For every journey there's a WHSmith

Annual Report and Accounts 2022

Here at WHSmith our purpose is simple: to make every one of life's journeys better

Supporting our customers' journeys has been key since 1792."

As we celebrate 230 years since the Company was founded, we continue to support the many journeys our colleagues, customers and shareholders make. Supporting the journey of our people is our top priority. We're a diverse team of over 12,000 colleagues across 30 countries and we're committed to championing their career journey with us while also promoting a culture where everyone can be their best self. We're all on the same journey – to create a better business.

Supporting our customers' journeys has been key since 1792. Whether a visit to one of our stores while travelling through an airport in the UK or overseas, to a hospital, or through a railway station. Or supporting the many communities we serve on the high street; purchasing a first book, back to school stationery, revision guides. We're there for every journey, and with more than 1,700 stores across the globe, we're proud to have evolved into the global travel retailer we are today.

For our shareholders, value creation remains central to our journey and we will continue to invest for the longer term where we see attractive opportunities for profitable growth.

Carl Cowling
Group Chief Executive

Find out more about WHSmith at: **whsmithplc.co.uk**

@whsmith

@whsmithofficial

youtube.com/WHSmith

linkedin.com/company/whsmith

Disclaimer
This Annual report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual report should be construed as a profit forecast.

About us

WH Smith PLC is a leading global travel retailer for travel essentials with a smaller business on the UK high street. At the heart of both our businesses are our people, customers and partners. We aim to deliver our vision through our strategic priorities and our forensic approach to retailing by: constantly innovating, expanding globally, improving our profitability and delivering sustainable returns.

- WHSmith is a global travel retailer with a presence in 30 countries, mainly in airports
- We are present in a wide range of locations including airports, hospitals, railway stations and motorway service areas
- Our smaller UK High Street business is present on most significant high streets and shopping centres, mainly in prime locations
- As WHSmith continues on its journey to be a better business, we have a strong commitment to the principles of sustainability
- WHSmith employs over 12,000 colleagues
- WH Smith PLC is listed on the London Stock Exchange ("SMWH") and is included in the FTSE 250 Index
- WHSmith has a growing online presence and reaches customers online via: whsmith.co.uk, funkypigeon.com, cultpens.com, treeofhearts.co.uk and dottyaboutpaper.co.uk

Financial and operational highlights

Revenue

£1.4bn

Group profit before tax

£63m

Headline Group profit before tax and non-underlying items[1]

£73m

Headline diluted earnings per share before non-underlying items[1]

41.7p

Total number of stores

1,723

Dividend per share

9.1p

1 Alternative performance measure described and explained in the Glossary on page 173

In this report

Group at a glance – Travel

Travel UK

Travel UK is the largest division in the Group and has a presence in a wide range of locations, including airports, hospitals, railway stations and motorway service areas across the UK.

Making our customers' journeys easier is our passion, whether they're travelling by air, by foot, by road or by train. As one of the world's leading travel retailers, we are the trusted home for travel essentials in the UK and it's how we support the millions of journeys made each year.

Our customers need convenience and have less time to browse, so we have tailored ranges providing a one-stop-shop solution, with a wide range of products, including food and drink, books, magazines, digital accessories, health and beauty products and souvenirs.

With WHSmith for travel essentials, and InMotion – our world-leading technology retailer – at UK airports, we're continuing to grow our presence around the UK, providing our customers with the essentials we know make their journey just that little bit better. We also partner with some of the UK's most popular retailers, such as Marks and Spencer Simply Food (M&S), Costa Coffee, Well Pharmacy and the Post Office. This allows us to tailor the product and service proposition to meet the needs of our customers and landlord partners in all the locations we operate in throughout the UK.

In the UK, we operate over 580 stores in travel locations and hospitals, with stores ranging in size from 90 square feet to more than 6,000 square feet, and we're constantly evolving the way we do things; opening new world-leading stores, transforming our customers' experience, increasing our category ranges and continuing to grow our network of third-party partnerships. Explore our current UK Travel channels on pages 20 to 22 to see how we aim to make every one of life's journeys better.

Stores

580+

Revenue

£521m

Scan here for an overview of our Travel UK business.

North America and Rest of the World

As a global travel retailer with a presence in 30 countries and more than 100 airports around the world, our brand and tailored customer proposition is synonymous with the travelling experience, having exposure to millions of travellers every year.

From the United States to Australia, the Middle East, Asia and Europe, we've welcomed many new customers since our journey began in London in 1792, and we continue to grow.

We have over 600 stores outside of the UK. We are continually looking for new store locations, while working hard to ensure our existing stores are providing outstanding customer service, operating successfully and delivering strong returns.

We are constantly innovating and adapting to ensure our customers receive the best experience possible. Whether it is through sourcing the latest digital accessories and bestselling books or food to go in each territory, or through the expansion and distinct style of our US retail business, MRG, or the first-class customer experience we provide under our technology brand, InMotion.

With a small market share across the globe, the opportunities are substantial and we're committed to our future as a global travel retailer.

Stores

600+

Countries

30

Revenue

£406m

Scan here for an overview of our North America and Rest of the World businesses.

Our journey to a better business

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 to create value for all stakeholders. Working with our business partners, suppliers and customers, we are looking forward to delivering the step-changes that are needed for sustainable living.

Read more about our sustainability strategy on pages 37 to 43.

Group at a glance – High Street

High Street

For generations, WHSmith has supported the UK high street with an extensive reach across the UK and a presence on nearly every significant high street and shopping centre.

We are proud to be a familiar and trusted brand that customers expect on their journey through life; from learning to read, going to school, revising for exams to finding a great book. As the hub of the high street, we are also committed to supporting every generation of customers to come.

Across our diverse estate of over 525 stores on UK high streets, with our wide-ranging store sizes and formats, we sell a wide range of products in the following categories: Stationery (including greeting cards, general stationery, art and craft, and gifting), News and Impulse (including newspapers, magazines, confectionery and drinks) and Books. Our High Street stores are also home to c. 200 Post Offices, further cementing our position on the high street and at the heart of the communities we serve.

funkypigeon.com

Scan here for an overview of our High Street business.

We are also growing as a multichannel retailer. WHSmith High Street includes our online businesses: whsmith.co.uk, which sells a range of books, stationery, magazines and gifts, providing a convenient online service to complement our High Street stores; our online personalised greeting cards site, funkypigeon.com; leading online specialist pen retailer, cultpens.com; and personalised stationery sites treeofhearts.co.uk and dottyaboutpaper.co.uk complement our existing Stationery ranges to enhance our customer offer.

Stores

525+

Revenue

£473m

Business model

Creating value for our stakeholders

Our unique combination of strengths:

Understanding customers
We understand and meet the needs of the travelling customer better than anyone else.

Landlord partners
Our market leading store design, range breadth and forensic approach to retailing allows us to deliver superior economics and innovative formats for landlord partners.

Our people
We have over 12,000 dedicated colleagues across our stores, distribution centres and head offices.

Store locations
We have a network of over 1,100 Travel stores in premium, high footfall locations in 30 countries, and over 525 stores in prime locations on UK high streets.

Product range
We work closely with a number of strategic partners (e.g. M&S Simply Food, Costa Coffee and the Post Office) to provide relevant products and services to our customers and landlords.

Service offering
We work closely with our strategic partners to service the needs of the travelling customer.

Operational efficiency
We maintain an ongoing focus on efficiency, productivity and cash generation in each channel and territory.

How we create value:

Format and Store design
Through our suite of market leading, innovative retail store formats we are able to secure premium, high footfall locations for our stores

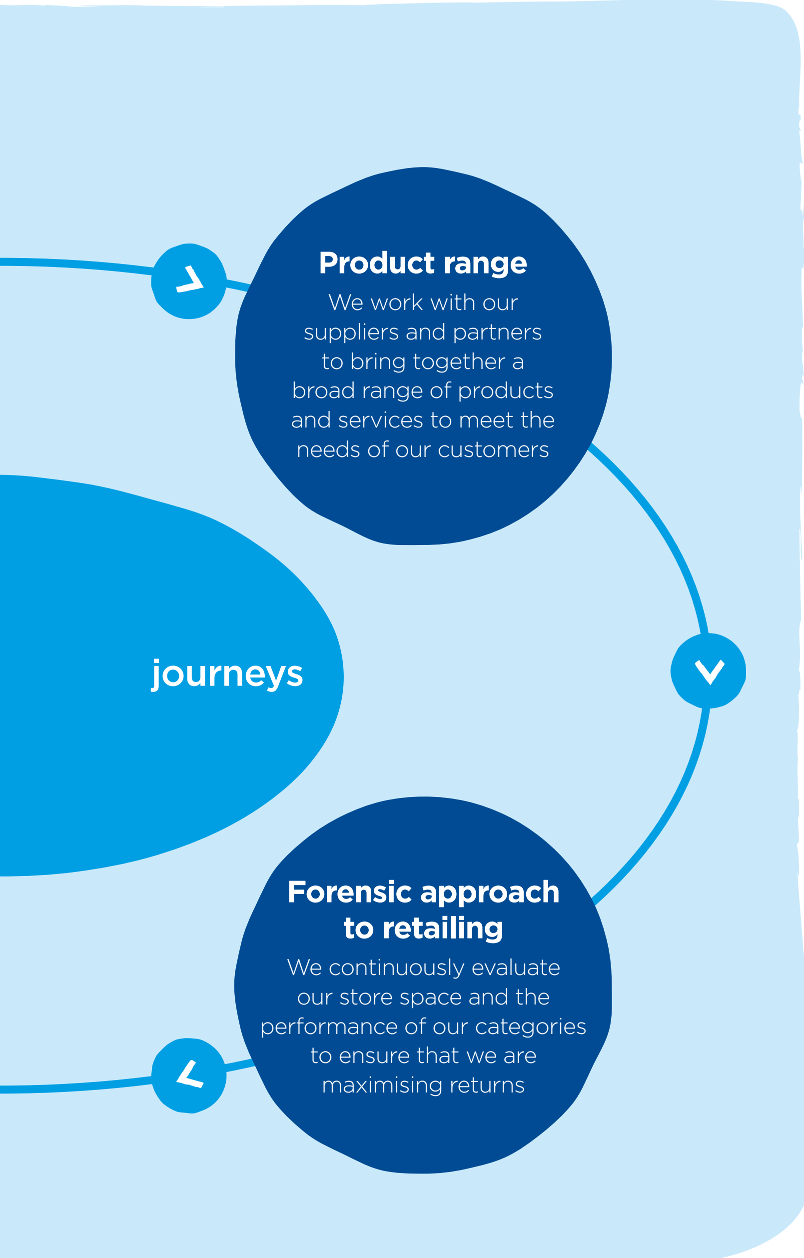
For life's

Reinvest in growing our business
Our disciplined approach to operational efficiency and cash generation allows us to reinvest capital in our stores and product offering

Underpinned by:

A commitment to operating responsibly
You can read more about our approach to Environmental, Social and Corporate Governance throughout the report.

Read more on page 37.



Creating value for:

Our customers
We bring our customers the best products and services for whichever of life's journeys they're on.

Our people
We provide an inclusive and rewarding place for our colleagues to build a career.

Our investors
We focus on providing consistent, profitable and sustainable growth, returning surplus cash to shareholders through a clear dividend policy and share buybacks.

Our landlord partners
We are proud of our strong landlord relationships and we work collaboratively with them to ensure flexibility and that we meet customer needs.

Our suppliers and business partners
We work collaboratively with our suppliers and business partners to provide customers with a wide range of products and to grow our business and theirs.

Our community groups
We operate a responsible business that contributes to the communities in which we operate.

Read about how we engage with our stakeholders on page 30.

Our culture and values
You can read more about our colleagues, values and diversity throughout the report.

Read more on page 40.

Chairman's statement

We're committed to our future as a global travel retailer

The Group has made excellent progress throughout 2022 and we are now in the strongest ever position as a global travel retailer. Passenger numbers are recovering well and the growth opportunities for the Group are substantial. The resumption of the dividend reflects the strength of current trading and a high level of confidence in the future and, as we enter 2023, the Group is extremely well positioned to make significant progress.

"The resumption of the dividend reflects the strength of current trading and a high level of confidence in the future."

Henry Staunton
Chairman

During the year, we have won some important strategic tenders across the globe and we now have a store opening pipeline of 150 stores won and scheduled to open over the next three years. While there is a good geographic spread of new store openings, 70 of these are in North America where we continue to see plentiful opportunity to grow our North America business further.

In our UK High Street business, we have continued to implement the strategy that has served us well; focusing on costs, increasing margins and generating cash. This ensures that the cash flow and profits of this business are robust and sustainable.

It has previously been announced that I will be retiring from the Board on 30 November 2022, and this is therefore my last statement as Chairman of the Company. I am immensely proud to have been part of the WHSmith success story for over a decade. The Group has gone from strength to strength and we are now in our strongest ever position as a global Travel retailer with over 1,700 stores across 30 countries. WHSmith is a great company and working with the Board and Executive teams has been a hugely enjoyable and rewarding experience. I also remain humbled by the extraordinary effort and commitment of our entire team across our distribution centres, head offices and stores and, in particular, how everyone responded to the Covid-19 pandemic.

"

We have an exceptionally strong team at WHSmith, led by an outstanding leadership team, and I would like to take this opportunity to wish everyone at the Company the very best for the future."

I will be succeeded as Chair by Annette Court. Annette was appointed by the Board in September this year as a non-executive director and Chair Designate. Annette has a proven track record as a Chair of a publicly quoted company and brings a wealth of experience from her Board appointments and has a strong background in financial services and technology. Annette will oversee the next exciting phase for the Company working with the Board and Executive teams to deliver our global growth strategy and I wish her every success.

I am also pleased that Marion Sears has joined us as a non-executive director during the year. Marion has extensive financial and retail expertise and replaces Annemarie Durbin as Chair of the Remuneration Committee. I would like to take this opportunity to thank Annemarie for her valued contribution to the Board over the past nine years.

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 66 to 73.

Sustainability

We are committed to adopting a market-leading position on responsible business practices, and seek to make a positive impact on the planet, the lives of our people and the communities in which we operate. This year, we were the top performing specialty retailer in Morningstar's Sustainalytics ESG Benchmark and we were, once again, included in the Dow Jones World Sustainability Index. During the year, we have also committed to target net zero emissions by 2050. Further information on all aspects of our sustainability programmes can be found on pages 37 to 43.

People

We have had a year of intense activity across all our divisions and none of this would have been possible without the significant contribution of all our colleagues. We have an exceptionally strong team at WHSmith, led by an outstanding leadership team, and I would like to take this opportunity to wish everyone at the Company the very best for the future.

Outlook

Whilst there is economic uncertainty, we are financially strong and with the return to a normalised travel environment, and the strength of the Group's growth opportunities, the Group is very well positioned for a year of significant progress in 2023. Value creation remains central to our plans and the Group will continue to invest for the longer term where it sees attractive opportunities for profitable growth.

£1.4bn
Revenue

9.1p
Dividend per share

Henry Staunton
Chairman

10 November 2022

Q&A

with

Group Chief Executive Carl Cowling

Q Looking back at the 2021/22 financial year, what has been the highlight?

A 2022 has been a really strong year of recovery for the Group and I am pleased to report that the momentum is continuing. We delivered revenue of £1.4bn, ahead of 2019, and Headline trading profit[1] of £73m. We are trading ahead of 2019 levels and, importantly, the Group is in its strongest ever position as a global Travel retailer.

Though the pandemic was very challenging, we used the time well to strengthen our Travel business internationally. We have had another really strong year in winning new business and now have 150 stores won and due to open across North America, Rest of the World and the UK over the next three years. This is in addition to the 98 stores we opened in the financial year.

We have also reinstated the dividend, proposing a final dividend of 9.1p per share.

None of this would be possible without the unwavering support of our colleagues across the globe for which I am sincerely grateful.

Q What is driving the Group's success?

A The Group has made excellent progress in the year. The key driver of our success continues to be our forensic approach to retailing across each of our businesses and initiatives that position us well for the future:

Space growth: We have opened 98 stores during the year and now have a new store pipeline of 150 stores to open across the globe over the next three years.

ATV growth: We have continued to focus on re-engineering our ranges and this is delivering good results.

Category development: We have focused on identifying further opportunities where we can reposition our traditional news, books and convenience format to a one-stop-shop travel essentials format.

Cost and cash management: We remain focused on cost control and minimising our cost base, particularly given our significant investment programme.

1 Alternative performance measure defined and explained on page 173
2 As reported (excludes pro forma North America adjustment)
3 Constant currency

Q As the growth engine of the Group, to what extent have you seen a rebound in revenue and profitability in Travel?

A In Travel, while the first half was impacted by the Omicron variant of Covid-19 from December 2021 to February 2022, thereafter we saw a robust recovery across all our travel markets and a strong rebound in profitability.

Total Travel revenue was £927m, up 131 per cent compared to the previous year generating a Total Travel Headline trading profit[1] of £89m. This momentum has continued into the new financial year and in the 10 week period to 5 November 2022, Travel revenue has been 148 per cent of 2019[2] (141 per cent on constant currencies).

Q Have you seen a consistent recovery across the Group versus 2019?

A The Group saw a strong recovery during the year which has continued into the current financial year.

All our channels in Travel UK have seen a sustained and strong recovery across the year with the division delivering sales of 113 per cent of 2019 in Q4 and 118 per cent in the first 10 weeks of the current financial year.

We saw a strong performance from North America. Given its domestic focus, the North America market recovered the quickest from the pandemic. Transportation Security Administration ('TSA') data and visitor numbers in Las Vegas have continued to improve during the year.

Across our Rest of the World division, as anticipated, the pace of recovery has varied by geography with the strongest recovery in Europe and, more recently, notable improvements in Australia and Asia. Revenue in the first 10 weeks of the current financial year was at 131 per cent of 2019[3] levels reflecting the ongoing recovery and opening of new stores.

We saw a consistently good performance in High Street throughout the year with the important December 2021 trading period at 90 per cent of 2019.

Q What progress have you made to become more sustainable?

A Our sustainability commitments remain as important as ever and I am pleased by the progress we are making, however there is still more to be done.

We set our target to achieve net zero and we are in the process of collaborating with our suppliers, landlords and customers to work towards this goal.

We were delighted to be ranked the highest performing specialty retailer in Morningstar's ESG Sustainalytics benchmark in the year and be included, once again, in the Dow Jones Sustainability Index as one of only 12 retailers globally.

"We were delighted to be ranked the highest performing specialty retailer in Morningstar's ESG Sustainalytics benchmark in the year."

Key market drivers

Travel

Our Travel stores around the world experience high levels of seasonal footfall, driven by leisure travel and in particular, during the summer.

Footfall in airports is driven by the global demand for flights and during the Covid-19 pandemic, passenger numbers in all geographies were impacted by government-imposed travel restrictions. As these restrictions have been relaxed, we have seen a robust recovery in passenger levels, primarily driven by pent up demand for leisure travel. However, recovery has been uneven and a gap exists between markets, especially where travel restrictions are still in place and where Covid-19 vaccine availability and uptake has been more limited.

Domestic travel, especially in North America and short-haul leisure have been the fastest to recover, with business travel and long-haul recovering more slowly, particularly in Asia.

The Airports Council International (ACI) expects passenger numbers to recover to 2019 levels by 2024.

Hotels and resorts in North America have seen a strong rebound in visitors. Visitors to Las Vegas had recovered to 96 per cent of 2019 levels in September 2022.

In the UK, Rail passenger numbers have also been impacted by government restrictions during the Covid-19 pandemic and shifts towards more flexible working patterns. Network Rail concourse data suggests rail passengers were down 20 per cent in October 2022 vs 2019.

The UK Government continues to invest in the National Health Service and in building new and extended hospitals.

Our markets are impacted by macro economic conditions. As we enter a period of uncertainty in global economies as a consequence of interest rates, inflation and conflict, footfall and costs could be impacted.

How we respond:

- Our market leading store formats and breadth of product range ensure we maximise the number of passengers shopping in our stores
- We are growing our average transaction value by offering customers a breadth of travel essentials products at a variety of price points
- Our operational expertise and agility allow us to rapidly adapt to changing market conditions and volatility in passenger numbers
- We remain extremely disciplined in focusing on controlling costs
- We plan to offset inflation through productivity savings, simplifying our operating model and price increases, where appropriate
- We continue to ensure that we offer consumers great quality products and value for money through our promotional offering

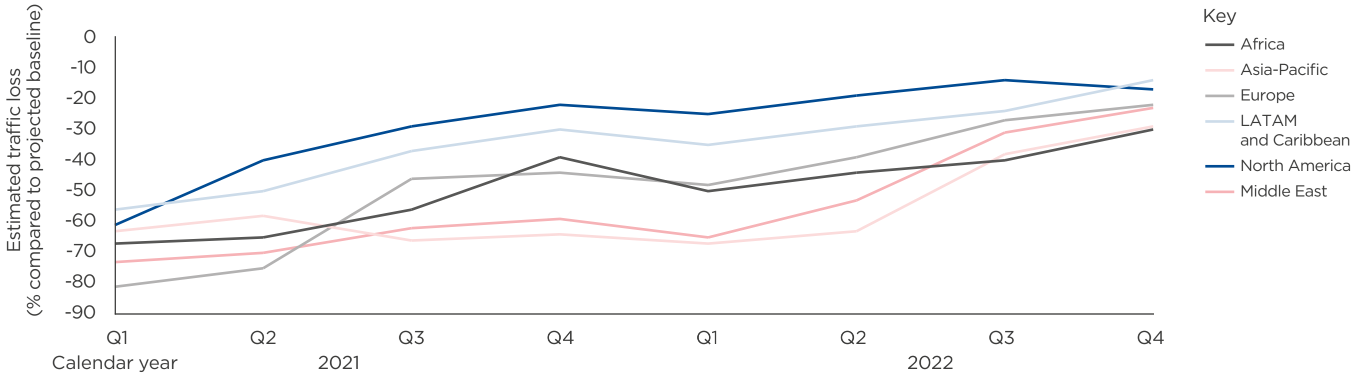
High Street

High Street's performance is dependent upon overall growth in consumer spending and the levels of footfall on the UK high street. There is a wide disparity in store performance depending on location, with smaller market towns and more affluent catchments tending to perform better than city centre locations. Like Travel, High Street is impacted by macroeconomic trends including factors such as levels of employment, interest rates and consumer spending.

How we respond:

- We continue to invest in growing our online businesses to complement our in store proposition
- We continue to ensure we have profitable stores in the right locations through regular review of our store estate and keeping leases short and flexible
- We maintain a forensic approach to store space in order to maximise returns from our core categories
- We maintain a forensic approach to productivity and efficiency in our operations

Impact of Covid-19 on quarterly passenger traffic by region vs pre-Covid-19 baseline



Expanding our global reach

We continue to grow our North America and Rest of the World businesses, welcoming more customers across new countries and territories. Our brand is synonymous with the travelling experience, with exposure to millions of international travellers every year. We know that when journeying through an airport, it's the destination that matters to our customers and the journey that matters to us.

For more information on our North America and Rest of the World businesses, please refer to pages 22 and 23.

1,700+
stores across

30
countries

Our strategy

A strong and focused strategy

We measure our performance against our strategy using our KPIs on pages 16 and 17.

Our purpose
To make every one of life's journeys better

Our vision
To be the world's number one travel essentials retailer

Strategic priorities

Space growth
- Opening new stores
- Winning new business
- New, better quality space
- Extending contracts
- Developing formats and brands

ATV growth
- Space management
- Refitting stores
- Range development

Progress

98
new stores opened during the year

150
new store pipeline through to 2024

Over 10%
increase in ATV across our channels

Enablers

Forensic approach to retail
- Space management
- In-store execution
- Tight cost control
- Industry leading returns

Innovative store formats
- Format development
- Portfolio of world class brands
- Forensic approach to maximising sales density

Profit growth. Strong cash generation.

WHSmith Group

Travel

Category development

- One-stop-shop travel essentials format
- Developing the InMotion brand
- Improving ranges

Expand
food to go, tech accessories, health and beauty

Cost and Cash management

- Flexible rent model
- Investing for growth
- Productivity and efficiencies

Invest
for future growth and sustainable returns

High Street

Maintain profitability and cash generation of High Street and grow our digital businesses

£33m
Headline trading profit

£42m
of cost savings delivered across the business

Low cost operations

- Efficient, nimble supply chain
- Simplification
- Focus on cost control

High performing teams

- Attract, retain and develop the best talent
- Diverse and inclusive workplace

Driving sustainability

- Minimising our impact on the planet
- Engaging our people
- Contributing to communities

Focused capital allocation. Shareholder returns.

Key performance indicators

Our key performance indicators ("KPIs") comprise a number of financial and non-financial metrics that enable us to evaluate our performance against our strategic goals. Certain KPIs are Alternative performance measures, which are defined and explained on page 173. These measures are used by the Board as they provide additional useful information on the underlying performance of the Group. Statutory equivalents are provided where relevant.

