a pre-IFRS 16 basis, and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.

Directors' remuneration report continued

Key decisions and changes

The key decisions and changes made by the Committee during the year are highlighted as follows:

- The Committee took the decision not to adjust the financial targets for the Company's annual bonus plan or the performance targets in respect of the Company's outstanding LTIP awards. This has meant that no annual bonus will be payable under the Company's annual bonus plan as the Company did not meet the minimum financial target.
- The Committee approved the 2019 Directors' remuneration report.
- The Committee reviewed Carl Cowling's performance since his appointment as Group Chief Executive and, in accordance with the terms of his appointment which were set out in the 2019 Annual report, agreed that his performance merited him receiving the £25,000 increase in his annual salary. Carl Cowling agreed to delay receipt of this salary increase until 1 July 2020.
- The Committee approved the performance targets for the Long-Term Incentive Plan ('LTIP') and annual bonus plan for the financial year ended 31 August 2020. The Committee also reviewed and approved the personal objectives for the executive directors, which are set out in Section 2.14 on page 66.
- The Committee has agreed that the personal objectives of the executive directors under the annual bonus plan for the financial year ending 31 August 2021 will include ESG targets which are relevant to the Company.
- The Committee approved the vesting under the 2017 LTIP.
- The Committee considered the Company's gender pay gap report, Workforce Remuneration Report and CEO pay gap ratios and recommended to the Board that the gender pay gap report be published.
- During the year, the Committee consulted with our largest shareholders and their representative bodies on the Company's remuneration policy.
- The Committee approved seeking shareholder consent for the adoption of the WH Smith Employee Stock Purchase Plan (the 'US ESPP') to provide broadly equivalent benefits to the Sharesave Scheme for employees in the United States.
- The Committee agreed that the pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate of approximately 3.5 per cent from 1 January 2023.

Outcome 2019/20

As the Company has been significantly affected by the Covid-19 pandemic, the Group made a Headline loss before tax[1] of £69m* in the financial year ended 31 August 2020 and no dividends will be paid to shareholders in respect of this financial year. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 2 to 37.

No annual bonus payments will be made to the executive directors or senior management in respect of the financial year ended 31 August 2020.

The 2017 LTIP vesting percentage is determined by the growth in the Company's Headline EPS and TSR over the three-year performance period which ended on 31 August 2020. The Company partially met the performance targets for the 2017 LTIP as the Company's TSR ranked above median when compared to the 27 companies in the comparator group resulting in 13 per cent of the overall award vesting. The executive directors have voluntarily agreed that all the shares that have vested in respect of the 2017 LTIP will be subject to a two-year holding period.

The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment.

As set out on page 55 and disclosed in the Directors' remuneration report for the financial year ended 31 August 2019, Stephen Clarke stepped down as Group Chief Executive and left the Company on 31 October 2019 and was treated as a good leaver under the LTIP and received payment of the 2019 annual bonus, subject to appropriate deferral.

Annemarie Durbin
Chair of the Remuneration Committee

19 November 2020

[1] Headline loss before tax is on a pre-IFRS 16 basis, and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.

1. Information subject to audit

The following information has been audited by PwC:

- Section 2.5 – *Summary of non-executive directors' remuneration 2020*;
- Section 2.6 – Summary of executive directors' remuneration 2020;
- Section 2.7 – Payments made to former directors;
- Section 2.8 – Payments for loss of office;
- Section 2.14 – Annual bonus targets;
- Section 2.15 – Share plans; and
- Section 2.19 – Directors' interests in shares.

2. Annual remuneration report

The Committee presents the annual report on remuneration which, together with the introductory letter by the Chair of the Committee on pages 56 to 58, will be put to shareholders as an advisory vote at the forthcoming Annual General Meeting.

2.1 *Remuneration Committee*

The other members of the Committee are Suzanne Baxter, Nicky Dulieu, Simon Emeny, Henry Staunton and Maurice Thompson. At the invitation of the Committee, the Group Chief Executive and representatives of the Committee's external independent remuneration adviser regularly attend meetings.

The Committee met six times during the year. All Committee members are expected to attend meetings. The table on page 41 in the Corporate governance report shows the number of *meetings held during the year ended 31 August 2020 and the* attendance record of individual directors.

In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. In particular, the remuneration of all executive directors is set and approved by the Committee; none of the executive directors are involved in the determination of their own remuneration arrangements. The Committee also receives support from external advisers and evaluates the support provided by those advisers annually to ensure that advice is independent, appropriate and cost-effective.

During the year, the Committee continued to receive advice from *FIT Remuneration Consultants LLP (FIT), which is a member of* the Remuneration Consultants Group (the professional body) and adheres to its code of conduct. FIT was appointed by the Committee and has no other relationship with the Company. The Committee is satisfied that FIT continues to provide objective and independent advice. FIT's fees in respect of the year under review were £68,560 (excluding VAT) and were charged on the basis of FIT's standard terms of business.

Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration. No director or manager is involved in any decisions as to their own remuneration. The Group Chief Executive also attends Committee meetings but excludes himself in relation to discussion of his own remuneration, as does the Chairman.

The Committee maintains an ongoing dialogue with our major shareholders and proxy agencies to understand their views. Any major changes to the policy or its operation would be subject *to prior consultation as necessary.*

2.2 Statement of consideration of employment conditions elsewhere in the Company and differences to executive director policy

Our employees are a key component of the Company's performance and our overall reward strategy aims to support this. When considering remuneration arrangements for executive directors and senior management, the Committee takes into account the pay and conditions of employees across the Group. The Committee receives in-depth data regarding employee remuneration from the HR Director on wider workforce pay and conditions and does, where appropriate, exercise oversight of remuneration throughout the Group.

The Committee does not formally consult with employees on the remuneration policy. Each business has an employee forum and employees are invited to participate in the annual Engagement Survey where their views on all aspects of working conditions can be collected and shared with the Committee and the Board. The Company is proud of its long history of being regarded as a responsible and respected employer and regularly reviews the overall structure of pay practices across the Group and the wider retail sector to ensure it remains competitive and is able to retain and attract employees.

Our approach to reward for our employees is based on the following principles:

- Competitive: setting pay with reference to internal relativity *and external market practices;*
- Simple: helping all employees to understand how they are rewarded;
- Fair: achieving consistent outcomes through flexible and transparent policies; and
- Sustainable: aligning reward to business strategy and performance.

All employees are entitled to base salary and benefits, including *pension and staff discount. Eligible employees are able to* participate in the Company's Sharesave plan and thereby become shareholders in the Company. Our Employee Assistance Programme offers all employees access to free, 24/7 confidential telephone, online and face-to-face advice for problems they may be experiencing at home or work. Employees also have access to the Company's Benevolent Fund charity, which can provide financial assistance in cases of significant hardship and provide recuperative holidays and care breaks.

Participation in a pension plan is offered to all employees on a contributory basis and we have approximately 6,475 employees in our pension plans.

Directors' remuneration report continued

2.3 Implementation of remuneration policy in the financial year ended 31 August 2020

This section sets out how the remuneration policy has been implemented in the financial year ended 31 August 2020.

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling was appointed as Group Chief Executive on 1 November 2019 with a salary of £525,000. In accordance with the arrangements put in place on his appointment as Group Chief Executive and the Committee's assessment that Carl Cowling had performed well against his personal objectives, his salary increased to £550,000 with effect from 1 July 2020. The proposed increase was due to take effect from 1 April 2020 but was deferred following the executive directors, alongside the wider leadership team and the Board, taking a 20 per cent reduction in salary/fees during the lockdown period, April to June 2020. Carl Cowling donated the monthly amount of the salary increase that he received following 1 July 2020 to charity until October 2020. The current salaries are: Carl Cowling – £550,000; and Robert Moorhead – £440,000.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2020 (although the cost of providing benefits may change without any action by the Company). Executive directors received a car allowance, private medical insurance and life assurance, in addition to other benefits, during the financial year ended 31 August 2020.
Pension	Carl Cowling received a total benefit equivalent to 12.5 per cent of base salary and Robert Moorhead received a total benefit equivalent to 25 per cent of base salary. During the financial year ended 31 August 2020, Carl Cowling and Robert Moorhead received all of their pension contribution as a salary supplement after applying for fixed protection. Part of the amount otherwise paid to the Company's defined contribution scheme was reduced to reflect the requirement to pay employers' National Insurance.
Annual bonus	No bonuses were payable under the annual bonus plan for the financial year ended 31 August 2020. The Committee took the decision not to adjust the financial targets for the Company's annual bonus plan as the Company made a Headline loss before tax[1] of £69m* in the financial year ended 31 August 2020 as a result of the impact of Covid-19 on the Company. The bonus is normally assessed against a sliding scale target of Headline profit before tax and is then moderated (on a downwards only basis) by reference to the achievement of personal objectives. The target range for the year ended 31 August 2020 is set out on page 66.
Long-term incentives	Annual LTIP awards were set at the policy level being 335 per cent for Carl Cowling and 310 per cent for Robert Moorhead. The terms of and the performance measures applicable to the LTIP awards made in the financial year ended 31 August 2020 are described on page 67. Vesting of LTIP awards is determined based on the following measures: 60 per cent is based on EPS growth and 40 per cent is based on relative TSR. The performance period is three years. There is a subsequent two-year holding period. The Committee approved these performance measures as they are directly linked to the objectives set out in the Group's strategy; there is a direct link with shareholder value and there is a clear line of sight for participants between performance and reward. The Committee took the decision not to adjust the financial targets for the outstanding LTIP awards. It currently seems likely that the awards granted in November 2018 and November 2019 will lapse as a result of the impact of Covid-19 on the Company.
Shareholding guidelines	Carl Cowling is required to hold 300 per cent of salary in shares. Robert Moorhead is required to hold 250 per cent of salary in shares. In accordance with the Company's remuneration policy, Carl Cowling is expected to achieve compliance with the shareholding requirement within six years of him joining the Board on 26 February 2019. As at 31 August 2020 Carl Cowling held 22,335 shares with a value of £262,883 (approximately 48 per cent of salary) and Robert Moorhead held 197,263 shares with a value of £2,321,786 (approximately 528 per cent of salary).
Malus/ clawback	The annual bonus plan, DBP and LTIP rules included a provision for clawback (before or within a period of two years in the case of the annual bonus or three years in the case of the LTIP and DBP following payment or vesting or earlier change of control) of a bonus or award if the Company materially misstated its financial results and as a result the bonus or award was made, paid or vested to a greater extent than it should have been, if the extent to which any performance target or other condition was met was based on an error or inaccurate or misleading information or assumptions and as a result the bonus or award was made, paid or vested to a greater extent than it should have been, if the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned or, in the case of the LTIP and DBP, in the event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.

[1] Alternative performance measure defined and explained in the Glossary on page 146.

Element of pay	Implementation of policy
Non-executive directors	
Annual fees	Current fees are £235,000 for the Chairman of the Board and £55,000 for the role of non-executive director with additional fees of: (i) £12,000 payable for the role of Senior Independent Director ('SID'); and (ii) £12,000 payable for being the Chair of the Audit or Remuneration Committee The Chairman and non-executive directors took a 20 per cent reduction in fees during the lockdown period between April to June 2020.

2.4 Implementation of remuneration policy in the financial year ending 31 August 2021
The Committee envisages that there will be no changes to the implementation of the remuneration policy, beyond the proposed changes to the remuneration policy set out on page 58, during the financial year ending 31 August 2021. The policy in respect of the executive directors will be applied as follows:

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling's salary will increase to £575,000, subject to his personal performance, with effect from 1 April 2021. Robert Moorhead will be eligible, in line with other head office staff, for any increase in salary following the March 2021 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2021.
Pension	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2021. Any new executive director would have their allowance aligned to that available to the majority of UK-based employees. The pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate from 1 January 2023.
Annual bonus	The bonus opportunity for Carl Cowling will be 160 per cent of annual salary and Robert Moorhead will be 130 per cent of annual salary. It is envisaged that the bonus metrics will be based on a matrix of financial and personal performance which may be measured partly on a half yearly and partly on a full year basis. The Committee does not expect to finalise the performance measures and targets or the measurement period until December 2020. Any bonus in excess of the on-target level will be deferred into shares.
Long-term incentives	Annual LTIP awards will again be set at the policy level (335 per cent of salary for Carl Cowling and 310 per cent for Robert Moorhead). Vesting of LTIP awards will be determined using the following performance measure: relative TSR. The number of shares vesting for threshold performance is 25 per cent with a median to upper quartile scale relative to the FTSE All Share Retailers Index constituents.
Shareholding guidelines	Carl Cowling is required to hold 300 per cent of salary in shares and Robert Moorhead is required to hold 250 per cent of salary in shares. The Committee will develop a formal policy for post-employment shareholding requirements which will be put to shareholders on the policy renewal at the AGM in January 2022.
Malus/ clawback	The malus/clawback provisions under the annual bonus plan will be brought in line with those applicable to the LTIP and the DBP (i.e. the rules will include a provision for clawback before or within a period of three years following payment of a bonus if the Company materially misstates its financial results and as a result the bonus is made or paid to a greater extent than it should have been, if the extent to which any performance target or other condition is met is based on an error or inaccurate or misleading information or assumptions and as a result the bonus is paid to a greater extent than it should be, if the Committee concludes that circumstances arose during the bonus year which would have warranted summary dismissal of the individual concerned or in the event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency).

Directors' remuneration report continued

The policy in respect of the non-executive directors will be applied as follows:

Element of pay	Implementation of policy
Non-executive directors	
Annual fees	The fees of the Chairman and non-executive directors will be subject to a review in March 2021.

2.5 Summary of Non-executive directors' remuneration 2020 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2020. Non-executive directors are not paid a pension and do not participate in any of the Company's variable incentive schemes:

	Base fee[b] £'000		Committee/SID fee[b] £'000		Benefits[a] £'000		Total £'000	
	2020	2019	2020	2019	2020	2019	2020	2019
Henry Staunton	**223**	235	**–**	–	**–**	–	**223**	235
Suzanne Baxter	**52**	55	**11**	12	**–**	2	**63**	69
Annemarie Durbin	**52**	55	**11**	7	**–**	–	**63**	62
Simon Emeny	**52**	28	**7**	–	**–**	–	**59**	28
Maurice Thompson	**52**	28	**–**	–	**1**	1	**53**	29
Directors who resigned during the year								
Drummond Hall[c]	**23**	55	**5**	17	**–**	–	**28**	72

a) Benefits primarily consist of travel and subsistence costs incurred in the normal course of business, in relation to meetings on Board and Committee matters and other Company events which are considered taxable.

b) The Chairman and non-executive directors took a 20 per cent reduction in fees during the lockdown period between April to June 2020.

c) Drummond Hall stepped down as a director of the Company on 22 January 2020.

d) Nicky Dulieu was appointed as a non-executive director on 9 September 2020.

2.6 Summary of Executive directors' remuneration 2020 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2020:

	Salary[c] £'000		Benefits[a] £'000		Pension[g] £'000		Total fixed remuneration £'000		Annual bonus[d] £'000		LTI[e,f] £'000		Total variable remuneration £'000		Total remuneration £'000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Carl Cowling	**482**	201	**14**	7	**60**	28	**556**	236	**–**	520	**54**	789	**54**	1,309	**610**	1,545
Robert Moorhead	**418**	399	**14**	14	**102**	97	**534**	510	**–**	516	**85**	1,272	**85**	1,788	**619**	2,298
Directors who resigned during the year																
Stephen Clarke[b]	**97**	568	**3**	14	**24**	139	**124**	721	**–**	908	**97**	2,019	**97**	2,927	**221**	3,648
Total £'000s	**997**	1,168	**31**	35	**186**	264	**1,214**	1,467	**–**	1,944	**236**	4,080	**236**	6,024	**1,450**	7,491

a) *Benefits relate mainly to the provision of a car allowance, private medical insurance and life assurance.*

b) Stephen Clarke stepped down as Group Chief Executive on 31 October 2019.

c) Carl Cowling and Robert Moorhead took a 20 per cent salary reduction during the lockdown period between April to June 2020. Carl Cowling received a £25,000 pay increase with effect from 1 July 2020 but donated this increase to charity. No bonuses were paid to the executive directors under the annual bonus plan.

d) The Company did not achieve the threshold profit target for the financial year ended 31 August 2020 and no bonuses were paid to Carl Cowling and Robert Moorhead under the annual bonus plan. Stephen Clarke was not eligible to receive a bonus for the financial year ended 31 August 2020.

e) The performance measures for the LTIP, and achievement against them, are set out on page 67. The performance conditions for the awards granted in the financial year ended 31 August 2018 were partially met with 13 per cent of the shares subject to awards vesting. As a result, the total number of shares vesting for Carl Cowling will be 5,104 shares including 336 dividend accrual shares; for Robert Moorhead 7,982 shares including 526 dividend accrual shares; and for Stephen Clarke 9,148 shares including 602 dividend accrual shares. The 2019 figures in the table above have been updated to the actual values of the LTIP that vested in respect of the performance period ending in that financial year, using the share price of 2274p, being the closing price on the vesting date, 21 October 2019.

f) The share price used to calculate the 2020 LTI figures in the table is 1064.89p, being the average share price for the Company over the last quarter of the financial year ended 31 August 2020. The LTI figures in the table for 2020 do not include any share price appreciation as the share price as at the date of grant on 26 October 2017 was 2036.67p.

g) The pension figures in the table above include both the pension contribution into the Company's defined contribution pension scheme and any salary supplement received in lieu.

The total aggregate emoluments (excluding LTI) paid to the Board in the financial year ended 31 August 2020 was £1,703,000 and in the financial year ended 31 August 2019 was £3,906,000.

2.7 Payments made to former directors (audited)

No payments were made in the financial year ended 31 August 2020 to former directors of the Company other than to Stephen Clarke, as disclosed in the single total figure table on page 64 and the Directors' remuneration report for the financial year ended 31 August 2019.

2.8 Payments for loss of office (audited)

Stephen Clarke stepped down as Group Chief Executive on 31 October 2019. Stephen Clarke received his salary and other benefits until 31 October 2019. Under the rules of the LTIP, Stephen Clarke was treated as a good leaver and retained a reduced number of unvested awards as set out in the notes to the table of outstanding awards on page 68. These awards will continue to be subject to meeting the performance criteria and were reduced on a pro-rata basis to reflect the time elapsed from the commencement of the performance period until his ceasing to be an employee of the Company. Stephen Clarke also retained awards under the DBP, as set out in the table of outstanding awards on page 68. These awards will continue to vest at the end of the relevant vesting period in accordance with the rules of the DBP.

As set out in the single total figure table on page 64, Stephen Clarke received payment of the 2019 annual bonus following cessation of employment with the Group.

No payments were made in respect of any other director's loss of office in the financial year ended 31 August 2020.

2.9 Service contracts

Executive directors are on rolling service contracts with no fixed expiry date. The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Carl Cowling	26 February 2019	12 months	12 months
Robert Moorhead	8 October 2008	12 months	9 months

Carl Cowling's service contract provides for notice of 12 months from either party, permits summary dismissal with no compensation in specified cases, has no special provisions in the event of a change of control and limits the maximum sum due on termination to base salary only for the notice period. Robert Moorhead's service contract provides for notice of 12 months from the Company and nine months from Robert Moorhead and has no special provisions in the event of a change of control and limits the maximum sum due on termination to base salary only for the notice period. Copies of the service contracts may be inspected at the registered office of the Company.

2.10 Assessing pay and performance

You can see how the Company has generated shareholder value since 2010 in the TSR graph below.

a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last ten financial years compared with the FTSE All Share General Retailers Index (the 'Index') over the same period.

b) The Company is a member of the Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

Directors' remuneration report continued

The table below summarises the Group Chief Executive's remuneration and how the Company's variable pay plans have paid out over the past ten years.

Financial year ended 31 August	CEO	Single figure of total remuneration £'000	Annual bonus (vesting versus maximum opportunity) %	Long-term incentive (vesting versus maximum opportunity) %
2020 – from 1 November 2019	Carl Cowling	533	–	13
2019 – until 31 October 2019	Stephen Clarke	221	–	13
2019	Stephen Clarke	3,416	100	69
2018	Stephen Clarke	2,879	93	58
2017	Stephen Clarke	4,112	98	81
2016	Stephen Clarke	5,179	100	98
2015	Stephen Clarke	4,148	100	100
2014	Stephen Clarke	2,546	100	100
2013 – from 1 June	Stephen Clarke	4,067	100	97
2013 – until 31 May	Kate Swann	9,192	100	98
2012	Kate Swann	3,147	100	90
2011	Kate Swann	3,313	100	92
2010	Kate Swann	6,966	100	97

The 2019 single figure of total remuneration has been updated to reflect the actual value of the LTIP award that vested in respect of the performance period ending in that financial year.

2.11 Annual change in remuneration of each director compared to employees

The table below shows the percentage changes in the remuneration of each director (salary/fees, annual bonus and taxable benefits) between the financial year ended 31 August 2019 and the financial year ended 31 August 2020 compared with the percentage changes in the average of those components of pay for UK employees employed by WH Smith Retail Holdings Limited. The Company has chosen to voluntarily disclose this information, given that WH Smith PLC is not an employing company.

	Salary/fee increase/decrease %	Annual bonus increase/decrease %	Taxable benefits increase/decrease %
Carl Cowling	140	(100)	100
Robert Moorhead	5	(100)	–
Henry Staunton	(5)	n/a	–
Suzanne Baxter	(6)	n/a	(100)
Annemarie Durbin	2	n/a	–
Simon Emeny	111	n/a	–
Maurice Thompson	86	n/a	–
UK employees	7	(100)	18

a) The directors took a 20 per cent voluntary reduction in salary/fees during the lockdown period between April to June 2020.

b) Carl Cowling was appointed to the Board on 26 February 2019 and became Group Chief Executive on 1 November 2019.

c) Annemarie Durbin was appointed Chair of the Remuneration Committee on 23 January 2019.

d) Simon Emeny and Maurice Thompson were appointed as non-executive directors on 26 February 2019.

e) Simon Emeny was appointed as the Company's Senior Independent Director on 22 January 2020.

f) Nicky Dulieu was appointed as a non-executive director on 9 September 2020.

2.12 Group Chief Executive pay compared to pay of UK employees

In line with new reporting requirements, set out below are ratios which compare the total remuneration of the Group Chief Executive (as included in the single total figure of remuneration table on page 64) to the remuneration of the 25th, 50th and 75th percentile of our UK employees. The total remuneration of the Group Chief Executive used in this comparison is a combination of Stephen Clarke and Carl Cowling's remuneration for their respective periods as Group Chief Executive during the financial year ended 31 August 2020. The disclosure will build up over time to cover a rolling ten-year period.

We expect the pay ratio to vary from year to year, driven largely by the variable pay outcome for the Group Chief Executive, which will significantly outweigh any other changes in pay at WH Smith.

Group Chief Executive pay ratios

Financial year ended 31 August	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	**Option A**	**43:1**	**41:1**	**33:1**
2019	**Option A**	**239:1**	**207:1**	**201:1**

WH Smith has chosen to use Option A to calculate its Group Chief Executive pay ratio as it believes that it is the most robust way for it to calculate the three ratios from the options available in the Regulations.

Total remuneration for all UK full-time equivalent employees of the Company on 31 August 2020 has been calculated in line with the single figure methodology and reflects their actual earnings received in the financial year ended 31 August 2020 (excluding business expenses). Set out in the table below is the base salary and total pay and benefits for each of the percentiles.

£	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	**17,684**	**17,684**	**22,500**
Total pay and benefits	**17,684**	**18,203**	**23,016**

The Company believes the median pay ratio for the year ended 31 August 2020 is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. This group has been selected as the most appropriate comparator for the Group Chief Executive as he is a full-time employee based in the UK and approximately 95 per cent of all WH Smith employees are based in the UK. The reduction in the pay ratios in 2020 as compared to 2019 is attributable to the reduction in the amount of variable remuneration received by the Group Chief Executive as a result of the impact of Covid-19, as explained in the Chair's annual statement on pages 56 to 58 and the summary of executive remuneration on page 62.

Supplemental ratios

The Company's Chief Executive pay ratio is likely to vary, potentially significantly, over time since it will be driven largely by variable pay outcomes. This means that depending on the Company's performance the ratio could increase or decrease significantly.
The Committee believes that the Company's senior executives should have a significant proportion of their pay directly linked to performance.

In light of this we have provided supplemental ratios, where the long-term incentive remuneration has been excluded. We believe this provides additional context as long-term incentives form a substantial proportion of the Chief Executive's total remuneration.
The Group Chief Executive's single figure of remuneration excluding long-term incentives is £556,000.

Financial year ended 31 August	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	**Option A***	**31:1**	**31:1**	**25:1**
2019	**Option A***	**114:1**	**99:1**	**96:1**

* Total single figure remuneration less long-term incentive plans.

2.13 Relative importance of spend on pay

The table below shows the total cost of remuneration paid to or receivable by all employees in the Group as well as dividends/share buybacks made during the financial year ended 31 August 2020. There were not considered to be any other significant distributions and payments or other uses of profit or cash flow deemed by the directors to assist in understanding the relative importance of spend on pay for the purposes of the table below.

Total cost of remuneration			Distribution to shareholders		
2019 £m	**2020 £m**	**% change**	2019 £m	**2020 £m**	**% change**
248	**217**	**(13)%**	91	**-**	**(100)%**

Corporate governance

Directors' remuneration report continued

2.14 Annual bonus targets (audited)

The performance targets used under the annual bonus plan are normally set annually to support the Company's strategic priorities and reinforce financial performance. The performance targets are set by the Committee based on a range of factors, principally the Company's budget as approved by the Board either prior to or shortly following the start of the financial year.

Under the annual bonus plan, participants can earn a bonus based on the achievement of a financial target and a personal rating measured against one or more specific (financial and/or non-financial) objectives. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum financial target and the highest personal performance rating. The Committee sets a threshold pay-out target and a maximum pay-out target with straight-line vesting between the targets.

No bonus is paid unless both the threshold financial target and at least an acceptable personal rating (i.e 'Developing') are achieved. For on-target achievement of the profit target and a good personal rating (i.e. 'Strong'), an executive would earn approximately 48 per cent of the maximum bonus available under the plan. Any bonus payable will be paid in cash and shares.

Bonuses for the financial year ended 31 August 2020 could be earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against Headline Group profit before tax[1] target	Role model	Outstanding	Strong	Developing	Underachiever
Max: £170.3m	100%	80%	60%	40%	0%
Target: £162.2m	80%	64%	48%	32%	0%
Threshold: £157.3m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The Committee took the decision not to adjust the financial targets for the Company's annual bonus plan as the Company made a Headline loss before tax[1] of £69m* in the financial year ended 31 August 2020 as a result of the impact of Covid-19 on the Company. Accordingly, the Company did not achieve the threshold profit target for the financial year ended 31 August 2020 and no bonuses were paid to employees under the annual bonus plan.