Financial

Revenue (£m)

Group

£1,400m

2022	**1,400**
2021	886
2020	1,021
2019	1,397
2018	1,262

Total Travel

£927m

2022	**927**
2021	401
2020	553
2019	817
2018	672

High Street

£473m

2022	**473**
2021	485
2020	468
2019	580
2018	590

Profit/(loss) (£m)

The below profit/(loss) measures are stated on a pre-IFRS 16 basis

Headline Group profit/(loss) before tax and non-underlying items[1]

£73m

2022	**73**
2021	(55)
2020	(69)
2019	155
2018	145

Total Travel Headline trading profit/(loss)[1]

£89m

2022	**89**
2021	(39)
2020	(33)
2019	117
2018	103

High Street Headline trading profit/(loss)[1]

£33m

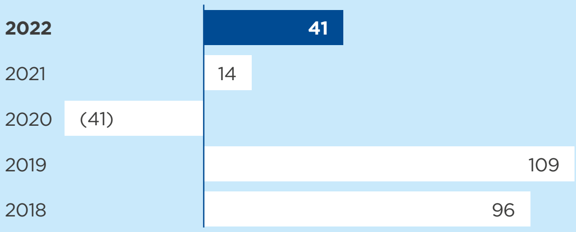
2022	**33**
2021	19
2020	(10)
2019	60
2018	60

1 Alternative performance measure defined and explained in the Glossary on page 173

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 page 28).

£41m



Dividend per share (p)

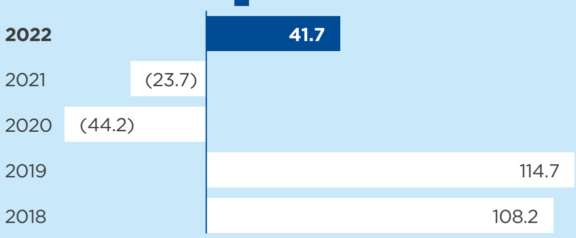
Total dividend per share

9.1p

Earnings per share

Headline diluted earnings/(loss) per share before non-underlying items[1] (p)

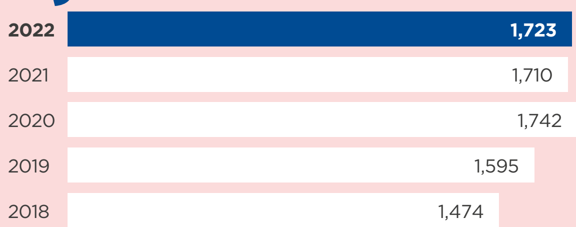
41.7p



Non-financial

Group total number of stores

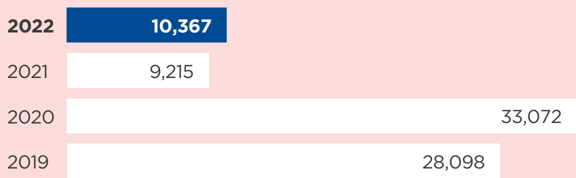
1,723



CO_2 emissions (tonnes of CO_2e)[2]

Global Scope 1 and 2 emissions

10,367



1 Alternative performance measure defined and explained in the Glossary on page 173

2 2018 comparative number not available

Growing our UK presence

As one of the world's leading travel retailers, we are the trusted home for travel essentials in the UK supporting the millions of journeys made each year. We're continuing to grow our presence, providing our customers with the essentials we know make their journey just that little bit better, whether they're travelling by air, on foot, by road or by train.

For more information on our Travel UK business, please refer to pages 20 to 22.

580+
Travel stores across the UK

Review of operations

> The strong momentum that we saw in Q4 has continued into the new financial year with the Group now in its strongest ever position as a global travel retailer.”

Carl Cowling
Group Chief Executive

Travel

Total Travel revenue
£927m
(2021: £401m)

Total Travel Headline trading profit[1]
£89m
(2021: loss of £(39)m)

Total Travel revenue (year on year)
+131%
(2021: (27)%)

Performance review

I am pleased to report that our Travel business has had a strong year of recovery. Despite the pandemic, the Travel division is now in an even stronger position. Though the pandemic was very challenging, we used the time well to strengthen our business both in the UK and internationally.

Total revenue was £927m (2021: £401m), up 131 per cent compared to the previous year resulting in a Total Travel Headline trading profit1 in the period of £89m (2021: loss of £39m).

£m	Trading profit/ (loss)[1] (IFRS 16) 2022	2021	Headline trading profit/(loss)[1] (pre-IFRS 16) 2022	2021	Revenue 2022	2021
Travel UK	**60**	(29)	**54**	(32)	**521**	195
North America	**33**	2	**31**	6	**288**	166
Rest of the World	**3**	(17)	**4**	(13)	**118**	40
Total Travel	**96**	(44)	**89**	(39)	**927**	401

We continue to capitalise on the multiple growth opportunities across the globe and to focus on initiatives that position us well for future growth. These include:

Business development and winning new business

Through building and managing relationships with all our landlord partners, we look to win new space, improve the quality and amount of space, develop new formats and extend contracts. Going forward, we expect to win around 50 to 60 new stores a year.

ATV growth and spend per passenger

We aim to grow ATV through our forensic analysis of the return on our space, cross category promotions, merchandising, store layouts and store refits.

Category development

We do this by developing adjacent product categories relevant for our customers, such as health and beauty and tech ranges; and expanding existing categories, e.g. premium food ranges.

Minimising costs

We remain focused on cost efficiency and productivity, and making value creating investments.

The strong momentum that we saw in Q4 has continued into the new financial year with the Group now in its strongest position ever as a global travel retailer. Passenger numbers have recovered strongly albeit with further recovery and we are very well positioned to capitalise on the significant space growth opportunities across each of our markets.

As at 31 August 2022, our global Travel business operated from 1,196 units[2] (31 August 2021: 1,166 units). As at 31 August 2022, we are present in over 100 airports and 30 countries with 298 stores in North America, 109 stores in Europe, 84 in the Middle East and India and 118 in Asia Pacific. Excluding franchise units, Travel occupies 1.0m square feet.

1 Alternative performance measure defined and explained in the Glossary on page 173
2 Travel stores include motorway and international joint ventures and franchise units

Review of operations continued

Travel UK

All our channels in Travel UK have seen a sustained and strong recovery across the year with the division delivering revenue of 113 per cent of 2019[2] in Q4 and 118 per cent in the first 10 weeks of the current financial year.

Total revenue in the year was £521m which, together with improved margins, resulted in a Headline trading profit[1] of £54m (2021: loss of £32m). We have seen a consistent double digit increase in ATV versus 2019 across our Air, Hospital and Rail channels during the period as a result of our work to broaden our categories and extend our ranges.

	Per cent of 2019 Revenue[2]			
	Air	Hospitals	Rail	**Total**
H1 FY22	60%	90%	70%	71%
Q3 FY22	111%	102%	87%	102%
Q4 FY22	124%	110%	90%	113%
Year to 31 August 2022	**93%**	**98%**	**79%**	**90%**
10 weeks to 5 November 2022	132%	114%	92%	118%

As at 31 August 2022, Travel UK had 587 stores. In addition, over the next three years, we expect to win and open an additional 10 to 15 stores each year in UK Travel, with the majority of the new stores in the Hospitals channel.

Air

In Air, we saw a significant step up in revenue over the key summer trading period, with sales in July and August 2022 at 121 per cent and 126 per cent respectively of 2019. This was during a period of disruption and passenger caps at some UK airports which limited the number of passengers travelling.

As was the case pre-pandemic, leisure passengers are our most important customer segment. We continue to focus on expanding our proposition and identifying opportunities where we can reposition our traditional news, books and convenience (NBC) format to a unique one-stop-shop for travel essentials. By extending our categories, such as health and beauty, tech, food to go and pharmacy products, we are able to provide time-pressed travelling customers with a fast and convenient shopping experience, under one roof. This enables us to expose customers to a broader range of categories which has resulted in an increase in sales per square metre, a higher ATV and spend per passenger. This delivers good returns for us with improved margins and attractive economics for our landlords. Customer and landlord feedback has been very positive.

We have now opened 30 of the 33 InMotion stores that we recently won in UK Air, positioning us as the market-leading technology retailer in travel locations globally. We are pleased with the performance of our new InMotion stores in UK Air, which are trading above our initial expectations. Combining the learnings and expertise from our InMotion stores in the US, as well as the results of extensive customer research in the UK, these stores provide a first-class customer service experience and showcase a range of premium brands, such as Apple, Bose, Sony and Samsung, as well as an extensive range of tech accessories.

Hospitals

The Hospital channel is an important channel for us and is our second largest channel by revenue in Travel UK. During the year, we have seen a consistent improvement in revenue as restrictions eased.

Our Hospital channel is a good example of how we continue to innovate with a strong proposition tailored to each location. We are able to offer hospital trusts a broad suite of formats and brands including WHSmith, M&S Simply Food, Costa Coffee and the Post Office. We now have 49 M&S Simply Food or shared space stores across our hospital estate, 11 Costa Coffee shops and three Post Offices.

In addition, there are considerable opportunities for us to open new space in hospitals. As at 31 August 2022, we operated from 136 stores in around 100 hospitals and we believe there are a further 200 hospitals which could support at least one of our four store formats. The UK Government continues to invest in both infrastructure and staff numbers in the health sector as the sector emerges from Covid-19.

Over the medium-term, we would expect to open on average 8 to 10 new stores each year in the Hospital channel.

Rail

Rail remains an attractive channel with opportunities to grow. According to the Department for Transport, pre-pandemic rail had approximately 1.7bn passenger journeys per year with leisure passengers accounting for around 40 per cent of these journeys.

During the year, we have seen a steady improvement in revenue as travel restrictions eased and this momentum has continued into the new financial year, despite the disruption caused by the recent rail strikes. Passenger numbers are now at 80 per cent of 2019 levels with leisure and weekend passenger numbers recovering the fastest. We know from our segmentation and return on space analysis in Rail that this customer segment is the most valuable to us.

1 Alternative performance measure defined and explained in the Glossary on page 173
2 Equivalent month in 2019

Going big in the US

The US is the largest travel retail market in the world and the growth opportunities are substantial. Through our rapid expansion programme and the distinct style of our US retail business, MRG, together with the excitement of a first-class customer experience under the InMotion brand, we're committed to our future as a global travel retailer.

Read more about our North America business on page 22.

290+
stores across North America

Review of operations continued

As with our other channels in Travel, we continue to invest in re-engineering our ranges and broadening our categories to meet customer and landlord needs. In the first half of the year, we opened our first one-stop-shop format in Rail at London's Euston Station. This store combines our traditional news, books and convenience offer with tech, health and beauty products and a pharmacy. We have received positive feedback from customers and the store is performing strongly. During the current financial year, we will be trialling our one-stop-shop for travel essentials format in Rail across a further eight major Network Rail locations, including London Paddington, London Victoria and London Liverpool Street stations. Across these stores, we will be investing in new store layouts and enhancing the space afforded to categories such as health and beauty.

In addition, we have opened a new standalone bookshop at Edinburgh Waverley Station and our first Rail store with a combined M&S food offer at Bristol Temple Meads Station. Early customer and landlord reaction has been positive.

North America

We saw a strong performance from North America. Given its domestic focus, the North America market recovered the fastest from the pandemic. TSA (Transportation Security Administration) data and visitor numbers in Las Vegas have continued to improve during the year. Total revenue for the year in North America was £288m (2021: £166m), an increase of 73 per cent of which 10 per cent was due to changes in exchange rates. Headline trading profit[1] of £31m (2021: £6m), reflects the recovery in passenger numbers and improved margins. In the current financial year, we expect our North America business to become an increasingly significant part of the Group and the second largest in profit terms, after Travel UK. The Group is exposed to movements in the GBP:USD exchange rate. A 10 cent move in this rate results in a c.£3m movement in annual profit. Current consensus suggests an average exchange rate of GBP:USD of 1.30.

The growth opportunities in North America are substantial. The US is the largest travel retail market in the world with annual sales, pre-pandemic, at $3.2bn. Approximately 85 per cent of passengers are domestic, with leisure passengers being the largest segment. TSA data continues to show a gradual recovery in passenger numbers week on week, with passenger numbers at the end of October 2022 at 95 per cent of 2019 levels.

Given the similar customer dynamic and high footfall environments to our Travel UK business, we have applied our forensic approach to retailing from the UK to the US market and we are seeing good results. This includes: space management; category development to higher margin products such as health and beauty and tech; enhanced promotional activity; and, increased operational efficiencies, for example by introducing self-scan tills which we introduced in September 2022.

Including the 22 store openings in the year, MRG now have 78 and InMotion 118 stores trading in airports. We continue to grow our North America business at pace and we have a very strong pipeline of new store openings, including some significant tender wins at Los Angeles and Salt Lake City airports. During the year, we have won an additional 22 stores and we expect to open 49 in the current financial year. So far this financial year, we have won a further five stores including Jacksonville and Boston airports. Our analysis of the North American market pre-pandemic shows that there were a total of 2,004 news and gift and specialty retail stores in the top 70 airports, giving our North America business a market share of c.12 per cent[2]. With MRG's continued success rate of winning new tenders and our expectation of the amount of space likely to come to the market for tender over the medium-term, we are well placed to grow our North America business.

Outside of the airport business, the Resorts channel continues to be attractive. MRG is a leading player in this channel in Las Vegas with stores located on the key visitor locations of the Strip and Fremont Street. MRG has very longstanding relationships with resort landlords and a significant amount of expertise built up over an extended period. The Resorts channel has similar dynamics to our Travel UK business with a high number of short stay visitors who tend to remain close to their hotel. Visitors to Las Vegas were approximately 3.4m in the month of September 2022, c. four per cent below 2019.

In addition, we have won and opened our first store in Rail in North America. This store opened in February 2022 at Moynihan Train Hall, New York. While it is still early days, this store is performing well and in line with our expectations. We have also won a further store at neighbouring Penn Station.

Our revenue performance in the current year has reflected these trends with overall revenue in North America at 130 per cent[3] of 2019 levels for the 10 weeks to 5 November 2022 (of which 13 per cent relates to currency movements, giving growth of 117 per cent at constant currencies).

1 Alternative performance measure defined and explained in the Glossary on page 173

2 Based on store numbers, including stores won, not yet open

3 Includes pro forma MRG for 2019

Rest of the World

Total revenue for the year in ROW was £118m (2021: £40m). Headline trading profit[1] was £4m (2021: loss of £13m). As anticipated, the pace of recovery has varied by geography with the strongest recovery in Europe and, more recently, notable improvements in Australia and Asia. As we have done in Travel UK, we have remained focused on areas within our control, including increasing ATV. Revenue in the first 10 weeks of the current financial year was at 131 per cent to 2019[2], reflecting the ongoing recovery and opening new stores.

As this market continues to recover, we expect to see more space become available. Our strong and compelling proposition and our very low market share currently means there is significant opportunity to grow this business in new and existing territories through our traditional convenience retail proposition and with technology tenders under the InMotion brand. We continue to use our three operating models of directly run, franchise and joint-venture in order to create value and win new business.

We have made good progress in the year opening 38 new stores, and winning 63 stores, with significant tender wins in Spain, Belgium, Italy, Sweden, Norway and Australia. Utilising our experience from our North America business, we have created a localised store design concept for each airport, drawing on local landmarks and popular cultural references. This has been well received by landlords and gives us confidence in winning more stores in new territories as space becomes available.

In addition, we continue to build on areas where we already have stores, for example, in Spain which is one of the most popular destinations for the UK leisure traveller. In the first half of the financial year, we won an additional 31 stores across Spanish airports, of which we have opened 23 to date. These stores are performing well and we know from our prior experience of operating in the country that our brand and offer resonates well in this market. We successfully executed this store opening programme at pace to ensure over half the stores were trading throughout the peak summer period.

We also continue to see good opportunities to win new business in the technology market under our InMotion brand. During the year, we have won seven InMotion stores in Dublin, Milan, Stockholm and Gothenburg. We now have a total of 11 InMotion stores outside of the UK and North America of which six are open. We remain well positioned to benefit from further opportunities as more space becomes available.

We have 311 stores open and a further 76 won and yet to open. Of the 311 stores open, 45 per cent are directly-run, 8 per cent are joint venture and 47 per cent are franchise.

Region	Number of stores
Europe	109
Middle East and India	84
Asia Pacific	118

1 Alternative performance measure defined and explained in the Glossary on page 173
2 Constant currency

Review of operations continued

High Street

Revenue
£473m
(2021: £485m)

Headline trading profit[1]
£33m
(2021: £19m)

Total revenue (year on year)
(2)%
(2021: +4%)

Performance review

During the year, High Street delivered a resilient performance with Headline trading profit[1] of £33m (2021: £19m – which included £30m of UK Government support on rates) as expected, with revenue of £473m (2021: £485m). On an IFRS 16 basis trading profit[1] was £45m (2021: £36m). We managed the business tightly, focusing on costs and cash generation. We are pleased with the start to the new financial year with LFL revenue up 2 per cent on the prior year for the 10 weeks to 5 November 2022.

The strategy we have in place in our High Street business remains as relevant today as it has ever been and ensures that the cash flow and profits of this business are robust and sustainable.

We consider retail space as a strategic asset and we utilise our space to maximise returns in the current year, in ways that are sustainable over the longer-term. 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.

Driving efficiencies remains a core part of our strategy and we continue to focus on all areas of cost in the business. During the year, we have delivered savings of £42m and we are on track to deliver savings of £24m over the next three years, of which £12m will be delivered in the current financial year. These savings come from right across the business, including rent savings at lease renewal (on average 53 per cent) which continue to be a significant proportion, marketing efficiencies and productivity gains from our distribution centres. We have, for many years, actively fixed our energy costs in stores well in advance of consuming the energy. We have currently fixed our energy costs to August 2023 at rates that were put in place 12 months ago.

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 under two years.

We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.460 leases due for renewal over the next three years, including over 150 where we are holding over and in negotiation with our landlord. The store closure process is cash neutral.

As at 31 August 2022, the High Street business operated from 527 WH Smith stores[2] (2021: 544) which occupy 2.5m square feet (2021: 2.6m square feet). 17 WH Smith stores were closed in the period (2021: 24).

Specialist websites

Funkypigeon.com delivered, as expected, total revenue of £35m (2021: £54m) and Headline EBITDA[1] of £8m (2021: £14m) reflecting the cyber incident in April. Funkypigeon.com is recovering well and we are confident of the substantial opportunities to grow the platform further, and significantly grow revenue and profits over the medium-term.

The market for greeting cards in the UK is substantial and estimated at £1.6bn[3] with online penetration continuing to grow. The UK greeting card market has been stable with adults sending on average 20[3] greeting cards per person each year.

We have redeveloped the funkypigeon.com app to improve customer conversion and we have also launched a next day delivery service which operates seven days a week to further enhance our customer proposition. This has received very positive customer feedback.

During the year, we increased our investment and focus on whsmith.co.uk. This has included focusing on customer conversion, product presentation and broadening our approach to marketing. Our specialist pen website, cultpens.com, has continued to outperform the UK market with growing sales internationally. We have extended our ranges to broaden our customer offer and, during the year, we launched product personalisation to further develop the gifting category. This includes laser engraving of pens and notebook embossing. We are seeing good results.

1 Alternative performance measure defined and explained in the Glossary on page 173
2 Including branches in Guernsey and the Isle of Man
3 Company estimates/OC&C 2019

Outlook

2022 has been a successful year for the Group and we enter the new financial year in the strongest ever position as a global travel retailer with multiple growth opportunities across the world.

We have opened 98 new stores in the year and we have a pipeline of 150 new stores yet to open across 16 countries and in airports as varied as Los Angeles, Salt Lake City, Brussels, Oslo and Melbourne.

We continue to grow our North America business at pace and we have a very strong pipeline of new store openings. In the current financial year, our North America business is set to become larger than our UK High Street business and we see significant opportunities to grow this business further.

This coming year, we have an extensive investment programme and expect capex to be around £150m.

Our InMotion technology stores have had a very good year. We now have over 150 InMotion stores open including 36 outside of the US. Our recently opened stores in the UK are trading ahead of our initial expectations and we have received excellent feedback from customers and landlords. We see significant scope to grow the brand globally.

Our High Street division, including our online businesses, delivered another resilient and profitable performance. These businesses continue to generate strong cash flow allowing us to invest across the Group.

The resumption of the dividend reflects our strong current trading and the Board's confidence in the future prospects of the Group.

We have started the year well and, while there is economic uncertainty, travel patterns globally continue to improve and this, combined with the strength of the Group's growth opportunities, means that we are well positioned for a year of significant progress in 2023.

Carl Cowling
Group Chief Executive

10 November 2022

Financial review

The Board has announced that it will be reinstating the dividend of 9.1p per share in respect of the financial year ended 31 August 2022.”

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group

Total Group revenue at £1,400m (2021: £886m) was up 58 per cent compared to the prior year and slightly ahead of 2019. It was the highest annual revenue generated by the Group since its creation in its current form in 2006.

The Group saw a strong recovery during the year which has continued into the current financial year. Total Group revenue as a percentage of 2019 total revenue by quarter has been:

	Per cent of 2019 Revenue[2]				
	FY2022				FY2023
	Q1	Q2	Q3	Q4	10 weeks to 5 November 2022
Travel UK	69%	72%	102%	113%	118%
North America[3]	91%	91%	110%	116%	117%
Rest of the World[4]	41%	48%	87%	116%	131%
Total Travel[5]	**83%**	**81%**	**122%**	**135%**	**148%[7]**
High Street[6]	87%	84%	79%	81%	87%
Group	**85%**	**83%**	**106%**	**117%**	**125%**

Second half revenue for the Group was 113 per cent of 2019 on a total basis and 89 per cent on a like-for-like[1] (“LFL”) basis as shown in the table below. LFL revenue in Travel was 92 per cent of 2019.

	H2 FY2022 per cent of 2019 revenue[2]	
	Total	LFL
Travel UK	109%	94%
North America[3]	113%	94%
Rest of the World[4]	103%	82%
Total Travel[5]	**130%**	**92%**
High Street[6]	82%	83%
Group	**113%**	**89%**

1 Alternative performance measure defined and explained in the Glossary on page 173
2 Equivalent month in 2019
3 Pro forma, constant currency
4 Constant currency
5 As reported (excludes pro forma North America adjustment)
6 Includes internet businesses
7 141 per cent on constant currency basis

In Travel, while the first half was impacted by the Omicron variant from December 2021 to February 2022, we saw thereafter a robust recovery across all our travel markets and a strong rebound in profitability. Travel revenue for the second half was at 130 per cent[5] of 2019 (92 per cent on a LFL[1] basis) and over the key summer trading period from June to August, Travel revenue was at 135 per cent of 2019 (96 per cent on a LFL[1] basis).

In the 10 week period to 5 November 2022, Travel revenue has been 148 per cent[7] of 2019 which demonstrates the intrinsic strength of our business and the markets in which we operate.

We saw a consistently good performance in High Street throughout the year with the important December 2021 trading period at 90 per cent of 2019.

The Headline Group profit from trading operations[1] for the year was £122m (2021: loss of £20m) with Headline Group profit before tax and non-underlying items[1] at £73m (2021: loss of £55m). After non-underlying items, the Headline Group profit before tax[1] was £61m (2021: loss of £104m).

The Group profit before tax including non-underlying items and on an IFRS 16 basis, was £63m (2021: loss of £116m).

	IFRS		Headline (pre-IFRS 16)[1]	
£m	2022	2021	2022	2021
Travel UK trading profit/(loss)[1]	60	(29)	54	(32)
North America trading profit[1]	33	2	31	6
Rest of the World trading profit/(loss)[1]	3	(17)	4	(13)
Total Travel trading profit/(loss)[1]	96	(44)	89	(39)
High Street trading profit[1]	45	36	33	19
Group profit/(loss) from trading operations[1]	**141**	(8)	**122**	(20)
Unallocated central costs	**(24)**	(19)	**(24)**	(19)
Group operating profit/(loss) before non-underlying items[1]	**117**	(27)	**98**	(39)
Net finance costs	**(34)**	(24)	**(25)**	(16)
Group profit/(loss) before tax and non-underlying items[1]	**83**	(51)	**73**	(55)
Non-underlying items[1]	**(20)**	(65)	**(12)**	(49)
Group profit/(loss) before tax	**63**	(116)	**61**	(104)

Unallocated central costs increased in the year due to higher share-based payment charges and £2m costs in relation to a new payroll system which previously would have been treated as capex and now is treated as opex under the new accounting guidelines for software as a service.

The Group has a strong balance sheet, is very cash generative and has substantial liquidity. In addition to £327m of convertible bonds which mature in 2026 and £133m of term loan with a maturity in 2025, the Group has an undrawn £250m Revolving Credit Facility (RCF) which matures in 2025.

The Group has the following cash, committed facilities and drawn debt as at 31 August 2022:

£m	31 August 2022	Maturity
Cash and cash equivalents[8]	**£132m**	
Revolving Credit Facility[9]	**£250m**	April 2025
Term Loan	**£133m**	April 2025
Convertible bonds	**£327m**	May 2026

As at 31 August 2022, Headline net debt[1] was £296m (2021: £291m) with access to over £350m of liquidity (£101m cash on deposit and £250m undrawn RCF). We continued to focus on cash. Group free cash flow[1] was £41m (2021: £14m), reflecting the strong trading performance as well as our investment in growth opportunities with capital investment in the year of £83m (2021: £44m).

The Group pays a fixed coupon at 1.625 per cent on the convertible bonds and the term loan is interest bearing at a margin over SONIA. As a consequence, around 70 per cent of our debt is at fixed interest rates. The Group places surplus cash in overnight interest bearing accounts ensuring immediate liquidity. As at 31 August 2022, the Group had £101m placed in interest bearing deposit accounts.

The Board has announced that it will be reinstating the dividend and is proposing a final dividend of 9.1p per share in respect of the financial year ended 31 August 2022 which is payable on 26 January 2023. This reflects our strong start to the year and our confidence in the future prospects of the Group. Assuming a one third/two third split between interim and final dividends, this implies a cover ratio of 3 times earnings for the full year. Our intention is to return, in time, to a cover ratio of around 2.5 times normalised earnings paid on an interim and final basis on a one third/two thirds split.

The Group's disciplined approach to capital allocation remains unchanged:

- investing in our existing business and in new opportunities where we see attractive rates of return ahead of the cost of capital;
- paying a dividend for our shareholders;
- undertaking attractive value-creating acquisitions in strong and growing markets;
- returning surplus cash to shareholders.

8 Cash and cash equivalents comprises cash on deposit of £101m and cash in transit of £31m

9 Undrawn as at 31 August 2022 and 9 November 2022

Leverage at 31 August 2022 was 2.0x EBITDA. We have a leverage target of between 0.75 and 1.25 times EBITDA and we anticipate achieving this level within the next 12 to 18 months, including this year's significant investment programme.

Non-underlying items[1]

Items which are not considered part of the normal operating costs of the business, are non-recurring and are exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Non-underlying items in the year are detailed in the table below, and most do not impact cash.

The cash spend relating to non-underlying items in the 2022 financial year was £16m and mainly related to activity announced in 2020 and 2021.

	IFRS		Headline (pre-IFRS 16)[1]	
£m	2022	2021	2022	2021
Impairment of Property, plant and equipment and Right-of-use assets	**13**	42	**5**	18
Amortisation of acquired intangible assets	**3**	3	**3**	3
Costs related to cyber incident	**4**	–	**4**	–
Onerous leases	**–**	–	**–**	5
Stock provisions, write-offs and other costs	**–**	3	**–**	6
Restructuring costs	**–**	9	**–**	9
Costs associated with refinancing	**–**	6	**–**	6
Cost relating to business combinations	**–**	2	**–**	2
	20	65	**12**	49

Impairment of Property, plant and equipment and Right-of-use assets

The Group has carried out an assessment for indicators of impairment across the store portfolio. This assessment has identified a number of stores where experience and expectations of the longer-term impact of Covid-19 is more negative than previously assumed, primarily driven by the impact of Covid-19 on consumer shopping patterns.

The impairment review compared the value-in-use of individual store cash-generating units, based on managements' assumptions regarding likely future trading performance, taking into account the effect of Covid-19, to the carrying values at 31 August 2022. Following this review, a non-cash charge of £5m (2021: £18m) was recorded for impairment of retail store assets on a pre-IFRS 16 basis, and £13m (2021: £42m) on an IFRS 16 basis which includes an impairment of right-of-use assets of £8m (2021: £28m).

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands. This is a non-cash charge.

Financial review continued

Costs related to cyber incident

Costs of £4m were incurred in relation to the Funky Pigeon cyber security incident and include impairment of software assets, third party consultancy support and legal and other costs.

Other non-underlying items in the prior year included stock provisioning and impairment relating to the impact of Covid-19, restructuring costs following a review of store operations across our High Street business, costs associated with the refinancing activity in April 2021 and further integration costs in relation to the acquisition of MRG which completed in December 2019.

A tax credit of £4m (2021: £12m) has been recognised in relation to the above items (£3m pre-IFRS 16[1] (2021: £9m)).

Net finance costs

£m	IFRS 2022	IFRS 2021	Headline (pre-IFRS 16)[1] 2022	Headline (pre-IFRS 16)[1] 2021
Interest payable on bank loans and overdrafts	**9**	10	**9**	10
Interest on convertible bonds	**14**	4	**14**	4
Unwind of discount on onerous lease provisions (pre-IFRS 16)	**–**	–	**2**	2
Interest on lease liabilities	**11**	10	**–**	–
Net finance costs	**34**	24	**25**	16

Pre-IFRS 16[1] net finance costs for the year were £25m (2021: £16m) with the year on year increase reflecting the refinancing undertaken in the prior year. Cash costs in relation to this were £10m lower at £15m.

The interest on the convertible bonds includes the accrued coupon (a fixed coupon of 1.625 per cent) and c.£8m of the non-cash debt accretion charge.

The £2m non-cash unwind of discount on onerous lease provisions relates to onerous lease provisions recognised in the prior year as a result of Covid-19. This relates to pre-IFRS 16 only and does not exist under IFRS 16.

Lease interest of £11m arises on lease liabilities recognised under IFRS 16, bringing the total net finance costs under IFRS 16 to £34m (2021: £24m).

Tax

The effective tax rate[1] was 17 per cent (2021: 47 per cent) on the profit for the year. Corporation tax payments in the year were £6m after all possible loss relief for the current year had been used (2021: refunds of £10m following the carry back of 2021 losses against prior year profits). Based on legislation in place as at 10 November, we expect the tax rate in the current year to be 23 per cent.

Fixed charges cover[1]

£m	pre-IFRS 16[1] 2022	pre-IFRS 16[1] 2021
Headline net finance costs[1]	**25**	16
Net operating lease charges (pre-IFRS 16)[1]	**241**	151
Total fixed charges	**266**	167
Headline profit/(loss) before tax and non-underlying items[1]	**73**	(55)
Headline profit before tax, non-underlying items and fixed charges	**339**	112
Fixed charges cover – times	**1.3x**	0.7x

Fixed charges, comprising property operating lease charges and net finance costs, were covered 1.3 times (2021: 0.7 times) by Headline profit/loss before tax, non-underlying items and fixed charges, reflecting the return to profitability of the Group.

Cash flow

Free cash flow[1] reconciliation

£m	pre-IFRS 16[1] 2022	pre-IFRS 16[1] 2021
Headline Group operating profit/(loss) before non-underlying items[1]	**98**	(39)
Depreciation, amortisation and impairment (pre-IFRS 16)[2]	**49**	50
Non-cash items	**8**	8
Operating cash flow[3]	**155**	19
Capital expenditure	**(83)**	(44)
Working capital (pre-IFRS 16)[2]	**(10)**	37
Net tax (paid) / refunded	**(6)**	10
Net finance costs paid (pre-IFRS 16)	**(15)**	(8)
Free cash flow[1]	**41**	14

The free cash inflow[1] for the year was £41m. This mainly reflects the return to profit of the business with the operating cash inflow increasing by £136m to £155m and continued investment in the Group as we recover from the impact of the pandemic and open new stores.

We had a working capital outflow of £10m in the year reflecting the launch of InMotion in the UK and investment to support the recovery of trading in Travel.

Net corporation tax payments in the period were £6m, compared to refunds of £10m last year.

Capital expenditure was £83m (2021: £44m), which includes the additional spend from opening 98 stores around the world.

	2022	2021
New stores and store development	**37**	17
Refurbished stores	**22**	17
Systems	**13**	9
Other	**11**	1
Total capital expenditure	**83**	44

1 Alternative performance measure defined and explained in the Glossary on page 173

2 Excludes cash flow impact of non-underlying items

3 Headline Group operating profit/(loss) before depreciation, amortisation and impairment (pre-IFRS 16) and other non-cash items

Reconciliation of Headline net debt[1]

Headline net debt is presented on a pre-IFRS 16 basis. See Note 18 of the Financial statements for the impact of IFRS 16 on net debt.

As at 31 August 2022, the Group had Headline net debt[1] of £296m comprising convertible bonds of £292m, term loans of £132m (net of fees), £4m of finance lease liabilities and net cash of £132m (2021: £291m, convertible bonds of £283m, term loans of £132m (net of fees), £6m of finance lease liabilities and net cash of £130m).

	Headline (pre-IFRS 16)[1]	
£m	2022	2021
Opening Headline net debt[1]	**(291)**	(301)
Movement in year		
Free cash flow	**41**	14
Pensions	**(2)**	(3)
Non-underlying items	**(16)**	(38)
Net purchase of own shares for employee share schemes	**(7)**	(2)
Equity component of convertible bond	**–**	41
Other	**(21)**	(2)
Closing Headline net debt[1]	**(296)**	(291)
Cash	**132**	130
Term Loans (net of fees)	**(132)**	(132)
Convertible bond	**(292)**	(283)
Finance leases (pre-IFRS 16)	**(4)**	(6)
	(296)	(291)

In addition to the free cash flow, the Group paid defined benefit pension funding of £2m (see Note 5 on pensions), and £16m of non-underlying items which mainly relate to restructuring following the review of store and head office operations, as previously reported and charged to the income statement in prior years.

On an IFRS 16 basis, net debt was £869m, which includes an additional £573m of lease liabilities.

Pensions

On 8 August 2022, the Group announced that the Trustee of the WH Smith Pension Trust, (the "Trust"), had purchased a bulk annuity insurance policy from Standard Life, insuring all liabilities to pay all future defined benefit pensions to the Trust's 12,950 members and any eligible dependants. The insurance policy was purchased using most of the existing assets held within the Trust, without the need for the Group to make any additional cash contributions.

The bulk annuity policy matches the Trust's cash flow benefit obligations to its members, removing longevity and other demographic risks as well as investment, interest rate and inflation risks. As a result of this comprehensive risk-removal, the Group will not be required to make any future cash contributions into the Trust regarding defined benefit liabilities, therefore the previously recognised minimum funding liability (£2m as at 31 August 2021) has been derecognised. During the year ended 31 August 2022, prior to the completion of the buy-in transaction, the Group made a contribution of £2m to the scheme (2021: £3m).

As at 31 August 2022, the scheme had an IAS 19 surplus of £120m (2021: surplus of £284m), representing the remaining assets of the scheme after the bulk annuity policy purchase above. The Group has continued not to recognise this surplus under the requirements of IFRS 14.

The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £nil (2021: £1m).

Balance sheet

The Group had Headline net assets of £404m, an increase of £138m on last year end reflecting the investment in store openings and exchange differences on translation of goodwill. Under IFRS the Group had net assets of £311m.

	IFRS		Headline (pre-IFRS 16)[1]	
£m	2022	2021	2022	2021
Goodwill and other intangible assets	**543**	473	**544**	474
Property, plant and equipment	**219**	174	**211**	167
Right-of-use assets	**446**	328	**–**	–
Investments in joint ventures	**2**	2	**2**	2
	1,210	977	**757**	643
Inventories	**198**	135	**198**	135
Payables less receivables	**(269)**	(214)	**(284)**	(237)
Working capital	**(71)**	(79)	**(86)**	(102)
Derivative financial assets	**1**	–	**1**	–
Net current and deferred tax assets	**54**	56	**54**	46
Provisions	**(14)**	(14)	**(26)**	(28)
Operating assets employed	**1,180**	940	**700**	559
Net debt	**(869)**	(755)	**(296)**	(291)
Net assets excluding pension liability	**311**	185	**404**	268
Pension liability	**–**	(3)	**–**	(3)
Deferred tax asset on pension liability	**–**	1	**–**	1
Total net assets	**311**	183	**404**	266

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

10 November 2022

Section 172(1) statement

Moving forward with our stakeholders

Stakeholders can be impacted in different ways by decisions which are taken by the Board. Regular stakeholder engagement enables us to operate in a balanced and responsible way and ensures that the Board is aware of stakeholder 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, such as in-person meetings, participation in listening groups and store visits; and indirectly through the review of reports and updates from senior executives who meet regularly with stakeholder groups.

WHSmith is required to provide information on how the directors have performed their duty under section 172 of the Companies Act 2006 to promote the success of the Company and in doing so to have regard to the interests of its stakeholders. Our interactions with key stakeholders and the ways in which their interests have been taken into account by the directors in their decision-making are summarised on the following pages.

Our people

The success of WHSmith depends on the 12,000 colleagues who work for the Company. It is essential that they feel engaged, motivated and appreciated.

What they care about

- To feel valued
- To be rewarded fairly
- To be treated with respect and dignity
- To have opportunities for personal growth and career development

How did we engage?

- Our designated non-executive director for workforce engagement, Simon Emeny, provided oversight for the Board
- Simon Emeny and Marion Sears, Remuneration Committee Chair, attended employee forums to discuss, amongst other topics, the Company's approach to remuneration, including executive remuneration and how this aligns to wider Company pay policy
- The Group People Director updated the Board on employee-related matters, including employee engagement, staff retention rates, learning and development, gender pay gap, diversity and inclusion, and workforce remuneration
- The Group Chief Executive and other senior executives hosted fortnightly webinars with Head Office colleagues to provide strategy and performance updates and answer any questions
- Senior executives attended business meetings throughout the year, including leadership meetings, trading updates and risk committee meetings
- Our annual employee engagement survey was followed up with insight meetings to gain further understanding
- Employees raised issues, questions and concerns through direct mailboxes for senior executives
- The Group Chief Executive and the CFO/COO engaged with employees who are members of the Company's defined benefits pension scheme to explain the rationale for the purchase by the Trustee of the WH Smith Pension Trust of an insurance policy from Standard Life to pay all future benefits to the members of the scheme

What were the key topics raised?

- Opportunities for career development
- Cost of living impacts
- New ways of working and return to the office
- Work-life balance and wellbeing
- Difficulties in accessing internal communications and learning and development materials
- Diversity and inclusion in Head Offices

How did we respond?

- We launched a new e-learning platform to make it easier for all colleagues to access career development materials
- Senior managers provided more regular and frequent career development talks
- In addition to annual pay rises, we brought forward next year's pay increase for store colleagues to help with the cost of living crisis
- We refined flexible working arrangements to allow staff to choose more days when they are able to work from home
- We launched a new internal communications platform, accessible online for all employees, at a time of their choosing
- We introduced a reciprocal mentoring scheme to increase the diversity of feedback to senior management, and create greater opportunities for under-represented Head Office colleagues
- The Board approved an action plan to address actions from the employee survey and monitored implementation throughout the year

Section 172(1) statement continued

Customers

Customer loyalty and enthusiasm for our brands are critical to our success. Understanding the needs of our customers ensures that we provide the products and service levels that they need.

What they care about

- Availability and range of products
- Convenience
- Customer service
- Value for money
- Safe and responsibly sourced products

How did we engage?

- Board members visited stores in the UK, US and Europe to assess and review the customer experience and service standards
- We commissioned customer engagement surveys and focus groups to understand customer perceptions of WHSmith and what else they would like to see
- The Managing Directors of each business unit updated the Board on customer engagement, market trends and commercial responses
- Quantitative and qualitative analysis of customer feedback at the point of sale, online surveys and focus groups have provided additional customer insights this year
- Store teams and customer service teams are in constant dialogue with customers
- The Board received regular updates on customer feedback and service standards and ensured systems were in place to comply with all relevant product safety legislation

What were the key topics raised?

- Nature of store environments
- Product availability
- Pricing
- Customer service levels
- Environmental footprints of products

How did we respond?

- The Board received strategy updates from the Managing Directors of each business unit and approved the commercial customer-facing strategies
- We continued to invest in existing and new stores
- We extended our categories and ranges, including a greater focus on food, health and beauty and technology products
- Customer feedback was communicated to the relevant parts of the business for implementation where appropriate
- We continued to reduce environmental footprints where possible and have evolved product environmental labelling

Investors

Our investors include individual and institutional shareholders, and providers of debt and financial capital, such as banks and bondholders. We maintain an active dialogue with our investors through an extensive investor relations programme.

What they care about

- Long term value creation and growth opportunities
- High-performing board and senior executives
- High standards of business conduct and good environmental, social and corporate governance
- Transparency

How did we engage?

- Individual meetings, virtual presentations and investor roadshows with members of the Board
- 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
- Direct engagement for investors via our investor relations team
- Annual report and interim trading updates with investor presentations by the Group Chief Executive and CFO/COO
- Investor website providing information to all shareholders
- Announcements and presentations on our interim and preliminary end-of-year financial results, interspersed by more regular trading updates
- Stock Exchange Regulatory News Service announcements
- An online portal, operated by our registrar, Computershare, which provides shareholders with the ability to manage their shareholdings
- Our annual general meeting which was again held in person for the first time since 2019

What were the key topics raised?

- Strategy for growth following Covid-19
- Operational delivery
- Corporate governance practices
- Succession planning
- Remuneration policy
- ESG strategy, targets and reporting

How did we respond?

- The Remuneration Committee developed the new remuneration policy for shareholder approval at the 2022 AGM, including ESG performance metrics in short-term bonus plans and Long-term Incentive Plan
- We appointed Marion Sears as the new Chair of the Remuneration Committee and Annette Court as a non-executive director and Chair designate
- The ESG Committee incorporated investor feedback into the ESG strategy

Section 172(1) statement continued

Landlord partners

Our landlord partners own the buildings where our retail units are located. They include airport operators, rail infrastructure partners, hospital trusts and other retail estate landlords. Our business success is dependent on retaining and winning new space and in order to do so, we must understand what considerations are important for them.

What they care about

- Store formats and product ranges that are appealing to their customers
- Value of sales per square metre of retail space
- Effective operational implementation
- Compliance with their sustainability requirements

How did we engage?

- Board, executive and senior management level meetings with landlords
- Regular dialogue with landlord representatives on performance levels in existing stores and future opportunities
- Meetings, webinars and written engagement as part of tender submissions for new contracts
- Participation in various landlord-hosted working groups to collaborate on different issues

What were the key topics raised?

- Board approval for tenders in Spain, Norway, Belgium, Salt Lake City and Los Angeles
- Opening plans for stores post Covid-19
- Commercial terms for lease agreements for High Street stores
- Operational impacts of staffing levels in European airports and the impact on availability of goods
- Environmental clauses as part of lease agreements

How did we respond?

- New stores opened in 13 countries
- Maintaining high levels of store opening hours as passenger numbers recovered
- Dialogue with landlords to ensure flexibility
- On-going dialogue with airport operators on ways to work together to ensure that we meet customer needs
- Joint working initiatives with landlords to develop green lease agreements

Community groups

The relationship we have with the communities where our stores and distribution centres are located is key to the sustainability of our business. We want to serve our local communities, be that in a town, hospital or travel hub. We also want to provide jobs and help local economies where we are based.

What they care about

- A retail presence that may attract other retailers to the locality
- Availability of core products and services such as convenience offerings in hospitals and Post Office services in High Street stores
- Support for local and national charities
- High standards of corporate responsibility for environmental and social issues

How did we engage?

- The Board's ESG Committee met three times during the financial year and received briefings from the Sustainability Director on environmental and social issues, including interactions with stakeholders
- Participation in sustainability-focused working groups for trade organisations such as the British Retail Consortium and Ethical Trading Initiative
- Regular meetings with key charity partners
- Participation in ESG surveys run by organisations such as the not-for-profit disclosure organisation, CDP
- Stakeholders can raise questions, views and concerns through the sustainability@whsmith.co.uk inbox

What were the key topics raised?

- The need to preserve core services provided by Post Offices embedded in WHSmith stores
- Opportunities for working with partners to bridge the divide in children's literacy levels which has widened as a result of Covid-19
- Upholding of workers' rights in the supply chain during on-going Covid-19 outbreaks and the situation in Ukraine

How did we respond?

- The ESG Committee approved the Sustainability Strategy, with revised action plans and targets under the three pillars of Planet, People and Community
- We continued our long-term partnership with the National Literacy Trust, and provided financial and in-kind support to a number of other charities and community causes
- Participation in industry working groups on key environmental and social issues

Section 172(1) statement continued

Suppliers and business partners

We rely upon over 3,000 suppliers to provide products, goods not for resale and services which are critical for the smooth running of our business. They range from large multi-national companies to small and medium sized enterprises. We also have agreements with a number of partners to run franchised stores on our behalf.

What they care about

- Fair trading and prompt payment in line with terms
- Opportunities for growth in their business
- A business partner that treats them fairly
- Responsible sourcing and high ethical standards in the supply chain

How did we engage?

- Board overview of information on key suppliers where material, for example when approval of major supplier or franchise contracts is required
- Overview by the Audit and ESG Committees of labour and environmental standards in the supply chain via quarterly and annual updates
- Direct engagement with suppliers and franchise partners via individual meetings
- Supplier conferences for major groups of suppliers such as trade suppliers for individual businesses or geographies, or suppliers of goods not for resale
- Supplier feedback surveys
- Programme of audit and supplier engagement on labour standards
- Anonymised survey of workers in our own-brand supply chain

What were the key topics raised?

- Supplier and product innovation
- Strategies for science based carbon targets and net zero emission strategies
- Compliance requirements for emerging legislation
- Border entry trade controls

How did we respond?

- The Board, through the Audit Committee, received updates on the risk and resilience of our supply chains
- The ESG Committee approved a new Scope 3 target for 75% of our value chain to be covered by science based targets by 2027
- We engaged with 20 of our top suppliers to ensure they had a roadmap in place for net zero emissions and had set science based targets

Continuing our journey to a more sustainable business

WHSmith has a long-standing commitment to high standards of environmental, social and corporate governance. As an international retailer what we do, and how we do it, can impact the people and the world around us. We operate and source from countries all over the world, and our activities and the production, packaging and disposal of the products we sell can have wider consequences. We interact with many thousands of customers every day, and our activities can make a real difference to the local communities where we operate.

Our sustainability strategy concentrates on those areas that our stakeholders have told us are important to them and where we believe our scale and influence can bring about positive change. Minimising our impact on the planet, engaging our people, and contributing to our communities, provide the framework for our activities and reporting. Our sustainability strategy is underpinned by a strong foundation of responsible business principles and practices to make sure we operate our business in the right way. We developed our strategy in 2020, and over the last financial year, we have refined our objectives for each area, to provide direction for our activities until at least 2025.

Scan here for an overview of our approach to Sustainability

Delivering value to our investors, customers and landlord partners

Our journey to a sustainable business

Minimising our impact on the planet

Topic	Aim
Climate action	Net zero GHG emissions by 2050
Cutting waste	Reduce environmental impact from packaging and materials
Protecting natural resources	Net zero deforestation

Read more about how we will minimise our impact on the planet on page 39

Engaging our people

Topic	Aim
Health, safety and wellbeing	Create an environment that supports physical, mental and financial wellbeing
Diversity and inclusion	Increase diversity of senior management
Human rights and our supply chain	Protect worker rights in our supply chains

Read more about how we will engage our people on pages 40 to 42

Contributing to communities

Topic	Aim
Literacy	Help all children to develop a love of reading
Supporting charities and local causes	Make a positive impact through fundraising, donations and volunteering

Read more about how we will contribute to communities on page 43

Sustainability continued

> We are looking forward to working with our business partners, suppliers and customers to deliver the step-changes that are needed for sustainable living."

Carl Cowling
Group Chief Executive

Governance

Our Environmental, Social and Governance (ESG) Committee, a subcommittee of the Board, leads and oversees delivery of our sustainability strategy, setting our ambition and monitoring progress. The Board receives updates on performance against our strategy and sustainability risks at least three times a year. The work of the committee is detailed on pages 81 to 82. The ESG Steering Group chaired by the Group Chief Executive has responsibility for leading the delivery of our sustainability commitments and meets once per month to review progress against our objectives. The ESG Steering Group provides a report for each ESG Committee meeting. We include ESG metrics in incentive plans for senior management and for 2022, ESG metrics formed part of the annual bonus plan for our Chief Executive and CFO/COO. For the 2023 financial year, we are integrating ESG measures into the Long-Term Incentive Plan and Performance Share Plan for senior executives. Further details are provided on pages 90 and 98.

We continue to rank highly in external benchmarks and indices, including (as at 31 August 2022):

- Dow Jones Sustainability Index: for the last two years, WHSmith has been included in the Dow Jones Sustainability World Index, one of only twelve retailers to be recognised globally in this way
- Sustainalytics: WHSmith received an ESG Risk Rating of 10.3 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors. WHSmith's ESG Risk Rating places it first in the speciality retail sector
- ISS ESG Corporate Rating: WHSmith currently ranks in the top ten per cent of retail companies, with an Environmental and Social Quality Score of 1, representing the highest level of disclosure
- MSCI: WHSmith has a rating of AA in the MSCI ESG Ratings assessment
- FTSE4Good: WHSmith is a constituent of the FTSE4Good Index Series

Materiality – how we decide what to measure and report

We listen to the view of our stakeholders in a number of different ways, which we set out in more detail on pages 30 to 36. We use the information they provide to identify the issues that are most important to them and which are therefore significant for our business. Our ESG Committee and other relevant governance bodies regularly discuss new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight to choose what we measure and include within our Annual Report and our Sustainability Report, based on the ESG issues which are important to our investors, customers, colleagues and other stakeholders. Our reporting is informed by stock exchange listing and disclosure rules.