For Carl Cowling, his personal rating was based on a range of objectives including the successful integration of MRG into the Group, format evolution in UK Travel, development of the talent and succession pipeline, new format and space development in the High Street business and promotion of the Group's culture. Despite the successful achievement of all of his personal objectives, the Committee determined that, in accordance with the rules of the annual bonus plan, Carl Cowling will not receive a bonus for the financial year ended 31 August 2020.

For Robert Moorhead, his personal rating was based on a range of objectives including the acquisition and integration of MRG, development of a finance succession plan, developing Funky Pigeon, growing International Travel expansion and managing pensions. Despite the successful achievement of all of his personal objectives, the Committee determined that, in accordance with the rules of the annual bonus plan, Robert Moorhead will not receive a bonus for the financial year ended 31 August 2020.

For the annual bonus plan for the financial year ending 31 August 2021, due to the ongoing uncertainty around Covid-19 and how domestic and international travel will recover in the coming months, the Committee does not expect to finalise the performance measures and targets which may be measured on a half yearly or full year basis until December 2020. The Committee will publish the targets for the financial year ending 31 August 2021 in the 2021 Directors' remuneration report. In addition, the Committee confirms that the personal objectives of the executive directors will include ESG targets which are relevant to the Company. Any bonus payable in respect of the financial year ending 31 August 2021 will be paid in cash and shares. Any bonus payable over target will be deferred into shares for a period of up to three years under the DBP. The shares will be released one third on each anniversary of assessment irrespective of whether the recipient is an employee of the Company.

[1] Headline Group profit before tax is on a pre-IFRS 16 basis and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.

2.15 Share plans (audited)

The Committee regularly reviews the performance targets applicable to the LTIP to ensure that they align with the Company's strategy and reinforce financial performance. The Committee may change the measures and/or targets in respect of subsequent awards. For awards granted in the financial year ended 31 August 2020, the Committee determined that a combination of financial and market-based conditions as the basis for the performance targets for the LTIP was best suited to the needs of the Company and its shareholders in order to reward sustained long-term performance and the creation of shareholder value.

Annual LTIP awards in the financial year ended 31 August 2020 were set at the policy level being 335 per cent of salary for Carl Cowling and 310 per cent of salary for Robert Moorhead using the share price calculated over the three days preceding the grant date to determine the number of awards granted. The performance targets for awards were: 60 per cent was based on Headline earnings per share[1] growth and 40 per cent was based on relative TSR. EPS has for some years been defined as fully diluted pre-exceptional items and excluding IAS 19 pension charges together with other adjustments as considered appropriate by the Committee (although practice has been to make limited adjustments).

The performance conditions for awards granted under the Company's long-term incentive plans in the financial year ended 31 August 2020 were as follows:

WH Smith LTIP

As reported last year, the performance conditions, which apply over the three years, commencing with the financial year of grant (the 'Performance Period'), were as follows:

a) 60 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the Performance Period	Proportion exercisable
Below 5%	Zero
5%	25%
10% or more	100%
Between 5% and 10%	On a straight-line basis between 25% and 100%

For these purposes, EPS will continue to be determined by reference to fully diluted EPS pre-exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency. The Company has, as an inherent part of its corporate strategy and its rigorous capital allocation discipline, undertaken share buybacks and the Committee assumed a level of such buybacks consistent with its established approach in setting the above target range.

b) 40 per cent based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis:

TSR performance ranking at end of the Performance Period	Proportion exercisable
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	On a straight-line basis between 25% and 100%

FIT independently carries out the relevant TSR growth calculation for the Company.

[1] *Headline earnings per share is on a pre-IFRS 16 basis, and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.*

Directors' remuneration report continued

Outstanding awards

Details of the conditional awards (in the form of nil-cost options) to acquire ordinary shares of the Company granted to executive directors are as follows:

	Number of shares subject to awards at 31 August 2019[a]	Number of shares subject to awards granted during the year	Number of dividend accrual shares awarded during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2020[f] (or date of leaving)	Share price at date of grant (pence)	Face value of award at date of grant £'000	Exercise period
Carl Cowling									
LTIP 2016[b]	46,422	–	2,660	17,346	14,391	**17,345**	1551.00	720	20.10.19 – 20.10.26
LTIP 2017[e]	36,457	–	–	–	–	**36,457**	2036.67	743	26.10.20 – 26.10.27
LTIP 2018[g]	40,515	–	–	–	–	**40,515**	1832.67	743	01.11.23 – 01.11.28
LTIP 2019[g]	–	79,557	–	–	–	**79,557**	2210.67	1,759	05.11.24 – 05.11.29
DBP 2019[i]	–	3,990	–	–	–	**3,990**	2258.67	90	24.10.20 – 24.10.29
Total	**123,394**	**83,547**	**2,660**	**17,346**	**14,391**	**177,864**			
Robert Moorhead									
LTIP 2016[c]	74,861	–	4,292	27,973	23,207	**27,973**	1551.00	1,161	20.10.19 – 20.10.26
LTIP 2017[e]	57,009	–	–	–	–	**57,009**	2036.67	1,161	26.10.20 – 26.10.27
LTIP 2018[g]	63,354		–	–	–	**63,354**	1832.67	1,161	01.11.23 – 01.11.28
LTIP 2019[g]	–	61,701	–	–	–	**61,701**	2210.67	1,364	05.11.24 – 05.11.29
DBP 2019[i]	–	3,962	–	–	–	**3,962**	2258.67	90	24.10.20 – 24.10.29
Total	**195,224**	**65,663**	**4,292**	**27,973**	**23,207**	**213,999**			
Stephen Clarke[h]									
LTIP 2016[d]	118,794	–	6,813	–	36,827	**88,780**	1551.00	1,842	20.10.19 – 20.10.26
LTIP 2017[e]	90,466	–	–	–	25,130	**65,336**	2036.67	1,842	26.10.20 – 26.10.27
LTIP 2018[g]	100,534	–	–	–	61,437	**39,097**	1832.67	1,842	01.11.23 – 01.11.28
DBP 2019[i]	–	6,967	–	–	–	**6,967**	2258.67	157	24.10.20 – 24.10.29
Total	**309,794**	**6,967**	**6,813**	**–**	**123,394**	**200,180**			

a) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met except that, in respect of awards granted from October 2016 onwards, consistent with market practice, any part of the awards which vest will benefit from the accrual of dividend roll-up.

b) In respect of the award granted on 20 October 2016 under the LTIP held by Carl Cowling, 34,691 shares vested, including 2,660 dividend shares, and 14,391 shares lapsed. The award is subject to a *holding period with 50 per cent of any vested shares becoming exercisable on the third anniversary of the date of grant* and the remaining 50 per cent of any vested shares becoming exercisable on the fifth anniversary of the date of grant.

c) In respect of the award granted on 20 October 2016 under the LTIP held by Robert Moorhead, 55,946 shares vested, including 4,292 dividend accrual shares, and 23,207 shares lapsed. The award is subject to a holding period with 50 per cent of any vested shares becoming exercisable on the third anniversary of the date of grant and the remaining 50 per cent of any vested shares becoming exercisable on the fifth anniversary of the date of grant.

d) In respect of the award granted on 20 October 2016 under the LTIP held by Stephen Clarke, 88,780 shares vested, including 6,813 dividend accrual shares, and 36,827 shares lapsed. The award is subject to a holding period with 50 per cent of the vested shares becoming exercisable on the third anniversary of the date of grant and the remaining 50 per cent of the vested shares becoming exercisable on the fifth anniversary of the date of grant.

e) The performance conditions for awards granted in the financial year ended 31 August 2018 under the LTIP are:

(i) 40 per cent based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis: Below median – Nil; Median – 25%; Upper quartile – 100%; and on a straight-line basis between 25% and 100%; and

(ii) 60 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis: Below 5% – Nil; 5% – 25%; 10% or more – 100%; and on a straight-line basis between 25% and 100%. For these purposes, EPS will be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency.

The performance conditions were partially met with 13 per cent of the shares subject to the awards vesting. As a result, the total number of shares vesting for Carl Cowling will be 5,104 shares including 336 dividend accrual shares; for Robert Moorhead 7,982 shares including 526 dividend accrual shares; and for Stephen Clarke 9,148 shares including 602 dividend accrual shares.

The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period. The award is subject to a holding period with 50 per cent of any vested shares becoming exercisable on the third anniversary of the date of grant and the remaining 50 per cent of any vested shares becoming exercisable on the fifth anniversary of the date of grant. Carl Cowling and Robert Moorhead have agreed that 100 per cent of their vested shares should be subject to the two-year holding period and will become exercisable on the fifth anniversary of the date of grant.

f) No awards have been granted to directors between 1 September 2020 and 12 November 2020.

g) *The awards granted in the financial years ended 31 August 2019 and 31 August 2020 under the LTIP will only vest to the extent that the performance targets as set out on page 67 are satisfied.*

h) Stephen Clarke resigned as a director of the Company on 31 October 2019. He was treated as a good leaver under the rules of the WH Smith LTIP and retained a reduced number of unvested awards as follows: 2016 Grant – 88,780 shares, 2017 Grant – 65,336 shares and 2018 Grant – 39,097 shares.

i) The awards granted in the financial year ended 31 August 2020 under the DBP will be released one third on each anniversary of the date of grant. Details of the awards are set out on page 66. The awards will accrue the benefit of any dividends paid by the Company and are not subject to performance targets.

2.16 WH Smith Employee Benefit Trust

The WH Smith Employee Benefit Trust (the 'Trust') is used to facilitate the acquisition of ordinary shares in the Company to satisfy awards granted under the Company's share plans. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Group and their close relations. The Trustee is Computershare Trustees (C.I.) Limited, an independent professional trustee company based in Jersey. The Company intends that the ordinary shares in the Trust will be used to satisfy all outstanding awards and options made under the Company's share plans. The Trustee may exercise all rights attached to the shares held in the Trust in accordance with their fiduciary duties and the relevant plan rules or other governing documents. The Trustee has agreed to waive its rights to all dividends payable on the ordinary shares held in the Trust.

Following share purchases of 131,924 shares in the financial year ended 31 August 2020, the number of WH Smith shares held in the Trust at 31 August 2020 was 203,628. The Group's accounting policy with respect to the Trust is detailed within Note 1 to the financial statements and movements are detailed in the Group statement of changes in equity on page 92.

2.17 Dilution limits

Awards under the LTIP are currently satisfied using market purchase shares which may be acquired by the Trust as described in the paragraph above. WH Smith's share plans comply with recommended guidelines on dilution limits, and the Company has always operated within these limits.

2.18 External appointments

Each executive director may accept up to two non-executive directorships provided they are not both appointments to companies in the FTSE 100 or include a chairmanship of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain fees from one of their external directorships. The fee received and retained by Robert Moorhead in respect of his non-executive directorship is shown in the table below:

		Received £'000s	Retained £'000s
Robert Moorhead	The Watches of Switzerland Group PLC	59	59

2.19 Directors' interests in shares (audited)

The beneficial interests of the directors and their immediate families in the ordinary shares of the Company are set out below:

	Ordinary shares		Number of shares subject to holding periods DBP		LTIP		Number of shares subject to performance conditions LTIP	
	31 August 2020 (or date of leaving)	31 August 2019	**31 August 2020 (or date of leaving)**	31 August 2019	**31 August 2020 (or date of leaving)**	31 August 2019	**31 August 2020 (or date of leaving)**	31 August 2019
Suzanne Baxter	**1,952**	1,000	**–**	–	**–**	–	**–**	–
Carl Cowling	**22,335**	6,000	**3,990**	–	**17,345**	–	**156,529**	123,394
Annemarie Durbin	**1,952**	1,000	**–**	–	**–**	–	**–**	–
Simon Emeny	**2,952**	–	**–**	–	**–**	–	**–**	–
Robert Moorhead	**197,263**	177,676	**3,962**	–	**27,973**	–	**182,064**	195,224
Henry Staunton	**39,523**	30,000	**–**	–	**–**	–	**–**	–
Maurice Thompson	**3,452**	2,500	**–**	–	**–**	–	**–**	–
Directors who resigned during the year								
Stephen Clarke	**187,609**	187,609	**6,967**	–	**44,390**	–	**148,823**	309,794
Drummond Hall	**10,000**	10,000	**–**	–	**–**	–	**–**	–

a) Nicky Dulieu was appointed as a non-executive director on 9 September 2020 and does not own any shares in the Company.

b) The LTIP amount above is the maximum potential award that may vest subject to the performance conditions described on page 67.

c) The performance conditions for the October 2017 LTIP were partially met with 13 per cent of the shares subject to awards due to vest on 26 October 2020. See note (e) to the Table of Outstanding awards on page 68 for further information.

d) There has been no further change in the directors' interests shown above between 1 September 2020 and 12 November 2020.

e) The middle market price of an ordinary share at the close of business on 28 August 2020 was 1177p (30 August 2019: 1958p).

f) See Table of Outstanding awards on page 68 for details of awards exercised during the financial year ended 31 August 2020.

g) Stephen Clarke stepped down as Group Chief Executive on 31 October 2019.

h) Drummond Hall stepped down as a director on 22 January 2020.

Directors' remuneration report continued

2.20 Voting at the Annual General Meeting

Statement of voting at 2019 AGM

The table below shows the voting outcome at the Annual General Meeting on 23 January 2019 for approval of the remuneration policy:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration policy	72,435,253	96.47	2,648,367	3.53	75,083,620	1,549,457

Statement of voting at 2020 AGM

The table below shows the voting outcome at the Annual General Meeting on 22 January 2020 for approval of the annual Directors' remuneration report:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of remuneration report	76,249,101	87.77	10,627,325	12.23	86,876,426	2,327,803

A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

3. The Directors' remuneration policy: extract

The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 23 January 2019 and applies from that date. The Directors' remuneration policy table is set out below for information only. The full Directors' remuneration policy is set out on pages 42 to 50 of the 2018 Annual report and accounts which is available in the investor relations section of the Company's website whsmithplc.co.uk/investors..

3.1 Executive directors

The following table explains the different elements of remuneration we pay to our executive directors:

Element and purpose	Policy and opportunity	Operation and performance measures
Base salary		
This is the basic element of pay and reflects the individual's role and position within the Group, with some adjustment to reflect their capability and contribution. Base salary is used to attract and retain executives who can deliver our strategic objectives and create shareholder value.	• While base salaries are reviewed each year, the Company's policy is not automatically to award an inflationary increase. When reviewing salaries, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. • Base salaries are benchmarked against both FTSE 250 companies and other leading retailers. While the Committee applies judgement rather than setting salaries by reference to a fixed percentile position, its general approach is to constrain base salaries to a median or lower level. • While the Committee's general approach is to keep salaries to a relatively low level, and, in the normal course, would not expect salary increases to be higher than the average for other head office staff, given the need for a formal cap, the Committee had limited the maximum salary in the previous policy which it may award to 110 per cent of the median of salaries of CEO's in the top half of FTSE 250 companies even though, in practice, the Committee would normally seek to keep it below the median of this benchmark. To comply with the latest GC100 guidance, the formal cap set out in the preceding sentence is replaced with a formal monetary amount of £680,000 (as increased by RPI) being the current 110 per cent median level.	• Base salary is paid monthly in cash. • Base salaries are reviewed annually with any changes normally taking effect from 1 April.

Element and purpose	Policy and opportunity	Operation and performance measures
Benefits		
To provide other benefits valued by the recipient which assist them in carrying out their duties effectively. Competitive benefits assist in attracting and retaining executives.	• Provide market competitive benefits in kind. • The Company may periodically amend the benefits available to staff. The executive directors would normally be eligible to receive such amended benefits on similar terms to all senior staff. • The value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £80,000. In addition, the Committee reserves the right to pay relocation costs in any year or any ongoing costs incurred as a result of such relocation to an executive director if considered appropriate to secure the better performance by an executive director of their duties. In the normal course, such benefits would be limited to two years following a relocation.	• Benefits received by executive directors comprise a car allowance, staff discount, private medical insurance and life assurance. • While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for directors may technically come within the applicable rules and so the Committee expressly reserves the right to authorise such activities within its agreed policies.
Pension		
To aid retention and remain competitive within the marketplace. The pension provides an income following retirement.	• Provide a competitive employer-sponsored pension plan or equivalent cash allowance with a total value of up to 25 per cent of base salary. For new joiners to the Board, this will not be more than 20 per cent of salary.	• All executive directors are eligible to participate in the Company's defined contribution pension plan and/or receive a salary supplement in lieu (which is not taken into account as salary for calculation of bonus, LTIP or other benefits). • Although the mix may change, currently up to five per cent of salary is paid into a registered pension and 20 per cent by way of a salary supplement. If the individual elects to receive the five per cent direct (e.g. to avoid breaching HMRC limits), employers' NICs are deducted from that element.
Annual bonus		
To motivate employees and incentivise delivery of annual performance targets.	• During the policy period the bonus potential is 160 per cent of base salary for Stephen Clarke (or any replacement) and 130 per cent of base salary for Robert Moorhead (or any other executive director), with target levels at 48 per cent of their respective maxima and threshold bonus levels at 16 per cent of their respective maxima. • Clawback provisions apply to the annual bonus plan. • Bonuses are paid in cash and shares. Any bonus payable over target is deferred into shares for a period of up to three years. The shares are released one third on each anniversary of assessment. Transitional introduction with one third of bonus payable over target in 2019, two thirds of bonus payable in 2020 and full implementation in 2021.	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. • The appropriateness of performance measures is reviewed annually to ensure they continue to support the Company's strategy. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the opinion of the Committee, make it appropriate to make adjustments to ensure they operate as originally intended and to take account of events which were not foreseen when the performance targets were originally set.

Directors' remuneration report continued

Element and purpose	Policy and opportunity	Operation and performance measures
Long-term incentives		
To motivate and incentivise delivery of sustained performance over the long term, the Group will operate the Long-Term Incentive Plan ('LTIP'). Awards will be delivered in shares to provide further alignment with shareholders.	• The policy is to award executive directors with shares with an initial face value of up to 350 per cent of base salary each year under the LTIP. • In practice, awards of 335 per cent are envisaged for the Group Chief Executive and 310 per cent for any other executive director. • The LTIP will credit participants with the benefit of accrual for dividends paid over the performance and any holding period. • Malus and clawback provisions (in respect of both unvested and vested paid awards) apply to the LTIP. • Awards are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant.	• The Committee may set such performance conditions as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual) over a period of at least three financial years. • Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to make adjustments to the performance conditions, provided that any adjusted performance condition is, in its opinion, neither materially more nor less difficult to satisfy than the original condition. • Executive directors can earn a minimum of 25 per cent of the award for threshold performance. Although not currently envisaged, the Committee has the right to lengthen the performance period or to make similar additional changes, not to the benefit of participants. • The Company will honour the vesting of all outstanding awards in accordance with the terms of such awards.
Shareholding guidelines		

Element and purpose	Policy and opportunity	Operation and performance measures
To encourage share ownership by the executive directors and ensure interests are aligned with shareholders.	• Executive directors are expected to retain at least 50 per cent (net of tax) of the shares which vest under the LTIP (or any other discretionary long-term incentive arrangement that may be introduced in the future) until such time as they hold a specified value of shares. • Shares subject to the guidelines (together with any unvested share awards) may not be hedged by the executive or used as collateral for any loans. • To the extent that an executive director is not meeting the guidelines, he or she will be expected to achieve compliance within six years of joining the Board or any significant promotion.	• 300 per cent of base salary for Stephen Clarke (or any other Chief Executive) and 250 per cent of base salary for Robert Moorhead (or any other executive director). • Once the shareholding guidelines have been met, individuals are expected to maintain these levels as a minimum. The Committee will review shareholdings annually in the context of this policy. The Committee will review compliance with the policy as awards approach maturity. • The Committee reserves the right to alter the shareholding guidelines during the period of this policy but any such alterations will not make the guidelines less onerous.
All-employee share plans		
To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	• Executive directors are able to participate in all-employee share plans on the same terms as other Group employees.	• Sharesave – individuals may save up to such limit as permitted by the relevant legislation (currently £500 each month) for a fixed period of three years. At the end of the savings period, individuals may use their savings to buy ordinary shares in the Company at a discount of up to 20 per cent of the market price set at the launch of each scheme. • In line with the governing legislation, no performance conditions are attached to options granted under the Sharesave Scheme. In addition, executive directors may participate in other comparable all-employee incentives on the same basis as other employees.

On behalf of the Board

Annemarie Durbin
Chair of the Remuneration Committee

19 November 2020

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2020. The Company is the ultimate parent company of the WH Smith group of companies (the 'Group'). WH Smith PLC is registered in England and Wales (Number 5202036) and domiciled in the United Kingdom.

The Company has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain information in the Strategic report that would otherwise be required to be disclosed in this Directors' report, as follows:

Information	Page number
Likely future developments in the business	8 to 19
Branches outside the UK	14
Disclosures concerning greenhouse gas emissions and energy consumption	29 to 32
Employment of disabled persons	32
Employee engagement	32, 35, 36
Engagement with external stakeholders	38

Other information, which forms part of this Directors' report, can be found in the following sections of the Annual report:

Section	Page number
Corporate governance report	38 to 45
Directors' biographies	54 and 55
Statement of directors' responsibilities	77
Information on use of financial instruments	124 to 127

This Directors' report (including information specified above as forming part of this report) fulfils the requirements of the Corporate governance statement for the purposes of DTR 7.2.

The information required by Listing Rule 9.8.4R is disclosed on the following pages of this Annual report:

Subject matter	Page number
Allotment of shares for cash pursuant to the WH Smith employee share incentive plans	73 Directors' remuneration report/ Note 23 on page 127 of the financial statements
Arrangement under which the directors waived salary or fees	60 and 61 Directors' remuneration report
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/future dividends	69 Directors' remuneration report

Dividends

In light of the ongoing uncertainty and the impact of Covid-19 on the Group which has resulted in the Group making a Headline loss before tax[1] of £69m*, no interim dividend was declared at the half year and the Board will not propose a final dividend in relation to the financial year ended 31 August 2020. The Board believes that the decision not to pay a dividend is in the best long-term interests of shareholders but understands the importance of dividends to shareholders and will consider the quantum and timing of possible future dividend payments when appropriate to do so.

Share capital

WH Smith PLC is a public company limited by shares. The issued share capital of the Company, together with details of shares issued during the year, is shown in Note 23 to the financial statements on page 127.

On 17 October 2019 the Company entered into an agreement to purchase the entire share capital of Marshall Retail Group Holding Company, Inc., an independent travel retailer operating in the United States, for a consideration of $402m. The acquisition was part-financed through the net proceeds of a placing of 7,209,303 new ordinary shares in the Company, at a price of 2150 pence per placing share (a discount of 4.8 per cent to the intra-day price), raising gross proceeds of approximately £155m (net of issue costs £152m). The shares were issued and admitted to trading on the main market of the London Stock Exchange on 21 October 2019. At the date of allotment and issue, the placing shares issued represented approximately 7 per cent of the issued ordinary share capital of the Company. Further information on the acquisition can be found in the Strategic report on pages 8 to 19.

Due to the significant impact of the Covid-19 pandemic on the business, the Company consulted with major shareholders and banks in April 2020 in order to secure new financing arrangements to strengthen its balance sheet, working capital and liquidity position. On 9 April 2020, the Company completed a placement and subscription of a total of 15,802,768 new ordinary shares, raising gross proceeds of approximately £165.9m (net of issue costs £160m) at a placing price of 1050 pence per placing share (a discount of 4 per cent to the closing share price on 6 April 2020). The shares were issued and admitted to trading on the main market of the London Stock Exchange on 9 April 2020. At the date of allotment and issue, the placing shares issued represented approximately 13.7 per cent of the issued ordinary share capital of the Company. Over the three years preceding the issue, there was, including the April 2020 placing, a 17.48 per cent increase in share capital due to the non-pre-emptive issue of shares for cash by the Company.

The issued share capital of the Company as at 31 August 2020 was 130,865,456 ordinary shares of $22\frac{6}{67}$p each. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods), including the requirements of the Market Abuse Regulation and the Listing Rules, and also the Company's Share Dealing Code whereby directors and certain employees of the Company require Board approval to deal in the Company's securities.

[1] Headline loss before tax is on a pre-IFRS 16 basis, and excludes non-underlying items. This is an Alternative Performance Measure defined and explained in the Glossary on page 146.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained from the Company's website whsmithplc.co.uk. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights, and to receive a dividend, if declared, subject to the deduction of any sums due from the holder of ordinary shares to the Company on account of calls or otherwise. Changes to the Company's Articles of Association must be approved by special resolution of the Company.

The Trustee of the WH Smith Employee Benefit Trust holds ordinary shares in the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair.

Purchase of own shares

At the 2020 AGM, authority was given for the Company to purchase, in the market, up to 11,505,894 ordinary shares of 22⁶/₆₇p each, renewing the authority granted at the 2019 AGM. The Company did not purchase any of its own shares during the financial year. The Company intends to renew the authority to purchase its own shares at the forthcoming AGM as the directors believe that having the flexibility to buy back shares is in the best interests of the Company. The directors do not currently envisage utilising this authority in the financial year ending 31 August 2021.

Issue of new ordinary shares

During the financial year ended 31 August 2020, 5,024 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 1434.40p and 1609.60p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

Significant agreements – change of control

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases, licence and concession agreements to take effect, alter or terminate. In addition, the service agreements of some senior executives and employee share plans would be similarly affected on a change of control, including, in the case of some employees, in relation to compensation for loss of office.

The Company has an unsecured £200m multi-currency revolving credit facility with Barclays Bank PLC, HSBC Bank PLC, Santander UK PLC and BNP Paribas for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties, any lender may cancel the commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.

Directors' conflicts

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for directors to declare Situational Conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company, and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any Situational Conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed regularly by the Board.

Directors' indemnities

The Company maintained directors' and officers' liability insurance in the financial year ended 31 August 2020 and up to the date of this report which gives appropriate cover for any legal action brought against its directors. The Company has provided and continues to provide an indemnity for its directors, which is a qualifying third-party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

Company's shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 August 2020, the following information had been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Holder	Number	% as at date of notification	Nature of holding
BlackRock Inc.	6,553,863	5.00	Indirect
Causeway Capital Management LLC	6,559,135	5.01	Direct
M&G PLC	7,971,971	6.92	Indirect
Marathon Asset Management LLP	5,968,068	4.56	Indirect
Royal London Asset Management Ltd	7,565,013	5.78	Direct
Standard Life Aberdeen plc	9,910,996	7.57	Indirect

a) On 5 October 2020 Standard Life Aberdeen plc notified the Company of a holding of 9,330,560 shares (7.13 per cent Indirect holding). Subsequently, on 26 October 2020 Standard Life Aberdeen plc notified the Company of an increase in its holding to 9,699,165 shares (7.41 per cent Indirect holding).

b) On 9 October 2020 Causeway Capital Management LLC notified the Company of a holding of 8,004,093 shares (6.12 per cent Direct holding).

c) On 6 November 2020 BlackRock Inc. notified the Company that its holding had fallen below 5 per cent.