Responsible business

We aim to always act with integrity, making the right decisions and demonstrating the appropriate behaviours to earn the respect of our customers and all those with whom we do business. Our **Code of Business Conduct** sets out how our business operates, and what is expected of every person who works for and on behalf of WHSmith. It includes policies relating to individual conduct, such as for anti-bribery and anti-corruption measures, conflicts of interest, and data protection, as well as those relating to how we work together, such as for diversity and inclusion, anti-harassment and bullying, and health and safety. It also sets out our business standards in relation to fair trading practices, such as pricing and marketing, quality and product safety, trade controls, competition and supply chain practices. All employees are required to confirm that they have read and are working in accordance with our Code of Business Conduct on an annual basis and are encouraged to report any suspected breaches using our independently operated and confidential Speak Up helpline.

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 of Business Conduct 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 anti-corruption measures in place.

Minimising our impact on the planet

Urgent and sustained action is needed to address the threat to the health of our planet. The impacts of climate change are being felt around the world, and businesses are both responsible for, and dependent on, a healthy and sustainable environment.

Our **Environmental Policy**, sets out our commitments to minimising our business impacts on the planet, including those relating to climate change, reducing waste and protecting natural resources. We regularly review progress against our objectives and targets and aim for continual improvement year on year.

Targets

Net zero GHG emissions by 2050

- By 2030: reduce absolute Scope 1 and 2 Greenhouse Gas (GHG) emissions by 80 per cent from a 2020 base year.*

  LTIP
- By 2027: 75 per cent of suppliers by emissions covering purchased goods and services and upstream transportation and distribution will have science based targets.*

  LTIP

*Both of these near-term targets have been validated by the Science Based Targets initiative.

Cutting waste

- By 2025: reduce waste material, minimise plastic packaging and remove loose plastic glitter from WHSmith-brand products.

Protecting natural resources

- By 2025: ensure forestry materials in own-brand products and core non-trade goods come from recycled or certified sources.

Climate action

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 reduce emissions from our operations and have been improving energy efficiency and minimising fuel use for nearly two decades. More information on our strategy to reduce emissions and manage climate-related risks and opportunities are included in our climate-related disclosures on pages 44 to 56.

Cutting waste

Waste is not only damaging to the environment but adds additional cost to our business. 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. 99 per cent (2021: 93) of our waste was diverted from landfill during this financial year.

It is still a relatively small component of our overall waste volumes, but as the number of food lines that we sell continues to grow, we are working hard to eliminate food waste. One of the main sources of this type of waste is from unsold sandwiches which have reached their use-by date. We have implemented a number of initiatives, such as better stock control systems to improve forecasting of chilled food sales, so that we only stock food that we expect to sell. We also operate a discounting strategy in all of our stores, with processes in place to reduce the price of any sandwiches that are approaching, but have not yet exceeded, their use-by date. This year, we partnered with the food redistribution organisation Too Good to Go, to pilot an online application to connect customers to our stores that have surplus unsold food. This application allows customers to reserve a bag of food which is approaching its use by date to purchase later in the day from a WHSmith store at a significant discount. The results of the pilot showed that the solution worked well for some locations, particularly those that could be accessed by a larger customer base late in the day. We are now working to extend the trial to stores in hospital locations.

Operational waste

	2022	2021	2020
Total waste (tonnes)	**3,247**	3,623	3,449
Percentage diverted from landfill	**99**	93	88

Packaging materials are designed to protect items, to maintain quality and to enhance product shelf life. However, the manufacturing of packaging uses resources, and the inappropriate disposal of packaging can impact air, land and marine environments when no longer needed. We regularly review the type and quantities of packaging we use, including primary packaging for 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 better solutions

Sustainability continued

such as cardboard for products, easier to recycle forms of plastic and re-usable skips for the internal transfer of stock. This year we have improved our management information systems to be able to record and track over time the types and volumes of different types of packaging associated with our own-brand products. We have now removed loose plastic glitter from all WHSmith-branded products, including stationery items and seasonal items such as cards and gift wrap.

Protecting natural resources

Paper-based products are a core part of WHSmith's product offering and we are committed to minimising the environmental impacts from paper sourcing for our own-brand products. 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 as a minimum standard, recycled or certified timber materials from known, legal, and well-managed sources. Our **Sustainable Forests Policy** sets out our standards and requirements for our supply chain.

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 more than 99.7 per cent (2021: 99.3) of our WHSmith-branded products contain materials originating from certified and recycled material.

Engaging our people

Our employees and those who work for us in our supply chain and for our business partners are critical to our customers' experiences and perceptions and vital to our success. We want to attract, motivate and retain the best people to deliver a great customer service and help our business to grow. The Group employs approximately 12,000 people 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 our **Code of Business Conduct** sets out the behaviours we expect from those working for us and on our behalf.

Targets

Create an environment that supports physical, mental and financial wellbeing

- By 2025: improve our employee engagement score from a 2021 base year.
  LTIP
- On-going: ensure all managers receive mental wellbeing training.
- On-going: maintain equal numbers of mental health and physical first aiders.

Increase diversity of senior management

- By 2025: increase gender and ethnic diversity of the Board, Group Executive Committee and Senior Manager populations.
  LTIP

Protect worker rights in our supply chains

- On-going: ensure we audit our own brand suppliers at least every two years.
- By 2023: develop an audit and engagement programme for our tier two suppliers.

Employee engagement

To help us to understand more about how our colleagues feel about working for WHSmith, we appointed a third-party research organisation to carry out our first UK wide employee engagement survey in October 2021. The survey asked 22 questions and covered a wide range of topics, including communication, environment, customer focus and culture. The results of the survey were presented to the Board by the Group People Director in December 2021 and highlighted a number of opportunities for change that could improve the employee experience. The Board agreed an action plan to improve the working environment in head offices and stores; improve dialogue and engagement; and build collaboration across teams. More targeted pulse surveys throughout the year allowed us to monitor the effectiveness of these actions. A second employee engagement survey was undertaken in October 2022, and was sent to all employees across the Group. The action plan resulted in an improvement in the employee engagement score over the 12 month period. Continuing to improve the culture of the business is important to the long-term success of the Group and employee engagement has now been included as a performance measure within the Company's Long-Term Incentive Plan and Performance Share Plan.

Health, safety and wellbeing

We are committed to maintaining high standards of health, safety and wellbeing and the Board monitors the Company policies, processes and practices on an annual basis. The Group has a Health and Safety Committee that comprises employee representatives and professional health and safety advisers. Colleagues receive health, safety and wellbeing training appropriate to their role, including in relation to fire safety, manual handling, how to prevent slips, trips and falls and how to recognise and help colleagues who may be affected by poor mental health. The **Group Health and Safety at Work Policy** is the basis for our health and safety management system which sets out our procedures and processes. This year, there were 27 reportable accidents in the UK involving employees, contractors and members of the public and no fatalities.

Accidents and injuries

	2022	2021	2020
Major injuries	**2**	2	2
Other reportable accidents	**25**	28	27
Total reportable injuries and accidents	**27**	30	29

We believe that supporting the mental wellbeing of our employees is equally as important as looking after their physical health and safety. 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 to 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. More than 1,200 line managers have now received a half-day Mental Health First Aid England awareness course and we have an equal number of mental and physical health first aiders across the Group. We recognise the importance of financial wellbeing on mental health and colleagues have access to a number of schemes that provide assistance. The WHSmith Benevolent Fund is a registered charity established in 1925 for the benefit of current and retired employees and their families who are in financial difficulty or hardship and in need. Over the past two years, we have added a partnership with Salary Finance, to allow colleagues to access free financial education and loans at lower interest rates than those offered by traditional lenders.

Diversity and inclusion

WHSmith recognises that each one of our employees is 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, diversity and inclusion 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 Group that is free from discrimination and harassment and we will not permit or tolerate discrimination in any form.

Our diversity and inclusion action plan sets out how we are working towards our goal of creating an environment where everybody is welcome and feels they can belong. It is focused on three themes: improving awareness and education through better communication and colleague engagement; improving data quality, processes and systems; and widening external partnerships and collaborations. This year, we have introduced diversity and inclusion training materials as part of our new online portal. More detailed face-to-face training sessions were also provided for the senior executive team. Our Diversity and Inclusion Working Committee and divisional listening groups with senior management have enabled colleagues to engage directly with leadership and work collaboratively on improvements. This year, we have also introduced one-to-one reciprocal mentoring between senior management and colleagues from across the business to increase the diversity of feedback to senior management and create greater opportunities for under-represented groups. We have continued to improve the quality of data and information that we hold in relation to employee diversity and extended our use of balanced shortlists for senior-level recruitment to a larger number of roles, with the aim of identifying and accessing a more diverse pool of talent.

We run regular internal engagement campaigns linked with key events during the year, including International Women's Day, Pride, Black History Month, International Day of Persons with Disabilities and a variety of religious celebrations. We have signed several industry charters, committing to making progress on improving diversity and inclusion in our business. We are one of eight founding members of a collaboration community called Diversity in Retail, which is dedicated to increasing diversity and inclusion at all levels within organisations in the retail sector. We are also signatories to the British Retail Consortium's Diversity and Inclusion Charter and have joined the Women In Hospitality, Travel and Leisure collaboration community.

We remain committed to improving the gender balance in our senior staff populations and the proportion of women at Group Executive and senior manager level has increased this year. Activities designed to promote more women into senior positions include a balanced succession planning process and mentoring schemes. We continue to work with Everywoman who provide a host of personal development tools aimed mainly 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

Sustainability continued

Male and female representation across the Group (as at 31 August 2022)

	2022				2021			
	Male		Female		Male		Female	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Board[1]	**5**	**63**	**3**	**37**	5	63	3	37
Group Executive Committee Members[2]	**7**	**70**	**3**	**30**	7	78	2	22
Senior managers[3]	**53**	**65**	**29**	**35**	46	68	22	32
Managers[4]	**349**	**48**	**371**	**52**	315	48	345	52
All employees	**5,143**	**37**	**8,876**	**63**	4,052	35	7,688	65

1 Board includes all statutory directors
2 Group Executive Committee Members are those who have responsibility for planning, directing or controlling the activities of the Company
3 Includes Group Executive Committee Members and colleagues graded at levels one and two below
4 Includes head office colleagues graded at the level below 3 plus Store Managers, Cluster Managers and Post Office Managers

can be made easily. We have also enhanced our maternity policy for senior women, expanding provision for the first six months of maternity leave, supported by a flexible return to work policy.

We are continuing to build a better understanding of diversity and inclusion across the Group and are looking at ways to increase ethnic diversity at senior levels in our organisation. We have signed the Race at Work Charter and our Diversity Forum, chaired by our Group Chief Executive, provides an opportunity for colleagues to meet, provide feedback for senior management 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 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 appropriate so that they may continue their employment. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

Human rights and our supply chain

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. We are committed to ensuring full respect for the human rights of anyone working for us in any capacity and we are committed to ensuring there is fair and safe work for all workers throughout our supply chain. 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**.

We have identified six priority areas for protecting human rights in our supply chain: health and safety; freedom of association and collective bargaining; access to grievance mechanisms; working hours and overtime; preventing modern slavery; and gender equality. We work with suppliers and other third parties to develop and progress targets and action plans for improvements across these areas. We take a zero-tolerance approach to modern slavery. Our latest **Modern Slavery Statement** sets out the steps we have taken to prevent modern slavery in our own operations and supply chain.

WHSmith is a member of the Ethical Trading Initiative (ETI), an alliance of companies, trade unions and non-governmental organisations that promotes respect for workers' rights around the globe. Our **Responsible Sourcing Standards** 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 standards and grading suppliers as 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. Our ESG Committee reviews our responsible sourcing strategy annually, looking at our audit and engagement programmes, emerging trends and risks, targets and performance. This year, we identified two potential new suppliers and one existing supplier who were unable to provide the necessary levels of documentation and assurance, even after on-going dialogue and engagement. As a result, no further orders were placed with them.

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. This year, we have extended our audit and engagement focus to begin to look at some of the key suppliers providing components to our direct suppliers and the results for these tier two suppliers are now incorporated into our reporting.

Contributing to communities

WHSmith is at the heart of communities across the UK, whether in travel hubs, hospitals or high streets. 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 reading and writing skills and we have provided help over many years to children and young people who need additional support.

Targets

Help all children to develop a love of reading

- By 2025: work with the National Literacy Trust to provide a book to every child in the UK who does not own one of their own.

Make a positive impact through fundraising, donations and volunteering

- By 2025: Increase the number of employees involved in supporting charities through fundraising and volunteering.

Literacy

We have a long-term partnership with the National Literacy Trust, and this year we continued our support for their Young Readers' Programme, providing books and other materials for schools in socio-economically disadvantaged areas of the country. In addition, the WHSmith Group Charitable Trust (the WHSmith Trust) provided financial support for the programme, supported by donations from WHSmith customers and employees.

Research by the National Literacy Trust shows that approximately 410,000 children in the United Kingdom do not own a book of their own. Covid-19 has widened the gap in children's literacy between affluent parts of the country and areas of greater socio-economic deprivation. We are working with the National Literacy Trust to ensure every child in the country can own a book of their own. To date we have donated the equivalent of 321,000 books, through book donations and financial contributions to provide the support that is needed.

WHSmith continues to take a leading role in the delivery of the World Book Day initiative, which is the biggest annual celebration of books and reading in the UK. Many of our High Street stores participated, redeeming book vouchers enabling children to choose one of the special World Book Day books or offset the cost against any of our children's ranges of books. We also partnered with the WHSmith Trust to donate WHSmith vouchers to schools across the UK for them to choose books to increase their school library resources. Over 305,000 World Book Day vouchers were redeemed and WHSmith vouchers totalling £25,000 were donated to over 200 schools.

Supporting charities and local causes

As part of the celebrations for our 230th anniversary, colleagues participated in fundraising on behalf of the WHSmith Trust. We also provided opportunities for customers to donate to local charities via collection points in store. To support and encourage employee involvement with charities, the WHSmith Trust matches funds raised by employees for charities of their choosing and recognises employees who volunteer through a financial donation to the charity equivalent to the value of the time spent.

This year, through our charity partnerships, colleague and customer fundraising and in-kind donations we have donated £868,000 to charities and other good causes. The full extent of our community investment activity is outlined in our Sustainability Report 2022 and details of how we engage with charities and other good causes are set out in our **Code of Business Conduct**.

Climate-related disclosures

Introduction

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") established a framework for understanding and analysing climate-related risks and opportunities. WHSmith recognises that climate change presents a number of potential risks and opportunities for our business and we have been working towards alignment of our internal processes with TCFD recommendations over the last three years. Our target is to be net zero across our value chain by 2050 and we are committed to regular, transparent reporting to communicate our progress.

We have considered our TCFD-related reporting obligations under the UK's Financial Conduct Authority Listing Rules and the table below details where we have included information which is either fully or partially consistent with TCFD recommendations and recommended disclosures, taking into account the all-sector guidance published by the Task Force. Our approach to materiality for TCFD reporting is the same as for other components of ESG and is set out on page 38. We consider that we are fully consistent with each of the TCFD recommendations and recommended disclosures, except for the following:

- Strategy (c): Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. This was the first year that we have undertaken quantitative scenario analysis and work is on-going to fully interpret the results and fully understand the impacts on our future business strategy.
- Metrics and Targets (a): Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Having conducted quantitative scenario analysis, we are now evaluating further the metrics and indicators we use to assess risks and opportunities and considering whether we need to develop additional measures to be fully consistent with the all-sector guidance.

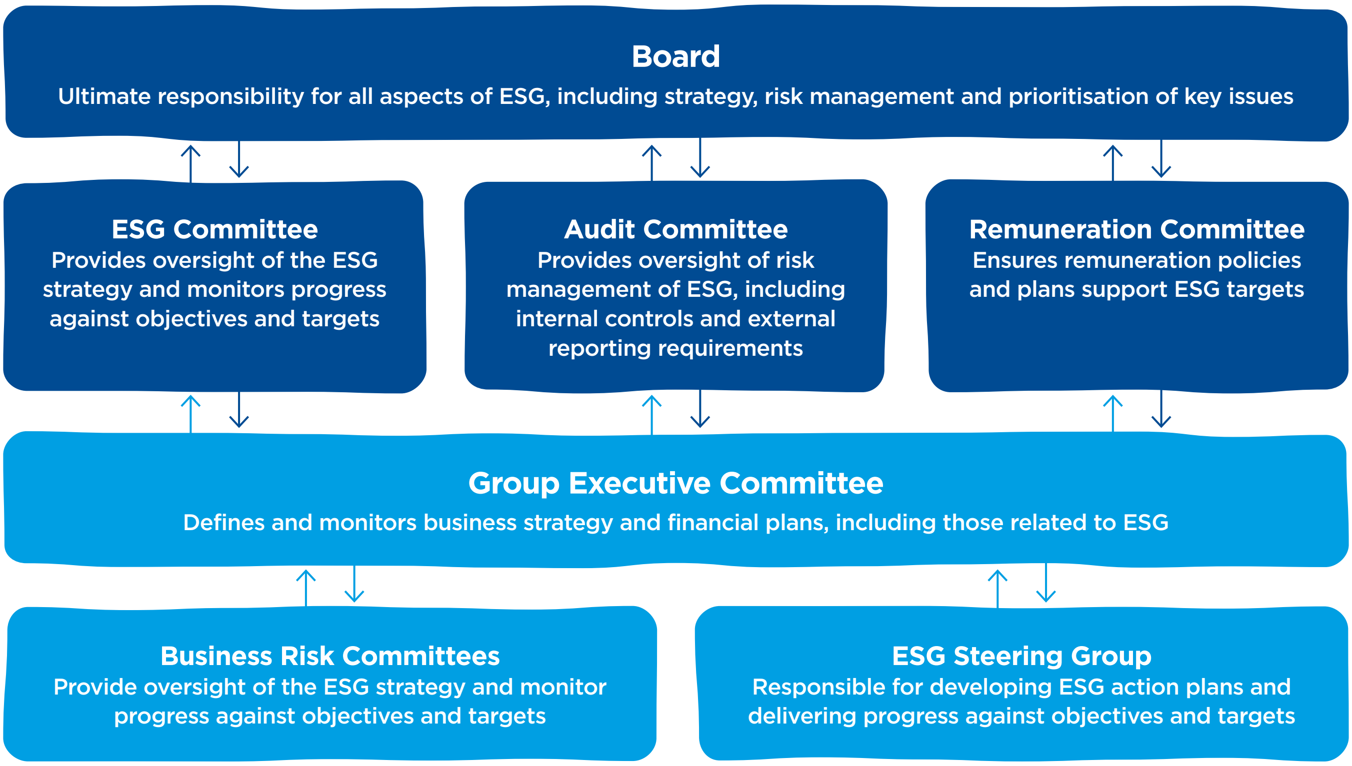
We plan to complete the additional work necessary to be fully consistent with these two recommended disclosures in the next 12 months and will report against them in the 2023 Annual Report and Accounts.

TCFD recommendations and recommended disclosures

	Level of Consistency	Disclosure location (page)
Governance		
(a) Describe the board's oversight of climate-related risks and opportunities	Fully consistent	45
(b) Describe management's role in assessing and managing climate-related risks and opportunities	Fully consistent	45
Strategy		
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Fully consistent	46 to 50
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Fully consistent	47 to 50
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Partially consistent	51
Risk management		
(a) Describe the organisation's processes for identifying and assessing climate-related risks	Fully consistent	51
(b) Describe the organisation's processes for managing climate-related risks	Fully consistent	52
(c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Fully consistent	52
Metrics and targets		
(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Partially consistent	53
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Fully consistent	54 to 55
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Fully consistent	55 to 56

Fully consistent

Partially consistent



Governance

Board oversight of climate-related risks and opportunities

The Board has ultimate responsibility for ensuring climate change is embedded into the Company's strategy, risk management and financial planning processes. The Board has delegated oversight of certain climate-related activities to the following committees and any issues of material significance are brought back to the Board for discussion as they occur:

- The Audit Committee has responsibility for ensuring that the Company has identified climate-related risks and opportunities, that they have been adequately assessed and that appropriate risk management, monitoring and mitigation plans are in place. The Committee also oversees the Company's obligations in relation to non-financial reporting. The Committee receives quarterly climate updates from the Group Audit and Risk Director as part of the Company's wider risk management processes, and this year climate risks and opportunities were included in the consideration and approval of principal risks and uncertainties, non-financial reporting disclosures and integration with financial reporting.
- The ESG Committee has responsibility for ensuring the Company has appropriate climate policies, action plans and targets that are part of a wider sustainability strategy. This includes the development of short, medium and long-term goals and targets in relation to climate change, and monitoring progress against those commitments. This year, the ESG Committee discussed climate change in three meetings. The Committee received dedicated briefings on climate change from the Sustainability Director on net zero, TCFD requirements and the work of the Science Based Targets Initiative (SBTi). Skills and experience of Committee members are set out on pages 64 to 65 including details of those directors who have experience on climate change. Decisions taken by the Committee this year included sign-off on a new net zero commitment, near-term targets for Scope 1 and 2 reductions and supplier engagement plans to tackle Scope 3 emissions. The work of the ESG Committee is detailed on pages 81 to 82.
- The Remuneration Committee ensures that the Company incentive plans are aligned with targets relating to climate-change. Climate-related performance indicators form part of the Annual Bonus scorecard for the Group Chief Executive and CFO/COO and for awards to be made in FY23, climate-related targets will also be included in the LTIP as set out on page 98. Incentives associated with decarbonisation targets were discussed in two of the Committee meetings this year.

Management's role in assessing and managing climate-related risks and opportunities

The Group Chief Executive has the delegated authority from the Board to manage WHSmith's actions in relation to the Company's strategy, including climate change. He is assisted by a number of senior managers in the assessment and management of climate-related matters:

- The Group Sustainability Director supports the Group Chief Executive in progressing WHSmith's net zero transition strategy, including the development of climate scenarios, embedding decarbonisation plans into business activities and ensuring progress is appropriately

Sustainability continued

monitored. She is responsible for updating the Board and the ESG Committee on climate-related matters at least three times a year.
- The Managing Directors of each business identify, manage and mitigate climate-related risks and opportunities associated with their activities. They are also responsible for ensuring the delivery of plans to reduce emissions and capitalise on carbon-related opportunities within their businesses.
- The CFO/COO is responsible for monitoring the effective application of the Company's processes for managing material risks, including those related to climate change. He is also responsible for providing assurance over financial information and climate-related disclosures.

There are a number of governance bodies and reporting processes to ensure management is informed about climate-related issues. The ESG Steering Group chaired by the Group Chief Executive has responsibility for leading the delivery of our sustainability commitments including those relating to climate change. It meets once per month to review progress against targets and this provides the basis for a report to the ESG Committee three times per year. The Business Risk Committees are responsible for identifying and assessing climate-related risks and opportunities and ensuring appropriate due diligence and mitigation. They meet once per quarter and provide input to the Group risk report to the Audit Committee four times per year.

Climate strategy

Earlier this year we announced a target to transition to a net zero emissions business by 2050 (see "Metrics and targets" on page 55 for more detail). The majority of our emissions come from our wider value chain, and we will need to collaborate with suppliers, landlords and customers if we are to meet this goal.

Climate-related risks and opportunities identified over the short, medium and long term

Our processes for identifying and assessing climate-related risks and opportunities are set out under "Climate risk management" (page 51). We consider Environment and Sustainability, which includes climate-related issues, to be a principal risk based on stakeholder expectations that we will conduct our business in a responsible and sustainable way and that failing to deliver our sustainability agenda could damage our reputation, introduce higher costs and impact our ability to meet our strategic objectives.

Impact of climate-related risks and opportunities

We have incorporated climate-related risks and opportunities into our business strategy as described on pages 14 to 15. The Group's risks and opportunities do not vary significantly across the different sectors and geographies in which WHSmith operates. We have started to incorporate the financial impacts from climate risks and opportunities into our financial planning processes and will continue to evolve our approach as our understanding develops of the outputs from modelling different climate scenarios.

We consider climate-related risks and opportunities across the short-, medium-, and long-term which we define as:

- Short-term – up to three years: we develop financial plans and use them to manage performance on a three-year cycle. We assess the Group's viability under the requirements of the UK Corporate Governance Code over a three-year period and our financial plans incorporate decarbonisation measures required to meet our near-term targets and address short-term risks.
- Medium-term – three to ten years: many of our financial commitments, such as store leases, contractual agreements with landlord partners, and the useful economic life of our assets often exceed three-years. Medium-term climate-related risks are considered in all investment decisions involving longer term commitments and many of our climate-related opportunities are often materialised within this time scale.
- Long term – beyond ten years: it is expected that the product mix in our stores could look very different to the current offering, addressing the societal changes that will come with transitioning to a net zero world. This timescale is beyond our financial planning and investment period horizons, but we recognise that longer-term risks need to be incorporated into our future business strategy and planning.

Climate-related risks and opportunities

The following tables set out the climate-related risks and opportunities which have been identified, the potential impact they may have on WHSmith and the resilience of the business to respond. Transition risks are associated with societal changes in public sector policies, technologies, markets or stakeholder expectations as the world moves to a low-carbon economy. Physical risks arise from the increasing severity and frequency of acute climate-related weather events, or longer-term chronic changes to the climate. Mitigation and adaptation to climate change can also produce opportunities for business.

The business and financial impacts from the risks and opportunities detailed in these tables have been described assuming no mitigation or control measures are in place and are subject to uncertainties attributed to the underlying scenario models, impact pathways and assumptions made. These assumptions include that our business activities remain largely unchanged throughout and that we do not change our sourcing strategy or the nature of our store portfolio. They also assume that any increases in costs are fully absorbed by WHSmith and not passed on to customers. In reality, costs are likely to be shared with others in the value chain. The financial impacts quoted are not forecasts, but are outputs derived using different data inputs and plausible modelled scenarios which are subject to a range of uncertainties.

Transition risks

Potential financial impact (pre-mitigation)

£ <£10m ££ £10-30m £££ >£30m

*These financial ranges align with our other risk management processes

	Summary description	Business impact	Potential financial impact, strategic response and business resilience* Short-term	Medium-term	Long-term
Policy and legal	Increased costs for energy and fuel from carbon pricing and associated regulatory changes.	Carbon pricing could result in increased costs for energy for our buildings and for vehicle fuel primarily in the UK and to a lesser extent in other markets. Carbon pricing could also be felt through the supply chain increasing the cost of trade and non-trade products and for increasing costs for distribution from more onerous compliance and policy requirements such as low emission zones.	£	£	£
			We closely monitor any changes in legislation and have a balanced purchasing strategy for energy to hedge price volatility. We continue to reduce energy consumption and switch to low carbon alternatives wherever feasible. We have included potential future cost increases for energy and fuel in our financial plans.		
	Introduction of plastics tax, extended producer responsibility reform and extension of single use plastic restrictions.	The introduction of taxes on plastic packaging in the UK, Italy and Spain is an additional cost. Changes to extended producer responsibility legislation are increasing costs for operational waste disposal and packaging costs for goods for sale.	£	£	£
			We closely monitor any potential policy changes and have implementation plans ready for compliance with any new legislation and costs are included in financial plans. We are minimising packaging and increasing the amount of recycled content in our own-brand packaging and encouraging our wider supply chain to do the same.		
Technology	Increased costs associated with building efficiency standards.	In the UK, our Swindon distribution centre and some of our High Street stores are heated by natural gas. As the UK transitions to a low-carbon economy, there will be a need to invest in newer technology to replace gas-fired heating and air-conditioning systems. Any delay may result in increased energy and maintenance costs.	£	£	£
			Capital expenditure on gas control systems is reducing our reliance on natural gas. We continue to invest in lower-carbon alternatives for heating and air conditioning during store refits and building upgrades, and these costs are included in our financial plans. We have also invested in more energy efficient chiller units with doors and aerofoil technology to minimise cold air losses.		

Sustainability continued

Transition risks continued

Potential financial impact (pre-mitigation)

£ <£10m   ££ £10-30m   £££ >£30m

*These financial ranges align with our other risk management processes

	Summary description	Business impact	Potential financial impact, strategic response and business resilience* Short-term	Medium-term	Long-term
Market	Risk of increasing fuel costs because of changing market dynamics, geopolitical energy policies and industry decarbonisation trends.	Changes in energy pricing could result in increased costs for energy for our buildings and for vehicle fuel in all markets.	£	££	££
			Our energy procurement team are constantly looking at ways of minimising the costs that we pay for electricity and gas, through a balanced procurement strategy. Over the past decade we have reduced our UK electricity and gas consumption by 34 per cent, driving down costs and emissions. We will continue to upgrade our energy management systems and deliver energy management programmes to drive further reductions.		
	Sentiment towards air travel may become more negative resulting in consumers and business customers preferring to take fewer flights.	Sales in WHSmith's airport stores are an important revenue stream. A reduction in passenger numbers would impact footfall and reduce revenue in some of our most important stores. The UK Government has recently published its Jet Zero strategy which sets out how the aviation sector can reach net zero without any Government intervention to limit aviation growth. The UK Climate Change Committee's Sixth Carbon Budget published in December 2020 also predicts that air travel will continue to grow, and we therefore think the likelihood of this risk being realised is low.	£	£	£
			WHSmith is collaborating with our travel landlord partners on net zero strategies to play our part in demonstrating to customers industry's intent for greener forms of travel. We have a diverse portfolio of stores across air, rail, hospitals, shopping centre and high street locations which would mitigate changes in customer demand for any single format.		
	Increased demand for more sustainable materials (recycled, recyclable and sustainably certified sources) may outstrip supply and increase costs.	WHSmith sells a range of products manufactured from sustainably sourced materials, including forestry products and food ingredients for which certification schemes are becoming increasingly necessary. The shift in corporate practices towards being more sustainable may mean there is limited supply for increased demand, resulting in higher raw material costs.	£	£	£
			WHSmith's sourcing team maintain an overview of the wider market that would allow us to find alternative suppliers in the case of any disruption. We sell a very broad range of products which means that even if certain categories of product are impacted by supply chain challenges, revenues can be protected via sales of other product categories.		

Transition risks continued

Potential financial impact (pre-mitigation)

£ <£10m ££ £10-30m £££ >£30m

*These financial ranges align with our other risk management processes

	Summary description	Business impact	Potential financial impact, strategic response and business resilience* Short-term	Medium-term	Long-term
Reputation	Our reputation with investors, customers and employees could be harmed if we fail to decarbonise our business in line with their expectations.	All of our key stakeholder groups, including investors, our customers and our employees expect us to act with integrity and play our part in reducing emissions and minimising global warming. Failure to transition to net zero could make it difficult to attract and maintain investment and access to capital, maintain customer loyalty for our brand and attract and retain the best employees.	£	£	£
			We have set a target to reach net zero emissions by 2050 and have reduced Scope 1 and 2 emissions in line with the trajectory needed to limit global warming to 1.5°C. We have a plan of action to tackle Scope 3 emissions through engagement with suppliers, landlord partners and business partners in the retail sector.		

Physical risks

	Summary description	Business impact	Potential financial impact and business resilience* Short-term	Medium-term	Long-term
Acute	Extreme weather events, including storms and flooding, are becoming more frequent.	Extreme weather events could cause disruption to transport routes affecting our distribution networks and our ability to transport stock to where it is needed. More frequent periods of heavy rainfall could lead to flooding at one or more of our stores or distribution centres.	£	£	£
			Our stock is held across WHSmith-operated distribution centres, by suppliers at their sites and over 1,700 stores in 30 different countries. The impact of a flood event in our retail estate would therefore be limited. Our three distribution centres are in locations not deemed to be at risk of flooding. We have a diverse product range with a limited number of fast-moving goods, and therefore the majority of our logistics operations are resilient to any short-term impacts from major weather events.		
Chronic	Climate change is likely to result in chronic changes in precipitation patterns with some areas of the world experiencing droughts, and other areas experiencing greater rainfall.	Chronic changes in precipitation patterns could affect the supply and availability of raw materials for some of our product lines such as stationery and food and drink, with a resulting increase in the cost of supply.	£	£	£££
			We sell a broad range of products which means that even if certain categories of product are impacted by supply chain challenges, revenues can be maintained through sales of other product categories. We will continue to evaluate our product offering in the context of medium and long-term climate change and the impacts that this could have on different raw materials in our supply chain.		

Sustainability continued

Opportunities

Potential financial impact (pre-mitigation)

£ <£10m   ££ £10-30m   £££ >£30m

*These financial ranges align with our other risk management processes

	Summary description	Business impact	Potential financial impact and current responses* Short-term	Medium-term	Long-term
Products and services	Opportunities to win more tenders from landlords because of strong sustainability credentials.	WHSmith bids for retail space in prime locations such as airports, rail stations and hospitals. Landlord partners are including sustainability requirements in tender documents on a more frequent basis, and a strong sustainability offering can improve the chances of a successful bid.	£	£	£
			WHSmith has a well-established sustainability programme with defined targets and action plans against key areas, underpinned by responsible business policies and processes. We benchmark well against our competitors, being the top placed speciality retailer in Sustainalytics ESG benchmark and a member of the DJSI World Index for the second year running.		
	Opportunities for increased revenues as a result of changing consumer trends to public transport.	A switch to lower-carbon intensity forms of transport by business travellers and consumers could result in an increase in footfall and therefore sales in some of our channels such as rail terminals and electric vehicle charging stations.	££	££	£££
			WHSmith is collaborating with our travel landlord partners on net zero strategies to play our part in demonstrating to customers industry's intent for greener forms of travel. We have a diverse portfolio of stores across air, rail, hospitals, shopping centre and high street locations which would maximise the opportunities from growth in any of these formats.		
	Opportunities from an increase in sales in new and existing product categories.	As the climate changes, there is likely to be an increase in customer demand for some of our existing lines and for new products. These include products that have the potential to mitigate the impacts of climate change, because they have a lower environmental footprint, or products that help consumers to adapt to a changing climate, particularly for those who are travelling.	£	£	££
			Our commercial teams are constantly assessing consumer trends and the potential for new products and can quickly adapt to any developments in the market place to capitalise on new opportunities. For example, in response to a warmer climate, we are ensuring our ranges of travel products are meeting the needs of travellers.		

Resilience of WHSmith's strategy, taking into consideration different climate-related scenarios

To help evaluate the climate-related risks and opportunities described on the previous pages and how resilient our strategy is to them, we engaged external consultants to help us to understand how our business could be affected under two different climate scenarios:

- **A current policies scenario** which assumes that the climate change policies currently in place across the globe are preserved, and no new policies are developed. This would result in the world warming by 2.5°C by 2050 and more than 4°C by 2100 bringing irreversible change. Transition risks would be limited, but physical risks would become increasingly frequent and severe in the longer term. This scenario was chosen as it provides an indication of possible outcomes under a business as usual scenario where current policies and climate trajectories are maintained. Intergovernmental Panel on Climate Change (IPPC) Representative Concentration Pathway 8.5 (a climate pathway which assumes gas emissions will continue to rise throughout this century) and the Network for Greening the Financial System (NGFS) Current Policies Scenario (which assumes only currently implemented policies are preserved) were used as inputs. The outputs from this scenario are shown in the "Climate-related risks and opportunities" table on pages 47 to 50.
- **A net zero 2050 scenario** that limits global warming to 1.5°C by 2100 through stringent climate policies and innovation which are introduced immediately. Under this scenario net zero emissions are reached by around 2050. Transition risks are greater in the short-term, but physical risks are less severe than under the current policies scenario. This scenario was chosen because it allows us to model the impacts on our business that could occur under a policy environment introduced to limit global warming to 1.5°C. IPPC Representative Concentration Pathway 2.6 (which assumes a rapid decline in greenhouse gas emissions and zero emissions by 2100), International Energy Authority's ("IEA's") World Energy Outlook Net Zero Energy 2050 (which assumes the global energy sector will achieve net zero greenhouse gas emissions by 2050) and the NGFS Net Zero 2050 Scenarios (which assumes global warming is limited to 1.5°C through stringent climate policies and innovation) were used as inputs. We do not anticipate that the new policies and innovations required in this scenario will be introduced rapidly enough to have a material impact on our business over the period covered by our three-year financial plans. We will be undertaking further work over the next twelve months to understand longer-term climate-related impacts under this scenario.

Climate risk management

WHSmith's processes for identifying and assessing climate-related risks and opportunities

WHSmith has a defined framework for identifying and assessing climate-related risks which is integrated into our company-wide processes for risk identification, prioritisation and management. We identify and assess risks associated with climate change across all transition risks (policy and legal, technology, market changes and reputation) and physical risks (both acute and chronic). Processes that help identify climate-related risks and opportunities include:

- Monitoring changes in the external policy environment, including existing and emerging legislation, and national and international government announcements such as those made at COP26 in November 2021;
- Observing market developments, such as advances in technology that may reduce our operating costs, or changes in consumer behaviour that may impact sales of particular products or customer footfall in certain locations;
- Evaluating changes in our cost base related to properties, logistics or supply of goods that may be linked to climate-related impacts.

We use these and other processes to identify risks relating to climate change, and to determine their significance, both individually and relative to other risks. A detailed register is produced annually for climate-related risks and opportunities, across short, medium and long-term time horizons. This register then forms an integral part of the risk registers and summary risk maps prepared by all business functions as described in "Principal risks and uncertainties" on pages 57 to 63.

Risks are assessed in relation to the severity of potential business impact (on a scale from one to six) and the likelihood of the business being impacted (low, medium or high). This scoring is in line with other risks included in the Group's risk register. We consider business impact on the basis of both financial impact and other less quantifiable impacts such as those relating to our reputation, our ability to respond to a particular risk, or the impact on the wider environment or other stakeholders. In assessing the likelihood of the business being impacted, we consider factors such as whether similar risks have materialised in the past and our ability to prevent the risk from happening. This allows us to identify the more significant potential risks, for more detailed financial assessment, as described in "Climate strategy" (pages 46 to 50) and as included in "Principal risks and uncertainties" (pages 57 to 63).

Sustainability continued

WHSmith's processes for managing climate-related risks and opportunities

Climate-related risks are managed in line with our overall risk appetite to ensure appropriate responses are in place for those risks. These responses may include accepting a risk without any further action, mitigating or reducing the risk with appropriate controls, transferring the risk (for example to insurance providers) or stopping or modifying the activity that gives rise to the risk. The decision as to which response is appropriate depends on a number of factors, including the size of the risk (in terms of impact and likelihood), the level of resource that would be required for different responses, the time frame over which a risk is likely to materialise and the extent to which the risk level could be reduced by a response. An integrated approach ensures we manage climate-related risks within our overall risk appetite over different time horizons.

Our processes for managing climate-related risks and opportunities are undertaken at Group, business function and individual property level. They include:

- A Group-wide policy framework which includes our Environment Policy, Code of Business Conduct and Responsible Sourcing Requirements for Suppliers;
- Operational procedures covering, for example, processes relating to energy and fuel management;
- Emergency response plans, for example, for flood management or for disruption to supply networks;
- Internal audit and investigation; and
- Annual attestation processes by senior managers of business functions, joint ventures and franchise partners.

Senior management and the Board undertake regular reviews of risk and opportunities relating to climate change to ensure that any emerging issues that might impact our strategy are appropriately identified and evaluated. Significant climate-related issues form part of risk reports to the Audit Committee, and the ESG Committee also evaluates the annual update of the climate risk and opportunity register and ensures appropriate responses are in place. At an operational level, each business function reviews its risk profile and risk responses throughout the year to ensure climate-related risks and opportunities are managed effectively.

Our internal audit team provides independent assurance of the controls in place for significant risks across the business, and this includes advice to senior management and the Board on the adequacy and effectiveness of climate-related risk management. For example, this year climate risk was included in the internal audit of supply chain operations.

Integration of the climate-related risk management process into WHSmith's overall risk management

Our climate-related risk management processes follow the overall approach for Group-wide risk management. Climate-related risks and opportunities are considered from a strategic and operational perspective to ensure we maintain a comprehensive view of the different types of climate-related impacts that we face and the different time horizons in which they may affect us. Senior management and the Board regularly review climate-related risks and opportunities in line with other risks, to ensure a holistic view and optimisation of risk mitigation responses that are properly integrated into the relevant business activities.

Metrics and targets

Metrics used by WHSmith to assess climate-related risks and opportunities in line with its strategy and risk management process

We use a number of different metrics to measure our climate-related impacts, evaluate progress against our targets and monitor risks and opportunities. The metrics currently used are included below. We continue to evaluate the wider suite of metrics recommended by TCFD in its guidance for all sectors and will report progress in next year's report.

Metric	2022 value	Link to risk or opportunity
Absolute Scope 1 emissions Absolute Scope 2 emissions Absolute Scope 3 emissions	1,609 tonnes CO_2e 8,758 tonnes CO_2e 292,000 tonnes CO_2e	Reputation and market opportunities
GHG emissions intensity	7.4 Tonnes CO_2e / £ revenue 2,352 Tonnes CO_2e / sq foot	Reputation and market opportunities
Electricity and gas consumption	82,581 MWh	Increased costs for energy and fuel
Electricity from renewable sources	53,231 MWh	Increased costs for energy and fuel Reputation and market opportunities
Suppliers with science based targets in place	20 suppliers	Reputation and market opportunities
GHG emissions from third-party distribution	18.5 tonnes CO_2e / pallet	Reputation and market opportunities
Fuel consumption	1.54 million litres	Increased costs for energy and fuel
Own brand wood and paper-based products from sustainable sources	99.7 percent	Increased demand for sustainable materials
Waste diverted from landfill	99 percent	Reputation and market opportunities

Remuneration: Climate-related performance indicators formed part of this year's Annual Bonus scorecard for the Group Chief Executive and CFO/COO and will form part of the Long-Term Incentive Plan awards to be granted in the financial year ending 31 August 2023 (see "Remuneration Committee Report" on pages 83 to 104).

Carbon pricing: The main carbon taxes affecting our business are the UK Climate Change Levy which is included in the cost of gas and electricity used to power our buildings and the UK Fuel Duty which is included in the cost of diesel and petrol used for the distribution of our goods. These carbon taxes are part of energy and fuel costs which we monitor on an ongoing basis. We have also included carbon pricing in our scenario analysis, using projections from models by the IEA and NGFS as described in "Climate strategy" on page 51.

Energy and fuel consumption

We use energy to light and heat our stores, distribution centres and head offices. We have been working for many years to reduce the amount of energy we use, recognising opportunities to reduce our overall GHG emissions and operating costs for the business. Our energy consumption in 2022 was 82,581 MWh (2021: 78,449*), a small increase rise of 5 per cent over the previous year. A decrease in gas consumption at our Swindon site was offset by an increase in electricity consumption in stores as a result of our business returning to normal activity levels following Covid-19.

Energy reduction measures over the past few years have included:

- Further development of our building management system to monitor energy consumption across stores and adjustment of energy settings for lighting, heating and air conditioning to minimise energy;
- Replacement of LED lights coming to the end of their life, with new more energy-efficient ones;
- Installation of new boiler controls for gas heating systems to further reduce consumption; and
- The introduction of new fridges into our Travel stores with doors which prevent cold air losses, increasing energy efficiency.

Our fuel consumption increased this year as operations returned to normal post Covid-19, but carbon efficiency has improved over the past decade to 18.5 kg CO_2e / pallet for this financial year.

Sustainability continued

Energy and fuel use

	2022	2021	2020
Energy use (buildings) MWh			
UK	**62,048**	64,737	86,782
Non-UK	**20,533**	13,712*	17,301*
Total	**82,581**	78,449*	104,083*
Energy use (buildings) MWh			
Gas	**8,817**	14,673	32,765
Grid electric (renewable)	**53,231**	50,064	0
Grid electric (non-renewable)	**20,533**	13,712*	71,318*
Total	**82,581**	78,449*	104,083*
Fuel use (litres)	**1.54 million**	1.08 million	1.48 million

Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risks

Global Scope 1 and 2 emissions (tonnes CO_2e)

	2022	2021	2020
Scope 1 emissions			
From natural gas to heat stores, offices and distribution centres.	**1,609**	2,687	6,025
Percentage of emissions from UK-based operations.	**100%**	100%	100%
Scope 2 emissions (market based)			
From electricity purchased to power stores, offices and distribution centres.	**8,758**	6,528*	27,047*
Percentage of emissions from UK-based operations.	**0%**	0%	68%*
Total Scope 1 and 2 emissions (market based)	**10,367**	9,215*	33,072*
Percentage of emissions from UK-based operations.	**16%**	29%*	74% *
Market based carbon intensity metric (revenue)			
(tonnes CO_2e per £m revenue)	**7.4**	10.4*	32.4*
Market based carbon intensity metric (floorspace)			
(tonnes CO_2e per sq foot)	**2,352**	2,014*	7,177*
Scope 2 emissions (location based)			
From electricity purchased to power stores, offices and distribution centres.	**18,625**	17,013*	21,005*

Energy consumed from activities for which the company is responsible, including combustion of fuel, comprises only gas which is calculated from metered billing data. Energy consumed from purchased electricity is calculated from metered billing data.

Emissions have been calculated using the methodology defined in the GHG Protocol Corporate Standard. We use the market based method for Scope 2 for our total emissions to account for purchasing of low-carbon electricity. Our reporting boundary includes our operations in the UK and our directly run international businesses where we have operational control, consistent with those included in our consolidated financial statements. We engaged Corporate Citizenship to provide independent limited assurance of the energy and emissions data in the tables above in accordance with assurance standards ISAE 3000 and 3410. Further data and full details of the scope and methodology for reporting energy, fuel use and carbon emissions and Corporate Citizenship's full assurance statement is available in our Sustainability report 2022.

* Values have been restated to include data from all US stores in line with the rest of our reporting.

Our total Scope 1 and 2 market based emissions increased slightly this year to 10,367 tonnes CO_2e (2021: 9,215*). The increase was mainly a result of a larger number of stores re-opening this year following the Covid-19 pandemic. Emissions reductions were made through investments in more efficient lighting, better gas control systems and changes to refrigeration units.

One hundred per cent of the electricity that we purchased for our buildings in the UK came from a certified renewable supply. For directly sourced electricity, this was in the form of a renewable electricity supply contract. For some properties, we rely on electricity provided by landlords, some of which comes from renewable sources and some from non-renewable electricity supply contracts. For any landlord-supplied electricity which did not originate from renewable supplies, we purchased certificates under the Renewable Guarantees of Origin scheme. The certificates were retired on our behalf to avoid double-counting.

Emissions from our UK operations were 1,609 tonnes CO_2e (2021: 2,687). These residual emissions arise from the combustion of natural gas and to date, we have been unable to remove them completely as alternative technologies appropriate for our buildings do not yet exist. As an interim measure, we have undertaken mitigation action to compensate for these residual emissions, by purchasing carbon reduction certificates from a Verified Carbon Standard afforestation scheme. The afforestation acts as a carbon sink for an equivalent amount of emissions to the residual emissions from our gas supply.

Global Scope 3 emissions (tonnes CO_2e)

Scope 3 category	2022	2021	2020
1. Purchased goods and services and capital goods and services	210,000	178,000***	404,000
2. Capital goods and services	Emissions from capital goods and services have been included in our purchased goods and services category.		
3. Fuel and energy-related activities**	3,700*	3,300*/***	4,800*/***
4. Upstream transport and distribution**	23,000	14,500	16,800
5. Waste generated in operations	90*	200*	250*
6. Business travel	1,440*	640*	940*
7. Employee commuting	16,900	14,500	10,600
8. Upstream leased assets	Included in Scope 1 and 2 emissions.		
9. Downstream transport and distribution	Not relevant for our business.		
10. Processing of sold products	Not relevant for our business.		
11. Use of sold products	1,700	1,000	1,200
12. End of life treatment of sold product	30,600	19,300***	22,300
13. Downstream leased assets	Not relevant for our business.		
14. Franchises	4,300*	3,500*/***	4,500*/***
15. Investments	Not relevant for our business.		
Total Scope 3 emissions	**292,000**	**235,000**	**465,000**

Scope 3 emissions have been calculated in accordance with the Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Our reporting boundary includes our operations in the UK and our directly run international businesses where we have operational control, consistent with those included in our consolidated financial statements..

* We engaged Corporate Citizenship to provide independent limited assurance of the emissions data in the table above as marked with * in accordance with assurance standards ISAE 3000 and 3410.

** Fuel-related emissions have been restated to include well to tank emissions.

*** Values have been restated following changes in calculation methodology. Full details are available in our Sustainability report 2022.

Further data and full details of the scope and methodology for reporting missions and Corporate Citizenship's full assurance statement is available in our Sustainability report 2022.

The majority of our Scope 3 emissions are from Category 1: Purchased Goods and Services, Category 4: Upstream Transport and Distribution and Category 12: End of Life Treatment of Sold Product. Emissions for Categories 1, 4 and 12 increased this year as more of our stores re-opened following the Covid-19 pandemic and our product purchasing and sales returned to pre-Covid levels.

Targets used by WHSmith to manage climate-related risks and opportunities and performance

Following the publication of the SBTi Net-Zero Standard in October 2021, we reviewed our approach to climate change mitigation and revised our greenhouse gas reduction commitments. Earlier this year, we announced our new overall climate target to become a net zero emissions business by 2050. Our definition of net zero means an intention to reduce Scope 1, 2 and 3 emissions by at least 90% by 2050 (from a 2020 baseline) before neutralising any residual emissions. Scope 3 emissions within this target include emissions from Purchased Goods and Services and Upstream Transport and Distribution which represent the majority of our carbon footprint.

We recognise that we will be unable to reach our 2050 net zero target without the involvement of others, including governments, suppliers, customer and landlord partners. We were a founding member of the British Retail Consortium's Climate Action Roadmap which was established to bring together retailers, suppliers, government, and other stakeholders, and to support customers to deliver the UK retail industry's ambition to be net zero by 2040.

As a first step to our long-term goal, we have set near term targets to help track our performance against our overall climate target over time. The following targets have been validated by the SBTi as follows:

- We will reduce absolute Scope 1 and 2 GHG emissions by 80% by 2030 from a 2020 base year; and
- 75% of our suppliers (by emissions) covering purchased goods and services and upstream transport and distribution services will have science based targets in place by 2027.

We have also set targets in relation to deforestation (page 39).