The Company received no other notifications in the period between 31 August 2020 and the date of this report.

Directors' report continued

Political donations

It is the Company's policy not to make political donations and no political donations, contributions or political expenditure were made in the year (2019: £nil).

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 Strategic report on pages 2 to 37. The Financial review on pages 16 to 19 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 19 to 22 of the financial statements on pages 122 to 127. In addition, Note 22 of the financial statements on page 124 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report on pages 21 to 28 also highlights the principal risks and uncertainties facing the Group.

The directors are required to assess whether the Group can continue to operate for the 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities. The potential financial impact of the Covid-19 pandemic has been modelled in our cash flow projections for the period to February 2022 and stress tested by including several severe but plausible downside scenarios which are linked to our principal risks. In our downside Covid-19 scenario, we have considered the key impacts of the pandemic for each business and country in which we operate. We have then considered the expected duration of the ongoing Covid-19 pandemic, as well as a forecast for the length of time to recovery (a return to 2019 sales), based on industry projections. As a result of these factors, in our severe but plausible scenarios, we do not anticipate that Group sales will recover to 2019 levels within the period to February 2022. Even with these negative sensitivities for each business taken into account, the Group's cash position is still considered to remain strong, as we have strengthened our balance sheet, working capital and liquidity position by raising approximately £165.9m in April 2020 by a placing of 13.7 per cent of the issued ordinary share capital and the maturity on the Group's two £200m term loans was extended to October 2022. The Company also secured eligibility for the Government's Covid Corporate Financing Facility (CCFF). Mitigating actions, should they be required, are all within management's control and could include reduced dividend cash payments, non-essential overheads and non-committed capital expenditure in the period to February 2022. Having considered the outcome of these assessments, it is deemed appropriate to prepare the consolidated financial statements on a going concern basis. The directors have also assessed the prospects of the Company over a three-year period.

The basis of preparation of the accounts and a more detailed explanation of the work undertaken in respect of going concern are set out in Note 1 of the financial statements on page 93. The longer-term viability statement is in the Strategic report on page 28.

Independent auditors

PwC has expressed its willingness to continue in office as auditors of the Company. A resolution to re-appoint PwC as auditors to the Company and a resolution to authorise the Audit Committee to determine its remuneration will be proposed at the AGM.

Disclosure of information to the auditors

Having made the requisite enquiries, as far as each of the directors is aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each of the directors has taken all steps he or she should have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The AGM of the Company will be held at the Company's offices at Greenbridge Road, Swindon, Wiltshire SN3 3RX on 20 January 2021 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report. As explained in that notice, in light of the ongoing Covid-19 pandemic we strongly encourage shareholders not to attend the meeting in person and to appoint the Chair of the meeting as their proxy to ensure that their vote is counted.

This report was approved by the Board on 19 November 2020.

By order of the Board

Ian Houghton
Company Secretary

19 November 2020

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors' biographies, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

19 November 2020

Independent auditors' report to the members of WH Smith PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- WH Smith PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 August 2020 and of the group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Group and Company balance sheets as at 31 August 2020; the Group income statement and Group statement of comprehensive income; the Group cash flow statement, and the Group and Company statements of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in Note 3 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 September 2019 to 31 August 2020.

Our audit approach

Overview

Materiality

- Overall Group materiality: £6.1 million (2019: £7.6 million), based on 5% of the three year average of absolute Headline loss/profit before tax.
- Overall Company materiality: £11.2 million (2019: £6.1 million), based on 1% of total assets.

Audit scope

- For the purposes of scoping the Group audit we have assessed the seven areas of the business; High Street, Travel UK, InMotion, MRG, Travel International, Company and Central.
- For the purposes of the Group audit, we performed a full scope audit on the High Street, Travel UK, MRG and InMotion components, whilst performing specified audit procedures over balances within the Central and Company component based on their overall size and values of their specific financial statement line items. Travel International was not included in the scope of our Group work.
- The audits of the InMotion and MRG components were performed by PwC USA.
- Our audit scoping gave us coverage of 82% of Group loss before tax, with 91% coverage of revenue.
- We performed a full scope audit over the Company for the Company audit.

Key audit matters

- Covid-19 (Group and Company)
- Going concern (Group and Company)
- Impairment of store property, plant and equipment and right-of-use assets
- Inventory valuation
- IFRS 16 Right-of-use asset and lease liability valuation
- One off transactions
- Acquisition of Marshall Retail Group ('MRG')
- Pension scheme valuation

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law, health and safety regulation, GDPR, pensions regulation and general food law regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to manipulation of revenue and or costs, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing legal confirmations from external lawyers;
- Reviewing the financial statement disclosures and agreement to underlying supporting documentation;
- Challenging assumptions made by management in determining their significant judgements and accounting estimates (key audit matters included on Impairment of store property, plant & equipment and right-of-use assets, Inventory valuation and One off transactions); and
- *Identifying and testing unusual journals posted to revenue,* journals posted after period close and journals posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Covid-19 (Group and Company) Refer to Note 1 (a), and Note 1 (q) Accounting policies for the directors' disclosure on the impact of Covid-19 on Going concern and Non-underlying items, and Note 4 (Non-underlying items). The pandemic has had a significant impact on the recent trading performance of the Group and particularly in the second half of the year. The extent of the negative impact of the pandemic on future trading performance and measurement of the impacts as they relate to the financial statements entails a significant degree of estimation uncertainty. Management developed a forecast model based on its best estimate of the impact of Covid-19 (the 'base case'). This model and related assumptions was used by management in its assessment of the carrying value of store assets and goodwill. The most significant financial impact to the financial statements was in respect of the store asset impairment charge and inventory provisioning. These are described in the respective key audit matters within this section of our report. Additionally, there are a number of non-underlying items in relation to restructuring costs which have been recorded as a result of the impact of Covid-19 on the business. The classification of these has been detailed in the one-off transactions key audit matter. Refer to Note 4 in the financial statements. The base case, along with a downside scenario, (the 'severe but plausible' model), was used to underpin the directors' going concern assessment, refer to Note 1 (a) Basis of preparation and the separate key audit matter.	We evaluated the base case forecast by comparing assumptions to third party forecast data. Our audit procedures on the base case and the severe but plausible case models are set out in the Going concern key audit matter. We ensured that the base case was consistently applied to other accounting judgements including asset carrying value assessments and going concern. We considered the appropriateness of the directors' disclosures in the financial statements of the impact of the current environment and the increased uncertainty on the accounting estimates and found these to be adequate. We tested the costs caused by Covid-19 to supporting evidence and considered the disclosures of Covid-19 specific costs to be reasonable as detailed within the One off transactions key audit matter. We considered the carrying value of the Company investments in light of the impact of Covid-19, and noted no impairment. The directors considered the Government announcement on 31 October 2020 to be a non-adjusting post balance sheet event and therefore did not update the base case forecast for the purposes of assessing the carrying value of balance sheet assets. We evaluated the disclosures included in the financial statements and found them to be appropriate. The going concern assessment was updated for the impact of this announcement. We considered whether changes to working practices brought about by Covid-19 had an adverse impact on the effectiveness of management's business process and IT controls. Our work did not identify any evidence of material deterioration in the control environment.

Independent auditors' report to the members of WH Smith PLC continued

Key audit matter	How our audit addressed the key audit matter
Going concern (Group and Company) Refer to Note 1 (a) Accounting policies for the basis of preparation regarding Going concern. In undertaking their assessment of going concern for the Company and Group, the directors modelled future business performance and cashflow forecast, by means of a 'base case' and a 'severe but plausible' discounted cash flow model. In both models, the directors considered the financing available to the Group and associated debt covenants, including the covenant waivers that the Group has obtained in relation to its financing facilities in February and August 2021. Anticipated cost savings have been included. The base case model assumes a six-week lockdown from 1 November 2020 with a steady recovery thereafter. The severe but plausible model sensitises the base case and assumes a three-month lockdown ending January 2021. The sales forecast thereafter mirrors those that were experienced after the first lockdown of 2020, incorporating a further haircut on the base case revenue assumptions. In both scenarios, the lockdowns assume that WH Smith stores located within hospitals and those with Post Offices remain open, consistent with March to June 2020. Taking into account both the base case and severe but plausible scenario, the directors concluded that the Group has sufficient resources available to meet its liabilities as they fall due and is therefore a going concern. Further details of the directors' assessment are included within the Directors' report on page 76. Due to the on-going Covid-19 pandemic, which has led to the mandatory closure of non-essential retail for two separate periods in 2020, there is significant judgement in developing the cash flow forecasts, in particular, the assumptions relating to revenue. We therefore focused audit effort on the going concern risk.	We agree with the Directors' conclusion to prepare the financial statements on a going concern basis. In forming this conclusion we have performed the following: • ensured the mathematical accuracy of the models • confirmed that consistent approaches to going concern, viability, impairment and other key areas of estimation assumptions have been used • assessed the reasonableness of estimates made regarding the inclusion of a six-week lockdown in the base case and three-month lockdown in the severe but plausible case • compared the assumptions regarding the timing and extent of recovery from Covid-19, to historical actuals and third party forecast data • critically assessed the forecast cost mitigations applied to the severe but plausible case and performed sensitivity analysis to assess the impact on liquidity headroom No significant issues were identified from our work. In addition to the above, we have obtained evidence of the covenant waivers for February 2021 and August 2021. We consider the disclosure within the Basis of Preparation to appropriately highlight the process the directors have undertaken and the judgements, estimates and uncertainty involved.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of store property, plant & equipment and right-of-use assets Refer to Note 1 (q), Accounting policies for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Notes 12 and 13 (Property, plant & equipment and Right-of-use assets). The Group has a material operational retail asset base which may be vulnerable to impairment in the event of trading performance being below expectations. For the purposes of impairment testing, each retail store is considered to be a separate cash generating unit (CGU). Following implementation of IFRS 16, there has been a material increase in this asset base, as right-of-use assets in respect of the Group's leases are now capitalised in accordance with that standard. On transition to IFRS 16, the Group re-measured its impairment provisions in respect of its retail store leases. This resulted in an impairment of £21m. In the year, an impairment trigger was identified for the entire portfolio of stores as a result of the adverse impact of Covid-19 on trading. As explained in the financial statement notes, there is significant uncertainty as to the ultimate impact of the Covid-19 pandemic on the Group's operations and the global economy and by extension the future trading levels of the Group. The value-in-use models used to determine the amount of any impairment charge are based on store specific assumptions. Management's assessment resulted in the recognition of an impairment charge of £134m. We focussed on this area because of the inherent judgement and estimation uncertainty involved in determining key assumptions such as the future sales profile and discount rates, particularly given the uncertainty associated with Covid-19, and the magnitude of the assets under consideration.	In respect of the opening impairment provision recorded on transition to IFRS 16, we assessed the methodology for determining the value-in-use of the CGUs. We assessed the appropriateness of the discount rate and assumptions applied and assessed the reasonableness of the impairment charge calculated. We satisfied ourselves that it was appropriate. In respect of the CGU impairment assessment at year end, we obtained an understanding of how management had developed its forecast for the future trading conditions of the Group, following the emergence of Covid-19. We satisfied ourselves that the forecasts were reasonable and had been prepared with appropriate Board involvement. In forming this conclusion, we benchmarked the projections of trading and recovery to pre-Covid levels against forecasts of credible third parties. With the assistance of our valuation experts we tested the value-in-use models, including challenging management forecasts at a store level, as well other assumptions such as the sales profile, assumptions under-pinning the timing of recovery and discount rate, and found that these assumptions were reasonable. We assessed the mathematical accuracy and integrity of the impairment models and determined that the impairment charge had been appropriately calculated. Given the estimation uncertainty inherent in the impairment calculations, particularly given the impact of Covid-19, the financial statements include a sensitivity analysis (refer to Note 12). Having re-performed the sensitivity calculations and considered whether any other sensitivities might be more appropriate, we are satisfied that the financial statements adequately disclose the potential risk of future impairment or requirement for reversal of impairment if the performance of the stores differs from that forecast. We considered whether the disclosure of the impairment charge as 'directly attributable to Covid-19' was appropriate and were satisfied that there was evidence that supports this statement.

Independent auditors' report to the members of WH Smith PLC continued

Key audit matter	How our audit addressed the key audit matter
Inventory valuation Refer to Note 1 (h) and Note 1 (q) for the inventory accounting policy and the directors' disclosure of the critical accounting judgements and key sources of estimation uncertainty. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and digital. As at 31 August 2020, inventory was £150m. A large proportion of inventory is supplied through sale or return arrangements, including the majority of books, newspapers and magazines and therefore the valuation of these items are considered to be lower risk, however a number of inventory lines are perishable and items such as firm sale books, digital, fashion and journey solutions are at greater risk of obsolescence in a reduced trading environment. Historically the Group has recognised an 'underlying' inventory provision primarily based on ageing profile and obsolescence risk based on historic sales performance. This has been calculated in the current year using consistent assumptions. The impact of Covid-19 has been to introduce significant uncertainty with respect to the Group's future performance and has had a material impact on the level of inventory risk within the business through a combination of reduced rates of sale, the loss of sale clearance events, deteriorating clearance sales, stock commitments placed prior to lockdown and the heightened risk of dated product reaching its use-by or warranty date. Accordingly, the approach to provisioning for short-dated inventory and inventory obsolescence was reviewed and an additional, 'non-underlying' provision was recognised (refer to Note 4). Judgement is required to estimate future sales to clear this inventory and intentions with respect to alternative exit routes for inventory which attract different provisioning rates. We focused on the valuation of the inventory provisions due to the size of the balance and provision and the estimates involved in determining the future sales forecasts and the complexity of the calculation due to the number of inventory categories.	For both the underlying and non-underlying provisions we critically assessed the basis for the inventory provisions, the consistency of the provisioning methodology and the reasonableness of the overall provisioning in light of the impact of Covid-19. We gained an understanding of each provision category and analysed the movement between the current year and prior year. In testing the underlying provision, we developed an independent expectation of the provision required using a combination of ageing analysis and historic inventory turn data. We performed testing over the ageing data to ensure its accuracy. For the portion of the non-underlying provision that relates to perishable inventory, we developed an independent expectation based on historic and future inventory turn and write-offs and verified that the provision was materially accurate. We verified the accuracy of the historic write-offs by agreeing them to the Income Statement. For book stock we developed an independent expectation using the inventory turn pattern throughout the year. The provisions are consistent with the Group's accounting policy and also reflect changes in the ageing profile and estimated future sales forecasts resulting from Covid-19. We satisfied ourselves that the inventory provisions were materially accurate. Given the estimation uncertainty inherent in determining the provisions, a sensitivity analysis has been presented in the financial statements (refer to Note 1(q).

Key audit matter	*How our audit addressed the key audit matter*
IFRS 16 Right-of-use asset and lease liability valuation Refer to Note 1 (g) of Accounting policies; Leasing and Note 13 and 16 (Right-of-use assets and Lease liabilities). As at 1 September 2019, the Group adopted the new accounting standard IFRS 16: Leases; this supersedes the previous lease guidance IAS 17. The Group has a significant number of leases related to its property portfolio, principally in relation to its retail stores. Accordingly, the implementation of IFRS 16 has had a material impact on the Group financial statements. The scale of the lease portfolio increases the risk that incomplete or inaccurate lease data could result in a misstatement of lease balances. In addition, implementation of IFRS 16 requires management to make certain judgements in respect of its leases, namely: • Identification of a lease, whereby those which include substantive substitution rights or are short term have been excluded; and • Determination of the incremental borrowing rate ('IBR') which is the discount rate applied to its lease calculations A lease liability of £559m and right-of-use asset of £413m (net of impairment) were recognised at year end. Movements in the year relating to these balances are described in Note 13 and 16. The Group elected to adopt the optional practical expedient for Covid-19 rent concessions, resulting in the concession being accounted for as a variable lease payment. The value of the concessions recognised within the Income Statement is £15m.	We performed procedures over the completeness of the leases included within the transition. In addition, we performed inquiries across the business including procurement, property and business development teams in order to identify any leases that had been excluded from the assessment. No exceptions were noted. We analysed management's process for identifying a lease and substantiated the basis upon which leases were excluded from IFRS 16 due to landlord substitution rights. The IBRs were assessed by our valuation specialists and were found to be within an acceptable range. A substantive procedure was performed to test the accuracy of the inputs into the IFRS 16 calculation by verifying a sample of original lease contracts. We recalculated the balances based on the audited inputs, with no material exceptions noted. We performed procedures over the reconciliation of the operating lease commitment under IAS 17 as at 31 August 2019 to the opening lease liability under IFRS 16 on 1 September 2019 and noted no material differences. We assessed the subsequent accounting treatment of leases, performing substantive procedures over material movements in the balances with no material exceptions noted. Management's disclosures within Notes 13 and 16 of the financial statements were reviewed and considered appropriate.
One off transactions Refer to Note 1 (q) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 4 (Non-underlying items). The Group has historically included 'Non-underlying items' on the face of the Group Income Statement and discussed these items in the Annual Report. Given the quantum and number of non-underlying items in the year, we focused on the presentation of these items to ensure they were treated consistently with the Group's accounting policy.	We substantiated a sample of non-underlying items to corroborating evidence. We considered whether the designation of items as 'non-underlying' was consistent with the Group's accounting policy as disclosed in Note 1 and treatment in prior years. We considered the evidence to support the segregation of 'costs attributable to Covid-19' and did not identify any arbitrary splitting of items between Covid-19 and non Covid-19. Based on our procedures, we are satisfied that the treatment and classification of non-underlying items is consistent with the Group's policy.

Independent auditors' report to the members of WH Smith PLC continued

Key audit matter	How our audit addressed the key audit matter
Acquisition of Marshall Retail Group ('MRG') Refer to Note 1 (c), Accounting policies: 'Business combinations' and Note 27 (Acquisitions). The Group acquired the entire issued share capital of MRG on 20 December 2019 for a total consideration of £317m. A fair value exercise was performed over the consolidated MRG Group balance sheet as at the acquisition date and an external expert was used to complete a purchase price allocation exercise. This resulted in the recognition of £29m of intangible assets relating to the MRG brand and £258m of goodwill which has been allocated to the Travel grouping of CGUs. These numbers are provisional subject to the finalisation of fair value adjustments. We focused on risk of valuation of the assets, specifically the brand, as this requires significant estimation. In order to determine the value of the brand, management applied the relief from royalties valuation approach. This calculation was based on the forecast revenue stream of MRG stores for the next 20 years, being the estimated useful life of the brand.	In order to obtain evidence over the opening balance sheet we reviewed the predecessor auditor working papers as well as performed audit procedures over the rollback from MRG's year end date to the date of acquisition. We obtained the sale and purchase agreement and other supporting documentation and agreed these to the acquisition accounting calculation. We obtained the provisional schedules and re-calculated the goodwill arising on acquisition with no issues noted. The most judgemental adjustment was the valuation of the brand. We engaged our specialists to test the reasonableness of the valuation methodology.
Pension scheme valuation Refer to Note 1 (q) for the directors' disclosure on the critical accounting judgements and key sources of estimation uncertainty and Note 5 (Retirement benefit obligations). The Group has two defined benefit pension plans which comprise total gross plan assets of £1,419m and total pension liabilities of £1,152m which are significant in the context of the overall balance sheet of the Group. The valuation of the schemes' liabilities requires judgement and technical expertise in choosing appropriate assumptions. The Group uses third-party actuaries to calculate the schemes' liabilities. Changes to a number of the key assumptions can have a material impact on the pension balance (refer Note 5). The most recent triennial valuation was completed in November 2020. We focused on this area because of the financial impact of the judgements inherent in the valuation of the schemes' liabilities due to these assumptions. Pension costs of £14m have been recognised as a non underlying item in relation to the equalisation of pension benefits relating to a period between 1 April 1992 and 29 July 1993 ('Barber equalisation').	We obtained the actuarial report for the WH Smith Pension Trust Retail Section for the scheme as at 31 August 2020. We reviewed the pension assumptions, including discount rates, salary increases, inflation and mortality rates. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range. Other assumptions were also assessed and considered to be reasonable. We obtained the latest census data information from both the actuary and payroll and agreed a sample of the data used by the actuary to the supporting payroll information without exception. For the Barber equalisation adjustment, we reviewed the methodology applied and the information obtained from the actuary for computing the past service cost impact and re-performed the computation using the same data and criteria without exception. There is no impact on the balance sheet arising from this adjustment as the pension scheme is in a surplus position. We ensured that the classification of the £14m charge is appropriate given its nature and size, and ensured this was consistent with the Group's policy on non underlying items.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

For the purposes of scoping the Group audit we have assessed the seven areas of the business; High Street, Travel UK, InMotion, MRG, Travel International, Central and Company.

There are four significant components. High Street and Travel UK were audited by the UK Group team, and InMotion and MRG were audited by PwC US as component auditors operating under our instruction. Audit work was performed over the consolidation process, tax, impairment and going concern at a UK Group level. Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our year end procedures, due to the restrictions imposed by Covid, the majority of our work was performed remotely, however we did attend physical stock counts. We held detailed discussions with the InMotion and MRG component audit teams, including evaluation of and remote review of the work performed, update calls on the progress of their fieldwork and by attending the clearance meetings with management via video call. We also visited the MRG component and relevant PwC US audit team during the year.

The components where we performed audit work accounted for 82% of Group loss before tax and 91% of revenue.

We performed specified audit procedures over balances within the Central and Company components based on their overall size and values of their specific financial statement line items.

Travel International was not included in the scope of our Group work.

For the Company financial statements, we performed a full scope audit, providing us with 100% coverage.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.1 million (2019: £7.6 million).	£11.2 million (2019: £6.1 million).
How we determined it	5% of the three year average of absolute Headline loss/profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, Headline loss/profit before tax is the primary measure used by the shareholders in assessing the performance of the Group and is a generally accepted auditing benchmark.	As the parent entity, WH Smith PLC is a holding company for the Group and therefore the materiality benchmark has been determined to be based on total assets which is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5.0 million and £5.3 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £305,000 (Group audit) (2019: £380,000) and £563,000 (Company audit) (2019: £300,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of WH Smith PLC continued

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 21 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 28 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 45, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group
  and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 46 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 77, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the members on 21 January 2015 to audit the financial statements for the year ended 31 August 2015 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 August 2015 to 31 August 2020.

Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

19 November 2020

Group income statement

For the year ended 31 August 2020

£m		2020[1]			2019[1]		
	Note	Headline[2]	Non-underlying items[3]	Total	Headline[2]	Non-underlying items[3]	Total
Continuing operations							
Revenue	2	**1,021**	**–**	**1,021**	1,397	–	1,397
Group operating (loss)/profit	2, 3	**(48)**	**(212)**	**(260)**	160	(20)	140
Finance costs	7	**(20)**	**–**	**(20)**	(5)	–	(5)
(Loss)/profit before tax		**(68)**	**(212)**	**(280)**	155	(20)	135
Income tax credit/(expense)	8	**16**	**25**	**41**	(28)	1	(27)
(Loss)/profit for the year		**(52)**	**(187)**	**(239)**	127	(19)	108
Attributable to equity holders of the parent		**(52)**	**(187)**	**(239)**	125	(19)	106
Attributable to non-controlling interests		**–**	**–**	**–**	2	–	2
		(52)	**(187)**	**(239)**	127	(19)	108
(Loss)/earnings per share							
Basic	10			**(199.2)p**			98.1p
Diluted	10			**(199.2)p**			97.2p
Equity dividends per share[4]							58.2p

1 The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 29).

2 'Headline' denotes an alternative performance measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 146.

3 See Note 4 for an analysis of Non-underlying items. See Glossary on page 146 for definition of Alternative Performance Measures.

4 Prior year equity dividends per share is the final dividend of 41.0p and the interim dividend of 17.2p. The Board of Directors do not propose a dividend in respect of the year end 31 August 2020.

Group statement of comprehensive income

For the year ended 31 August 2020

£m	Note	2020[1]	2019[1]
(Loss)/profit for the year		**(239)**	108
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit pension schemes	5	**11**	(3)
		11	(3)
Items that may be reclassified subsequently to the income statement:			
(Losses)/gains on cash flow hedges			
– Net fair value (losses)/gains		**(8)**	2
– Reclassified and recognised in inventories		**(1)**	(1)
– Reclassified and recognised in goodwill		**8**	–
– Reclassified and reported in the income statement		**(1)**	–
Exchange differences on translation of foreign operations		**(22)**	10
		(24)	11
Other comprehensive (loss)/income for the year, net of tax		**(13)**	8
Total comprehensive (loss)/income for the year		**(252)**	116
Attributable to equity holders of the parent		**(252)**	114
Attributable to non-controlling interests		**–**	2
		(252)	116

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 29).

Group balance sheet

As at 31 August 2020

£m	Note	2020[1]	2019[1]
Non-current assets			
Goodwill	11	**418**	176
Other intangible assets	11	**75**	49
Property, plant and equipment	12	**192**	201
Right-of-use assets	13	**413**	–
Investments in joint ventures		**2**	4
Deferred tax assets	18	**23**	8
Trade and other receivables	14	**9**	10
		1,132	448
Current assets			
Inventories		**150**	174
Trade and other receivables	14	**49**	73
Derivative financial assets	22	**–**	2
Current tax receivable		**8**	–
Cash and cash equivalents	19	**108**	49
		315	298
Total assets		**1,447**	746
Current liabilities			
Trade and other payables	15	**(241)**	(250)
Bank overdrafts and other borrowings	19	**–**	(15)
Retirement benefit obligations	5	**(1)**	(1)
Lease liabilities	16	**(130)**	(5)
Current tax liabilities		**–**	(7)
Short-term provisions	17	**(5)**	(1)
		(377)	(279)
Non-current liabilities			
Retirement benefit obligations	5	**(3)**	(3)
Bank loans and other borrowings	19	**(400)**	(200)
Long-term provisions	17	**(9)**	(4)
Lease liabilities	16	**(429)**	(9)
Deferred tax liabilities	18	**(2)**	(3)
Other non-current liabilities		**–**	(11)
		(843)	(230)
Total liabilities		**(1,220)**	(509)
Total net assets		**227**	237
Shareholders' equity			
Called up share capital	23	**29**	24
Share premium		**315**	9
Capital redemption reserve		**13**	13
Translation reserve		**(14)**	8
Other reserves	26	**(279)**	(274)
Retained earnings		**158**	455
Total equity attributable to the equity holders of the parent		**222**	235
Non-controlling interests		**5**	2
Total equity		**227**	237

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 29).