Sustainability continued

Progress against targets

	2020 baseline	2022	Progress
Reduce Scope 1 and 2 GHG emissions by 80% by 2030	33,072 tonnes CO_2e	10,367 tonnes CO_2e (69% reduction)	On-track
75% of suppliers by emissions to have science based targets in place by 2027	Unknown	Twenty of our largest suppliers now have near-term targets validated by the SBTi. We intend to establish the systems to calculate the proportion of emissions from these suppliers during the next financial year	On-track
All forestry materials will be from recycled or certified sources in WHSmith-branded products	99 per cent	>99.7 per cent	On-track

On-track to meet target

Non-financial reporting statement

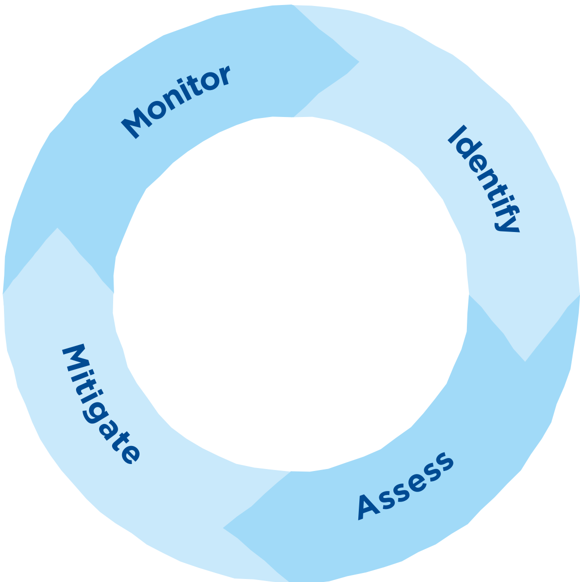
The sustainability section of the Annual report on pages 37 to 56 and the WHSmith Sustainability report contain a wide range of information about the environment, employees and social matters. The table below sets out where information on non-financial reporting matters can be found within our Annual Report and Accounts. Our full Sustainability report is available on our website at **whsmithplc.co.uk/sustainability**. The due diligence arrangements for each topic are included in the respective policy documentation on our website.

Non-financial matter	Policies and standards which govern our approach	Pages
Business model	Business model	6 and 7
	Key market drivers	12
	Our strategy	14 and 15
	Key Performance Indicators	16 and 17
	Principal risks and uncertainties	57 to 63
Environmental matters	Section 172(1) statement	30 to 36
	Sustainability – planet	39
	Climate-related disclosures	44 to 56
	Principal risks and uncertainties	57 to 63
Colleagues	Section 172(1) statement	30 to 36
	Sustainability – people	40 to 42
	Directors' remuneration report	83 to 104
Social matters	Section 172(1) statement	30 to 36
	Sustainability – communities	43
	Principal risks and uncertainties	57 to 63
Respect for human rights	Section 172(1) statement	30 to 36
	Sustainability – people	42
	Principal risks and uncertainties	57 to 63
Anti-corruption and anti-bribery matters	Sustainability – Responsible business	38
	Principal risks and uncertainties	57 to 63
Non-financial KPIs	Key Performance Indicators – Non-financial	17
	Sustainability	37 to 56
Principal risks and uncertainties	Climate-related disclosures	44 to 56
	Principal risks and uncertainties	57 to 63

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 registers compiled by each business function
– Risk mapping to identify emerging issues

Assess – Determining the likelihood of risk occurrence
– Evaluating the potential impact

Mitigate – Agreeing actions to manage the identified risks
– Ensuring control measures are in place

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

Risk monitoring responsibilities

Board and Audit Committee

Overall responsibility for risk management oversight rests with the Board, exercised through the delegated monitoring by the Audit Committee. Day to day management of risk is embedded within the business through a layered approach, as summarised below.

Business Risk Committees and Executive Management

Formal Risk Committees are held on a quarterly basis within each Business Operating Division, comprising members of each Divisional Executive team and Senior Management, the CFO/COO and Group Risk and Audit Director. These Business Risk Committees act as a forum to review the updated risk registers and reports on ongoing risk monitoring activity undertaken by Internal Audit, and other corporate oversight functions.

All principal business functions compile risk registers 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.

Operational Audit, Loss Prevention and Second Line Oversight Functions

These functions help to monitor compliance with internal control procedures across stores, distribution centres and other areas of the business, encompassing our ongoing programme of store audits and stocktaking results, and help to identify and monitor further areas of emerging risks.

Internal Audit

The Audit function facilitates the ongoing update of corporate and business function risk registers, and conducts an independent programme of activity in order to evaluate and test the working of internal controls in relation to the Group's systems and processes. The results of this ongoing programme are shared with the Business Risk Committees and the Group Audit Committee.

Annual review of the effectiveness of internal control

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 cyber risk, international expansion, and the ongoing risk monitoring processes and appropriate mitigating controls.

Principal risks and uncertainties continued

Board review of principal risks and uncertainties

The Board has undertaken a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those 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 table on the following page summarises the principal risks and uncertainties agreed by the Board. The table incorporates 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.

Continuing risks of Covid-19

The Covid-19 pandemic has affected all aspects of the business and the markets in which we operate. We believe that the overall level of risk has decreased since last year due to the roll-out of the Covid-19 vaccine and the easing of restrictions in many of the countries in which we operate. Whilst we believe that we are now well prepared for the introduction of new restrictions, there remains a risk that the Group could be negatively impacted by the emergence of new variants of Covid-19 or other pandemics. As a result of this reduction in risk, we have removed Covid-19 as a specific principal risk and have chosen to reflect the potential impact of it to the Group within our other principal risk headings to the extent that these may generate further risk of business interruption, disruption to our supply chain, and wider economic and market uncertainty.

Conflict in Ukraine

While we have been saddened by the ongoing conflict in Ukraine, WHSmith has no direct operations in Ukraine, Russia or Belarus, nor do we have any product suppliers located in these countries. Like many businesses we anticipate that the continuation and potential escalation of this conflict will impact us through increasing inflationary pressures from rising fuel and energy prices and disruption to our supply chain caused by transport disruption. These risks will continue to be monitored through our ongoing risk management framework and principal risk reporting.

Emerging risks

Our risks will continue to evolve in response to future events and new challenges, where further emerging risks may develop that could materially impact the business in the future. Our Risk Forums and Monitoring Framework seek to identify such potential changes in our risk landscape.

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. The Group may also be impacted in the UK and internationally, by any future pandemics, escalation of global conflict, political developments such as 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 levels of consumer confidence and 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. The Group has continued to monitor the economic issues caused by the conflict in Ukraine and its impact on the economy. We do this through our membership of industry bodies who provide insight and updates in relation to these issues. The Group actively monitors the impact of inflation on its cost base and supply chain and will incorporate hedging strategies where appropriate and invest to increase productivity and efficiency to mitigate these affects.	↑ Uncertainties relating to the impacts from new Covid-19 variants; continued turbulence from geopolitical tensions as a result of the conflict in Ukraine; and increasing inflation may continue to impact our supply chain and cost base, customer spending and shopping habits, and create economic uncertainty.
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 expand its convenience food offer in travel locations, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental and ethical sourcing and associated legislative and regulatory requirements, including the latest allergen and calorie labelling regulations.	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 surveys 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. We have a programme in place to manage any ESG risks and ensure the reputation of the brand is protected.	↔
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. Further escalation of geopolitical risks may cause disruption to the supply chain which may necessitate the diversification of sourcing own brand products from the Far East.	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 that 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.	↑ Uncertainties relating to the impact of Covid-19 and geopolitical risks on our product sourcing and supply chain.

Principal risks and uncertainties continued

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. 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 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		
An act of terrorism or war, or an outbreak of a further pandemic disease, could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. In the past, our Travel business has been impacted by geopolitical events such as major terrorist attacks, which have led to reductions in customer traffic. Closure of travel routes both planned and unplanned, such as the disruption caused by natural disasters or weather-related events, may also have a material effect on business. The Group operates from a number of 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.	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. 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.	Risks of interruptions occurring as a result of new Covid-19 variants or escalation of geopolitical risks could impact our global operations and supply chain.
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.	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.	Increasing risk arises from the continuing growth of our international business into new countries and increasing geopolitical threats.

Risk/description	Mitigation	Change in risk level
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 of ongoing compliance with the Payment Card Industry Data Security Standard and GDPR.	Continuing increase in number of external reported cyber-attacks.
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 21 on page 156 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 is exposed to interest rate changes and movements in foreign currencies.	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 and, in accordance with the Group's treasury policy, it is limited to a maximum of £75m for each approved counterparty. 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 committed multi-currency revolving credit facility of £250m provided by a syndicate of five lending banks, which is undrawn and due to mature in April 2025. The Group also has a £327m Convertible Bond at a fixed coupon rate of 1.625 per cent which expires in May 2026.	
Environment and sustainability		
Our investors, customers and colleagues expect us to conduct our business in a responsible and sustainable way. Climate change is now recognised as a global emergency. Failure to deliver our stated sustainability commitments could damage our reputation and introduce higher costs and impact our ability to meet strategic objectives.	Our sustainability strategy, Our Journey to a Better Business, sets out policies, objectives and action plans to address our key issues. It is overseen by Board and Executive level committees. We have set a target to be net zero by 2050 and are taking action across the business to increase our climate resilience. We continue to focus on more environmentally-responsible sourcing practices, reducing and redesigning packaging where possible and ensuring traceability for forestry products.	

Principal risks and uncertainties continued

Assessing the impact of our principal risks on our strategic priorities

The table below maps our strategic priorities with our principal risks, to demonstrate which of these risks could have an impact on the ongoing achievement of these strategic priorities.

	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	Environment and sustainability
Travel										
Space growth	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
ATV growth	✓	✓	✓	✓			✓		✓	✓
Category development	✓	✓	✓	✓			✓		✓	✓
Cost and cash management	✓	✓	✓	✓					✓	✓
High Street										
Maintain profitability and cash generation of our High Street and digital businesses	✓	✓	✓	✓					✓	✓
Focused capital allocation	✓	✓	✓	✓			✓	✓	✓	✓

Viability statement

In accordance with the UK Corporate Governance Code 2018, the directors are required to issue a "viability statement" declaring whether the directors believe the Company is able to continue to operate and meet its liabilities over a period greater than 12 months.

In assessing the Group's viability, the Board has considered current and historical performance, the Group's current financial position, the business model and strategy, our approach to risk management and our principal risks and uncertainties and mitigating factors (see pages 57 to 62).

The Group's business model and strategy is presented in the Strategic report on pages 2 to 29. The Strategic report describes the Group's plans at both Group and operating division level. These plans consider the Group's cash flows, committed funding liquidity positions, forecast future funding and key financial metrics.

Current financing

The Group's financing arrangements comprise a £250m multi-currency revolving credit facility ("RCF") maturing in April 2025, and a term loan of £133m, also maturing in April 2025. As at 31 August 2022 the Group had not drawn down on the RCF, and had £101m cash on deposit. In April 2021 the Group also issued £327m convertible bonds with a maturity of April 2026.

The covenants on the above facilities are tested half-yearly. The covenant test at 31 August 2022 is based on minimum liquidity. The covenant tests from 28 February 2023 onwards are based on fixed charges cover and net borrowings.

Assessment period

In determining the appropriate timeframe for assessing the Group's viability the Board has considered the impact of Covid-19 and challenges in the macroeconomic environment including the cost of living impact and historically high inflation rates.

A three year period is considered the most appropriate timeframe for the Group's viability assessment for several reasons:

- It is consistent with the Group's financial planning cycle, management incentive schemes and medium term financing considerations.
- The Group updates its three year plan annually, taking into consideration the identified principal and emerging risks over this timeframe. The three year plan was approved by the Board in June 2022, and the Budget for 2023 was approved by the Board in September 2022.

Assessment of viability

In making the viability assessment, the directors have modelled a number of scenarios for the three year period to 31 August 2025. As disclosed in the Strategic report on pages 57 to 62, 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 57 to 62 of the Strategic report.

Within the viability scenario modelling we have applied an assumption that we will be able to refinance external debt and renew our revolving credit facilities as they become due.

The base case scenario is consistent with the Board approved 2023 Budget and the three year plan, which takes into consideration uncertainties regarding the impact of Covid-19 and challenges in the macroeconomic environment. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests during the three year assessment period.

The base case forecasts have been subject to stress-testing, which models the impact of several "severe but plausible" downside scenarios, based on the identified principal risks covering a range of operational and financial impacts. The aim of this modelling is to understand the circumstances that could lead to the viability of the Group being threatened, with particular focus given to those risks which would have the most material and pervasive impacts.

- Economic downturn

Representing a fall in demand and cost inflation, in the context of inherent uncertainties due to the impact of Covid-19 and other challenges in the macroeconomic environment.

We have applied the same assumptions modelled as part of the going concern assessment (refer to page 121) extrapolated across the remainder of the three year viability assessment period. This scenario assumes a 10 per cent reduction in revenue versus base case across all our businesses (Travel UK, North America, Rest of the World and High Street). Apart from an equal reduction in turnover rents in our Travel businesses, we have not assumed any decrease in other variable costs.

Further scenarios have been modelled taking into consideration other key principal risks to the Group, including the:

- Loss of a key contract in Travel
- Supply chain disruption
- Impact of a data breach and potential fines
- Increases in interest rates
- Impact of increased carbon pricing

We consider likelihood of these scenarios occurring concurrently to be improbable and are confident in the Group's ability to apply mitigating actions in such a scenario.

Mitigating actions that would be available to the Group in the above scenario include reduction or deferral of non-committed capital expenditure, reductions in discretionary operating spend, reduction or suspension of dividends, restructuring of operations and renegotiation of facilities. The scenario analysis has not taken such mitigating actions into account.

The anticipated costs of our net zero climate change commitments have been incorporated within the base case model within the next three years. As set out in our climate-related disclosures on pages 44 to 56, the impact on the Group's financial performance and position is not expected to be material in the short term, however we have modelled a scenario related to the potential impact of increased carbon pricing within the assessment period.

Conclusion

Taking account all of the above matters, the Group's current financial performance and position, and the 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 viability assessment period.

This Strategic report was approved by the Board on 10 November 2022.

On behalf of the Board

Carl Cowling
Group Chief Executive

10 November 2022

Directors' biographies

1. Henry Staunton
Chairman

Date of appointment: 1 September 2010. Henry was appointed as Chairman on 1 September 2013. Henry will step down as Chairman on 30 November 2022.

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

2. Carl Cowling
Group Chief Executive

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

Committee membership: ESG Committee and 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 WHSmith as Managing Director, Travel in November 2014. In 2017, he was appointed Managing Director, High Street. Prior to joining WHSmith, 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.

3. 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 WHSmith 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.

4. Annette Court
Non-executive director and Chair Designate

Date of appointment: 1 September 2022. Annette will be appointed as Chair on 1 December 2022.

Committee membership: Member of the Nominations Committee. Annette will also become Chair of the Nominations Committee on 1 December 2022.

Skills and experience: Annette has a proven track record as a Chair of a publicly quoted company and brings a wealth of experience from her Board appointments and has a strong background in financial services and technology. She is currently chair of Admiral Group plc and a non-executive director of Sage Group plc. She was previously the CEO of Europe General Insurance for Zurich Financial Services and the CEO of Direct Line Group (formerly RBS Insurance). She has also been a member of the Board of the Association of British Insurers (ABI).

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

5. Kal Atwal

Non-executive director

Date of appointment: 1 February 2021.

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

Skills and experience: Kal has substantial marketing and digital expertise. She spent 16 years at BGL Group and held several roles, including Founding Managing Director of comparethemarket.com and Group Director responsible for brand-led businesses, group strategy and corporate communications. Kal was also Chair of Simply Cook prior to its sale to Nestlé. Kal is a non-executive director at Royal London Group, Admiral Financial Services, a subsidiary of Admiral Group Plc, Whitbread PLC and a board advisor for Simply Cook Limited.

6. Nicky Dulieu

Non-executive director

Date of appointment: 9 September 2020.

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

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 is a valuable member of the Board and Chair of the Audit Committee. She is a non-executive director at Redrow Plc, The Unite Group PLC and Adnams Plc.

7. Simon Emeny

Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Senior Independent Director and a member of the Audit Committee, ESG Committee, Nominations Committee and Remuneration Committee.

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.

8. Marion Sears

Non-executive director

Date of appointment: 1 February 2022.

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

Skills and experience: Marion has financial and retail expertise. Marion had a career in the City as an analyst and subsequently in investment banking and international M&A. Marion has extensive board and remuneration committee experience as she has served on a number of private and public company boards as a non-executive director. Marion is currently a non-executive director at Dunelm Group PLC, abrdn New Dawn Investment Trust PLC and Keywords Studios PLC. Marion is also a Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events.

9. Maurice Thompson

Non-executive director

Date of appointment: 26 February 2019.

Committee membership: Member of the Audit Committee, ESG Committee, Nominations Committee and Remuneration 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 previously held the position of Chief Executive of Citibank in the UK.

Previous directors who served during the financial year ended 31 August 2022: **Annemarie Durbin** stepped down as a director of the Company on 19 January 2022.

Corporate governance report

> Corporate governance remains an important area of focus for the Board and underpins the sustainability of our business and the achievement of our strategy."

Henry Staunton
Chairman

Board role and effectiveness

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

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.

This report, which forms part of the Directors' report, provides details of how the Company has applied the principles of, and complied with the provisions of, the UK Corporate Governance Code 2018 (the "Code"). A copy of the Code is available publicly from frc.org.uk.

Purpose, values and culture

Our purpose is to make every one of life's journeys better.

We have been serving customers through our presence in town centres, travel hubs and hospitals for 230 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 over 12,000 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 employees, 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 purpose, values and culture on pages 30 to 46.

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 investors on page 33, with our customers on page 32, with our employees on page 31 and community involvement on page 35 and our approach to rewarding our workforce in the Remuneration report on page 89.

There are a number of effective employee engagement processes in place across the Group, including the employee engagement survey and employee forums. Simon Emeny is the designated non-executive director with responsibility for workforce engagement. He attended a number of employee forums throughout the year which enabled him to engage directly with employees on a wide range of subjects, including agile working, remuneration and career development. Simon Emeny met the Group People Director to review the outcomes from the engagement survey. Marion Sears, Chair of the Remuneration Committee, also attended a number of forums to explain and answer questions on the Company's approach to remuneration, including executive pay. Feedback relating to workforce engagement has been reported to the Board and Committees.

Section 172 of the Companies Act 2006 (the "Act") requires a director to have regard to stakeholder interests when discharging their duty to promote the success of the Company for the benefit of the shareholders as a whole. You can read how the Board has had regard to the interests of the Company's stakeholders in accordance with Section 172 of the Act on pages 30 to 36.

Board changes

The Board has continued to give extensive thought to the rotation of long-serving directors this year. As part of the succession plan, Annemarie Durbin, who was the Chair of the Remuneration Committee, stepped down from the Board at the Company's AGM in January 2022. During the year, the Board appointed Marion Sears as a non-executive director and Chair of the Remuneration Committee on 1 February 2022.

As announced on 8 June 2022, Annette Court was appointed as a non-executive director and Chair Designate. Annette joined the Board on 1 September 2022 and will succeed me as Chair on 1 December 2022. I wish Annette every success as she joins the Board at a very exciting time for the Company as it continues to recover following the Covid-19 pandemic.

Thanks

I would like to thank our shareholders and stakeholders for their continued support and also the Board and all of our colleagues across the Group for their tremendous efforts and ongoing commitment in our 230th anniversary year. I feel extremely privileged to have served as Chairman of this very special Company and am confident of its future success.

Henry Staunton
Chairman

10 November 2022

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.

Throughout the financial year ended 31 August 2022 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's tenure (Provision 19): Henry Staunton's tenure as Chairman of the Company. Henry Staunton was appointed to the Board in September 2010 and became Chairman in September 2013. The Company announced on 8 June 2022 that Henry Staunton will retire from the Board on 30 November 2022 and that Annette Court will succeed him as Chair on 1 December 2022. As previously explained, the Board believed that it was important to the ongoing success of the Company that Henry Staunton remained as Chairman as the Company recovered from the impact of the Covid-19 pandemic. Further information on Annette Court's appointment can be found on page 79.
2. Pension Alignment (Provision 38): The pension contribution rates for executive directors, Carl Cowling and Robert Moorhead, reflect the historical retirement benefits available to employees that joined the Company 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 rate for any new executive director is now aligned with the majority of the workforce which is approximately three 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 Company's disclosures on its application of the principles of the Code can be found on the following pages:

Board leadership and Company purpose	
Chairman's letter	See pages 66 and 67
ESG Committee report	See pages 81 and 82
Purpose, values and culture	See page 66
Strategy	See pages 2 to 63
Shareholder and stakeholder engagement	See pages 30 to 36
Division of responsibilities	
Leadership, commitment and Board support	See pages 67 and 68
Composition, succession and evaluation	
Board evaluation	See pages 70 and 71
Nominations Committee report	See pages 79 and 80
Audit, risk and internal control	
Risks, viability and going concern	See pages 75 to 77
Audit Committee report	See pages 74 to 78
Remuneration	
Directors' remuneration report	See pages 83 to 104

The information that is required by Disclosure Guidance and Transparency Rule 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 83 to 104 and in the Directors' report on pages 105 to 107.

Composition and operation of the Board

As at the date of this report, the Board comprised the Chairman, two executive directors and six independent non-executive directors (including the Chair Designate). Short biographies of each of these directors, which illustrate their range of experience, are set out on pages 64 and 65. 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.

Corporate governance report continued

All the directors, whose biographies are on pages 64 and 65, served throughout the financial year ended 31 August 2022 and up to the date of this report with the exception of:

- Marion Sears who was appointed as a non-executive director on 1 February 2022; and
- Annette Court who was appointed as a non-executive director on 1 September 2022.

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 83 to 104.

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 nine times during the year. 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 financial year ended 31 August 2022 and the attendance record of individual directors:

		Number of meetings attended				
Directors and role	**Board skills and competencies**	**Board 9**	**Audit 3**	**ESG 3**	**Nominations 5**	**Remuneration 7**
Henry Staunton Chairman	Finance and retail expertise; strong board leadership and considerable governance experience.	8 of 9	–	3 of 3	2 of 5	6 of 7
Kal Atwal Non-executive director	Marketing and digital expertise; entrepreneurial approach to business.	9 of 9	3 of 3	3 of 3	5 of 5	7 of 7
Carl Cowling Group Chief Executive	Strategic and retail expertise; strong leadership of the Group and creation of shareholder value.	9 of 9	–	3 of 3	5 of 5	–
Nicky Dulieu Non-executive director	Finance and retail expertise; extensive knowledge of retail and customer service.	9 of 9	3 of 3	3 of 3	5 of 5	7 of 7
Simon Emeny Non-executive director	Commercial expertise and a wealth of consumer facing experience.	9 of 9	3 of 3	3 of 3	5 of 5	7 of 7
Robert Moorhead Chief Financial Officer/ Chief Operating Officer ("CFO/COO")	Retail and financial expertise; deep understanding of the Group and strategy, and creation of shareholder value.	9 of 9	–	–	–	–
Marion Sears Non-executive director	Financial and retail expertise with extensive board and remuneration committee experience.	5 of 5	2 of 2	2 of 2	3 of 3	3 of 3
Maurice Thompson Non-executive director	Board and financial expertise; extensive strategic knowledge and experience.	9 of 9	3 of 3	3 of 3	5 of 5	7 of 7

a) Henry Staunton did not attend the Nominations or Board meetings that related to the appointment of his successor. These meetings were chaired by Simon Emeny, the Senior Independent Director. Henry Staunton also did not attend the meeting of the Remuneration Committee that related to the appointment of his successor.

b) Marion Sears was appointed as a director of the Company on 1 February 2022.

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

d) Carl Cowling was invited to and attended five meetings of the Remuneration Committee. Robert Moorhead was invited to and attended one meeting of the Remuneration Committee.

e) Robert Moorhead was invited to and attended five meetings of the Nominations Committee.

f) Robert Moorhead was invited to and attended three meetings of the ESG Committee.

g) Annemarie Durbin stepped down from the Board on 19 January 2022. Prior to leaving the Company she attended four meetings of the Board.

h) The Board and the Remuneration Committee have met twice since 31 August 2022. The Audit Committee and the ESG Committee have met once since 31 August 2022. Henry Staunton was unable to attend the October 2022 Remuneration Committee meeting due to a prior commitment which had been arranged before the meeting was convened. He received the papers in advance of the meeting and gave his comments to the Chair. Annette Court was unable to attend the November 2022 Board meeting 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.

Board tenure and gender diversity

The table below shows a breakdown of the composition of the Board as at 31 August 2022:

Tenure		Male/Female		
0–1 year	1	Male	5	63%
1–3 years	2	Female	3	37%
3–6 years	3			
6–9 years	0	**Executive/Non-executive**		
10+ years	2	Executive	2	25%
		Non-executive	6	75%

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; sustainability strategy; 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 2 to 63.

Board activities in the financial year ended 31 August 2022

Strategy		
	• Approval of Company purpose, values and culture • Approval of the Group's long term objectives and commercial strategy of the Group • Oversight of Group performance against strategy and budget • Approval of the sustainability strategy and report • Updates on Group response to ongoing issues relating to Covid-19	• Reviewing the strategic plans for each of the businesses • Three-Year Plan • Project approvals • Corporate strategy updates
Financial and operational performance		
	• The Company's preliminary and interim results, trading statements and the Annual report • Going concern and viability statements • Fair, balanced and understandable assessment	• Dividend, treasury and tax strategies • Approval of the budget • Approval of capital expenditure
Other stakeholder engagement		
Customers	• Customer initiatives and experience updates • Updates on ensuring the safety of customers • Extending our categories and ranges, including a greater focus on food, health and beauty and technology products	• Reviewing customer feedback and approving customer-facing strategies • Investing in existing and new stores • Continuing to reduce environmental footprints where possible and improving product environmental labelling
Other stakeholder engagement		
Shareholders	• Annual General Meeting • Consultation on remuneration and outcome of AGM voting	• Investor relations updates • Consultation on Board composition

Corporate governance report continued

Other stakeholder engagement (continued)		
Employees	• Annual health, safety and wellbeing reviews to ensure employee safety • Company purpose, values and culture • Inclusion and diversity update • People strategy • Defined Benefit Pension Scheme Buy-In • Consideration of workforce pay including the annual pay review	• Modern slavery update and statement • Talent, succession planning and leadership • Employee engagement insights • Gender pay gap reporting • Introduction of agile working
Governance and risk		
	• Risk framework and internal control review • Regulatory compliance updates • Litigation and disputes updates • Group delegation of authority review • Succession planning and appointment of new Chair	• Principal risks and uncertainties review • Review of cyber security • Conflicts of Interest and new appointments • Terms of Reference review • Board evaluation process

TCFD and climate change

The Board received presentations and updates on the requirement this year to make disclosures that are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and recommended disclosures. You can read more on our TCFD disclosures on pages 44 to 56.

Defined Benefit Pension Scheme Buy-In

The Company, like many other companies which have been around for a long time, previously provided a defined benefit pension scheme ("DB Scheme") for employees. The benefits of the DB Scheme are backed by the assets of the WHSmith Pension Trust (the "Trust"), which have been built up by investing money contributed by the Company. These contributions reflect the Company's obligation to stand behind the DB Scheme at times when it was assessed as having insufficient assets to cover its commitments to the members. In the early 2000s, the DB Scheme developed a serious deficit, which peaked at approximately £250m in 2004. In order to deal with the deficit, the Company and Trustee took a number of actions that have since proved successful. In particular, action was taken to reduce the impact on funding from inflation and interest rate movements. Careful management of those factors, together with significant contributions by the Company, has removed the deficit over the past two decades. As a result of this careful management, the Trustee was able to buy an insurance policy from Standard Life to pay all future benefits to the members of the DB Scheme. This means that the Company is no longer required to make contributions to the DB Scheme and has removed the risk of having to make any future payments regarding defined benefit liabilities. The Board believes that the purchase of the insurance policy is a good outcome for the 12,950 pensioners and deferred members of the DB Scheme as any risks associated with the payment of their benefits have now very substantially reduced. As a result, the Trust is no longer reliant on earning investment returns, nor on the financial strength of the Company.

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. A formal internally facilitated evaluation was carried out in July 2022. 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 in-depth interviews with each director. The main areas considered during the evaluation were strategy, operations and risk; succession planning; Board composition; Company purpose, values and culture; and Board Committees.

The results of the assessment 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 2023 and will include continued focus on executive and non-executive succession planning and the overall composition of the Board; increasing focus on people issues and retention of key senior executives; and steps to improve the Board's procedures and effectiveness, including the effectiveness of the annual strategy session. The Board reviewed the actions agreed following the externally facilitated evaluation carried out in 2021 and agreed that good progress had been made in respect of these actions, including in respect of the Company's Board succession plan (most notably, the appointment of two new non-executive directors, including the appointment of Annette Court as successor to the Chairman) and improvements in the Board's procedures – for example, how the Board is updated on the key strategic initiatives which were identified at the Board strategy session. In addition to the Board and Committee evaluation process, the Group Chief Executive reviews the performance of the 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 nine years and has been on the Board for twelve 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 or independence. 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

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 19 January 2022, all the directors at that time (aside from Annemarie Durbin) stood for election or re-election and were duly elected by shareholders.

As reported last year, Simon Emeny, the Senior Independent Director, led a search for Henry Staunton's replacement as Chairman. Further information on Annette Court's appointment can be found on page 79.

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 executive 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. The Company's purpose, values 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.

Culture

The Board assesses and 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, offices and other Company locations; 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; assessing the results of staff surveys, reviewing 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 Section 172 Statement on pages 30 to 36 and the Corporate governance report. During the year, the Board was satisfied that the 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 attended business risk committee meetings, employee forums and accompanied management on site visits to the High Street and Travel stores. The Board also visited the head office and stores of the Company's US subsidiaries, Marshall Retail Group and InMotion, to gain a better understanding of the operation and culture of the businesses. 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 with 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.

During the year, Marion Sears participated in an induction programme which included:

- review of previous Board papers and minutes, a briefing paper on the duties of directors, Terms of Reference for the Board and Committees, and Group policies and procedures including the Code of Dealing;
- meetings with senior management, including the Managing Directors of the Group's businesses, Group People Director, Group Risk Director, Investor Relations Director and Legal Director/Company Secretary;
- meetings with advisers; and
- store visits.

Corporate governance report continued

A similar induction programme has been designed for Annette Court, details of which will be included in the Annual Report next year.

The Board considered and approved that Nicky Dulieu could be appointed as a non-executive director of The Unite Group PLC, with effect from 1 September 2022. The Board concluded that there was no conflict in Nicky Dulieu being appointed to the board of The Unite Group PLC and that the demands associated with a non-executive director role would not affect her commitment to the Company. The Board also considered and approved the proposed appointment of Henry Staunton as Chairman of the Post Office Limited following his departure from the Board on 30 November 2022.

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 the 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, sexual orientation, 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 and 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. The Board also supports the recommendations of the Parker Review on ethnic diversity and has met the target for non-white directors. The Board recognises that there is more to do to increase the ethnic representation across the Company.

Further information on the Company's commitment to diversity can be found in the Nominations Committee report on pages 79 and 80 and in the Employees section of the Strategic report on pages 40 to 42.

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 received presentations from management on higher risk areas, for example, cyber security and 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. This year these have included climate-related risks and opportunities in readiness for reporting consistent with the TCFD recommendations and recommended disclosures. The Board undertakes a robust assessment of the Group's 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 57 to 63.

Further information on internal controls and risk management can be found in the Audit Committee report on page 77.

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. For more information on shareholder engagement see page 33.

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 normally 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.

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 Chairman spoke to some of the Company's largest shareholders to discuss the composition of the Board.

Following the 2022 AGM, at which a significant minority of shareholders voted against the approval of the remuneration report, Marion Sears, the new Chair of the Remuneration Committee, sought the views of the Company's largest shareholders and representatives in respect of the Company's remuneration practices. The Remuneration Committee understands that shareholders' primary concern was the payment of bonuses to executive directors. The Chairman also engaged with the Company's largest shareholders and representatives in respect of Maurice Thompson's re-election as a director, in order to fully understand their concerns.

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/sustainability.

Fair, balanced and understandable

The Board confirms that it considers the 2022 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 76.

Board Committees

The Board delegates specific responsibilities to the Board Committees, being the Audit, ESG, Nominations and Remuneration Committees. Details of the role, composition, responsibilities and activities of the Audit Committee can be found on pages 74 to 78, the ESG Committee on pages 81 and 82, the Nominations Committee on pages 79 and 80 and the Remuneration Committee in the Directors' remuneration report on pages 83 to 104. 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.

In addition, the following Committees support the Board in fulfilling its responsibilities:

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 the UK Market Abuse Regulation and the maintenance of disclosure controls and procedures. The Disclosure Committee comprises all of the directors of the Company and the Company Secretary.

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 2022."

Nicky Dulieu
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 2022. 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 Kal Atwal, Simon Emeny, Marion Sears 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. At the invitation of the Committee, the Chair 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.

During the financial year ending 31 August 2023, the Committee will focus on undertaking a tender for external audit services. PricewaterhouseCoopers LLP ("PwC") has provided external audit services to the Group since being first appointed as the Company's external auditors at the 2015 AGM. In line with applicable law and regulation, the Committee will hold a competitive tender process in the next financial year, as set out on page 78.

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

- considering papers from management on the significant 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 and covenant compliance of the Group;
- considering the Company's viability statement and papers from management which consider the long-term viability of the Group;
- considering presentations and updates on the requirement to make disclosures consistent with the TCFD recommendations and recommended disclosures;
- considering the accounting implications of the Company's Defined Benefit Pension Scheme Buy-in;
- 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;
- reviewing the Company's approach to cyber security following the cyber-attack on Funky Pigeon;
- 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, Disclosure Guidance and Transparency Rules, Code and statutory reporting requirements and recommending those documents for Board approval;
- receiving updates and recommendations on the reforms to Corporate Governance and internal controls proposed by BEIS;
- 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;

- receiving reports from Internal Audit in respect of calls to the Company's confidential Speak Up helpline and after undertaking a review, appointing an external company, Safecall, to provide the helpline service for the Group;
- 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;
- 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;
- agreeing the scope of PwC's 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 Regulation ("GDPR");
- considering and approving the report on the Company's payment practices;
- assessing new accounting standards; and
- reviewing the Committee's Terms of Reference.

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 and viability

The Committee reviewed management's assessment of viability and going concern. The Committee considered the Group's performance and financial position and the forecast assumptions applied in the approved budget and three-year plan. The Committee also considered the Group's financing facilities and future funding plans. In making the going concern and viability assessments, the Committee gave consideration to the downside scenarios modelled given the uncertainties surrounding the current challenging macroeconomic environment. Based on this, the Committee concluded that the assumptions applied are appropriate in both the viability and going concern assessments, and confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, with no material uncertainties. The Committee received a report from PwC on the work undertaken to assess going concern and viability and specifically discussed the content of the disclosures made in the Strategic report on page 62 and the basis of preparation within Note 1 of the financial statements on page 121.

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. This paper detailed managements' judgements regarding the identification of indicators of impairment, and where impairment indicators were identified, the valuation methodology, basis of key assumptions and the key drivers of the cash flow forecasts.

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. 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.

Given that management has continued to report on the performance of the business on a pre-IFRS 16 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.

Inventory valuation

The Committee received a paper from management on accounting for and valuation of inventory. It discussed the judgements made by management, with specific consideration given to inventory provisioning (both on an underlying and non-underlying basis), 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 presentation of inventory provision charges in the income statement split between underlying and non-underlying. 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 and presentation of inventory provisions.

Corporate governance report continued

Non-underlying items

The Committee considered the presentation of the financial statements and, in particular, 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 or are 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 impairment charges recognised in relation to stores where performance is not expected to recover as a result of the impact of Covid-19; costs incurred in connection with the Funky Pigeon cyber incident; and amortisation of acquired intangible assets.

This was a key area of 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.

Pensions

The Committee considered the accounting treatment and disclosure of the defined benefit scheme buy-in, with particular regard to the application of IAS 19 in the recognition of asset remeasurement losses through other comprehensive income. 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 non-recognition of the IAS 19 surplus. A report on pensions accounting and related disclosures was provided by PwC which set out the work performed including their challenge on the classification of the buy-in and related expenses through other comprehensive income, as well as 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 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 75. 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 63.

Fair, balanced and understandable assessment

At the request of the Board, the Committee has considered whether, in its opinion, the 2022 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. 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 is reviewed by the Committee prior to consideration by the Board.

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 confirms 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 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 in place 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 PwC;
- 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; and
- 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.

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

Corporate governance report continued

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 PwC as the external auditors for the 2023 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. Jonathan Lambert was appointed as the PwC audit partner and Senior Statutory Auditor at the conclusion of the 2019 financial year.

In accordance with the Competition and Markets Authority ("CMA") Statutory Audit Services Order 2014, the Company is required to conduct a competitive audit tender by December 2024. The Committee has discussed the most appropriate time to carry out the external audit tender process taking into account the recent appointment of new directors, the continuing significant US expansion and the Group's extensive growth opportunities. As a result, at its meeting on 8 November 2022, the Committee decided to proceed with an audit tender during 2023, which will commence with issuing a Request for Proposal ("RFP") in February 2023, with a view to appointing the successful audit firm for the financial year ending 31 August 2025.

In making this decision, the Committee has had regard to the timeline, selection criteria and the involvement of Committee members and audit and finance teams in the various stages of the process. The Committee considers that the proposed timeline achieves the optimal balance between business priorities, as the Company continues to recover from the impact of Covid-19, and internal capacity which will ensure a rigorous and comprehensive audit tender process. The Committee considers that a competitive tender is in the best interests of our shareholders as it will allow the Company to appoint the audit firm that will provide the highest quality, most effective and efficient audit.

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.

In line with the Committee's Terms of Reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2021 financial year 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. Input was sought 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 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. The only non-audit work undertaken by PwC in the financial year ended 31 August 2022 related to the interim review. The auditors may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. The Committee made enquiries of PwC and management and were satisfied that no such conflict existed.

On behalf of the 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 2022 the non-audit fees paid to PwC were £115,000, of which £113,800 related to the interim review, and the audit fees payable to PwC were £1,138,000.

The Company has complied during the financial year under review, and up to the date of this report, with the provisions of the CMA Statutory Audit Services Order 2014.

Nicky Dulieu
Chair of the Audit Committee

10 November 2022

Nominations Committee report

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

Henry Staunton
Chair of the Nominations Committee

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 2022. 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 Kal Atwal, Annette Court, Carl Cowling, Nicky Dulieu, Simon Emeny, Marion Sears 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 five times during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, the appointment of Marion Sears as a non-executive director and Annette Court as a non-executive director and 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.

As reported last year, Simon Emeny, the Senior Independent Director, led a search for my replacement as Chairman. A role description and person specification were prepared and the Company appointed an external recruitment consultant, Lygon Group, to assist in the process of identification of potential candidates. Lygon have signed up to the voluntary code of conduct for executive search firms and had no other connection to the Company or its Directors. The Committee was regularly appraised by Simon Emeny on progress to identify and appoint my successor. Following this search, a number of candidates were shortlisted and initially met with Simon Emeny and the Company Secretary of whom three then met the Group Chief Executive and the CFO/COO. As a result of these interviews, two candidates met the remaining members of the Board. At the conclusion of the recruitment process, the Committee recommended the appointment of Annette Court to the Board.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity and inclusion. 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 Committee is fully committed to supporting diversity and inclusion at Boardroom and senior executive level in compliance with the Code and recognises the importance of diversity in effective decision-making. The long-term aim is to increase the diversity of our Board in all forms. The importance of diversity extends beyond the Board to senior management and throughout the Company. The Committee monitors the progress made to increase diversity at Board and senior management levels and compliance with targets and best practice recommendations set for gender diversity by the FTSE Women Leaders Review and for ethnic diversity by the Parker Review.

During the year under review, the Company had 37 per cent women on the Board, 30 per cent in the Group Executive Team and 35 per cent in the senior leadership team. The Board is committed to strengthening the pipeline of women in senior roles across the business and an action plan has been agreed to take further steps to improve workplace diversity.

The Company requires gender balanced shortlists for all internal and external recruitment at a senior executive level to ensure that we attract more women at senior 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 42. 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 complied with the recommendations of the Parker Review. Actions include the provision of mentoring, as well as focused initiatives to better

Corporate governance report continued

understand the challenges faced by under-represented groups employed within the Company. The Company's recruitment policy requires that for all senior management roles there must be a shortlist which includes at least one candidate from a non-white minority ethnic background. We will continue to appoint on merit, whilst aiming to broaden the diversity of the talent pipeline.

The Company has a Diversity and Inclusion committee consisting of employees from across the Group together with the Group Chief Executive and the Group People Director. The committee met ten times during the financial year ended 31 August 2022 and made recommendations on recruitment, and engaged with our customers and employees to mark cultural and diversity related events during the year. The work of the Diversity and Inclusion committee is reported to the ESG Committee.

Further information on diversity is set out in the Employees section of the Strategic report on pages 40 to 42.

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 report 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. Details of the Board evaluation which took place in July 2022 are set out on pages 70 and 71.

This will be my last letter to you as Chair of the Nominations Committee. As previously announced, Annette Court succeeds me as Chair of the Board and of the Nominations Committee on 1 December 2022. I wish Annette every success in the future.

Henry Staunton
Chair of the Nominations Committee

10 November 2022

ESG Committee report

> The Committee is providing the Board with enhanced oversight of the Company's ESG activities."

Kal Atwal
Chair of the ESG Committee

ESG Committee

Dear Shareholder

As Chair of the ESG Committee, I am pleased to present my first report on the activities of the ESG Committee for the financial year ended 31 August 2022. Sustainability is an integral part of the Company's purpose and is embedded in our values and the way in which we operate. The Committee has been established to oversee the Company's approach to ESG and it has an important role to play in contributing to the long-term success of the business.

The Committee is responsible for reviewing and approving the Company's strategy, policies and performance in relation to ESG matters and ensuring they are integrated into the core business strategy of the Group. The Committee is also responsible for approving key performance indicators; short, medium and long-term ESG targets and monitoring progress towards targets on a regular basis. The Committee's Terms of Reference are available on the Company's website at whsmithplc.co.uk.

The Committee comprises a majority of independent non-executive directors. The members of the Committee are Carl Cowling, Nicky Dulieu, Simon Emeny, Marion Sears, Henry Staunton and Maurice Thompson. The Committee met three times during the year, receiving inputs from senior managers across the business and regular updates from the ESG Steering Committee which is chaired by the Group Chief Executive.

One of the key considerations of the Committee is ensuring the interests of stakeholders are included in any review of the Company's approach to ESG and sustainability:

- Investors: strong, Board-level ESG governance is a key requirement of an effective sustainability programme.
- Governments and policy makers: local and international legal and regulatory obligations on ESG topics continue to increase.
- Landlords and suppliers: upholding high ethical standards throughout our value chain is critical for landlords, business partners and suppliers when deciding whether they should do business with WHSmith.
- Local communities and NGOs: ESG topics affect the lives of the people in the communities that we serve and the non-governmental organisations that we work with.
- Employees: employees take pride in working for a purpose-driven organisation with high ESG standards.

In reviewing the Company's overall approach to ESG and sustainability, the Committee received an update from the Group Sustainability Director on key external drivers and the views of different stakeholder groups. The Committee assessed the most material ESG risks and the mitigation measures in place to ensure they are being appropriately managed and reported. Following on from the materiality assessment, the Committee reviewed the Company's sustainability strategy, assessing recent progress under the three strategic pillars of Planet, People and Communities and approving an updated set of objectives and targets for future activity. The Committee also approved updates for all ESG-related policies during the financial year.

Under the Planet pillar of the strategy, the Committee dedicated one of its meetings to climate change, including the requirements for net zero and for reporting in line with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD). The Committee received a briefing on the scope of the TCFD recommendations, and the Company's approach to reporting in accordance with the UK's Financial Conduct Authority Listing Rule on climate-related financial disclosures. This formed a pre-cursor to the approval of TCFD reporting disclosures by the Audit Committee. The Committee also approved a revised target for the business to reach net zero emissions by 2050, with near term targets for a reduction in Scope 1 and 2 emissions and for engaging with suppliers to ensure science based targets are in place (see pages 53 to 56.)

In relation to People, the Committee reviewed the results of the Employee Engagement survey and approved the action plan to increase engagement across the Company. The Committee received a presentation on the Company's approach to responsible sourcing and human rights, and provided advice to management on mitigating risk. The Committee reviewed the Company's approach to Modern Slavery due diligence and recommended to the Board approval of the Group Modern Slavery statement for FY2022.

During the year, the Committee also discussed the Company's approach to community engagement and support for children's literacy through its work with the

Corporate governance report continued

ESG Committee report continued

National Literacy Trust. The Committee was informed about the difference that WHSmith's contributions are making to the lives of children in socially disadvantaged parts of the UK, and the impact that it is having on children's ability to read.

For the first time, ESG performance metrics will form part of the Long Term Incentive Plan for awards in 2022. In reviewing the ESG strategy and ensuring that objectives and targets are appropriate for driving improvement, the ESG Committee provided support to the Remuneration Committee in choosing appropriate measures.

Over the next year, I look forward to the Committee's continued oversight and scrutiny of the Group's ESG agenda, including further presentations from senior executives and experts from across the Company. During 2023, the Committee will review the Group's diversity and inclusion programme, the plans for supplier engagement on net zero and how the ESG programme is being adopted by the Company's international operations.

Kal Atwal
Chair of the ESG Committee

10 November 2022

Directors' remuneration report

"Our Directors' remuneration policy has worked well supporting the Company's long-term strategy and providing alignment with stakeholders."

Marion Sears
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 2022 which is in line with the Company's approved Directors' remuneration policy. The Directors' remuneration policy was supported by 88 per cent of our shareholders at our AGM in 2022.

The Company's Directors' 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 or an error or incorrect information, or 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.

The Company's Directors' remuneration policy has worked well supporting the Company's long-term strategy to create shareholder value. You can see how the Company has, over the past ten years, generated shareholder value in the TSR graph on page 95.

Executive pay outcome for the financial year ended 31 August 2022

The Group returned to profitability this year with Headline Group profit before tax and non-underlying items[1] of £73m. This result was an increase in profitability of £128m compared to a loss of £55m in the previous financial year. This strong performance was achieved as a result of the actions taken by management both to re-open closed outlets following the pandemic, as well as to focus significant effort on winning new business, especially in Travel, and open newly-won outlets quickly to take advantage of the resurgence of travel during the Easter and Summer periods. The easing of Covid-19 related restrictions around the world led to a rebound in demand at Travel outlets in most parts of the world and placed significant pressure on supply chain logistics and staffing levels. As a result of key decisions including an interim workforce pay award, management achieved an excellent start to the post-Covid-19 recovery and the Company is proposing to pay its first dividend since January 2020. Further information regarding the Company's performance during the year can be found in the Strategic report on pages 2 to 63.

As set out above, management were well prepared, and we believe the strong start to our business recovery in the year is fairly reflected in a full bonus pay-out for the executive directors. However, for the third consecutive year LTIP vesting has been affected as a result of the impact of Covid-19 on the Company. The 2019 LTIP awards which were subject to the achievement of EPS and relative TSR performance measures over the three years ended 31 August 2022 have not met threshold performance and the awards have lapsed. Accordingly, the total remuneration earned by Carl Cowling was £1,632,000 and the total remuneration earned by Robert Moorhead was £1,293,000.

1 Alternative performance measure defined and explained in the Glossary on page 173

Directors' remuneration report continued

Salary

Following the annual salary review in March 2022, the majority of the Company's employees (who are based in stores and Distribution Centres) received a 6.6 per cent pay increase, head office employees received a 4 per cent pay increase and senior executives received a 3 per cent pay increase with effect from 1 April 2022. As a result of economic pressures and the impact upon all aspects of recruitment, in order to support colleagues and ensure the staffing capability needed for our business recovery, the Company, as a responsible employer, decided to bring forward the March 2023 pay review by nine months and increased the pay of store colleagues in the UK High Street and Travel businesses with effect from 1 July 2022. This decision further increased the pay of these employees by approximately 5 per cent. The next salary review for all employees will be in March 2023.

Robert Moorhead, in line with other senior executives, received a pay increase of 3 per cent with effect from 1 April 2022.

As explained in 2020 and 2021, and as previously discussed with shareholders, Carl Cowling was appointed as Chief Executive in November 2019 on a base salary of £525,000. It was intended this should rise in staged increments, according to best practice, to £600,000 by 1 April 2022. However, as explained in 2021, due to the Covid-19 lockdown much of the business was closed, directors took a reduction in salary/fees and Carl Cowling's planned increases were delayed. Now that the business recovery is established, the Committee has fulfilled its commitment to Carl Cowling and has brought his base salary to a level slightly below median for FTSE 250 CEOs. Accordingly, during the period under review, Carl Cowling's salary increased from £550,000 to £575,000 with effect from 1 September 2021 (delayed from 1 April 2021) and to £600,000 with effect from 1 April 2022. This increase was in line with the arrangements put in place on his appointment as Group Chief Executive in November 2019.

Annual bonus

For the financial year ended 31 August 2022, the bonus target reverted to Headline profit before tax and non-underlying items[1] as the primary metric rather than Headline EBITDA[1] which was used in the previous financial year.

The Group's Headline profit before tax and non-underlying items[1] for the financial year ended 31 August 2022 was £73m compared to a loss of £55m for the financial year ended 31 August 2021. This exceptional performance resulted in approximately 2,245 employees receiving a bonus under the annual bonus plan for the financial year ended 31 August 2022.

As a result of this performance, Carl Cowling will receive a bonus payment of £960,000 of which £499,200 will be deferred into shares and Robert Moorhead will receive a bonus payment of £725,120 of which £377,062 will be deferred into shares. The deferred shares must be held for up to three years and then retained if the director has not met the Company's share ownership guidelines. The executive directors' personal objectives are set out on page 97. The Committee determined that the formulaic out-turn under the annual bonus plan was appropriate and should be applied without discretionary adjustment.

LTIP

The 2019 LTIP vesting percentage was determined by the growth in the Company's Headline EPS and relative TSR over the three year performance period which ended on 31 August 2022. The Company did not meet the performance targets for the 2019 LTIP and the awards lapsed. The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment.