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 88 to 142 were approved by the Board of Directors and authorised for issue on 19 November 2020 and were signed on its behalf by:

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group cash flow statement

For the year ended 31 August 2020

£m	Note	2020[1]	2019[1]
Operating activities			
Cash generated from operating activities	21	**94**	153
Interest paid[2]		**(13)**	(4)
Net cash inflow from operating activities		**81**	149
Investing activities			
Purchase of property, plant and equipment		**(67)**	(47)
Purchase of intangible assets		**(12)**	(12)
Acquisition of subsidiaries, net of cash acquired	27	**(316)**	(161)
Net cash outflow from investing activities		**(395)**	(220)
Financing activities			
Dividend paid	9	**(47)**	(60)
Distributions to non-controlling interests		**1**	(2)
Proceeds from share placings	23	**312**	–
Issue of new shares for employee share schemes	23	**–**	1
Purchase of own shares for cancellation	23	**–**	(32)
Purchase of own shares for employee share schemes		**(2)**	(7)
Proceeds from borrowings	19	**200**	200
Repayments of borrowings	19	**(15)**	(18)
Financing arrangement fees		**(3)**	(1)
Repayments of obligations under leases	19	**(72)**	(6)
Net cash inflow from financing activities		**374**	75
Net increase in cash and cash equivalents in the year		**60**	4
Opening cash and cash equivalents		**49**	45
Effect of movements in foreign exchange rates		**(1)**	–
Closing cash and cash equivalents		**108**	49

Reconciliation of net cash flow to movement in net debt[3]

£m	Note	2020[1]	2019[1]
Net debt at beginning of the year		**(180)**	(2)
Net increase in cash and cash equivalents		**60**	4
Impact of adoption of IFRS 16	29	**(479)**	–
Lease liability acquired through business combinations	27	**(106)**	–
Decrease in debt		**15**	18
Increase in long-term borrowings		**(200)**	(200)
Net movement in lease liability		**32**	–
Effect of movements in foreign exchange rates		**7**	–
Net debt at end of the year	19	**(851)**	(180)

[1] The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 29).

[2] Includes interest payments of £6m on lease liabilities.

[3] Net debt is an Alternative Performance Measure defined and explained in the Glossary on page 146. Further information on the items in the above reconciliation are provided in Note 19.

Group statement of changes in equity

For the year ended 31 August 2020

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserve	Other reserves[1]	Retained earnings[2]	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 31 August 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**
Impact of adoption of IFRS 16 (Note 29)	–	–	–	–	(22)	(22)	–	(22)
Adjusted balance at 1 September 2019	**33**	**13**	**8**	**(274)**	**433**	**213**	**2**	**215**
Loss for the year	**–**	**–**	**–**	**–**	**(239)**	**(239)**	**–**	**(239)**
Other comprehensive loss:								
Actuarial gains on defined benefit pension schemes (Note 5)	–	–	–	–	11	11	–	11
Cash flow hedges	–	–	–	(2)	–	(2)	–	(2)
Exchange differences on translation of foreign operations	–	–	(22)	–	–	(22)	–	(22)
Total comprehensive loss for the year	**–**	**–**	**(22)**	**(2)**	**(228)**	**(252)**	**–**	**(252)**
Issue of new shares (Note 23)	311	–	–	–	–	311	–	311
Dividends paid (Note 9)	–	–	–	–	(47)	(47)	–	(47)
Net cash flows from non-controlling interests[1]	–	–	–	–	–	–	1	1
Employee share schemes	–	–	–	(3)	–	(3)	–	(3)
Non-controlling interests arising on acquisition (Note 27)	–	–	–	–	–	–	2	2
Balance at 31 August 2020	**344**	**13**	**(14)**	**(279)**	**158**	**222**	**5**	**227**

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserve	Other reserves[1]	Retained earnings	Total equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
Balance at 1 September 2018	**32**	**13**	**(2)**	**(268)**	**437**	**212**	**–**	**212**
Profit for the year	**–**	**–**	**–**	**–**	**106**	**106**	**2**	**108**
Other comprehensive income/(loss):								
Actuarial losses on defined benefit pension schemes	–	–	–	–	(3)	(3)	–	(3)
Cash flow hedges	–	–	–	1	–	1	–	1
Exchange differences on translation of foreign operations	–	–	10	–	–	10	–	10
Total comprehensive income for the year	**–**	**–**	**10**	**1**	**103**	**114**	**2**	**116**
Recognition of share-based payments	–	–	–	–	6	6	–	6
Premium on issue of shares (Note 23)	1	–	–	–	–	1	–	1
Dividends paid (Note 9)	–	–	–	–	(60)	(60)	–	(60)
Distributions to non-controlling interests	–	–	–	–	–	–	(2)	(2)
Employee share schemes	–	–	–	(7)	–	(7)	–	(7)
Purchase of own shares for cancellation (Note 23)	–	–	–	–	(31)	(31)	–	(31)
Non-controlling interests arising on acquisition	–	–	–	–	–	–	2	2
Balance at 31 August 2019	**33**	**13**	**8**	**(274)**	**455**	**235**	**2**	**237**

1 For further analysis of Other reserves, see Note 26.

2 The Group has initially applied IFRS 16 at 1 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application (see Note 29).

Notes to the financial statements

1. Accounting policies

a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRS IC') interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These are the standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The directors are required to assess whether the Group can continue to operate for the 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis. The directors report that they have assessed the principal risks, reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, and borrowing facilities. The directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these financial statements, having undertaken a rigorous assessment of the financial forecasts particularly in the context of the ongoing Covid-19 pandemic, for the reasons set out below.

The Strategic report describes the Group's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Group. The Group acted quickly to mitigate the impact of Covid-19 by taking steps to strengthen our balance sheet and to ensure access to further funding. As announced on 6 April 2020, we raised c£160m of additional funding via a share placing. In addition, we agreed a £120m 12-month (plus 7 months at the option of the Group) committed banking facility.

As at 19 November 2020, the Group has in place a five-year committed multi-currency revolving credit facility of £200m maturing on 8 December 2023. In addition the Group has a further £120m multi-currency revolving credit facility as described above which is in place until 8 November 2021. As at 19 November 2020, the Group is not drawn down on either of these facilities.

The Group has a four-year committed £200m term loan, that was drawn down at the time of the acquisition of InMotion. This loan is due to mature on 29 October 2022. In addition, during the year, the Group agreed an additional committed term loan of £200m which matures in October 2022.

In making the going concern assessment, the directors have modelled a number of scenarios for the period to February 2022. The base case scenario is consistent with the Board approved 2021 Budget, adjusted for the lockdown across England announced by the UK Government on 31 October and the three year plan. These reflect our expectations of ongoing challenging trading conditions, with sales remaining significantly below pre-Covid levels for the duration of the going concern period.

In light of the considerable uncertainty surrounding the ongoing impact of Covid-19, a downside scenario has also been modelled, applying severe but plausible assumptions to the base case. This scenario assumes a further two-month lockdown in addition to the November lockdown, with High Street store sales down over 80 per cent from November 2020 through to January 2021 compared to the equivalent 2019 levels and down over 50 per cent in February 2021. We then assume a gradual recovery, reflecting our experience of the post-lockdown recovery period from earlier in the year, to a position in February 2022 where High Street store sales are down over 20 per cent compared to February 2019. This scenario assumes that our 207 Post Office stores and 130 hospital stores continue to trade during a second national lockdown reflecting our experience from the national lockdown earlier in 2020. In Travel UK we have assumed a sales reduction of over 80 per cent from November 2020 through to January 2021 compared to last year and down over 70 per cent in February 2021. We then assume a gradual recovery, reflecting our experience of the post-lockdown recovery period from earlier in the year, to a position in February 2022 where Travel store sales are down over 30 per cent compared to February 2019. The severe but plausible scenario includes a number of mitigating actions including further savings in store and head office payrolls, a reduction in inventory purchases, a reduction in discretionary spend and reductions in capital expenditure across High Street and Travel.

In both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities, as described above.

The covenants on the above facilities, tested half-yearly, are based on fixed charges cover and net borrowings. In response to the impact of the Covid-19 pandemic on the Group's operations, the Group has secured waivers on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021.

The Group will next be tested on its covenants at 28 February 2022, over 15 months from the date of signing these accounts. Under current conditions, it is likely that the Group would require a further waiver or amendment to its February 2022 covenant tests. If this situation prevailed, the Group would engage its lending banks in advance of this date to secure a further covenant waiver. Throughout the pandemic we have received excellent support from our banks who have granted covenant waivers for February 2021 and August 2021. The Strategic report also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position. Note 22 outlines the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures.

As a result of the above analysis, the directors believe that the Group has sufficient financial resources to continue in operation and meet its obligations as they fall due for the 12 months from the date of approval of these financial statements.

Notes to the financial statements continued

1. Accounting policies (continued)

a) Basis of preparation

New standards

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

IFRS 16 (including amendments)	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendment to IFRS 9	Financial Instruments – Prepayment features with negative compensation
Amendments to IAS 28	Investments in associates – Long-term interests in associates and joint ventures
Amendments to IAS 19	Employee benefits – Plan amendment, curtailment or settlement
Annual improvements	2015-2017 cycle

The Group has considered the above new standards and amendments and has concluded that, with the exception of IFRS 16, they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

The impact of the adoption of IFRS 16 is described in Note 29. The revised accounting policy in respect of IFRS 16 is described in Note 1(g).

At the date of authorisation of these consolidated Group financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IAS 16	Proceeds before intended use
Amendments to IAS 37	Onerous contracts – Cost of fulfilling a contract

Amendments references to the Conceptual Framework in IFRS Standards

Annual Improvements to IFRS Standards 2018-2020

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.

Alternative Performance Measures ('APMs')

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. These APMs are not defined or specified under the requirements of IFRS.

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

The key APMs that the Group uses include: Headline profit before tax, Headline earnings per share, High Street and Travel trading profit, Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Net debt/funds and free cash flow. These APMs are set out in the Glossary on page 146 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

Non-underlying items

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items, that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, amortisation of acquired intangibles assets, costs relating to business combinations, impairment charges and onerous lease charges, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. The Group believes that the separate disclosure of these costs provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

Further details of the non-underlying items are provided in Note 4.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except for certain financial instruments, share-based payments and pensions that have been measured at fair value. The financial information is rounded to the nearest million, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout both years except as noted above, are set out on the following pages.

1. Accounting policies (continued)

Basis of consolidation

The consolidated Group financial statements incorporate the financial statements of WH Smith PLC and all its subsidiaries.

Subsidiary undertakings are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration transferred, after taking into account recognised goodwill, the excess is immediately recognised in the income statement. The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate. Non-controlling interests are stated at the non-controlling interests' proportion of the fair values of the assets and liabilities recognised.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group.

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement. Management has assessed whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. In assessing this joint control no significant judgements have been necessary.

The Group's share of results of joint ventures is included in the Group consolidated income statement using the equity method of accounting. The results of joint ventures in the current and prior year are not material to disclose. Investments in joint ventures are carried in the Group consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value.

If the Group's share of losses in the joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so, or made payments on behalf of the joint venture.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services to customers (which is the most significant revenue stream), sale of wholesale goods to franchisees, and commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Revenue is recognised when performance obligations have been met and control of the goods has transferred to the customer. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store, online or through franchisees, where there is a single performance obligation. Revenue generated from different store formats are considered to be a single revenue stream and are subject to the same underlying economic risks.

For in-store transactions, control of the goods is deemed to have transferred to the customer at the point of sale. For online transactions and wholesale sale of goods to franchisees, control is deemed to have transferred to the customer at the point of delivery of the goods.

Revenue on in-store transactions is recognised at the point of sale. Revenue in respect of online and wholesale (including sales directly to franchisees) transactions is recognised on the transfer of control, which is on delivery of the goods to the customers. Revenue in respect of gift cards sold by the Group is recognised on the redemption of the gift card either in-store at the point of sale or on delivery for online redemptions. Franchise and concession fees and commission are recognised on the accruals basis in accordance with the substance of the contracts in place, which is typically on the basis of fixed fees spread evenly over the contract period, and/or variable amounts earned based on revenue.

c) Supplier income

The Group receives income from its suppliers in the form of supplier incentives and discounts (collectively 'Supplier incomes'). These incomes are recognised as a deduction from cost of sales on an accruals basis as they are earned for each supplier contract. The level of complexity and judgement is low in relation to establishing the accounting entries and estimates, and the timing of recognition.

Supplier incomes that have been invoiced but not received at the period end are recognised in Trade Receivables, or in Trade Payables where we have the right of offset. Incomes that have been earned but not yet invoiced are accrued and are recorded in Accrued income.

The types of supplier income recognised by the Group, and the recognition policies are detailed overleaf.

Notes to the financial statements continued

1. Accounting policies (continued)

c) Supplier income (continued)

Retrospective discounts

Income earned based on sales or purchase volume triggers set by the supplier for specific products over specific periods.

Income is calculated and invoiced based upon actual sales or purchases over the period set out in the supplier agreement, and is recognised in the income statement as it is earned. Where the period of an agreement spans accounting periods, income is recognised based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. The carrying value of inventories is adjusted to reflect unearned elements of supplier income as the product has not yet been sold. This income is subsequently recognised in cost of sales when the product has been sold.

Promotional and marketing activity

Supplier income from promotional and marketing activity includes income in respect of in-store marketing and point of sale, supplying dedicated promotional space or receiving margin support for products on promotion.

Income for promotional and marketing activity is agreed with suppliers for specific periods and products. Income is recognised over the period of the agreement. Income is invoiced when the performance conditions in the supplier agreement have been achieved.

d) Retirement benefit costs

Payments to the WHSmith Group defined contribution pension schemes are recognised as an expense in the income statement as they fall due.

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the United News Shops Retirement Benefits Scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the Group statement of comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from the calculation is limited to the present value of available refunds and reductions in future contributions to the plan. Where the Group is considered to have a contractual obligation to fund the pension scheme above the accounting value of the liabilities, an onerous obligation is recognised.

e) Intangible assets

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree. Costs directly attributable to the business combination are recognised in the income statement in the period they are incurred. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and their fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

Where less than the entire equity interest of a subsidiary is acquired, the non-controlling interest is recognised at the non-controlling interest's share of the net assets of the subsidiary. Changes in the Group's ownership percentage of subsidiaries are accounted for within equity.

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to the cash-generating units (CGUs) that have benefited from the acquisition. Each store is considered to be a CGU. Goodwill is allocated to either the group of CGUs making up the Travel or High Street operating segments, as this is the lowest level at which management monitor goodwill. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the group of cash-generating units is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the units and then to the other assets of the units on a pro-rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Other intangible assets

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, and is recorded in Distribution costs. The amortisation period for capitalised software costs is over a maximum period of five years.

1. Accounting policies (continued)

e) Intangible assets (continued)
Other intangible assets are valued at cost and amortised over their useful life, and the amortisation is recorded in Administrative expenses, unless the asset can be demonstrated to have an indefinite life. Other intangible assets, such as brands, arising on business combinations are amortised over their useful lives. Amortisation of other intangible assets arising on business combinations is included in non-underlying costs. The useful life and residual value of all intangible assets are determined at the time of acquisition and reviewed annually for appropriateness.

All intangible assets are reviewed for impairment in accordance with IAS 36 Impairment of Assets, when there are indications that the carrying value may not be recoverable. Assets with indefinite useful lives are tested for impairment annually.

f) Property, plant and equipment
Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount. Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold properties	– over 20 years
Leasehold improvements	– shorter of the lease period and the estimated remaining economic life
Fixtures and fittings	– up to ten years
Equipment and vehicles	– up to ten years

The residual values of property, plant and equipment are reassessed on an annual basis.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

g) Leasing
The Group has applied IFRS 16 using the modified retrospective transition approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below and on the following page.

Policies applicable from 1 September 2019

The Group as a lessee
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index, rent review or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Notes to the financial statements continued

1. Accounting policies (continued)

g) Leasing (continued)

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the lease term. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated balance sheet.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The lease contracts that include variable rents based on sales, which is the case with many of our retail concession contracts, are not included in the measurement of the lease liability and the right-of-use asset. The related rents payable are recognised as an expense in the period in which the event or condition that triggers those payables occurs and are included in profit or loss (see Note 3).

The Group has applied the Amendment to IFRS 16 issued in June 2020, and endorsed by the EU in October 2020. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2021, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset.

For leases acquired as part of a business combination, the lease liability is measured at the present value of the remaining lease payments. The right-of-use asset is measured at the same amount as the lease liability adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.

The Group as a lessor

The Group enters into lease agreements as an intermediate lessor with respect to some of its property leases. It accounts for the head lease and the sublease as two separate contracts. The sublease is classified as finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rents receivable from operating leases are recognised on a straight-line basis over the term of the relevant lease.

Policies applicable prior to 1 September 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. These assets are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

h) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Consignment stocks are not included within stocks held by the Group. Inventories are valued using a weighted average cost method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs (including a deduction for applicable supplier income) in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution. Cost of inventories includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Provisions are made for obsolescence, markdown below cost and shrinkage.

i) Government grants

Government grants are not recognised until there is reasonable assurance that the grants will be received and that the Group will comply with any conditions attached to them.

Government grants are recognised in the income statement over the same period as the costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grant income is disclosed in Note 3. In addition, the Group has benefited from government assistance in the form of business rates relief of £20m in the year (2019: £nil).

1. Accounting policies (continued)

j) Provisions
Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

k) Foreign currencies
The consolidated financial statements are presented in pounds sterling (GBP), which is WH Smith PLC's functional and presentation currency. Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated into sterling at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

l) Taxation
The tax expense/credit included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable or receivable based on the taxable profit or loss for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

m) Financial instruments
Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

i) Initial recognition and subsequent measurement

(a) Financial assets

Trade and other receivables
Trade receivables are measured at fair value at initial recognition, do not carry any interest and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement.

Allowances for doubtful debts are recognised based on management's expectation of losses, without regard to whether an impairment trigger has occurred or not (an 'expected credit loss' model under IFRS 9).

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

(b) Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method. Transaction fees such as arrangement fees associated with the securing of financing are capitalised and amortised through the income statement over the term of the relevant facility. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the financial statements continued

1. Accounting policies (continued)

m) Financial instruments (continued)

i) Initial recognition and subsequent measurement (continued)

(b) Financial liabilities and equity (continued)

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

ii) Derecognition of financial assets and financial liabilities

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iii) Offsetting

Financial assets and financial liabilities are offset and the net position presented in the balance sheet when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

iv) Impairment

The Group recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost. These are always measured at an amount equal to lifetime ECL. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both qualitative and quantitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

v) Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange movements in accordance with its risk management policies. The Group primarily uses forward foreign currency contracts to manage its exposure to changes in foreign exchange rates. The Group does not hold or use derivative financial instruments for speculative purposes. Further details of the Group's risk management policies are provided in Note 22.

These instruments are initially recognised at fair value on the trade date and are subsequently measured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the items being hedged.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a highly probable forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period as the hedged item.

For an effective hedge of an exposure to changes in the fair value of a recognised asset or liability, changes in fair value of the hedging instrument are recognised in profit or loss at the same time that the recognised asset or liability that is being hedged is adjusted for movements in the hedged risk and that adjustment is also recognised in profit or loss in the same period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

1. Accounting policies (continued)

n) Share schemes

WHSmith Employee Benefit Trust

The shares held by the WHSmith Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an Other reserve.

Share-based payments

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

For cash-settled share-based payments, a liability is recognised at the current fair value determined at each balance sheet date, taking into account performance conditions and the extent to which employees have rendered service to date, with any changes in fair value recognised in the profit or loss for the year.

o) Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

p) Share capital, Share premium and Other reserves

Ordinary shares are classified as equity. Share premium arises on the excess between the fair value of the shares issued and the par value of the shares issued. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, against share premium. The par value of shares repurchased and cancelled under the Group's share buyback programme is reclassified from Share capital to the Capital redemption reserve.

For a description of Other reserves, see Note 26.

q) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting judgements and sources of estimation uncertainty in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to the classification of items as non-underlying, assessment of lease substitution rights, determination of the lease term, determination of the incremental borrowing rate, valuation of retirement benefit obligations, valuation of goodwill and other non-current assets and inventory valuation.

Critical accounting judgements

Non-underlying items

The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, significant items related to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. The Group believes that they provide additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

The classification of items as non-underlying requires significant management judgement. The definition of non-underlying items has been applied consistently year on year. Further details of non-underlying items are provided in Note 4.

IFRS 16 Lease accounting

Substantive substitution rights

Judgement is required in determining whether a contract meets the definition of a lease under IFRS 16. Management has determined that certain retail concession contracts give the landlord substantive substitution rights because the contract gives the landlord rights to relocate the retail space occupied by the Group. In such cases, management has concluded that there is not an identified asset and therefore such contracts are outside the scope of IFRS 16. For these contracts, the Group recognises the payments as an operating expense on a straight-line basis over the term of the contract unless another systematic basis is more representative of the time pattern in which economic benefits from the underlying contract are consumed. The value of such contracts excluded from the lease liability on transition to IFRS 16 is £412m, see Note 29 (i).

Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

Determination of Incremental Borrowing Rate ('IBR')

The application of IFRS 16 requires judgement around the calculation of the IBR. This is determined on a lease-by-lease basis based on the right-of-use asset in a similar economic environment and taking into account the risk-free rate, adjusted for factors such as credit rating and lease term.

Notes to the financial statements continued

1. Accounting policies (continued)

q) Critical accounting judgements and key sources of estimation uncertainty (continued)

Sources of estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. Further information and sensitivity analysis in respect of the Group's retirement benefit obligation is included in Note 5.

Goodwill impairment review

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates. A sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment of goodwill in the next financial year (see Note 11).

Further information in respect of the Group's goodwill and other intangible assets is included in Note 11.

Intangible assets, property, plant and equipment and right-of-use asset impairment reviews

Property, plant and equipment, right-of use assets and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

The key assumptions in the value-in-use calculations include growth rates of revenue and expenses, discount rates and likelihood of lease renewal. Due to the ongoing Covid-19 global pandemic, there is an increased level of uncertainty in all of the above assumptions such that a reasonably possible change in these assumptions could lead to a material change in the carrying value of assets.

Further information in respect of the Group's property, plant and equipment and right-of-use assets is included in Notes 12 and 13 respectively.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of sell through rates, and the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made. A description of the Group's accounting policy in respect of inventories is included in Note 1(h). A sensitivity analysis has been carried out on the calculation of inventory provisions, including consideration of the uncertainties arising from Covid-19. The key assumption driving the stock provision calculation is forecast revenue. A 10 per cent change in the revenue assumptions applied in the provision calculation, representing a reasonably possible outcome, would reduce the net realisable value of inventories by £2m.

2. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments – Travel and High Street. The Travel operating segment includes both MRG and InMotion from the dates of acquisition, as the MRG and InMotion operations share similar economic characteristics with Travel and are managed within the Travel segment. For further information in relation to the acquisition of MRG in the current year, and InMotion in the prior year, see Note 27.

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. The information presented to the Board is prepared in accordance with the Group's IFRS accounting policies, with the exception of IFRS 16, and is shown below as Headline information in Section b). A reconciliation to statutory measures is provided below in accordance with IFRS 8, and in the Glossary on page 146 (Note A2).

a) Group revenue

£m	2020	2019
Travel	**553**	817
High Street	**468**	580
Group revenue	**1,021**	1,397

b) Group results

£m	2020				2019		
	Headline[1]	Non-underlying items (pre-IFRS 16)	IFRS 16	Total	Headline	Non-underlying items	Total
Travel trading (loss)/profit	**(33)**	**–**	**6**	**(27)**	117	–	117
High Street trading (loss)/profit	**(10)**	**–**	**6**	**(4)**	60	–	60
Group (loss)/profit from trading operations	**(43)**	**–**	**12**	**(31)**	177	–	177
Unallocated costs	**(17)**	**–**	**–**	**(17)**	(17)	–	(17)
Group operating (loss)/profit before non-underlying items	**(60)**	**–**	**12**	**(48)**	160	–	160
Non-underlying items (Note 4)	**–**	**(157)**	**(55)**	**(212)**	–	(20)	(20)
Group operating (loss)/profit	**(60)**	**(157)**	**(43)**	**(260)**	160	(20)	140
Finance costs	**(9)**	**–**	**(11)**	**(20)**	(5)	–	(5)
(Loss)/profit before tax	**(69)**	**(157)**	**(54)**	**(280)**	155	(20)	135
Income tax credit/(expense)	**16**	**18**	**7**	**41**	(28)	1	(27)
(Loss)/profit for the year	**(53)**	**(139)**	**(47)**	**(239)**	127	(19)	108

[1] Presented on a pre-IFRS 16 basis. Alternative Performance Measures are defined and explained in the Glossary on page 146.

Included within Travel revenue and trading (loss)/profit is International revenue of £209m (2019: £252m) and International trading loss of £(32)m (2019: profit of £20m). International revenue includes revenue from the USA of £116m (2019: £94m) and revenue from Australia of £38m (2019: £57m).

c) Other segmental items

	2020				2019		
£m	Travel	High Street	Unallocated	Group	Travel	High Street	Group
Capital additions[1]	**48**	**24**	**–**	**72**	35	30	65
Depreciation and amortisation of non-current assets[1]	**(32)**	**(23)**	**–**	**(55)**	(25)	(25)	(50)
Depreciation of right-of-use assets	**(52)**	**(52)**	**(6)**	**(110)**	–	–	–
Impairment of non-current assets[2]	**–**	**–**	**(40)**	**(40)**	(1)	–	(1)
Impairment of right-of-use assets[3]	**–**	**–**	**(95)**	**(95)**	–	–	–

[1] Excludes right-of-use assets under IFRS 16.

[2] Impairment charges relating to non-current assets for the year ended 31 August 2020 as a result of the impact of Covid-19 which have been included in Non-underlying items as described in Note 4.

[3] Impairment charges relating to right-of-use assets for the year ended 31 August 2020 as a result of the impact of Covid-19 which have been included in Non-underlying items as described in Note 4.

Notes to the financial statements continued

3. Group operating profit

£m	2020			2019		
	Headline	Non-underlying items	Total	Headline	Non-underlying items	Total
Revenue	**1,021**	**–**	**1,021**	1,397	–	1,397
Cost of sales	**(441)**	**–**	**(441)**	(552)	–	(552)
Gross profit	**580**	**–**	**580**	845	–	845
Distribution costs[1]	**(538)**	**–**	**(538)**	(592)	–	(592)
Administrative expenses	**(92)**	**–**	**(92)**	(100)	–	(100)
Other income[2]	**2**	**–**	**2**	7	–	7
Non-underlying items (Note 4)	**–**	**(212)**	**(212)**	–	(20)	(20)
Group operating (loss)/profit	**(48)**	**(212)**	**(260)**	160	(20)	140

[1] During the year there was no impairment charge (2019: £1m) for property, plant and equipment and other intangible assets included in distribution costs. Impairment charges related to Covid-19 are included in non-underlying items. See Note 4.

[2] *Other income is profit attributable to property and the sale of property, plant and equipment. The prior year includes the sale of a head office building.*

£m	2020	2019
Cost of inventories recognised as an expense	**441**	552
Write-down of inventories in the year	**14**	4
Depreciation of property, plant and equipment	**43**	41
Depreciation of right-of-use assets		
– land and buildings	**105**	–
– other	**5**	–
Amortisation of intangible assets	**12**	9
Impairment of property, plant and equipment	**39**	1
Impairment of right-of-use assets	**95**	–
Impairment of intangibles	**1**	–
(Income)/expenses relating to leasing:		
– expense relating to short-term leases	**22**	–
– expense relating to variable lease payments not included in the measurement of the lease liability	**12**	–
– income relating to Covid-19 rent reductions	**(15)**	–
Net operating lease charges		
– land and buildings	**–**	236
– equipment and vehicles	**–**	–
Other occupancy costs	**49**	69
Staff costs (Note 6)	**217**	248
Government grant income	**(22)**	–
Auditors' remuneration (see below)		

Audit services		
Fees payable to the Group's auditors, included in the income statement, relate to:		
Fees payable to the Group's auditors for the audit of the Group's financial statements	**0.8**	0.5
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.4**	0.1
Total audit and audit-related services	**1.2**	0.6
Non-audit services		
Fees payable to the Group's auditors for other services:		
Reporting accountant services	**0.4**	0.3
All other non-audit services	**0.1**	–
Non-audit fees including taxation and other services	**0.5**	0.3
Total auditors' remuneration	**1.7**	0.9

Included in Administrative expenses is the auditors' remuneration, including expenses, for audit and non-audit services, payable to the Group's auditors PricewaterhouseCoopers LLP and its associates as set out above. A description of the work performed by the Audit Committee is set out in the corporate governance section of the Directors' report and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by auditors.

4. Non-underlying items

Items which are not considered part of the normal operating costs of the business are non-recurring and are considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Further details of non-underlying items are included in Note 1, Accounting policies and in the Strategic report on page 16.

£m	2020	2019
Costs relating to business combinations		
- Transaction costs	**11**	6
- Integration costs	**9**	5
Amortisation of acquired intangible assets	**3**	2
High Street business review	**-**	7
Pension past service cost	**14**	-
Costs directly attributable to Covid-19		
- Impairment of property, plant and equipment	**39**	-
- Impairment of intangible assets	**1**	-
- Impairment of right-of-use assets	**95**	-
- Write-down of inventories	**14**	-
- Restructuring costs	**25**	-
- Other	**1**	-
Non-underlying items, before tax	**212**	20
Tax credit on non-underlying items	**(25)**	(1)
Non-underlying item, after tax	**187**	19

Non-underlying items recognised in the period are as follows:

Costs relating to business combinations
During the year, the Group incurred transaction and integration costs of £20m in relation to the acquisition of Marshall Retail Group ('MRG'), which completed on 20 December 2019. Further information on the acquisition of MRG is included in Note 27.

Amortisation of acquired intangible assets
Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands (see Note 11).

Pension past service cost
Past service cost of £14m has been recognised in the year ended 31 August 2020. This relates to equalisation of pension benefits between men and women over the period from 1 April 1992 to 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a Barber equalisation window of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993. See Note 5.

Costs directly attributable to Covid-19
As described in the Strategic report the Covid-19 pandemic has had a substantial impact on the Group's operations. As a result, the Group has incurred significant costs which have been separately recognised in non-underlying items, in accordance with the Group's accounting policy. The charges have arisen as a direct consequence of Covid-19, and reflect the impact of lost revenues as a result of store closures, and downward revisions to budgeted revenues following government interventions.

Impairment of property, plant and equipment and right-of-use assets
The impact on the Group's operations of Covid-19 is expected to continue during the next year and beyond. As a result, the Group has carried out a review for potential impairment across the entire store portfolio. The impairment review compared the value-in-use of individual store cash-generating units, based on management's assumptions regarding likely future trading performance (taking into account the effect of Covid-19) to the carrying values at 31 August 2020. Following this review, a charge of £135m was recorded within non-underlying items for impairment of retail store assets, of which £39m relates to property, plant and equipment, £1m relates to intangible assets and £95m relates to right-of-use assets. Refer to Note 12 for details of impairment of store cash-generating units. The impairment recognised on a pre-IFRS 16 basis is provided in the Glossary on page 146.

Notes to the financial statements continued

4. Non-underlying items (continued)

Write-down of inventories
The Group assesses the recoverability of the carrying value of inventories at every reporting period and, where the expected recoverable amount is lower than the carrying value, a provision is recorded. Provisions of £9m have been recorded against inventory, which relates to dated and perishable stock and stock subject to obsolescence such as technology and some apparel where the sell through rate has significantly reduced due to store closures and lower footfall. In addition, since the outbreak of Covid-19 the Group has incurred stock write-offs of £5m mainly relating to perishable and dated product. The Group has recognised these charges as non-underlying as they meet the Group's definition of non-underlying.

Restructuring costs
As a result of the impact of Covid-19 on passenger numbers and lower footfall on the UK high street, in August 2020 the Group announced a review of store operations across both our Travel and High Street businesses. The charge of £21m is principally attributable to redundancies and restructuring costs relating to that and other corporate office restructuring undertaken by the Group. In addition the Group has incurred £4m relating to costs of exiting the Paris bookshop and the Brazil joint venture both of which were as a result of Covid 19. These costs are presented as an adjusting item as they are part of a restructuring programme, and are considered material and one-off in nature.

A tax credit of £25m has been recognised in relation to the above items.

Prior year non-underlying items
Non-underlying items in 2019 relate to transaction and integration costs of £11m in relation to the acquisition of InMotion, which completed on 30 November 2018, amortisation of acquired intangible assets of £2m (primarily relating to the InMotion brand), and costs of £7m relating to the completed High Street business review announced in October 2018.

5. 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 5 a) i).

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

£m	2020	2019
WHSmith Pension Trust	**(3)**	(3)
United News Shops Retirement Benefits Scheme	**(1)**	(1)
Retirement benefit obligation recognised in the balance sheet	**(4)**	(4)
Recognised as:		
Current liabilities	**(1)**	(1)
Non-current liabilities	**(3)**	(3)

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 £1,412m, as at 31 August 2020, managed by third party investment managers. In September 2005, the Pension Trust Trustee adopted a Liability Driven Investment (LDI) policy where the assets in the investment fund were invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest rates and inflation. The LDI structure that is in place has a number of inflation and interest rate hedges, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.

The principal risks associated with the Group's defined benefit pension arrangements are as follows:

Longevity risk
Liabilities are sensitive to life expectancy, with increases in life expectancy leading to an increase in the valuation of liabilities.

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes(continued)

i) The WHSmith Pension Trust (continued)

Interest rate and inflation risk

Liabilities are sensitive to movements in interest rates and inflation, with lower interest rates or higher inflation leading to an increase in the valuation of liabilities. As a result of the LDI policy outlined above, these risks are largely hedged.

An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Company is represented on this Committee. Although investment decisions are the responsibility of the Trustee, the Group is an active participant of the investment sub-committee to ensure that pension plan risks are managed efficiently.

The risk of failure of counterparties and of the investment manager is monitored regularly by the Committee. The Trustees have the right to determine the level of contributions and the Company has agreed with the Trustees a deficit funding schedule.

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 2020 by independent actuaries using the projected unit credit method and has been completed. At 31 March 2020 the deficit was £9m; at 31 March 2017 the deficit was £11m. The Group has agreed a continuation of the annual funding schedule with the Trustees from March 2020 for the following 5 years, which includes the deficit recovery contributions and other running costs of just under £3m. During the year ending 31 August 2020, the Group made a contribution of £3m to the WHSmith Pension Trust (2019: £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 2021 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	2020	2019
Present value of the obligations	**(1,144)**	(1,107)
Fair value of plan assets	**1,412**	1,461
Surplus before consideration of asset ceiling	**268**	354
Amounts not recognised due to effect of asset ceiling	**(268)**	(354)
Additional liability recognised due to minimum funding requirements	**(3)**	(3)
Retirement benefit obligation recognised in the balance sheet	**(3)**	(3)

In accordance with the requirements of IFRIC 14 we have recognised the schedule of contributions as a liability of £3m (2019: £3m). The defined benefit pension schemes are closed to further accrual. The Group does not have an unconditional right to derive economic benefit from any surplus, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £268m (2019: £354m) available on a reduction of future contributions is £nil (2019: £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.

Income statement

The amounts recognised in the income statement were as follows:

£m	2020	2019
Net interest cost on the defined benefit liability	–	–
Past service cost	**(14)**	–
	(14)	–

The net interest cost has been included in finance costs (Note 7). Actuarial gains and losses have been reported in the statement of comprehensive income.

Past service costs of £14m have been recognised in relation to equalisation of pension benefits relating to a period between 1 April 1992 and 29 July 1993 ('Barber equalisation'). The WHSmith Pension Trust has historically been administered assuming gender equalisation was achieved on 1 April 1992, and thus a 'Barber window' of 17 May 1990 to 1 April 1992 applied. A new Trust Deed and Rules reflecting the equalisation of normal retirement ages at 65 was executed on 29 July 1993. It has since been determined that Barber equalisation was not effective until 29 July 1993. Accordingly, this past service cost is the expected cost of providing these benefits based on a normal retirement age of 60 rather than 65 for the period between 1 April 1992 and 29 July 1993.

This past service cost has been disclosed within Non-underlying items, in accordance with the accounting policy in Note 1.

Notes to the financial statements continued

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes(continued)

i) The WHSmith Pension Trust (continued)

Statement of comprehensive income

Total expense recognised in the statement of comprehensive income ('SOCI'):

£m	2020	2019
Actuarial gain/(loss) on defined benefit obligations arising from experience	**(53)**	2
Actuarial (loss)/gain on defined benefit obligations arising from changes in financial assumptions	**(12)**	(165)
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	**22**	22
Total actuarial (loss)/gain before consideration of asset ceiling	**(43)**	(141)
Return on plan assets excluding amounts included in net interest cost	**(38)**	190
Loss resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	**92**	(52)
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	**11**	(3)

A credit of £nil (2019: £nil) was recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

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:

	2020				2019			
£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	**1,461**	**(1,107)**	**(357)**	**(3)**	1,277	(983)	(297)	(3)
Current service cost	**–**	**–**	**–**	**–**	–	–	–	–
Past service cost	**–**	**(14)**	**–**	**(14)**	–	–	–	–
Interest income/(expense)	**26**	**(20)**	**(6)**	**–**	35	(27)	(8)	–
Actuarial gains/(losses)	**(38)**	**(43)**	**92**	**11**	190	(141)	(52)	(3)
Contributions from the sponsoring companies	**3**	**–**	**–**	**3**	3	–	–	3
Benefits paid	**(40)**	**40**	**–**	**–**	(44)	44	–	–
At 31 August	**1,412**	**(1,144)**	**(271)**	**(3)**	1,461	(1,107)	(357)	(3)

The actual return on scheme assets was a loss of £12m (2019: gain of £225m). During the period, asset returns underperformed the discount rate, leading to an asset remeasurement loss of £38m. Actuarial losses on scheme liabilities have arisen due to: experience losses of £53m, as a result of the triennial valuation at 31 March 2020, which applied membership and other demographic movements over the last 3 years; the lower discount rate and RPI assumptions, offset by higher CPI inflation assumptions resulting in a loss of £12m; and changes in demographic assumptions that led to a £22m reduction in plan liabilities.

The increase in scheme liabilities combined with a decrease in the scheme assets, resulted in a decrease of £86m in the unrecognised IAS 19 surplus, to £268m.

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

	2020				2019			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	**1,157**	**–**	**1,157**	**82**	976	–	976	67
– Corporate bonds								
UK	**286**	**–**	**286**	**20**	223	–	223	15
Non-UK	**342**	**–**	**342**	**24**	211	–	211	14
Investment funds[1]	**324**	**188**	**512**	**36**	–	90	90	6
Derivatives								
– Interest rate swaps	**–**	**28**	**28**	**2**	–	(369)	(369)	(25)
– Inflation swaps	**–**	**(143)**	**(143)**	**(10)**	–	258	258	18
– Other[2]	**–**	**(530)**	**(530)**	**(37)**	–	18	18	1
Cash and cash equivalents[3]	**(240)**	**–**	**(240)**	**(17)**	54	–	54	4
Total	**1,869**	**(457)**	**1,412**	**100**	1,464	(3)	1,461	100

[1] These actively managed pooled funds seek to provide long-term positive returns through diversified assets and strategies.

[2] Other derivatives include asset swap contracts and open repurchase agreements.

[3] The negative cash and cash equivalents balance relates to our obligation to return cash collateral.

No amount is included in the market value of assets relating to either financial instruments or property occupied by the Group.

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

%	2020	2019
Rate of increase in pension payments	**3.04**	3.13
Rate of increase in deferred pensions	**2.30**	2.20
Discount rate	**1.75**	1.85
RPI inflation assumption	**3.10**	3.20
CPI inflation assumption	**2.30**	2.20

The mortality assumptions in years underlying the value of the accrued liabilities for 2020 and 2019 are:

	2020		2019	
Years	**Male**	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**22.7**	**23.8**	22.6	24.0
Member currently aged 45	**23.3**	**25.2**	23.5	25.6

Sensitivity to changes in assumptions

The valuation of the retirement benefit obligation is considered a significant source of estimation uncertainty, see Note 1(q), and therefore changes in assumptions can have a significant effect on the amounts recognised in the financial statements. Sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 August 2020, while keeping all other assumptions consistent; in practice, changes in some of the assumptions may be correlated.

£m	Effect on liabilities at 31 August 2020
Discount rate +/- 0.1% per annum	**-21/+21**
Inflation assumptions +/- 0.1% per annum	**+19/-19**
Life expectancy +/- 1 year	**+55/-55**

Notes to the financial statements continued

5. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

ii) United News Shops Retirement Benefits Scheme

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

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

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

£m	2020	2019
Present value of the obligations	**(8)**	(8)
Fair value of plan assets	**7**	7
Retirement benefit obligation recognised in the balance sheet	**(1)**	(1)

There was a credit of £nil (2019: £nil) recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £4m for the year ended 31 August 2020 (2019: £5m).

6. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2020	2019
Wages and salaries	**200**	222
Social security costs	**13**	15
Other pension costs	**4**	5
Share-based payments	**–**	6
Total Group	**217**	248

b) Employee numbers

The monthly average total number of employees (including executive directors) was:

	2020	2019
Total retailing	**14,475**	14,286
Support functions	**39**	35
Total Group	**14,514**	14,321

7. Finance costs

£m	2020	2019
Interest payable on bank loans and overdrafts	**9**	5
Interest on lease liabilities	**11**	–
Net interest cost on defined benefit pension liabilities	**–**	–
	20	5

Interest expense on lease liabilities of £11m has been recorded for the current year, as a result of the adoption of IFRS 16 'Leases'. Refer to Note 29 for details of adoption of IFRS 16.

8. Income tax

£m	2020	2019
Tax on (loss)/profit	**(5)**	32
Standard rate of UK corporation tax 19.00% (2019: 19.00%)		
Adjustment in respect of prior year UK corporation tax	**(6)**	(4)
Total current tax (credit)/expense	**(11)**	28
Deferred tax – current year (Note 18)	**(7)**	(1)
Deferred tax – prior year (Note 18)	**2**	1
Tax on Headline (loss)/profit	**(16)**	28
Tax on non-underlying items – current tax	**(9)**	(1)
Tax on non-underlying items – deferred tax (Note 18)	**(16)**	–
Total tax on (loss)/profit	**(41)**	27

Reconciliation of the taxation credit/expense

£m	2020	2019
Tax on (loss)/profit at standard rate of UK corporation tax 19.00% (2019: 19.00%)	**(53)**	26
Tax effect of items that are not deductible or not taxable in determining taxable (loss)/profit	**15**	5
Unrecognised tax losses	**4**	–
Differences in overseas tax rates	**(3)**	–
Adjustment in respect of prior years	**(4)**	(4)
Total income tax (credit)/expense	**(41)**	27

The effective tax rate, before non-underlying items, was 23 per cent (2019: 18 per cent).

The UK corporation tax rate is 19 per cent effective from 1 April 2017. In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19 per cent (rather than reducing to 17 per cent, as previously enacted). This new law was substantively enacted on 17 March 2020, and the impact of this change is less than £1m.

9. Dividends

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

£m	2020	2019
Dividends		
Final dividend for the year ended 31 August 2018 of 38.1p per ordinary share	**–**	41
Interim dividend for the year ended 31 August 2019 of 17.2p per ordinary share	**–**	19
Final dividend for the year ended 31 August 2019 of 41.0p per ordinary share	**47**	–
	47	60

The Directors have not declared an interim dividend during the year and do not propose a final dividend in respect of the year ended 31 August 2020.

Notes to the financial statements continued

10. (Loss)/earnings per share

a) Loss/earnings

£m	2020	2019
(Loss)/profit for the year, attributable to equity holders of the parent	**(239)**	106
Non-underlying items (Note 4)	**187**	19
Headline (loss)/profit for the year, attributable to equity holders of the parent	**(52)**	125

b) Weighted average share capital

Millions	2020	2019
Weighted average ordinary shares in issue	**120**	108
Less weighted average ordinary shares held in ESOP Trust	**–**	–
Weighted average shares in issue for earnings per share	**120**	108
Add weighted average number of ordinary shares under option	**–**	1
Weighted average ordinary shares for diluted earnings per share	**120**	109

c) Basic and diluted (Loss)/earnings per share

Pence	2020	2019
Basic (loss)/earnings per share	**(199.2)**	98.1
Adjustment for non-underlying items	**155.9**	17.6
Headline basic (loss)/earnings per share	**(43.3)**	115.7

Pence	2020	2019
Diluted (loss)/earnings per share	**(199.2)**	97.2
Adjustment for non-underlying items	**155.9**	17.5
Headline diluted (loss)/earnings per share	**(43.3)**	114.7

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. The calculation of EPS on a pre-IFRS 16 basis is provided in the Glossary on page 146.

11. Intangible assets

£m	Goodwill	Brands and franchise contracts	Tenancy rights	Software	Total
Cost					
At 1 September 2019	176	16	13	109	314
Additions	–	–	–	11	11
Acquisitions (Note 27)	258	29	–	1	288
Disposals	–	–	–	(25)	(25)
Foreign exchange	(16)	(2)	–	–	(18)
At 31 August 2020	**418**	**43**	**13**	**96**	**570**
Accumulated amortisation					
At 1 September 2019	–	1	8	80	89
Amortisation charge	–	3	–	9	12
Impairment charge	–	–	–	1	1
Disposals	–	–	–	(25)	(25)
Foreign exchange	–	–	–	–	–
At 31 August 2020	**–**	**4**	**8**	**65**	**77**
Net book value at 31 August 2020	**418**	**39**	**5**	**31**	**493**
Cost					
At 1 September 2018	41	1	13	97	152
Additions	–	–	–	11	11
Acquisitions (Note 27)	128	15	–	1	144
Foreign exchange	7	–	–	–	7
At 31 August 2019	**176**	**16**	**13**	**109**	**314**
Accumulated amortisation					
At 1 September 2018	–	–	8	72	80
Amortisation charge	–	1	–	8	9
Impairment charge	–	–	–	–	–
Foreign exchange	–	–	–	–	–
At 31 August 2019	**–**	**1**	**8**	**80**	**89**
Net book value at 31 August 2019	**176**	**15**	**5**	**29**	**225**

Additions to goodwill in the year relate to the acquisition of Marshall Retail Group. On 20 December 2019, the Group acquired the entire issued share capital of Marshall Retail Group ('MRG'), for a total cash consideration of USD $402m (£317m) resulting in the recognition of goodwill of £258m, including an £8m loss on a forward contract used to hedge the exposure on the US dollar purchase consideration. The goodwill arising on the acquisition of MRG has been allocated to the Travel segment. See Note 27 for further information.

Goodwill of USD $83m (£62m) relating to the acquisition of InMotion in 2018 is expected to be deductible for tax purposes in the future.

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2020	2019
Travel	**403**	161
High Street	**15**	15
	418	176

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2019: £4m), representing certain rights under tenancy agreements, which include the right to renew leases, therefore no amortisation has been charged. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period. These assets are reviewed annually for indicators of impairment.

Notes to the financial statements continued

11. Intangible assets (continued)

Impairment of goodwill and intangible assets

The Group tests goodwill for impairment annually or where there is an indication that goodwill might be impaired. For impairment testing purposes, the Group has determined that each store is a separate CGU, and goodwill is allocated to groups of CGUs in a manner that is consistent with our operating segments, as this reflects the lowest level at which goodwill is monitored. All goodwill has arisen on acquisitions of groups of retail stores. These acquisitions are then integrated into either the High Street or Travel operating segments as appropriate. Acquired brands are considered together with goodwill for impairment testing purposes, and are therefore considered annually for impairment.

Goodwill has been tested for impairment by comparing the carrying amount of each group of CGUs, including goodwill and acquired brands, with the recoverable amount determined from value-in-use calculations. The value-in-use of each group of CGUs has been calculated using cash flows derived from the Group's latest Board approved budget and three year plan, initially extrapolated to five years and taking into account the projected impact of Covid-19. The forecasts reflect knowledge of the current market, together with the Group's expectations on the future achievable growth and committed store openings. Cash flows beyond the initial forecast period are extrapolated using estimated long-term growth rates.

For certain groups of CGUs, additional adjustments to cash flows have been made during the extrapolation process for an extended period of up to 15 years before calculating a terminal value. This extended period of time is required to establish a normalised cash flow base on which a terminal value calculation can be appropriately calculated. The main reasons for cash flow adjustments include the
need to forecast lease renewals under IFRS 16, and the unwinding of certain cash flow benefits arising from acquisitions in North America.

The key assumptions on which forecast three-year cash flows of the CGUs are based include revenue growth, product mix and operating costs, long-term growth rates and the pre tax discount rate:

- The values assigned to each of the revenue, product mix and operating cost assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the travel and high street retail sectors.
- The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 8.9 per cent.
- The long-term growth rate assumptions are between 0 per cent and 2 per cent.

The value-in-use estimates indicated that the recoverable amount of goodwill exceeded the carrying value for the groups of CGUs. As a result, no impairment has been recognised in respect of the carrying value of goodwill in the year (2019: £nil).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and it is possible that significant changes to these assumptions could lead to an impairment of goodwill and acquired brands. Given the significant uncertainty surrounding the impact of Covid-19 on the Group's operations and on the global economy, management have considered a range of sensitivities on each of the key assumptions, with other variables held constant. The sensitivities include applying a 10 per cent reduction in the revenue assumption in the next financial year from the base cash flow projections, representing a slower recovery from the impact of Covid 19; increases in the discount rate by 1 per cent and reductions in the long-term growth rates to 0 per cent. Under these severe scenarios, the estimated recoverable amount of goodwill and acquired brands still exceeded the carrying value.

The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

12. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2019	15	236	168	120	539
Adjustment on initial application of IFRS 16[1]	–	(3)	(5)	(22)	(30)
At 1 September 2019	15	233	163	98	509
Additions	–	28	23	10	61
Acquisitions (Note 27)	–	18	14	2	34
Disposals	–	(5)	(1)	(1)	(7)
Foreign exchange	–	(2)	(1)	(1)	(4)
At 31 August 2020	**15**	**272**	**198**	**108**	**593**
Accumulated depreciation:					
At 31 August 2019	10	147	103	78	338
Adjustment on initial application of IFRS 16[1]	–	1	(1)	(12)	(12)
At 1 September 2019	10	148	102	66	326
Depreciation charge	–	22	12	9	43
Impairment charge	–	20	14	5	39
Disposals	–	(5)	(1)	(1)	(7)
At 31 August 2020	**10**	**185**	**127**	**79**	**401**
Net book value at 31 August 2020	**5**	**87**	**71**	**29**	**192**
Cost or valuation:					
At 1 September 2018	22	207	149	110	488
Additions	–	26	18	10	54
Acquisitions (Note 27)	–	6	3	1	10
Disposals	(7)	(4)	(3)	(1)	(15)
Foreign exchange	–	1	1	–	2
At 31 August 2019	**15**	**236**	**168**	**120**	**539**
Accumulated depreciation:					
At 1 September 2018	15	134	93	67	309
Depreciation charge	1	16	12	12	41
Impairment charge	–	–	1	–	1
Disposals	(6)	(4)	(3)	(1)	(14)
Foreign exchange	–	1	–	–	1
At 31 August 2019	**10**	**147**	**103**	**78**	**338**
Net book value at 31 August 2019	**5**	**89**	**65**	**42**	**201**

[1] The adjustment is in respect of assets treated as finance leases under the previous standard, IAS 17 'Leases', transferred to right-of-use assets, with a net book value of £15m and impairment charge of £3m on the date of initial application of IFRS 16.

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The significant disruption to trading as a result of the Covid-19 pandemic has been identified as an indicator of impairment, and therefore all CGUs have been tested for impairment as at the balance sheet date.

Notes to the financial statements continued

12. Property, plant and equipment (continued)

Property, plant and equipment and right-of-use assets have been tested for impairment by comparing the carrying amount of each CGU with its recoverable amount determined from value-in-use calculations. It was determined that value in use was higher than fair value less costs to sell as a result of the significant impact on fair values as a result of Covid-19. The value-in-use of each CGU has been calculated using discounted cash flows derived from the Group's latest Board-approved budget and three-year plan, taking into account the projected impact of Covid-19, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth. Cash flows beyond this three-year period are extrapolated using growth rates and inflation rates appropriate to each store's location. Cash flows have been included for the remaining lease life for the specific store. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. Where stores have a relatively short remaining lease life, an extension to the lease has been assumed where management consider it likely that an extension will be granted.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include sales and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer-term growth rates. The forecasts used in the impairment review are based on management's best estimate of revenue reductions versus a 'pre-Covid' base, and the recovery in revenue over the forecast period. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows, and knowledge gained during the pandemic up to the year end date.

The forecasts for the year for our High Street business assume that like-for-like sales will be initially lower by around 25 per cent on average and recover to around 14 per cent below pre-Covid levels by the end of August 2021. The recovery is non-linear and is affected by monthly seasonality.

In Travel UK, revenue is assumed to be down around 65 per cent on average across all formats, recovering to around 40 per cent down by the end of the year. Our International locations outside of North America assume similar levels of decline. In North America, revenue is assumed to be down around 55 per cent in the early part of the next financial year, improving to down 25 per cent by the end of the year.

The second and third years of the three year plan include further gradual recoveries across all locations. Revenue is not assumed to recover to pre-Covid levels within the three year plan period.

The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include the risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 8.9 per cent.

Where the value-in-use was less than the carrying value of the CGU, an impairment of property, plant and equipment and right-of-use asset was recorded. These stores were impaired to their recoverable amount of £203m, which is their carrying value at year end. The Group has recognised an impairment charge of £39m to property, plant and equipment, £1m to intangible assets and £95m to right-of-use assets as a result of impairment testing (2019: £1m). These impairments have been presented as non-underlying items in the current year (see Note 4).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and changes to these assumptions could lead to further impairments to assets. Given the significant uncertainty regarding the impact of Covid-19 on the Group's operations and on the global economy, management have considered sensitivities to the impairment charge as a result of changes to the estimate of future revenues achieved by the stores.

The Group has applied certain sensitivities in isolation to demonstrate the impact on the impairment of changes in key assumptions. The most significant assumption is the revenue assumption. A further decrease in revenue of 10 per cent versus the pre-Covid base for the year ended 31 August 2021 to reflect a potential slower recovery from the pandemic, with no change to subsequent forecast revenue growth rate assumptions, would result in a £19m increase in the impairment charge of retail store assets in the year ended 31 August 2020. An increase or decrease of 1 per cent in the discount rate would result in an increase or decrease in the impairment charge of £5m.

On 31 October 2020, the UK Government announced a four-week lockdown across England. We have concluded that this is a non-adjusting post balance sheet event. See Note 28 for the estimated financial impact of this announcement.

Other changes in assumptions have been modelled and have shown that any reasonably possible changes would not lead to a significant impact on the impairment charge. Other modelled assumption changes include margin reductions, growth rate reductions or further cost inflation in High Street. In Travel, we have modelled slower recovery in UK and North American airport traffic and reductions in long-term growth rate assumptions.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 146.

13. Right-of-use assets

£m	Land and buildings	Other	Total
At 1 September 2019	439	18	457
Additions	98	–	98
Acquisitions (Note 27)	108	–	108
Modifications and remeasurements	(35)	–	(35)
Disposals	(2)	–	(2)
Depreciation charge	(105)	(5)	(110)
Impairment charge	(95)	–	(95)
Foreign exchange	(8)	–	(8)
Net book value at 31 August 2020	**400**	**13**	**413**

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 'Leases' for the first time in the year ended 31 August 2020. The modified retrospective transition methodology has been applied as at the initial date of application, 1 September 2019, and prior period comparative results have not been adjusted. Further information regarding the impact of initial adoption of IFRS 16 is provided in Note 29. The information on the Group's leasing activities is included in Note 16, Lease liabilities.

On adoption of IFRS 16, the Group has performed an impairment test on the right-of-use assets on a lease-by-lease basis as at the transition date, in accordance with IAS 36. Further information regarding this impairment test is provided in Note 29. On transition the Group has recorded an impairment of £18m to the opening balance of the right-of-use assets and £3m to property, plant and equipment with a corresponding adjustment to the opening reserves.

Impairment of right-of-use assets

Right-of-use assets of £95m have been impaired in the year, as a result of the impact of Covid-19. This impairment charge has been presented in non-underlying items (see Note 4). The approach to impairment testing is described in detail in Note 12, Property, plant and equipment.

Notes to the financial statements continued

14. Trade and other receivables

£m	2020	2019
Current debtors		
Trade debtors	**22**	34
Other debtors	**8**	12
Prepayments	**10**	10
Accrued income	**9**	17
	49	73
Non-current debtors		
Other debtors	**6**	2
Prepayments	**3**	8
Total trade and other receivables	**58**	83

Included in accrued income is £3m (2019: £10m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income that has been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against trade payables balances is included in trade payables where the Group has a right to offset.

Included within other receivables is £1m of government grants receivable (2019: £nil).

The ageing of the Group's current trade and other receivables is as follows:

£m	2020	2019
Trade and other receivables gross	**39**	50
Expected credit losses	**(3)**	(2)
Trade and other receivables net	**36**	48
Of which:		
Amounts neither impaired nor past due on the reporting date	**26**	37
Amounts past due but not impaired:		
Less than one month old	**4**	6
Between one and three months old	**2**	3
Between three and six months old	**2**	1
Between six months and one year old	**2**	1
Trade and other receivables net carrying amount	**36**	48

The Group has limited exposure to ECLs due to the business model. An allowance has been made for lifetime expected credit losses from sales at 31 August 2020 of £3m (31 August 2019: £2m). The ageing analysis of these receivables is given in the table below. This expected credit loss allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience.

Ageing analysis of bad and doubtful debt provisions:

£m	2020	2019
Less than one month old	**–**	1
Between one and three months old	**–**	–
Between three and six months old	**1**	–
Between six months and one year old	**2**	1
	3	2

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

15. Trade and other payables – current

£m	2020	2019
Trade payables	**60**	104
Other tax and social security	**24**	20
Other creditors	**67**	72
Accruals	**87**	50
Deferred income	**3**	4
	241	250

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 55 days (2019: 57 days). The directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade payables is stated net of £2m (2019: £9m) amounts receivable from suppliers in relation to supplier income, that has been invoiced, for which the Group has the right to set off against amounts payable at the balance sheet date.

16. Lease liabilities

		2020	
£m	Land and buildings	Other	Total
At 31 August 2019	–	14	14
Adjustment on initial application of IFRS 16	476	3	479
At 1 September 2019	476	17	493
Additions	87	–	87
Acquisitions (see Note 27)	106	–	106
Interest costs	11	–	11
Payments	(72)	(6)	(78)
Modifications and remeasurements	(50)	–	(50)
Disposals	(2)	–	(2)
Foreign exchange	(8)	–	(8)
At 31 August 2020	**548**	**11**	**559**

£m	2020
Analysis of total lease liabilities:	
Non-current	**429**
Current	**130**
Total	**559**

The Group leases land and buildings for its retail stores, distribution centres, storage locations and office property. These leases have an average remaining lease term of 4 years. Some leases include an option to break before the end of the contract term or an option to renew the lease for an additional term after the end of the term. Management assess the lease term at inception based on the facts and circumstances applicable to each property.

Other leases are mainly forklift trucks for the retail stores and distribution centres, office equipment and vehicles. These leases have an average remaining lease term of 3 years.

The Group reviews the retail lease portfolio on an ongoing basis, taking into account retail performance and future trading expectations. The Group may exercise extension options, negotiate lease extensions or modifications. In other instances, the Group may exercise break options, negotiate lease reductions or decide not to negotiate a lease extension at the end of the lease term. Certain property leases contain rent review terms that require rent to be adjusted on a periodic basis which may be subject to market rent or increases in inflation measurements.

Many of the Group's property leases, particularly in Travel locations, also incur payments based on a percentage of revenue (variable lease payments) achieved at the location. In line with IFRS 16, variable lease payments which are not based on an index or rate are not included in the lease liability. See Note 3 for the expense charged to the Income statement relating to variable lease payments not included in the measurement of the lease liability.

Notes to the financial statements continued

16. Lease liabilities (continued)

In response to the Covid-19 pandemic, an amendment was issued to IFRS 16 in June 2020. This amendment (practical expedient) allows the impact on lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2021, to be recognised in the Income statement in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset. The Group has applied this practical expedient to all Covid-19 rent reductions/waivers that meet the requirements of the amendment, and this has resulted in a credit to the Income statement of £15m for the year ended 31 August 2020.

The Group's accounting policy for leases is set out in Note 1. Details of Income statement charges and income for leases are set out in Note 3. The right-of-use asset categories on which depreciation is incurred are presented in Note 13. Interest expense incurred on lease liabilities is presented in Note 7. The maturity of undiscounted future lease liabilities are set out in Note 22. Commitments relating to operating leases for the year ended 31 August 2019 are presented in Note 30.

The total cash outflow for leases in the financial year was £101m. This includes cash outflow for short-term leases of £16m and variable lease payments (not included in the measurement of lease liability) of £7m. The total future income from sub-leasing the right-of-use assets is £1m.

17. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2019	**3**	**2**	**5**
Adjustment on initial application of IFRS 16	**(2)**	**–**	**(2)**
Charge in the year	**12**	**–**	**12**
Utilised in year	**–**	**(1)**	**(1)**
Unwinding of discount	**–**	**–**	**–**
At 31 August 2020	**13**	**1**	**14**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2018	5	1	6
Charge in the year	–	1	1
Utilised in year	(2)	–	(2)
Unwinding of discount	–	–	–
At 31 August 2019	3	2	5

Total provisions are split between current and non-current liabilities as follows:

£m	2020	2019
Included in current liabilities	**5**	1
Included in non-current liabilities	**9**	4
	14	5

At 31 August 2019, £2m of onerous leases were included within property obligations, being the estimated future unavoidable lease costs in respect of non-trading properties, stores earmarked for closure and loss-making stores. On adoption of IFRS 16, Leases, *those onerous lease obligations related to right-of-use assets have been released and impairments have been recognised against the* related right-of-use asset (refer to Note 29 adoption of IFRS 16 Leases and Note 1).

Property provisions charged in the year relate to reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19. This charge has been recorded in right-of-use assets and tested for impairment as described in Note 12. Information regarding Property provisions on a pre-IFRS 16 basis is provided in the Glossary on page 146.

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years.

£m	Accelerated tax depreciation	Leases	Share-based payments	Retirement benefit obligations	Intangible assets	Losses and unutilised interest expense	Total
At 1 September 2019	5	–	2	1	(3)	–	5
On acquisition of subsidiaries	(1)	–	–	–	(8)	–	(9)
Adjustment on initial application of IFRS 16	–	4	–	–	–	–	4
Charged to equity	–	–	–	–	–	–	–
Credited/(charged) to income	3	–	(2)	–	–	20	21
At 31 August 2020	**7**	**4**	**–**	**1**	**(11)**	**20**	**21**
At 1 September 2018	4	–	2	1	–	–	7
On acquisition of a subsidiaries	–	–	–	–	(2)	–	(2)
Credited/(charged) to income	1	–	–	–	(1)	–	–
Charged to equity	–	–	–	–	–	–	–
At 31 August 2019	**5**	**–**	**2**	**1**	**(3)**	**–**	**5**

The UK corporation tax rate is 19 per cent effective from 1 April 2017. In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19 per cent (rather than reducing to 17 per cent, as previously enacted). This new law was substantively enacted on 17 March 2020, and the impact of this change is less than £1m.

Deferred tax assets have been recognised in respect of tax losses and US unutilised interest expense. The deferred tax assets include an amount of £10m which relates to carried forward tax losses in the UK which have been recognised to the extent that they will be recoverable using the estimated future taxable income based on the approved budgets for the Group. These losses can be carried forward indefinitely and have no expiry date. The Group has not recognised deferred tax assets on losses amounting to £121m (2019: £97m) due to uncertainty over the timing and extent of their utilisation. The losses can be carried forward indefinitely and have no expiry date.

All deferred tax assets and liabilities are offset where there is considered to be a legally enforceable right to do so. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

£m	2020	2019
Deferred tax liabilities (non-current liabilities)	**(2)**	(3)
Deferred tax assets	**23**	8
	21	5

Notes to the financial statements continued

19. Analysis of net debt

Movements in net debt can be analysed as follows:

£m	2019	Recognised on adoption of IFRS 16	On acquisition of subsidiaries (non-cash)	Cash flow	Other	Currency translation	2020
Borrowings							
– Borrowings – repayable after one year	(200)	–	(115)	(200)	115	–	(400)
– Revolving credit facility	(15)	–	–	15	–	–	–
– Lease liabilities	(14)	(479)	(106)	78	(46)	8	(559)
Liabilities from financing activities	**(229)**	**(479)**	**(221)**	**(107)**	**69**	**8**	**(959)**
Cash and cash equivalents	49	–	1	59	–	(1)	108
Net debt	**(180)**	**(479)**	**(220)**	**(48)**	**69**	**7**	**(851)**

£m	2018	On acquisition of subsidiaries (non-cash)	Cash flow	Other	Currency translation	2019
Borrowings						
– Borrowings – repayable after one year	–	(40)	(200)	40	–	**(200)**
– Revolving credit facility	(33)	–	18	–	–	**(15)**
– Obligations under finance leases	(14)	–	6	(6)	–	**(14)**
Liabilities from financing activities	**(47)**	**(40)**	**(176)**	**34**	–	**(229)**
Cash and cash equivalents	45	2	2	–	–	**49**
Net debt	**(2)**	**(38)**	**(174)**	**34**	**–**	**(180)**

An explanation of Alternative Performance Measures, including Net debt on an pre-IFRS 16 basis, is provided in the Glossary on page 146.

Cash and cash equivalents
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.

Lease liabilities
The adoption of IFRS 16 on 1 September 2019 has resulted in the recognition of substantial right-of-use assets and corresponding lease liabilities on the Group balance sheet. On the transition date, £479m of lease liabilities have been recognised. In addition, lease liabilities of £106m have been recognised as a result of the acquisition of MRG. Other (non-cash) movements in lease liabilities mainly relate to new leases, modifications and remeasurements in the period.

Borrowings and revolving credit facilities
The Group has in place a five-year committed multi-currency revolving credit facility of £200m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2023. The utilisation is interest bearing at a margin over LIBOR. As at 31 August 2020, the Group has drawn down £nil (2019: £15m) on this facility.

In April 2020 the Group agreed an additional multi-currency revolving credit facility of £120m with BNP Paribas, HSBC Bank PLC and Santander UK PLC, for a period of 12 months (plus 7 months at the option of the Group). This facility will be in place until 8 November 2021 if the Group opts to use the available extension option. This is in addition to our existing facilities and includes a waiver on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021.

The Group has a four-year committed £200m term loan with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC, that was drawn down at the time of the acquisition of InMotion (30 November 2018). This loan is interest bearing at at a margin over LIBOR and is due to mature on 29 October 2022.

During the year, the Group agreed an additional syndicated £200m term loan with the above banks to fund the acquisition of MRG. This loan is interest bearing at a margin over LIBOR and is due to mature on 17 October 2022.

Transaction fees of £2m (2019: £1m) including arrangement fees associated with the securing of financing have been capitalised and are amortised through the income statement over the term of the relevant facility.

Further information regarding the Group's borrowings and revolving credit facilities is provided in Note 22.

Other movements include the repayment of a £115m loan acquired as part of the acquisition of MRG (see Note 27). This payment is included within investing activities in the Group cash flow statement.

20. Contingent liabilities and capital commitments

£m	2020	2019
Bank guarantees and guarantees in respect of lease agreements	**31**	27

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Smiths News PLC, any such contingent liability which becomes an actual liability will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News PLC in any 12-month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2020 of £1m (2019: £1m). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amount to £18m (2019: £17m).

£m	2020	2019
Commitments in respect of property, plant and equipment	**17**	16
Commitments in respect of other intangible assets	**1**	1
	18	17

21. Cash generated from operating activities

£m	2020	2019
Group operating (loss)/profit	**(260)**	140
Depreciation of property, plant and equipment	**43**	41
Impairment of property, plant and equipment	**39**	1
Amortisation of intangible assets	**12**	9
Impairment of intangible assets	**1**	–
Depreciation of right-of-use assets	**110**	–
Impairment of right-of-use assets	**95**	–
Non-cash change in lease liabilities	**(15)**	–
Non-cash movement in pension	**14**	–
Share-based payments	**–**	6
Profit on disposal of property, plant and equipment	**–**	(2)
Other non-cash items	**2**	1
Decrease/(increase) in inventories	**35**	(2)
Decrease/(increase) in receivables	**27**	(6)
Decrease in payables	**(10)**	(3)
Pension funding	**(3)**	(3)
Income taxes paid	**(32)**	(27)
Income taxes refund	**37**	–
Movement on provisions (through utilisation or income statement)	**(1)**	(2)
Cash generated from operating activities	**94**	153

Notes to the financial statements continued

22. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2020	2019
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	–	2
Loans and receivables (including cash and cash equivalents)[2]	**161**	117
Financial liabilities		
Amortised cost[3]	**(1,200)**	(490)

[1] All derivatives are categorised as Level 2 within the fair value hierarchy. The fair value measurements relating to the instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

[2] Included within loans and receivables are trade and other receivables (excluding prepayments) and cash and cash equivalents.

[3] Included within amortised cost are trade and other payables, borrowings, lease obligations and other non-current liabilities.

Comparison of carrying values and fair values

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

Risk management

The Group's treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review.

Capital risk

The Group's objectives with respect to managing capital (defined as net debt/funds plus equity) are to safeguard the Group's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding. Refer to Note 19 for the value of the Group's net debt/funds and refer to the Group statement of changes in equity for the value of the Group's equity.

In managing the Group's capital levels, the Board regularly monitors the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the Board determines the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives. 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.

As at 12 November 2020, the Group has in place a £200m committed multi-currency revolving credit facility, a further £120m committed multi-currency revolving credit facility, and two syndicated £200m term loans carrying certain financial covenants. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings. In response to the impact of the Covid-19 pandemic on the Group's operations, the Group has secured waivers on the existing bank covenants at 31 August 2020, 28 February 2021 and 31 August 2021. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

In April, the Group secured eligibility to the Government's Covid Corporate Financing Facility ('CCFF') for up to £300m. The Group never utilised the facility. The CCFF is currently being reviewed and like many companies, the Group is in dialogue with the CCFF concerning its eligibility.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has a committed multi-currency revolving credit facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. The facility is due to mature on 8 December 2023. In addition, in April 2020, as part of the Group's actions to mitigate the impact of Covid-19, the Group agreed an additional multi-currency revolving credit facility of £120m with BNP Paribas, HSBC Bank PLC and Santander UK PLC, for a period of 12 months (plus 7 months at the option of the Group). This facility will be in place until 8 November 2021 if the Group opts to use the available extension option.

The Group has a policy of pooling cash flows in order to optimise the return on surplus cash and also to utilise cash within the Group to reduce the costs of external short-term funding.

22. Financial instruments (continued)

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2020 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	**7**	**10**	**402**	**-**	**419**
Trade and other payables	**241**	**-**	**-**	**-**	**241**
Lease liabilities	**139**	**97**	**195**	**180**	**611**
Total cash flows	**387**	**107**	**597**	**180**	**1,271**

2019 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	15	-	200	-	215
Trade and other payables	255	-	-	-	255
Finance leases	5	3	6	-	14
Total cash flows	275	3	206	-	484

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, hedging, settlement and other financial activities. The Group's principal financial assets are trade and other receivables, and bank balances and cash which are considered to have low credit risk on initial recognition.

The Group has credit risk attributable to its trade and other receivables, including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for expected credit losses. The Group has adopted the simplified approach to calculating expected credit losses allowed by IFRS 9. Historical credit loss rates are applied consistently to groups of financial assets with similar risk characteristics. These are then adjusted for known changes in, or any forward-looking impacts on, creditworthiness.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that credit risk might have increased significantly include the failure of the debtor to engage in a payment plan and failure to make contractual payments within 180 days past due, which is in line with historical experience of increased credit risk. Indicators that an asset is credit-impaired would include observable data in relation to the financial health of the debtor or if the debtor breaches contract.

The Group has low retail credit risk due to the transactions being principally of a high volume, low-value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a short-term credit rating of P-1.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group does not hold collateral over any of these financial assets.

Interest rate risk

The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts.

At 31 August 2020, the Group had drawn down £nil (2019: £15m) from its committed revolving credit facility. The Group draws down on its facility, but does not view any draw down as long-term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

The Group has a four-year committed term loan £200m term loan with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC, that was drawn down at the time of the acquisition of InMotion (30 November 2018). During the year, the Group agreed an additional syndicated £200m term loan with the above banks to fund the acquisition of MRG. These loans are interest bearing at a margin over LIBOR. The Group monitors the risk associated with the loans. At present, the Group has not entered into interest rate derivatives in respect of the loan.

Notes to the financial statements continued

22. Financial instruments (continued)

Foreign currency risk

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Group's foreign currency exposures are principally to the US dollar, Euro and Australian dollar. The Group's treasury function uses financial instruments to mitigate foreign exchange risk, in line with treasury policies approved by the Board. Financial instruments include foreign exchange contracts, deposits and bank loans.

The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD/GBP exchange rates. These are designated as cash flow hedges. At 31 August 2020 the Group had no material unhedged currency exposures.

The Group's US dollar, Euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in North America, France, Ireland, Spain, Germany, Italy and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

The fair value of cash flow hedges recognised on the balance sheet within derivative assets/liabilities is shown below:

£m	2020	2019
Fair value of derivative assets	–	2

At 31 August 2019, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$15m (2019: US$30m). These instruments will be used to hedge cash flows occurring up to one year from the balance sheet date.

Gains of £1m (2019: £nil) have been transferred to the income statement and gains of £1m (2019: £1m) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2020. In the year to 31 August 2020, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £nil (2019: £2m). In addition, the Group hedged the US dollar exposure on the consideration payable for the acquisition of MRG ($400m) in December 2019. The forward contract resulted in a fair value loss of £8m that was initially included in equity, and subsequently transferred to goodwill.

All the derivatives held by the Group at fair value are considered to have fair values determined by Level 2 inputs as defined by the fair value hierarchy. There are no non-recurring fair value measurements nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy.

Sensitivity analysis as at 31 August 2020

Financial instruments affected by market risks include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7 'Financial Instruments': Disclosures, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and USD/GBP, EUR/GBP and AUD/GBP exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- Exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the hedging reserve in equity and the fair value of the hedging derivatives.
- Year end exchange rates applied in the analysis are USD/GBP 1.3347/1 (2019: 1.2164/1), EUR/GBP 1.1193/1 (2019: 1.1066/1) and AUD/GBP 1.8115/1 (2019: 1.8056/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2020 and 31 August 2019 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the Group's income statement and equity given reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in GBP LIBOR/base rate to be one per cent, based on interest rate history. Similarly, sensitivity to movements in USD/GBP, EUR/GBP and AUD/GBP exchange rates of ten per cent are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over time.

22. Financial instruments (continued)

Using these assumptions, the following table shows the illustrative effect on the Group income statement and equity.

£m	2020 Income gains/(loss)	2020 Equity gains/(loss)	2019 Income gains/(loss)	2019 Equity gains/(loss)
GBP LIBOR/base rate interest rates 1% increase	**(3)**	**-**	(2)	-
USD/GBP exchange rates 10% increase	**4**	**(37)**	(1)	(18)
EUR/GBP exchange rates 10% increase	**1**	**2**	(1)	-
AUD/GBP exchange rates 10% increase	**2**	**1**	-	-
GBP LIBOR/base rate interest rates 1% decrease	**3**	**-**	2	-
USD/GBP exchange rates 10% decrease	**(5)**	**45**	1	23
EUR/GBP exchange rates 10% decrease	**(1)**	**(2)**	1	-
AUD/GBP exchange rates 10% decrease	**(2)**	**(1)**	-	-

23. Called up share capital

Allotted and fully paid

£m	2020 Number of shares (millions)	2020 Nominal value £m	2019 Number of shares (millions)	2019 Nominal value £m
Equity:				
Ordinary shares of 22⁶⁄₆₇p	**131**	**29**	108	24
Total	**131**	**29**	108	24

As part of the financing of the acquisition of MRG, on 17 October 2019, the Company issued 7,209,303 shares in a share placing at a price of £21.50 per share, raising proceeds of £152m net of issue costs.

In addition, as part of the Group's actions to mitigate the impact of Covid-19, on 9 April 2020 the Company issued 15,802,768 shares in a share placing at a price of £10.50 per share, raising proceeds of £160m net of issue costs.

During the year, 5,024 ordinary shares were allotted under the terms of the Company's Sharesave Scheme.

The effect of the above share issues was to increase share premium by £306m.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

The ESOP reserve of £4m (2019: £6m) represents the cost of shares in WH Smith PLC purchased in the market and held by the WH Smith Employee Benefit Trust to satisfy awards and options under the Group's executive share schemes. The total shareholding is 203,628 (2019: 315,306).

Notes to the financial statements continued

24. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	2012 CIP	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2019	379,398	–	1,189,362	526,922	34,087	2,129,769
Options and awards granted	–	–	371,521	251,081	–	622,602
Options and awards exercised	(5,024)	–	(161,368)	(82,234)	(11,791)	(260,417)
Options and awards lapsed	(67,297)	–	(220,451)	(182,074)	(5,255)	(475,077)
Outstanding at 31 August 2020	**307,077**	**–**	**1,179,064**	**513,695**	**17,041**	**2,016,877**
Exercisable at 31 August 2020	**–**	**–**	**–**	**15,899**	**–**	**15,899**
Outstanding at 1 September 2019	240,225	276,699	1,046,525	433,041	34,674	2,031,164
Options and awards granted	211,900	–	424,032	221,630	16,727	874,289
Options and awards exercised	(48,295)	(88,568)	(188,447)	(53,289)	(13,624)	(392,223)
Options and awards lapsed	(24,432)	(188,131)	(92,748)	(74,460)	(3,690)	(383,461)
Outstanding at 31 August 2019	**379,398**	**–**	**1,189,362**	**526,922**	**34,087**	**2,129,769**
Exercisable at 31 August 2019	**–**	**–**	**–**	**12,566**	**–**	**12,566**

Pence	2020	2019
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**272.76**	162.83
– Granted in the year	**–**	390.12
– Exercised in the year	**27.80**	142.87
– Lapsed in the year	**218.88**	90.90
– Outstanding at the end of the year	**232.88**	272.76
– Exercisable at the end of the year	**–**	–

Detail of movements in options and awards

2012 Co-Investment Plan (CIP)

Under the terms of the 2012 Co-Investment Plan, executive directors and key senior executives invested their own money to buy ordinary shares in WH Smith PLC and were granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they have invested. All award under this scheme were exercised, or had lapsed, by 31 August 2019.

LTIPs

Under the terms of the LTIP, executive directors and key senior executives may be granted conditional awards to acquire ordinary shares in the Company (in the form of nil cost options) which will only vest and become exercisable to the extent that the related performance targets are met.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares 2020	Number of shares 2019	Exercise price (pence)	Exercise period
20 October 2016	**136,613**	431,865	Nil	Oct 2019 – 20.10.26
26 October 2017	**338,164**	363,294	Nil	Oct 2020 – 26.10.27
1 November 2018	**332,766**	394,203	Nil	Nov 2023 – 01.11.28
5 November 2019	**371,521**	–	Nil	Nov 2024 – 05.11.29
	1,179,064	1,189,362		

24. Share-based payments (continued)

Awards will first become exercisable on the vesting date, which is the third anniversary of the date of grant. Awards made on or after October 2016 are subject to holding periods preventing the delivery and sale of shares until the fifth anniversary of the date of grant. For awards made in October 2016 and October 2017, the holding period will apply to 50 per cent of any shares which vest. For awards made in November 2018, and all subsequent awards, the holding period will apply to 100 per cent of any shares that vest. The awards will accrue dividends paid over the performance and any holding period.

Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board grants options to purchase ordinary shares in the Company to employees with at least six months service who enter into an HM Revenue & Customs approved Save-As-You-Earn (SAYE) savings contract for a term of three years. Options are granted at up to a 20 per cent discount to the market price of the shares on the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

Outstanding options granted under the Sharesave Scheme at 31 August 2020 are as follows:

	Number of shares			
Date of grant	2020	2019	Exercise price (pence)	Exercise period
7 June 2017 (3 year)	**140,310**	169,905	1434.40	01.08.20 - 31.01.21
5 June 2019 (3 year)	**166,767**	209,493	1609.60	01.08.22 - 31.01.23
	307,077	379,398		

Performance Share Plan (PSP)

Under the terms of the Performance Share Plan, the Board may grant conditional awards to executives. The exercise of awards is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. The executive directors do not participate in this plan.

Outstanding awards granted under the PSP are as follows:

	Number of shares			
Date of grant	2020	2019	Exercise price (pence)	Exercise period
5 November 2012	**977**	977	Nil	Nov 2015 - 05.11.22
18 April 2013	**-**	996	Nil	Apr 2016 - 18.04.23
17 October 2013	**1,693**	1,693	Nil	Oct 2016 - 17.10.23
23 October 2014	**3,111**	3,111	Nil	Oct 2017 - 23.10.24
22 October 2015	**1,346**	5,789	Nil	Oct 2018 - 22.10.25
20 October 2016	**8,772**	178,355	Nil	Oct 2019 - 20.10.26
26 October 2017	**128,867**	138,695	Nil	Oct 2020 - 26.10.27
1 November 2018	**141,392**	164,043	Nil	Nov 2021 - 01.11.28
7 December 2018	**10,476**	33,263	Nil	Dec 2021 - 07.12.28
5 November 2019	**217,061**	33,263	Nil	Nov 2022 - 05.11.29
	513,695	526,922		

Deferred Bonus Plan (DBP)

The Deferred Bonus Plan is applicable to executive directors only. Under the terms of the DBP, any bonus payable over target is deferred into shares for a period of up to three years. One third of the deferred shares are released on each anniversary of the bonus. The DBP is being implemented using transitional provisions. For the year ended 31 August 2019, one third of the bonus payable over target was deferred into shares. For the year ended 31 August 2020, two thirds of any bonus payable over target will be deferred into shares. In subsequent years, all bonuses payable over target will be deferred into shares.

At 31 August 2020, 14,919 shares remain deferred in accordance with this plan.

Notes to the financial statements continued

24. Share-based payments (continued)

Cash-settled schemes

Under the terms of the LTIP, PSP and CIP, the Board may grant cash-settled awards to executives. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. These awards will be settled in cash based on the share price at the date of exercise. As at 31 August 2020 there were 17,041 outstanding nil-cost cash-settled awards (2019: 34,087), which will be settled between 31 August 2020 and November 2028. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2019: less than £1m).

Fair value information

	2020	2019
Weighted average share price at date of exercise of share options exercised during year – pence	**2,223.54**	1953.67
Weighted average remaining contractual life at end of year – years	**7**	7

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted in the year is:

£m	2020	2019
	12	11

The fair values of the CIP, LTIP and PSP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2020	2019
Share price – pence	**2,224**	1,929
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**22**	23
Expected life – years	**2.8**	2.8
Risk-free rate – per cent	**0.53**	0.81
Dividend yield – per cent	**Nil**	Nil
Weighted average fair value of options – pence	**1,975.56**	1,698.34

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

The fair values of the Sharesave options granted in the year ended 31 August 2019 were measured using a Black Scholes model. None were granted in the year ended 31 August 2020. The input range into the Black Scholes models was as follows in the year ended 31 August 2019:

	2019
Share price – pence	**2,012**
Exercise price – pence	**1,610**
Expected volatility – per cent	**22**
Expected life – years	**3.5**
Risk-free rate – per cent	**0.71**
Dividend yield – per cent	**2.69**
Weighted average fair value of options – pence	**427.00**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

25. Related party transactions

Transactions between businesses within this Group which are related parties have been eliminated on consolidation and are not disclosed in this Note.

Remuneration of key management personnel

The remuneration of the executive and non-executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

Further information about the remuneration of individual directors is provided in the Directors' remuneration report on pages 56 to 73.

£'000	2020	2019
Short-term employee benefits	**1,517**	3,646
Post-employment benefits	**186**	264
Share-based payments	**(4)**	2,095
	1,699	6,005

There are no other transactions with directors.

26. Other reserves

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Total
Balance as at 1 September 2019	(272)	2	(6)	2	(274)
Employee share schemes	(5)	–	2	–	(3)
Cash flow hedges	–	–	–	(2)	(2)
Balance at 31 August 2020	**(277)**	**2**	**(4)**	**–**	**(279)**

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Total
Balance as at 1 September 2018	(267)	2	(4)	1	(268)
Employee share schemes	(5)	–	(2)	–	(7)
Cash flow hedges	–	–	–	1	1
Balance at 31 August 2019	**(272)**	**2**	**(6)**	**2**	**(274)**

The Other reserves include reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Smiths News PLC in 2006.

Notes to the financial statements continued

27. Acquisitions

On 20 December 2019, the Group acquired the entire issued share capital of Marshall Retail Group ('MRG'), for a total cash payment of USD $402m (£317m) comprising $243m enterprise value, $146m repayment of loans, $12m working capital, and $1m cash and restricted cash.

MRG is an independent travel retailer operating in high footfall airport and tourist locations in the United States. The acquisition builds further on the acquisition of InMotion in November 2018 and significantly strengthens the Group's offering in the United States, the world's largest travel retail market.

Included within the provisional fair value of the net identifiable assets on acquisition is an intangible asset of £29m (US$37m) representing the MRG brand. The Board believes that the excess of consideration paid over the net assets on acquisition of £258m is best considered as goodwill on acquisition representing future operating synergies. This amount is not tax deductible. The provisional goodwill calculation is summarised below:

£m	Total
Acquiree's net assets/(liabilities) at acquisition date:	
Intangible assets	**30**
Property, plant and equipment	**34**
Right-of-use assets	**108**
Inventories	**14**
Cash and cash equivalents	**1**
Trade and other receivables	**5**
Deferred tax assets/liabilities	**(9)**
Trade and other payables – current	**(15)**
Other non-current liabilities	**(1)**
Lease liabilities	**(106)**
Interest-bearing loans	**(115)**
Net identifiable assets/(liabilities)	**(54)**
Non-controlling interest	**(2)**
Goodwill on acquisition	**258**
Total consideration – satisfied in cash	**202**

The provisional goodwill calculation in the table above includes significant estimates that may be refined for a period of 12 months from the acquisition date. Transaction and integration costs totalling £20m have been incurred in the year to 31 August 2020 in respect of the acquisition.

Revenue of £48m and loss of £37m is included in the results for the financial year in respect of MRG. If the acquisition had taken place on 1 September 2019, total Group revenue would have been £1,073m and Group loss before tax would have been £275m.

Reconciliation of consideration

£m	
Cash consideration	**202**
Cash acquired	**(1)**
Repayment of interest-bearing loans	**115**
Net outflow of cash – investing activities	**316**

Prior year acquisitions

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

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

27. Acquisitions (continued)

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

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

Reconciliation of consideration

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

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

28. Events after the balance sheet date

On 31 October 2020, the UK Government announced a four-week lockdown across England. We have performed an assessment of this government action on the Group to ascertain if this constitutes an adjusting post balance sheet event under IAS 10 'Events after the Reporting Date'. Following our review, we have concluded that the November lockdown is a non-adjusting event.

Following the announcement of a second lockdown in England, we have 558 stores open in High Street and 243 stores open in Travel, including 206 Post Offices and 135 hospital stores. We are expecting a significant decline in passenger numbers as a result of travel bans with the majority of our stores at airports and railway stations temporarily closed. 135 stores located in hospitals across the UK remain open to serve key workers. Internationally, the majority of stores remain open.

We have estimated the impact of this lockdown on the value-in-use calculations used in the impairment assessments of property, plant and equipment, intangible assets and right-of-use assets outlined in Notes 11, 12 and 13. The estimated impact on the Group income statement is an increase to the impairment charge on non-current assets of around £7m.

Notes to the financial statements continued

29. Impact of adoption of IFRS 16

The Group has applied IFRS 16 effective from 1 September 2019 which superseded the lease guidance under IAS 17 and the related interpretation.

Nature of change

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

At the commencement date of a lease, a lessee recognises a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There is no impact on cash flows, although the presentation of the Group cash flow statement has changed, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities.

Impact on the Group

The standard has primarily affected the accounting for the Group's operating leases relating to properties.

The Group has applied the simplified transition approach (modified retrospective approach) and has recognised the lease liability on transition at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of transition. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Group's incremental borrowing rate at transition date. The Group has applied this methodology to a small number of its property leases where sufficient historical information has been available to facilitate this.
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group has applied this methodology to the majority of its leases as sufficient historical data was not available to enable a retrospective calculation.

The weighted average discount rate applied on transition date is 1.78 per cent.

The Group has not restated comparatives and the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to opening reserves at the date of transition.

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

- exclude short-term leases (leases with a remaining term of less than one year) and low-value assets (defined as less than $5,000 at initial cost);
- rely on its assessment of whether leases are onerous immediately before the date of transition as an alternative to performing an impairment review. This is applied on a lease-by-lease basis;
- exclude initial direct costs from the measurement of the right-of-use assets on transition; and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has not applied the practical expedient of placing reliance on the previous identification of a lease under IAS 17 but has assessed all its existing lease contracts to determine whether they meet the new definition of a lease and therefore fall within the scope of IFRS 16. This has resulted in several contracts, where the landlord is considered to have substantive substitution rights over the associated assets, falling outside the scope of IFRS 16.

In addition to this, where the Group has not taken the practical expedient of taking an onerous lease provision under IAS 37 as a proxy to the opening impairment charge, the Group has undertaken an impairment review at the date of transition. These are explained further below under section 'Key areas of judgement'.

29. Impact of adoption of IFRS 16 (continued)

Impact on the financial statements

(i) Balance sheet impact on transition

£m	31 August 2019	IFRS 16 Adjustment	1 September 2019
Non-current assets			
Goodwill	176	–	176
Other intangible assets	49	–	49
Property, plant and equipment[1]	201	(18)	183
Right-of-use assets	–	457	457
Investments in joint ventures	4	–	4
Deferred tax assets[2]	8	4	12
Trade and other receivables	10	–	10
	448	443	891
Current assets			
Inventories	174	–	174
Trade and other receivables[3]	73	(3)	70
Derivative financial assets	2	–	2
Cash and cash equivalents	49	–	49
	298	(3)	295
Total assets	746	440	1,186
Current liabilities			
Trade and other payables[4]	(250)	4	(246)
Bank overdrafts and other borrowings	(15)	–	(15)
Retirement benefit obligations	(1)	–	(1)
Obligations under finance leases[5]	(5)	5	–
Lease liabilities	–	(108)	(108)
Current tax liabilities	(7)	–	(7)
Short-term provisions	(1)	–	(1)
	(279)	(99)	(378)
Non-current liabilities			
Retirement benefit obligations	(3)	–	(3)
Bank overdrafts and other borrowings	(200)	–	(200)
Long-term provisions[6]	(4)	2	(2)
Obligations under finance leases[5]	(9)	9	–
Lease liabilities	–	(385)	(385)
Deferred tax liabilities	(3)	–	(3)
Other non-current liabilities[4]	(11)	11	–
	(230)	(363)	(593)
Total liabilities	(509)	(462)	(971)
Total net assets	237	(22)	215
Shareholders' equity			
Called up share capital	24	–	24
Share premium	9	–	9
Capital redemption reserve	13	–	13
Translation reserve	8	–	8
Other reserves	(274)	–	(274)
Retained earnings	455	(22)	433
Total equity attributable to the equity holders of the parent	235	(22)	213
Non-controlling interests	2	–	2
Total equity	237	(22)	215

29. Impact of adoption of IFRS 16 (continued)

(i) Balance sheet impact on transition (continued)

[1] In respect of transfer of former finance leases and impairment on the date of initial application of IFRS 16.

[2] Deferred tax recognised on transition impact on opening retained earnings.

[3] Adjustment mainly in respect of prepaid rent.

[4] Adjustment in respect of lease incentive and rent accrual.

[5] Adjustment in respect of former finance lease liability now reclassified as lease liability.

[6] Adjustment in respect of onerous lease provision.

The table below shows a reconciliation from the total operating lease commitment as disclosed at 31 August 2019 to the total lease liability recognised in the financial statements on the date of transition:

£m	At 1 September 2019
Operating lease commitment at 31 August 2019 as disclosed in the Group's consolidated financial statements	986
Discounted using the incremental borrowing rate at 1 September 2019	920
Leases where landlords have substantive substitution rights (i.e. leases outside the scope of IFRS 16)[1]	(417)
Leases with variable payments[2]	(12)
Recognition exemption for short-term leases[3]	(10)
Extension options reasonably certain to be exercised[4]	4
Termination options reasonably certain to be exercised[4]	(11)
Additional lease liabilities recognised at 1 September 2019	479
Finance lease liabilities as at 31 August 2019	14
Total lease liabilities recognised at 1 September 2019	**493**

[1] Contracts that were considered to be a lease under IAS 17 which do not meet the definition of a lease under IFRS 16, principally because the landlord is considered to have substantive substitution rights over the associated assets. This is explained further below under the section 'key areas of judgement'.

[2] Contracts where the minimum lease payments are dependent upon a variable factor and therefore the lease payments are in substance variable in nature.

[3] The Group has applied the practical expedient to classify leases for which the leases term ends within 12 months of the date of initial application of IFRS 16 as short-term leases. The Group has also applied the recognition exemption for short-term leases.

[4] Previously, lease commitments only included non-cancellable periods in the lease agreements. Under IFRS 16, the lease term includes period covered by options to extend or terminate the lease where the Group is reasonably certain that such options will be exercised.

(ii) Income statement impact

As a result of applying IFRS 16, the Group has recognised depreciation and interest costs in respect of leases that are within the scope of IFRS 16 (which were previously classified as operating leases), rather than rental expense. During the year ended 31 August 2020, the Group recognised £105m of additional depreciation charges and £11m of additional interest costs and a gain of £15m due to Covid-19 rent reduction/waiver in respect of these leases instead of recognising the rental expense of £102m, resulting in a net £1m impact on profit (before non-underlying items).

(iii) Cash flow impact

As a result of applying IFRS 16, there is an increase in net cash inflows from operating activities by £66m being offset by an increase in net cash outflows from financing activities by £66m. There is no impact on the net cash flow.

29. Impact of adoption of IFRS 16 (continued)

Key areas of judgement in applying IFRS 16
Substantive substitution rights

Judgement is involved in determining whether a contract meets the definition of a lease under IFRS 16. Management has determined that certain retail concession contracts give the landlord substantive substitution rights because the contract gives the landlord rights to relocate the retail space occupied by the Group. In such cases, management has concluded that there is not an identified asset and therefore such contracts are outside the scope of IFRS 16. For these contracts, the Group recognises the payments as an operating expense on a straight-line basis over the term of the contract unless another systematic basis is more representative of the time pattern in which economic benefits from the underlying contract are consumed. The value of such contracts excluded from the lease liability on transition to IFRS 16 is £412m, see Note 29 (i).

Determination of Incremental Borrowing Rate (IBR)

The application of IFRS 16 required judgement around the calculation of the IBR. This has been determined on a lease-by-lease basis based on the right-of-use asset in a similar economic environment and taking into account the risk-free rate, adjusted for factors such as the credit rating and the lease term.

Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

Impairment assessment

The right-of-use asset is tested for impairment on a lease-by-lease basis as at the transition date in accordance with IAS 36 where the practical expedient has not been taken. Each store is regarded to be a cash-generating unit. In estimating the future net cash flow, judgement is made around the lease term and estimated profit growth which is based on the underlying economics of the individual stores such as the store contribution and location. As part of estimating the value-in-use, future cash flows for each store are discounted based on the Group's weighted average cost of capital which is determined based on factors such as risk-free rate and risk premium.

The Group has recorded an impairment of £21m to the right-of-use assets and property, plant and equipment with a corresponding adjustment to the opening reserves. The impairment predominantly resulted from the application of different discount rates in line with the applicable accounting standards. IFRS 16 requires the use of an incremental borrowing rate based on which the right-of-use assets is recorded whereas the value-in-use calculation under IAS 36 requires the cash flow to be discounted using a pre-tax discount rate, for which we have used the pre-tax weighted average cost of capital. The application of these standards caused an impairment on numerous right-of-use assets and fixed assets.

30. Operating lease commitments (prior year - IAS 17)

The below disclosure is only in relation to the comparative figure for the year ended 31 August 2019. This disclosure is no longer required since the implementation of IFRS 16 'Leases' on the initial date of application, 1 September 2019.

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

	2019		
£m	Land and buildings	Equipment and vehicles	Total
Within one year	211	1	212
Within two to five years	551	2	553
In more than five years	221	–	221
	983	3	986

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.

Notes to the financial statements continued

31. Subsidiary companies

The subsidiary companies included within the financial statements are disclosed below.

UK subsidiaries

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held directly by WH Smith PLC:					
WH Smith Retail Holdings Limited	England & Wales	1	Ordinary	100	Holding company
Held indirectly:					
Books & Stationers Limited	England & Wales	1	Ordinary	100	Retailing
Card Market Limited	England & Wales	1	Ordinary	100	Retailing
Dotty About Paper Limited	England & Wales	1	Ordinary	100	Dormant
funkypigeon.com Limited	England & Wales	1	Ordinary	100	Retailing
Modelzone Limited	England & Wales	1	Ordinary	100	Dormant
Sussex Stationers Limited	England & Wales	1	Ordinary	100	Dormant
The Card Gallery (UK) Limited	England & Wales	1	Ordinary	100	Retailing
The SQL Workshop Limited	England & Wales	1	Ordinary	100	Retailing
The Websters Group Limited	England & Wales	1	Ordinary	100	Dormant
Tree of Hearts Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith (Qatar) Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith 1955 Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith High Street Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith High Street Limited	England & Wales	1	Ordinary & Preference	100	Retailing
WH Smith Hospitals Holdings Limited	England & Wales	1	Ordinary & Preference	100	Holding Company
WH Smith Hospitals Limited	England & Wales	1	Ordinary	100	Retailing
WH Smith Promotions Limited	England & Wales	1	Ordinary	100	Retailing
WH Smith Retirement Savings Plan Limited	England & Wales	1	Ordinary	100	Dormant
WH Smith Travel 2008 Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith Travel Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith Travel Limited	England & Wales	1	Ordinary & Preference	100	Retailing
WH Smith US Group Holdings Limited	England & Wales	1	Ordinary	100	Holding Company
WH Smith US Retail Holdings Limited	England & Wales	1	Ordinary	100	Holding Company

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 August 2020.

The Company will guarantee the debts and liabilities of the below UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Company number
Held indirectly:	
Books & Stationers Limited	07515820
Card Market Limited	8956574
WH Smith 1955 Limited	549069
WH Smith High Street Holdings Limited	6560371
WH Smith Hospitals Holdings Limited	03896896
WH Smith Promotions Limited	2339902
WH Smith Travel 2008 Limited	6560390

31. Subsidiary companies (continued)

International joint ventures

The below entities are joint ventures and per the Group's accounting policies on page 95, the Group's share of results of these joint ventures is included in the Group consolidated income statement using the equity method of accounting.

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
WH Smith - DFA Brasil Cafeteria, Livraria E Conveniencia Eireli	Brazil	17	Ordinary	50	Retailing
WH Smith Malaysia SDN BHD	Malaysia	13	Ordinary	50	Retailing
WH Smith LLC	Oman	12	Ordinary	50	Retailing

Notes to the financial statements continued

31. Subsidiary companies (continued)

International subsidiaries

The below list of interests in overseas entities includes certain entities, particularly in the United States of America, in which WH Smith PLC holds less than 100 per cent ownership. These entities primarily relate to airport operations in which the Group is required to engage with a local partner in order to operate the stores. Per the accounting policy set out on page 95, the Group has determined that it has control of these entities and has therefore consolidated their results.

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
WH Smith Asia Limited	Hong Kong	2	Ordinary	100	Product sourcing for Group companies
WH Smith Australia Pty Limited	Australia	3	Ordinary	100	Retailing
WH Smith France S.A.S	France	5	Ordinary	100	Retailing
WH Smith Germany GmbH	Germany	6	Ordinary	100	Retailing
WH Smith Group Holdings (USA) Inc.	USA	7	Ordinary	100	Dormant
WH Smith Ireland Limited	Ireland	8	Ordinary	100	Retailing
WH Smith Italia S.R.L	Italy	9	Ordinary	100	Retailing
WH Smith Jersey Limited	Jersey	10	Ordinary	100	Retailing
WH Smith LLC	Qatar	11	Ordinary	49	Retailing
WH Smith Nederland B.V.	Netherlands	14	Ordinary	100	Dormant
WH Smith Singapore Pte. Limited	Singapore	15	Ordinary	100	Retailing
WH Smith Spain S.L.	Spain	16	Ordinary	100	Retailing
WH Smith USA Holdings Inc	USA	18	Ordinary	100	Holding Company
InMotion Entertainment Holdings LLC	USA	18	Ordinary	100	Holding Company
InMotion Entertainment Personnel Leasing Corp	USA	18	Ordinary	100	Holding Company
WH Smith USA Retail Inc	USA	18	Ordinary	100	Holding Company
WH Smith SFO, LLC	USA	18	Ordinary	88	Dormant
Wild Retail Group Pty Limited	Australia	3	Ordinary	100	Retailing
InMotion Entertainment Group, LLC	USA	18	Ordinary	100	Retailing
BTS – InMotion Atlanta, LLC	USA	18	Ordinary	100	Dormant
InMotion AUS, LLC	USA	18	Ordinary	88	Retailing
InMotion BNA, LLC	USA	18	Ordinary	84	Retailing
InMotion BNA-C,LLC	USA	18	Ordinary	80	Retailing
Soundbalance BOS, LLC	USA	18	Ordinary	67	Dormant
InMotion BOS-A, LLC	USA	18	Ordinary	80	Dormant
InMotion BOS, LLC	USA	18	Ordinary	70	Dormant
InMotion BOS-BCE, LLC	USA	18	Ordinary	80	Retailing
InMotion BWI, LLC	USA	18	Ordinary	60	Retailing
InMotion CLE, LLC	USA	18	Ordinary	67	Retailing
Soundbalance CLT, LLC	USA	18	Ordinary	67	Retailing
InMotion – SB DC, LLC	USA	18	Ordinary	75	Retailing
InMotion DCA, LLC	USA	18	Ordinary	75	Retailing
InMotion DEN-B, LLC	USA	18	Ordinary	75	Retailing
DFW-A Retail Partners, LLC	USA	18	Ordinary	60	Retailing
DFW-E Retail Partners, LLC	USA	18	Ordinary	65	Retailing
DFW-D/E Retail Partners, LLC	USA	18	Ordinary	70	Retailing
Soundbalance DTW, LLC	USA	18	Ordinary	67	Retailing

31. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
InMotion DTW, LLC	USA	18	Ordinary	67	Retailing
InMotion EWR, LLC	USA	18	Ordinary	80	Retailing
InMotion EWR-B, LLC	USA	18	Ordinary	85	Retailing
InMotion FLL, LLC	USA	18	Ordinary	62	Retailing
InMotion FLL-T4, LLC	USA	18	Ordinary	62	Retailing
InMotion IAD, LLC	USA	18	Ordinary	75	Retailing
Soundbalance IAH, LLC	USA	18	Ordinary	67	Retailing
BR InMotion IAH, LLC	USA	18	Ordinary	65	Retailing
InMotion LAX, LLC	USA	18	Ordinary	75	Retailing
InMotion LAX-IT,LLC	USA	18	Ordinary	80	Retailing
Soundbalance MCO, LLC	USA	18	Ordinary	67	Retailing
InMotion MCO, LLC	USA	18	Ordinary	73	Retailing
Soundbalance Miami, LLC	USA	18	Ordinary	67	Retailing
InMotion Bright, LLC	USA	18	Ordinary	75	Retailing
InMotion MKE, LLC	USA	18	Ordinary	79	Retailing
InMotion MSY, LLC	USA	18	Ordinary	64	Retailing
InMotion ORD, LLC	USA	18	Ordinary	70	Retailing
InMotion ORD T2, LLC	USA	18	Ordinary	70	Retailing
Soundbalance PDX, LLC	USA	18	Ordinary	67	Retailing
Soundbalance PHL, LLC	USA	18	Ordinary	67	Retailing
InMotion PHL, LLC	USA	18	Ordinary	65	Dormant
Soundbalance ATL-E, LLC	USA	18	Ordinary	67	Retailing
InMotion ATL-A, LLC	USA	18	Ordinary	64	Retailing
InMotion ATL, LLC	USA	18	Ordinary	80	Retailing
InMotion PHX, LLC	USA	18	Ordinary	80	Retailing
InMotion PHX T3, LLC	USA	18	Ordinary	90	Retailing
Soundbalance SAN, LLC	USA	18	Ordinary	55	Retailing
InMotion SAT, LLC	USA	18	Ordinary	75	Dormant
InMotion SEA, LLC	USA	18	Ordinary	88	Retailing
InMotion SFO-T3, LLC	USA	18	Ordinary	85	Retailing
InMotion SFO-IT, LLC	USA	18	Ordinary	90	Retailing
Soundbalance SJC, LLC	USA	18	Ordinary	67	Dormant
InMotion SLC,LLC	USA	18	Ordinary	80	Retailing
InMotion IAH, LLC	USA	18	Ordinary	70	Dormant
InMotion SLC-A,LLC	USA	18	Ordinary	85	Retailing
InMotion SLC-B,LLC	USA	18	Ordinary	90	Retailing
InMotion SMF,LLC	USA	18	Ordinary	90	Retailing
InMotion CLT, LLC	USA	18	Ordinary	74	Dormant
SBIP, LLC	USA	18	Ordinary	50	Dormant
MSP Innovations, LLC	USA	18	Ordinary	33	Dormant
InMotion LGA, LLC	USA	18	Ordinary	75	Dormant
Marshall Retail Group Holding Co Inc	USA	19	Ordinary	100	Holding company
MRG Holdings Corp	USA	19	Ordinary	100	Holding company
Marshall Retail Group LLC	USA	19	Ordinary	100	Retailing
The Marshall Retail Group Canada Inc	Canada	20	Ordinary	100	Retailing
MRG Baltimore (BWI), LLC	USA	19	Ordinary	70	Retailing
MRG Denver, LLC	USA	19	Ordinary	75	Retailing
MRG Dallas II, LLC	USA	19	Ordinary	65	Retailing

Notes to the financial statements continued

31. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by the Subsidiary %	Principal activity
Held indirectly:					
MRG LaGuardia, LLC	USA	19	Ordinary	80	Retailing
MRG Los Angeles, LLC	USA	19	Ordinary	70	Retailing
MRG Nashville, LLC	USA	19	Ordinary	80	Retailing
MRG Raleigh Terminal 2, LLC	USA	19	Ordinary	85	Retailing
MRG Raleigh Terminal 1, LLC	USA	19	Ordinary	55	Retailing
MRG RDU T2, LLC	USA	19	Ordinary	80	Retailing
MRG Sacramento, LLC	USA	19	Ordinary	90	Retailing
MRG San Francisco, LLC	USA	19	Ordinary	80	Retailing
MRG San Francisco Terminal 1, LLC	USA	19	Ordinary	80	Retailing
MRG San Francisco Terminal 3, LLC	USA	19	Ordinary	80	Retailing
MRG Washington (DCA), LLC	USA	19	Ordinary	75	Retailing
MRG Washington (IAD), LLC	USA	19	Ordinary	75	Retailing
Nash Nails MRG, LLC	USA	19	Ordinary	39	Retailing

Registered addresses

1	Greenbridge Road, Swindon, Wiltshire SN3 3RX
2	Suites 13A01-04, 13 Floor, South Tower, World Finance Centre, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong
3	Suite 401, 80 William Street, Woolloomooloo NSW 2011, Australia
4	Brucknerstrasse 2/4, 1040 Vienna, Austria
5	248, Rue de Rivoli, 75001 Paris, France
6	Terminal Ring 1, Zentralgebaude Ost, Zi. 5. 035, 40474 Dusseldorf, Germany
7	c/o Greenbridge Road, Swindon, Wiltshire SN3 3RX
8	6th Floor, Grand Canal Square, Dublin 2, Ireland
9	Via Borgogna, Cap 20122, Milano, Italy
10	72/74 King Street, St Helier, Jersey, JE2 4WE
11	27 Um Ghwalinah Road, 230 C-ring Road, Doha, Qatar
12	PO Box 3275, PC112, Ruwi, Oman
13	C2-6-1, Solaris Dutamas, 1, Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
14	Weteringschans 94, 1017 XS, Amsterdam, Netherlands
15	11 Keng Cheow Street #3-10 The Riverside Piazza, Singapore 059608
16	Paseo de Recoletos, 27, 7ª, 28004, Madrid, Spain
17	Avenida das Americas, No. 3434, Barra da Tijuca, CEP 22640-102, Rio de Janeiro, RJ, Brazil
18	4801 Executive Park Court, Suite 100, Jacksonville, FL 32216, USA
19	3755 W Sunset Road, Las Vegas, Nevada, NV 89118, USA
20	2200 HSBC Building, 885 West Georgia Street, Vancouver, BC V6C 3E8, Canada

Company balance sheet
As at 31 August 2020

£m	Note	2020	2019
Non-current assets			
Investments	3	**835**	520
		835	520
Current assets			
Cash and cash equivalents		–	–
Debtors: amounts falling due within one year	4	**291**	88
		291	88
Current liabilities			
Creditors: amounts falling due within one year	5	**(203)**	(142)
		(203)	(142)
Net current assets/(liabilities)		**88**	(54)
Non-current liabilities			
Borrowings	6	**(400)**	(200)
		(400)	(200)
Total net assets		**523**	266
Shareholders' equity			
Called up share capital	9	**29**	24
Share premium account		**315**	9
Capital redemption reserve		**13**	13
Profit and loss account[1]		**166**	220
Total equity		**523**	266

[1] *The loss for the year attributable to shareholders was £7m (2019: profit of £106m). See Note 2.*

The financial statements of WH Smith PLC, registered number 5202036, on pages 143 to 145 were approved by the Board of Directors and authorised for issue on 19 November 2020 and were signed on its behalf by:

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Company statement of changes in equity
For the year ended 31 August 2020

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2019	**24**	**9**	**13**	**220**	**266**
Loss for the financial year	–	–	–	(7)	(7)
Total comprehensive loss for the year	–	–	–	(7)	(7)
Premium on issue of shares	5	306	–	–	311
Equity dividends paid during the year (Note 7)	–	–	–	(47)	(47)
Balance at 31 August 2020	**29**	**315**	**13**	**166**	**523**
Balance at 1 September 2018	**24**	**8**	**13**	**205**	**250**
Profit for the financial year	–	–	–	106	106
Total comprehensive income for the year	–	–	–	106	106
Purchase of own shares for cancellation	–	–	–	(31)	(31)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the year (Note 7)	–	–	–	(60)	(60)
Balance at 31 August 2019	**24**	**9**	**13**	**220**	**266**

Notes to the Company financial statements

1. Accounting policies

a) Basis of preparation

The Company's financial statements have been prepared on a going concern basis, as detailed in the Directors' report on page 74.

The financial statements are prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The Company meets the definition of a qualifying entity under FRS 100 (Application of Financial Reporting Requirements) issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemption available under the standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the Group.

The financial statements are prepared under the historical cost convention.

The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below. No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 August 2020, have had a material impact on the Company.

Critical accounting judgements and sources of estimation uncertainty are disclosed in the Notes to the financial statements, Note 1.

b) Investments in subsidiary undertakings

Investments in subsidiaries are valued at historical cost less provision for impairment in value. Investments in subsidiaries are tested annually for impairment. An impairment loss is recognised for the amount by which the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value-in-use.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

d) Debtors

Debtors represent amounts due from other Group companies. Debtors are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for the expected loss on receivables is established at inception. This is modified when there is a change in the credit risk and hence evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

2. (Loss)/profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The loss for the year attributable to shareholders, which is stated on an historical cost basis, was £7m (2019: profit of £106m) comprising investment income relating to dividends received from Group companies of £nil (2019: £109m) and finance costs of £7m (2019: £3m). There were no other recognised gains or losses.

The Company did not have any employees during the year ended 31 August 2020 (2019: nil). All directors were remunerated by other Group companies.

3. Investments

During the year, the Company purchased additional shares in WH Smith Retail Holdings Limited for consideration of £315m to fund the acquisition of MRG (see Note 27 of the Notes to the consolidated financial statements). A full list of the Company's subsidiary undertakings is included in Note 31 of the Notes to the consolidated financial statements. The registered office of WH Smith Retail Holdings Limited is Greenbridge Road, Swindon, Wiltshire SN3 3RX.

The investment in subsidiaries balance has been tested for impairment at the balance sheet date. The recoverable amount of the investment is assumed to approximate the Group's market capitalisation on the London Stock Exchange, adjusted for any assets or liabilities on the Company's balance sheet. There was substantial headroom between the recoverable amount of the investment and its carrying value. Consequently, no impairment has been recognised in respect of the investment.

4. Debtors – amounts falling due within one year

£m	2020	2019
Amounts owed by subsidiary undertakings	**290**	87
Prepayments	**1**	1
	291	88

The Company has undertaken a review of the liquidity position of the counterparty subsidiaries and noted that the subsidiaries have sufficient immediately available funds to settle the receivables at the balance sheet date. As a result, no expected credit losses have been included in the profit and loss account in respect of these receivables.

5. Creditors – amounts falling due within one year

£m	2020	2019
Amounts owed to subsidiary undertakings	**202**	141
Bank overdrafts	**–**	1
Other creditors	**1**	–
	203	142

6. Borrowings

The Company has a four-year committed term loan of £200m with Barclays Bank PLC, HSBC Bank PLC, BNP Paribas and Santander UK PLC, that was drawn down at the time of the acquisition of InMotion (30 November 2018). This loan is interest bearing at a margin over LIBOR and is due to mature on 29 October 2022.

During the year, the Company agreed an additional syndicated £200m term loan with the above banks to fund the acquisition of MRG. This loan is interest bearing at a margin over LIBOR and is due to mature on 17 October 2022.

7. Dividends

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

£m	2020	2019
Dividends		
Final dividend for the year ended 31 August 2018 of 38.1p per ordinary share	**–**	41
Interim dividend for the year ended 31 August 2019 of 17.2p per ordinary share	**–**	19
Final dividend for the year ended 31 August 2019 of 41.0p per ordinary share	**47**	–
	47	60

The Board of Directors have not declared an interim dividend during the year and do not propose a final dividend in respect of the year ended 31 August 2020.

8. Contingent liabilities

Contingent liabilities of £1m (2019: £1m) are in relation to insurance standby letters of credit.

9. Called up share capital

Allotted and fully paid

	2020		2019	
	Number of shares (millions)	**Nominal value £m**	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22$\frac{6}{67}$p	**131**	**29**	108	24
Total	**131**	**29**	108	24

As part of the financing of the acquisition of MRG, on 17 October 2019, the Company issued 7,209,303 shares in a share placing at a price of £21.50 per share, raising proceeds of £152m net of issue costs. In addition, as part of the Group's actions to mitigate the impact of Covid-19, on 9 April 2020 the Company issued 15,802,768 shares in a share placing at a price of £10.50 per share, raising proceeds of £160m net of issue costs.

During the year, 5,024 ordinary shares were allotted under the terms of the Company's Sharesave Scheme.

The effect of the above share issues was to increase share premium by £306m.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

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.

Non-underlying items
The Group has chosen to present a Headline measure of profit and earnings per share which excludes certain items that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operating costs of the Group. These costs may include the financial effect of non-underlying items which are considered exceptional and occur infrequently such as, inter alia, restructuring costs linked to a Board-agreed programme, amortisation of acquired intangible assets, costs relating to business combinations, significant items related to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. The Group believes that they provide additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

IFRS 16
The Group has implemented IFRS 16 using the modified retrospective approach, which means that prior year balances have not been restated. IFRS 16 superseded the lease guidance under IAS 17 and the related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low value leases. At the commencement date of a lease, a lessee will recognise a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset.

For the purposes of narrative commentary on the Group's performance and financial position in the Strategic report, the effects of IFRS 16 have been excluded, in order to provide meaningful year on year comparisons.

The impact of the implementation of IFRS 16 on the Income statement and Segmental information is provided in Notes A1 and A2 below. There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities, as set out in Note A9 below. The balance sheet as at 31 August 2020 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Definitions and reconciliations
In line with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority ('ESMA'), we have provided additional information on the APMs used by the Group below, including full reconciliations back to the closest equivalent statutory measure.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures			
Headline Group (loss)/profit before tax	Group (loss)/ profit before tax	See Note A1	Headline Group (loss)/profit before tax excludes non-underlying items. A reconciliation from Headline Group (loss)/profit before tax to Group (loss)/profit before tax on an IFRS 16 basis is provided on the Group income statement on page 88, and on an IAS 17 basis in Note A1.
High Street and Travel trading (loss)/profit, and Group (loss)/profit from trading operations	Group operating (loss)/profit	See Note A2	Group (loss)/profit from trading operations and High Street and Travel trading (loss)/profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating (loss)/profit and Group (loss)/profit before tax on an IFRS 16 basis is provided in Note 2 to the financial statements and on an IAS 17 basis in Note A2.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Non-underlying items	None	Refer to definition and see Note A6	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance. An explanation of the nature of the items identified as non-underlying on an IFRS 16 basis is provided in Note 4 to the financial statements, and on an IAS 17 basis in Note A6.
Headline (loss)/earnings per share	(Loss)/ earnings per share	Non-underlying items and dilutive effect of shares under option, see Note A4	(Loss)/profit for the year attributable to the equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year, adjusted for the effects of any potentially dilutive share options. See Note 10 and Note A4.
Effective tax rate	None	Non-underlying items	Total income tax credit/charge excluding the tax impact of non-underlying items divided by Headline Group (loss)/profit before tax. See Note 8 on an IFRS 16 basis, and Notes A3 and A6 on an IAS 17 basis.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax covers the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges (excluding finance charges from IFRS 16 leases) and net operating lease rentals stated on an IAS 17 basis. The calculation of this measure is outlined in Note A5.
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Annual report, 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.
Balance sheet measures			
Net debt	None	Reconciliation of net debt	Net debt is defined as cash and cash equivalents, less bank overdrafts and other borrowings and both current and non-current obligations under finance leases as defined on an IAS 17 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of Net debt is provided in Note A8.
Other measures			
Free cash flow	Net cash inflow from operating activities	See Note A7 and Strategic report page 18	Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of non-underlying items and pension funding, and less net capital expenditure. The components of free cash flow are shown in Note A7 and on page 18, as part of the Strategic report.

	Travel	High Street	Group
LFL revenue change	(43)%	(19)%	(33)%
Net new space impact	1%	–%	1%
Acquisitions	10%	–%	5%
Foreign exchange impact	–%	–%	–%
Total revenue change	(32)%	(19)%	(27)%

Glossary continued

A1. Reconciliation of Headline to Statutory Group operating (loss)/profit and Group (loss)/profit before tax

	2020					2019		
	IAS 17 basis			IFRS 16 basis				
£m	Headline (IAS 17)	Non-underlying items (IAS 17)	Total (IAS 17)	IFRS 16 adjustments	Total	Headline	Non-underlying items	Total
Revenue	**1,021**	**–**	**1,021**	**–**	**1,021**	1,397	–	1,397
Cost of sales	**(441)**	**–**	**(441)**	**–**	**(441)**	(552)	–	(552)
Gross profit	**580**	**–**	**580**	**–**	**580**	845	–	845
Distribution costs	**(545)**	**–**	**(545)**	**7**	**(538)**	(592)	–	(592)
Administrative expenses	**(97)**	**–**	**(97)**	**5**	**(92)**	(100)	–	(100)
Other income	**2**	**–**	**2**	**–**	**2**	7	–	7
Non-underlying items	**–**	**(157)**	**(157)**	**(55)**	**(212)**	–	(20)	(20)
Group operating (loss)/profit	**(60)**	**(157)**	**(217)**	**(43)**	**(260)**	160	(20)	140
Finance costs	**(9)**	**–**	**(9)**	**(11)**	**(20)**	(5)	–	(5)
(Loss)/profit before tax	**(69)**	**(157)**	**(226)**	**(54)**	**(280)**	155	(20)	135
Income tax credit/(expense)	**16**	**18**	**34**	**7**	**41**	(28)	1	(27)
(Loss)/profit for the period	**(53)**	**(139)**	**(192)**	**(47)**	**(239)**	127	(19)	108
Attributable to:								
Equity holders of the parent	**(53)**	**(139)**	**(192)**	**(47)**	**(239)**	125	(19)	106
Non-controlling interests	**–**	**–**	**–**	**–**	**–**	2	–	2
	(53)	**(139)**	**(192)**	**(47)**	**(239)**	127	(19)	108

A2. Reconciliation of Headline to Statutory segmental trading (loss)/profit and Group (loss)/profit from trading operations

	2020					2019		
	IAS 17 basis			IFRS 16 basis				
£m	Headline (IAS 17)	Non-underlying items (IAS 17)	Total (IAS 17)	IFRS 16 adjustments	Total	Headline	Non-underlying items	Total
Travel trading (loss)/profit[1]	**(33)**	**–**	**(33)**	**6**	**(27)**	117	–	117
High Street trading (loss)/profit	**(10)**	**–**	**(10)**	**6**	**(4)**	60	–	60
Group (loss)/profit from trading operations	**(43)**	**–**	**(43)**	**12**	**(31)**	177	–	177
Unallocated costs	**(17)**	**–**	**(17)**	**–**	**(17)**	(17)	–	(17)
Headline Group operating (loss)/profit	**(60)**	**–**	**(60)**	**12**	**(48)**	160	–	160
Non-underlying items	**–**	**(157)**	**(157)**	**(55)**	**(212)**	–	(20)	(20)
Group operating (loss)/profit	**(60)**	**(157)**	**(217)**	**(43)**	**(260)**	160	(20)	140

[1] Includes International trading loss of £32m under IAS 17 (2019: profit of £20m) and £26m under IFRS 16.

A3. Reconciliation of Headline to Statutory tax (credit)/expense

£m	2020 IAS 17	2020 IFRS 16 adjustments	2020 IFRS 16	2019 Headline
(Loss)/profit before tax	**(69)**	**1**	**(68)**	155
Tax (credit)/expense on (loss)/profit – *Standard rate of UK corporation tax (19.00%; 2019: 19.00%)*	**(5)**	**–**	**(5)**	32
Adjustment in respect of prior year corporation tax	**(6)**	**–**	**(6)**	(4)
Total current tax (credit)/expense	**(11)**	**–**	**(11)**	28
Deferred tax – current year	**(7)**	**–**	**(7)**	(1)
Deferred tax – prior year	**2**	**–**	**2**	1
Tax on Headline (loss)/profit	**(16)**	**–**	**(16)**	28
Tax on non-underlying items	**(18)**	**(7)**	**(25)**	(1)
Total tax on (loss)/profit	**(34)**	**(7)**	**(41)**	27

A4. Calculation of Headline and Statutory (loss)/earnings per share

	2020					2019		
	IAS 17 basis			IFRS 16 basis				
£m	Headline	Non-underlying items	Total	IFRS 16 adjustments	Total	Headline	Non-underlying items	Total
(Loss)/profit for the year, attributable to equity holders of the parent (Note A1)	**(53)**	**(139)**	**(192)**	**(47)**	**(239)**	125	(19)	106
Weighted average shares in issue for basic earnings per share (Note 10)			**120**		**120**			108
Weighted average shares in issue for diluted earnings per share (Note 10)			**120**		**120**			109
Basic (loss)/earnings per share	**(44.2)p**	**(115.8)p**	**(160.0)p**	**(39.2)p**	**(199.2)p**	115.7p	(17.6)p	98.1p
Diluted (loss)/earnings per share	**(44.2)p**	**(115.8)p**	**(160.0)p**	**(39.2)p**	**(199.2)p**	114.7p	(17.5)p	97.2p

A5. Fixed charges cover

£m	Note	2020	2019
Net finance costs (pre-IFRS 16)	A1	**9**	5
Net operating lease rentals (pre-IFRS 16)	A11	**210**	236
Total fixed charges		**219**	241
Headline (loss)/profit before tax	A1	**(69)**	155
Headline (loss)/profit before tax and fixed charges		**150**	396
Fixed charges cover – times		**0.7x**	1.6x

Glossary continued

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

	2020		2019
£m	IAS 17	IFRS 16	
Costs relating to business combinations			
– Transaction costs	**11**	**11**	6
– Integration costs	**9**	**9**	5
Amortisation of acquired intangible assets	**3**	**3**	2
High Street business review	**–**	**–**	7
Pension past service cost	**14**	**14**	–
Costs directly attributable to Covid-19			
– Impairment of property, plant and equipment	**54**	**39**	–
– Impairment of intangible assets	**1**	**1**	
– Impairment of right-of-use assets	**–**	**95**	–
– Other property costs	**25**	**–**	–
– Write-down of inventories	**14**	**14**	–
– Restructuring costs	**25**	**25**	–
– Other	**1**	**1**	–
Non-underlying items, before tax	**157**	**212**	20
Tax credit on non-underlying items	**(18)**	**(25)**	(1)
Non-underlying items, after tax	**139**	**187**	19

Non-underlying items on a pre-IFRS 16 basis are calculated on a consistent basis with IFRS 16, with the exception of the below items.

A tax credit of £25m has been recognised in relation to the above items (£18m under IAS 17).

Impairment of property, plant and equipment and right-of-use assets
The impairment charge recognised on an IAS 17 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base under IAS 17, coupled with lower expected store cash flows, with rental expenses being included in the forecast cash flows (treated as financing costs under IFRS 16), and a higher discount rate. The calculation of the Group's weighted average cost of capital differs under IFRS 16 versus IAS 17. The pre-tax discount rate used in the IFRS 16 calculation was 8.9% and the pre-tax discount rate used in the IAS 17 calculation was 10.9%.

Right-of-use assets are not recognised under IAS 17.

Other property costs
Other property costs on a pre-IFRS 16 basis include provisions for onerous lease contracts; on an IFRS 16 basis, onerous lease contracts are recognised as an impairment of the right-of-use asset. As a result of the impact of Covid-19, the Group has carried out a review of leases where the obligations of those leases exceed the potential economic benefits expected to be received under them. We anticipate that a number of stores will not fully recover to pre Covid-19 sales levels and have accelerated our internal forecasts for the rate of sales decline in those locations. As a result, we have recognised onerous provisions of £13m for stores where we now anticipate we will make a cash loss over the remaining term of their leases.

The Group's IAS 17 property provisions represent the present value of unavoidable future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant, loss-making or currently not planned to be used for ongoing operations. The unwinding of the discount is treated as an imputed interest charge. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Other items included in Other property costs include £12m reinstatement liabilities for stores where the long-term viability has been impacted by Covid-19, and the Group has crystallised its obligation to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

A7. Free cash flow

£m	2020	2019
Cash generated from operating activities (Note 21)	**94**	153
Interest paid	**(13)**	(4)
Net cash inflow from operating activities	**81**	149
Cash flow impact of IFRS 16 (Note A9)	**(66)**	-
Add back:		
- Cash impact of non-underlying items	**20**	16
- *Pension funding*	**3**	3
Deduct:		
- Purchase of property, plant and equipment	**(67)**	(47)
- Purchase of intangible assets	**(12)**	(12)
Free cash flow	**(41)**	109

A8. Net debt

The table below shows Net debt on a pre-IFRS 16 basis. This includes lease liabilities that were previously presented as finance leases (applying the principles of IAS 17, and Group accounting policies as applicable prior to 1 September 2019, per Note 1 to the financial statements), but excludes additional lease liabilities recognised on application of IFRS 16.

£m	2020	2019
Borrowings		
- Revolving credit facility	**-**	(15)
- Bank loans	**(400)**	(200)
- Lease liabilities (Note 16)	**(559)**	(14)
Liabilities from financing activities	**(959)**	(229)
Cash and cash equivalents	**108**	49
Net debt (IFRS 16) (Note 19)	**(851)**	(180)
Add back lease liabilities recognised under IFRS 16[1]	**550**	-
Net debt (IAS 17)	**(301)**	(180)

[1] Excludes lease liabilities previously recognised under IAS 17 as finance leases.

A9. Cash flow disclosure impact of IFRS 16

There is no impact of IFRS 16 on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities.

	2020		
£m	IAS 17	IFRS 16 adjustment	IFRS 16
Net cash inflows from operating activities	**15**	**66**	**81**
Net cash outflows from investing activities	**(395)**	**-**	**(395)**
Net cash inflows from financing activities	**440**	**(66)**	**374**
Net increase in cash in the period	**60**	**-**	**60**

Additional information

Glossary continued

A10. Balance sheet impact of IFRS 16

The balance sheet as at 31 August 2020 including and excluding the impact of IFRS 16 is shown below:

£m	2020 IAS 17	2020 IFRS 16 adjustment	2020 IFRS 16
Goodwill and other intangible assets	495	(2)	493
Property, plant and equipment	190	2	192
Right-of-use assets	–	413	413
Investments in joint ventures	2	–	2
	687	413	1,100
Inventories	150	–	150
Payables less receivables	(226)	43	(183)
Working capital	(76)	43	(33)
Derivative financial asset	–	–	–
Net current and deferred tax asset	17	11	28
Provisions	(27)	13	(14)
Operating assets employed	601	480	1,081
Net debt	(301)	(550)	(851)
Net assets excluding pension liability	300	(70)	230
Pension liability	(4)	–	(4)
Deferred tax asset on pension liability	1	–	1
Total net assets	297	(70)	227

A11. Operating lease expense

Amounts recognised in Headline Group operating profit on a pre IFRS 16 basis are as follows:

£m	2020	2019
Minimum lease payments	162	216
Contingent rent payments	49	21
Total rent paid	211	237
Sublease rentals received on operating leases	(1)	(1)
Net operating lease charges	210	236

The Group has adopted IFRS 16 during the year, which requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. In order to provide comparable information the Group has chosen to present Headline measures of operating profit/(loss) and profit/(loss) before tax, as explained in Note 2 Segmental analysis.

The table above presents the pre-IFRS 16 net operating lease charges, applying the principles of IAS 17, and Group accounting policies as applicable prior to 1 September 2019, per Note 1 to the financial statements.

The Group leases various properties under non cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

The average remaining lease length across the Group is four years.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Temporary rent reductions due to Covid-19, affecting rent payments due on or before June 2021, have been recognised in the Income statement in the period they are received.

Information for shareholders

Company Secretary and registered office

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (number 5202036).

Company website

This Annual report and accounts together with other information, including the price of the Company's shares, Stock Exchange announcements and frequently asked questions, can be found on the WH Smith PLC website at whsmithplc.co.uk.

Annual General Meeting

The Annual General Meeting will be held at the Company's offices at Greenbridge Road, Swindon, Wiltshire SN3 3RX on Wednesday 20 January 2021 at 11.30am. A separate notice convening the meeting is being sent to shareholders and includes explanatory notes on each of the resolutions being proposed. As explained in that notice, in light of the ongoing Covid-19 pandemic, we strongly encourage shareholders not to attend the meeting in person this year and to appoint the Chair of the meeting as their proxy to ensure that their vote is counted.

Shareholder enquiries – the registrars

All enquiries relating to shareholdings should be addressed to the registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline 0371 495 0100 or visit their website at investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005..
A textphone facility for shareholders with hearing difficulties is available by telephoning 0370 702 0005.

Sharedealing services

This can be done through a stockbroker, bank or building society.

Computershare, our registrars, also offer share dealing services for shareholders (in certain jurisdictions). For internet dealing, log on to computershare.com/dealing/uk and for telephone dealing call 0370 703 0084. You will need to have your Shareholder Reference Number (SRN) to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend confirmation.

Please note that dealing fees will apply and will vary between providers.

and for telephone dealing call 0370 703 0084. You will need to have your Shareholder Reference Number (SRN) to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend confirmation. Please note that dealing fees will apply and will vary between providers. Financial calendar

The following dates are given for information purposes only. Please check the WH Smith PLC website at whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2020
Preliminary results announced	12 November 2020
Annual report posted	December 2020
AGM	20 January 2021
Christmas trading statement	20 January 2021
Half-year end	28 February 2021
Interim results announced	April 2021
Trading statement	June 2021
Financial year end	31 August 2021

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at sharegift.org.

Information for shareholders continued

Warning to shareholders – boiler room scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. Information on how to avoid share fraud or report a scam can be found on our website at whsmithplc.co.uk. *You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to.* You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to fca.org.uk/scamsmart..

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Smiths News PLC.

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22\frac{6}{67}$p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2\frac{13}{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2\frac{13}{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the *disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of* 50p will have to be apportioned between the shareholdings of ordinary shares of $55\frac{5}{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55\frac{5}{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	'A' ordinary shares	Arising from an original shareholding of 'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.

Designed and produced by **Radley Yeldar** www.ry.com

This annual report is printed on Amadeus Silk. The manufacturers of Amadeus Silk hold ISO 9001 & ISO 14001 certifications and are also FSC & PEFC certified. This report is printed by Pureprint, who hold ISO 9001, ISO 14001, FSC and PEFC certification. If you have finished reading the report and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.

MIX
Paper from responsible sources
FSC® C022913

Contact details

WH Smith PLC
Greenbridge Road
Swindon, Wiltshire SN3 3RX
United Kingdom
T 01793 616161
W whsmithplc.co.uk

WHSmith Travel
133 Houndsditch
London EC3A 7BX
United Kingdom
T 020 3981 0900
W whsmithplc.co.uk

WHSmith High Street
Greenbridge Road
Swindon, Wiltshire SN3 3LD
United Kingdom
T 01793 616161
W whsmith.co.uk

Investor Relations
T 020 3981 1285
W whsmithplc.co.uk/investors

Media Relations
T 01793 563354
W whsmithplc.co.uk/media

Sustainability
W whsmithplc.co.uk/sustainability

Recruitment
W whsmithcareers.co.uk

Customer Service
Freepost SCE4410
Swindon, Wiltshire SN3 3XS
United Kingdom
T 01793 616161
E customer.relations@whsmith.co.uk