Pay for the financial year ending 31 August 2023

The Company will continue to apply the Directors' remuneration policy during the financial year ending 31 August 2023 and in particular:

- as reported as part of the Directors' remuneration policy renewal, performance targets for the LTIP awards to be granted in November 2022 will be based 20 per cent on ESG metrics, 40 per cent on Headline EPS and 40 per cent against relative TSR;
- the pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate of 3 per cent from 1 January 2023; and
- the fee paid to the Chair of the Company will increase from £256,150 to £320,000 per annum from 1 December 2022. In assessing chair fees as part of our chair succession process, we noted the increased fee levels for this role generally and took into account the increasing complexity of the Group's international operations and global strategic positioning together with reviewing relevant benchmarking from FIT.

Salaries for the executive directors are reviewed with effect from April each year and no decision has been taken regarding any potential increase from April 2023.

Stakeholder alignment

After considering the experience of each of our stakeholder groups during the financial year ended 31 August 2022, the Committee believes that the remuneration of the executive directors is proportionate and appropriate when taking into account the experience of the Company's stakeholders. In making this determination, the Committee considered the following factors:

- The financial performance of the Group has been strong. As a result of management actions undertaken during the financial year which enabled the Company to take advantage of increased economic activity more generally and in travel in particular, the Company returned to profitability by making a Headline PBT[1] of £73m.
- Whilst the financial position has clearly been impacted by Covid-19, the Committee considers that management has made significant progress on the Group's strategic objectives. The Committee believes that the Group is now well placed to generate high growth as restrictions ease and the global travel market continues to recover.
- All eligible employees received at least one pay increase during the year. The majority of the Company's employees (who are based in stores and Distribution Centres) received a 6.6 per cent pay increase, head office employees received a 4 per cent pay increase and senior executives received a 3 per cent pay increase with effect from 1 April 2022. The Company also brought forward the March 2023 pay review by nine months and increased the pay of store colleagues in the UK High Street and Travel businesses with effect from 1 July 2022.
- Positive feedback was received following employee engagement on remuneration.
- Continued support was given to local communities and charitable activity. You can read more about the Company's work on page 35.
- The Company did not receive any UK furlough support in the financial year despite the ongoing impact of Covid-19 on the business, particularly in the first half of the year.
- The Company is resuming the payment of dividends to shareholders as the directors have proposed a final dividend of 9.1 pence per share for the financial year ended 31 August 2022 (no dividends were paid in respect of the 2020 and 2021 financial years).

Shareholder engagement

During the year, the Committee consulted with our largest shareholders and their representative bodies on the Company's new Directors' remuneration policy. The feedback was supportive of the introduction of ESG performance measures in the Company's LTIP and was helpful for both the Board and the Committee in finalising the Directors' remuneration policy, which was approved by shareholders at the 2022 AGM.

Following the 2022 AGM, at which a significant minority of shareholders voted against the Directors' remuneration report, I, as the new Committee Chair, engaged again with the Company's largest shareholders and representatives. The feedback from those shareholders who engaged was considered by the Committee. The Committee noted that most of the concerns raised by shareholders related to issues specific to the impact of Covid-19 on the Company and that these issues would not recur in the financial year ended 31 August 2022.

Conclusion

During the year the leadership team focused on the strategic decisions needed to establish a strong recovery from the Covid-19 pandemic. As a result of improving performance of the Travel business, maintaining High Street performance, securing new Travel outlets, and introducing further pay and benefit support for workforce colleagues, management has delivered a strong financial result for shareholders, returning to profitability and recommending the payment of a dividend. Accordingly, the total remuneration earned by the CEO and CFO/COO reflects a full bonus payment but, as a result of the impact of Covid-19, does not include any LTIP vesting as the LTIP award made in 2019 has lapsed.

In the current year we will continue to support workforce colleagues with competitive pay and listen carefully to feedback through continued engagement. We are including ESG climate and people metrics in the LTIP for the first time and we will work hard to ensure that we deliver the continued business recovery for the benefit of all stakeholders.

I hope that shareholders will support the Directors' remuneration report and I look forward to meeting you at the AGM.

Marion Sears
Chair of the Remuneration Committee

10 November 2022

1 Alternative performance measure described and explained in the Glossary on page 173

Directors' remuneration report continued

This Directors' Remuneration Report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013, 2018 and 2019 (the "Regulations"), LR 9.8 of the UKLA Listing Rules and the UK Corporate Governance Code 2018 (the "Code").

1. Information subject to audit

The following information has been audited by PwC:

- Section 2.10 – Summary of non-executive directors' remuneration 2022;
- Section 2.11 – Summary of executive directors' remuneration 2022;
- Section 2.12 – Payments made to former directors;
- Section 2.13 – Payments for loss of office;
- Section 2.18 – Annual bonus targets;
- Section 2.19 – Share plans; and
- Section 2.22 – Directors' interests in shares.

2. Annual Directors' remuneration report

The Committee presents the annual report on remuneration which, together with the introductory letter by the Chair of the Committee on pages 83 to 85, will be put to shareholders as an advisory vote at the forthcoming Annual General Meeting.

2.1 Remuneration Committee

Marion Sears is Chair of the Committee. The other members of the Committee are Kal Atwal, Nicky Dulieu, Simon Emeny, Henry Staunton and Maurice Thompson. Annemarie Durbin stepped down as Chair of the Committee on 19 January 2022. 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 seven times during the year. All Committee members are expected to attend meetings. The table on page 68 in the Corporate governance report shows the number of meetings held during the year ended 31 August 2022 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 following a formal review and has no other relationship with the Company or any individual director. The Committee is satisfied that FIT continues to provide objective and independent advice. FIT's fees in respect of the year under review were £45,943 (excluding VAT) and were charged on the basis of FIT's standard terms of business.

Wendy Stroud, Group People Director, and Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to their 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 Directors' remuneration policy or its operation would be subject to prior consultation as necessary.

Key Committee activities during the year

Alignment to strategy and wider workforce	Assessed the ongoing alignment of remuneration structures, measures and targets to strategy. Reviewed wider workforce remuneration. Reviewed the gender pay gap report and recommended to the Board that the gender pay gap report be published. Engaged with the workforce about executive remuneration.
Shareholder engagement	Considered investor feedback on the Directors' remuneration policy and the voting outcomes at the 2022 AGM.
Pay for performance	Assessed performance against targets set for the financial year ended 31 August 2021 annual bonus and LTIP awards granted in the financial year ended 31 August 2019 and considered whether any discretion should be used to adjust formulaic outcomes if necessary. Reviewed and approved targets for annual bonus and LTIP. Reviewed the performance of the executive directors and senior leadership team against personal objectives. Considered remuneration to ensure that it retains and motivates an outstanding management team.
Governance	Reviewed progress of the executive directors against shareholding requirements. Approved the 2021 Directors' remuneration report.
Pay/fees	Approved pay rises for Carl Cowling, Robert Moorhead and the senior leadership team. Approved the Chairman's fee increase. Approved the fees of the new Chair, Annette Court, prior to her appointment. The fee paid to the Chair of the Company will increase from £256,150 to £320,000 per annum from 1 December 2022. In assessing chair fees as part of the chair succession process, the Committee noted the increased fee levels for this role generally and took into account the increasing complexity of the Group's international operations and global strategic positioning together with reviewing relevant benchmarking from FIT. Annette Court will be paid £60,000 per annum as a non-executive director from 1 September 2022 which shall increase to £320,000 per annum from the date she becomes Chair on 1 December 2022.

Directors' remuneration report continued

The Committee also considered the factors set out in Provision 40 of the Code. The Committee believes that the Company's current Directors' remuneration policy addresses those factors as set out below:

Simplicity	• the Directors' remuneration policy and our approach to its implementation are **simple**, appropriately designed and well understood, reinforcing the Group's **culture** as well as strategy; • the Committee reviews performance metrics and targets each year to ensure that they continue to be clear and aligned to delivery of the strategy;
Predictability	• the performance measures used in the incentive plans are well aligned to the Group's strategy and goals, with stretching and achievable targets: the maximum awards under any award are clearly stated and, therefore, **predictable**;
Proportionality	• the balanced approach is **proportionate** and drives behaviours that promote high performance and sustainable growth to drive the long-term success of the Company for the benefit of all stakeholders, without encouraging or rewarding excessive **risk**-taking; • the Committee retains sufficient discretion to adjust formulaic incentive outcomes or require the repayment of previous awards to ensure that poor performance is not rewarded;
Risk	• the Committee reviews and sets performance targets each year to ensure that they drive the right behaviours and are appropriately stretching without encouraging unnecessary **risks**; • **risk** management is operated through annual bonus deferral, LTIP holding periods and post-employment shareholding; • malus and clawback provisions apply to the annual bonus, DBP and LTIP;
Clarity	• the Committee maintains a continual dialogue with shareholders and proxy agencies to understand their views. We consulted with shareholders on remuneration arrangements, listening to and taking into account the feedback we received when developing the remuneration policy; • our approach to disclosure is transparent with **clear** rationale provided on its maintenance and any changes to policy; • when considering remuneration for executive directors and senior management, the Committee takes into account the pay and conditions of employees across the Group and, where appropriate, exercises oversight of remuneration throughout the Company;
Alignment to culture	• the Committee assesses performance under the annual bonus plan against a range of objectives, including those related to our values and strategy; • the introduction of ESG targets to the LTIP from the grant in 2022 will further help to ensure incentive schemes drive behaviours consistent with Company purpose, values and strategy.

2.2 How our Directors' remuneration policy is linked to our strategy

Our Directors' 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 Directors' remuneration policy has worked well supporting the Company's long-term strategy to create shareholder value and recruit high calibre executives. You can see how the Company has generated shareholder returns in the TSR graph on page 95.

2.3 Engaging with our employees on pay

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

The Committee receives regular reports from the Group People Director and Senior Managers on Group remuneration. The reports cover changes to pay, benefits, pensions and share schemes. Additionally, Simon Emeny, non-executive director with responsibility for workforce engagement, and Marion Sears, Chair of the Committee, attended employee forums to discuss, amongst other topics, the Company's approach to remuneration and, more specifically, executive remuneration and how this aligns to the wider Company pay policy. The Committee considers the feedback from these sessions when making decisions on executive remuneration, and the results of employee engagement surveys which include questions about pay and working environment are discussed by 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. During the year, management's specific targeted actions have reduced the number of employee vacancies although the employment market remains challenging both in the UK and in many international locations.

2.4 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 from the Group People Director on wider workforce pay and conditions and, where appropriate, exercises oversight of remuneration throughout the Group.

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. The Company operates an HMRC Approved Save-As-You-Earn share option scheme ("Sharesave Scheme") which provides employees with the opportunity to acquire shares in the Company. Approximately 560 employees participate in the Sharesave Scheme. 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 5,765 employees in our pension plans.

2.5 Gender pay disclosures

The Committee reviewed the gender pay gap report and recommended to the Board that the gender pay gap report be published. You can find more information on the Company's gender pay gap and the actions that are being implemented to reduce it on pages 41 to 42.

2.6 Senior executive remuneration

The Committee approved the remuneration of the Company's senior executives during the financial year ended 31 August 2022.

Directors' remuneration report continued

2.7 Performance measure selection and approach to target setting

Annual bonus plan

The performance targets used under the annual bonus plan are set annually to support the Company's strategic priorities and reinforce financial performance. The performance targets are typically set by the Committee based on a range of factors, principally the Company's budget as approved by the Board. The Committee agreed that the performance targets for the annual bonus plan for the financial year ended 31 August 2022 should revert to being based on Headline profit before tax and non-underlying items[1]. The Committee, in setting the bonus targets for the financial year ended 31 August 2022, was mindful of the impact of Covid-19 on the Company and the markets in which we operate and took into consideration market consensus for the financial year ended 31 August 2022. The Committee agreed that the range used to determine the level of pay-out under the annual bonus plan in respect of the financial targets should be widened given that the proposed target pay-out under the annual bonus plan was stretching and uncertain due to on-going and unpredictable Covid-19 restrictions.

Participants can earn a bonus based on the achievement of a financial target, for example, Headline profit before tax and non-underlying items[1] and a personal rating measured against one or more specific financial and/or non-financial objectives, including ESG targets. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum target for the 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.

In exceptional circumstances, up to 20 per cent of the maximum bonus opportunity may be payable independent of the financial out-turn. For on-target achievement of the financial target and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus available under the annual bonus plan. Any bonus in excess of the on-target level is deferred into shares under the Deferred Bonus Plan ("DBP"). One third of the shares are released on each anniversary of the date of grant.

Different bonus measures and targets may apply in subsequent years within the overall constraints of the plan.

Long-term incentives

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 performance targets are typically set by the Committee based on a range of factors, including the Company's three year plan, sustainability strategy and the market sectors in which it operates. The Committee may change the measures and/or targets in respect of subsequent awards. The Committee believes that a combination of financial, market-based conditions and corporate responsibility as the basis for the performance targets for the LTIP is 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. The performance targets for awards made under the LTIP in the financial year ended 31 August 2022 were 50 per cent growth in Headline pre-tax earnings per share and 50 per cent based on relative TSR over three financial years ending 31 August 2024 compared with the FTSE All Share Retailers Index.

The Committee is proposing that any awards made in the financial year ending 31 August 2023 will be based on the following targets each measured over the three financial years ending 31 August 2025:

- 40 per cent based on Headline pre-tax earnings per share (calculated on a pre-IFRS 16 basis). EPS has been defined as fully diluted (including an assumption that the convertible bonds issued in 2020 fully convert into shares) before non-underlying 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);
- 40 per cent based on relative TSR over three financial years compared with the FTSE All Share Retailers Index. Threshold vesting will occur for TSR in line with median and maximum vesting will occur for TSR in line with the upper quartile of the comparator group; and
- 20 per cent based on the ESG measures as set out in the table on page 98.

1 Alternative performance measure described and explained in the Glossary on page 173

2.8 Implementation of Directors' remuneration policy in the financial year ended 31 August 2022

This section sets out how the Directors' remuneration policy has been implemented in the financial year ended 31 August 2022.

Element of pay	Implementation of policy
Executive directors	
Base salary	As previously reported, Carl Cowling's salary increased from £550,000 to £575,000 with effect from 1 September 2021 and to £600,000 with effect from 1 April 2022 in accordance with the arrangements put in place on his appointment as Group Chief Executive in November 2019. This reflects an effective increase of nine per cent. Robert Moorhead, in line with other senior executives, received a pay increase of three per cent with effect from 1 April 2022. The current salaries are: Carl Cowling – £600,000; and Robert Moorhead – £453,200.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2022 (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 2022.
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 2022, 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	The bonus payable for the financial year ended 31 August 2022 in respect of Carl Cowling and Robert Moorhead was £960,000 and £725,120 respectively. The bonus was assessed against a sliding scale target of Headline profit before tax and non-underlying items[1] 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 2022 and achievement of personal objectives is set out on page 97.
Long-term incentives	Annual LTIP awards were set at 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 2022 are described on page 98. Vesting of LTIP awards is determined based on the following measures: 50 per cent is based on EPS growth and 50 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 retains a broad discretion to reduce vesting levels, including if it considers that there would otherwise be a windfall gain or if management fail to deliver on the Company's overall ESG expectations. The award granted in November 2019 lapsed as the Company did not meet the performance targets.

1 Alternative performance measure described and explained in the Glossary on page 173

Directors' remuneration report continued

Element of pay	Implementation of policy
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 Directors' 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 2022 Carl Cowling held 33,108 shares with a value of £473,279 (approximately 79 per cent of salary) and Robert Moorhead held 197,973 shares with a value of £2,830,024 (approximately 624 per cent of salary). Carl Cowling is required to retain shares worth 300 per cent of salary and Robert Moorhead (or any other executive directors) to retain shares worth 250 per cent of salary for two years post-cessation of employment. This requirement applies to new awards and all unvested awards from the adoption of the policy in January 2022.
Malus/clawback	The annual bonus plan, DBP and LTIP rules include a provision for clawback (before or within a period of three years following payment or vesting or earlier change of control) of a bonus or award if (a) 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 (b) 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 (c) the Committee concludes that circumstances arose during the bonus year or vesting period which would have warranted summary dismissal of the individual concerned or (d) there is an event of insolvency having regard to the involvement of the individual executive in the circumstances which led to such insolvency.
Non-executive directors	
Annual fees	The fees of the Chairman of the Board and non-executive directors were increased with effect from 1 April 2022. The current fees are £256,150 for the Chairman of the Board and £60,000 for the role of non-executive director with additional fees of: (i) £15,000 payable for the role of Senior Independent Director ("SID"); and (ii) £15,000 payable for being the Chair of the Audit, ESG or Remuneration Committee.

2.9 Implementation of Directors' remuneration policy in the financial year ending 31 August 2023

This section sets out how the Directors' remuneration policy will be implemented in the financial year ending 31 August 2023.

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling and Robert Moorhead will be eligible, in line with other head office staff, for any increase in salary from 1 April 2023 following the March 2023 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2023.
Pension	The pension contributions for Carl Cowling and Robert Moorhead will be reduced to align with the wider workforce rate of 3 per cent from 1 January 2023.
Annual bonus	The bonus opportunity for Carl Cowling and Robert Moorhead will be 160 per cent of annual salary. It is envisaged that the bonus metrics will be based on a matrix of financial and personal performance. Any bonus in excess of the on-target level will be deferred into shares.
Long-term incentives	Annual LTIP awards will be set at 335 per cent of salary for Carl Cowling and 310 per cent for Robert Moorhead. Vesting of LTIP awards is determined based on the following measures: 40 per cent is based on EPS growth, 40 per cent is based on relative TSR and 20 per cent on ESG measures. The level of award vesting for threshold performance is 25 per cent. The EPS performance targets will be based on the growth in Headline pre-tax earnings per share. The TSR condition remains a median to upper quartile scale relative to the FTSE All Share Retailers Index constituents. The ESG measures are a reduction in Scope 1 and 2 carbon emission intensity; engagement with suppliers in respect of Scope 3 carbon emissions; meeting gender diversity targets; and improved employee engagement.
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 post-cessation share ownership guidelines require Carl Cowling to retain shares worth 300 per cent of salary and Robert Moorhead (or any other executive directors appointed) to retain shares worth 250 per cent of salary for two years post-cessation of employment. This requirement applies to new awards and all unvested awards from the adoption of the Directors' remuneration policy in January 2022.
Malus/clawback	No changes are expected to be made to the malus and clawback provisions set out in the annual bonus plan, DBP and LTIP rules.

The Directors' remuneration 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 new Chair, Annette Court, will be £320,000 per annum from 1 December 2022. The fee paid to the Chair of the Company will increase from £256,150 to £320,000 per annum from 1 December 2022. In assessing chair fees as part of the chair succession process, the Committee noted the increased fee levels for this role generally and took into account the increasing complexity of the Group's international operations and global strategic positioning together with reviewing relevant benchmarking from FIT. The fees of the Chair and non-executive directors will be subject to a review in March 2023.

Directors' remuneration report continued

2.10 Summary of non-executive directors' remuneration 2022 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2022. Non-executive directors are not paid a pension and do not participate in any of the Company's variable incentive schemes:

	Base fee £'000		Committee/SID fee £'000		Benefits[a] £'000		Total £'000	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Henry Staunton	**244**	235	**–**	–	**–**	–	**244**	235
Kal Atwal[b]	**57**	32	**13**	–	**–**	–	**70**	32
Nicky Dulieu	**57**	54	**13**	7	**1**	1	**71**	62
Simon Emeny	**57**	55	**13**	12	**–**	–	**70**	67
Marion Sears[c]	**34**	–	**8**	–	**–**	–	**42**	–
Maurice Thompson	**57**	55	**–**	–	**2**	–	**59**	55
Directors who resigned during the year								
Annemarie Durbin[d]	**23**	55	**5**	12	**–**	–	**28**	67
Total £'000s	**529**	486	**52**	31	**3**	1	**584**	518

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) Kal Atwal was appointed as a non-executive director on 1 February 2021 and was appointed Chair of the ESG Committee with effect from 1 September 2021.

c) Marion Sears was appointed as a non-executive director and Chair of the Remuneration Committee on 1 February 2022.

d) Annemarie Durbin stepped down as a director of the Company on 19 January 2022.

2.11 Summary of executive directors' remuneration 2022 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2022:

	Salary £'000		Benefits[a] £'000		Pension[b] £'000		Total fixed remuneration £'000		Annual bonus[c] £'000		LTI[d] £'000		Total variable remuneration £'000		Total remuneration £'000	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Carl Cowling	**585**	550	**14**	14	**73**	69	**672**	633	**960**	550	**–**	–	**960**	550	**1,632**	1,183
Robert Moorhead	**445**	440	**14**	14	**109**	107	**568**	561	**725**	358	**–**	–	**725**	358	**1,293**	919
Total £'000s	**1,030**	990	**28**	28	**182**	176	**1,240**	1,194	**1,685**	908	**–**	–	**1,685**	908	**2,925**	2,102

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

b) 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.

c) The performance measures for the annual bonus, and achievement against them, together with details of the level of deferral are set out on pages 97 and 98.

d) The performance measures for the LTIP, and achievement against them, are set out on pages 98 and 99. The performance conditions for the awards granted in November 2019 were not met and the awards lapsed.

The total aggregate emoluments (excluding LTI) paid to the Board in the financial year ended 31 August 2022 was £3,509,000 and in the financial year ended 31 August 2021 was £2,646,000.

2.12 Payments made to former directors (audited)

Stephen Clarke stepped down as Group Chief Executive on 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. During the year, Stephen Clarke exercised the balance of his 2016 LTIP award which vested in 2019 but was subject to a two year holding period. The 2018 LTIP award lapsed.

Stephen Clarke also retained awards under the DBP. These awards vested in respect of 2,360 shares in the financial year ended 31 August 2022.

No other payments were made in the financial year ended 31 August 2022 to former directors of the Company.

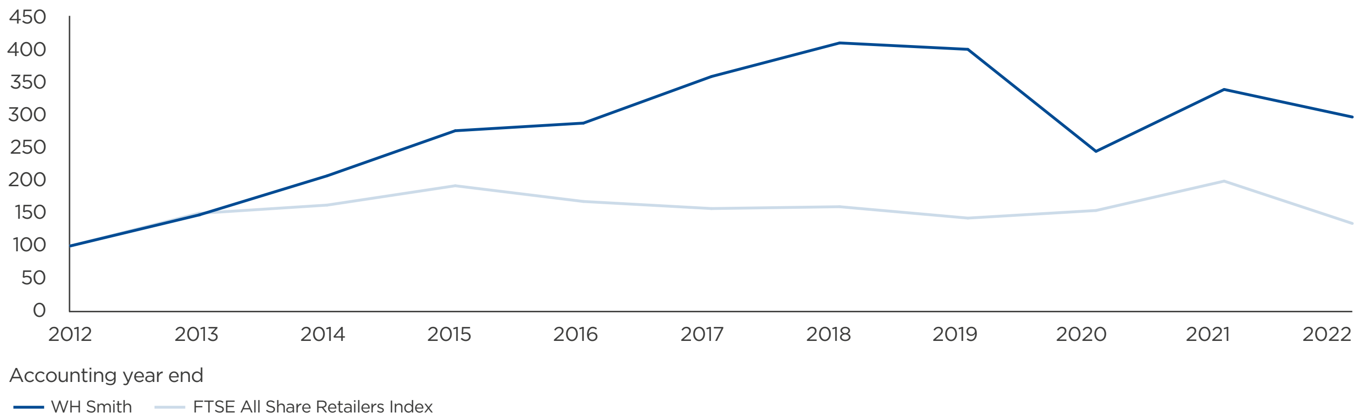
2.13 Payments for loss of office (audited)

No payments were made in respect of any director's loss of office in the financial year ended 31 August 2022.

2.14 Assessing pay and performance

You can see how the Company has generated shareholder value since 2012 in the TSR graph below. As can be seen from the graph, the Company generated a return of (12) per cent over the financial year ended 31 August 2022 compared to the FTSE All Share Retailers Index which generated a return of (32) per cent over the same period.

Total shareholder return performance since 31 August 2012



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 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.

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) %
2022	Carl Cowling	1,632	100	–
2021	Carl Cowling	1,183	63	–
2020 – from 1 November 2019	Carl Cowling	531	–	13
2020 – 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

Directors' remuneration report continued

2.15 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) from financial year to subsequent financial year over the three financial years to 31 August 2022 compared with the percentage changes in the average of those components of pay for UK employees employed by WH Smith Retail Holdings Limited over that period. 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) %		
Financial year ended 31 August	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020
Carl Cowling	**6**	14	140	**75**	100	(100)	**10**	–	100
Robert Moorhead	**1**	5	5	**103**	100	(100)	**–**	–	–
Henry Staunton	**4**	5	(5)	**n/a**	n/a	n/a	**–**	–	–
Kal Atwal	**119**	–	–	**n/a**	n/a	n/a	**–**	–	–
Nicky Dulieu	**15**	–	–	**n/a**	n/a	n/a	**–**	–	–
Simon Emeny	**4**	14	111	**n/a**	n/a	n/a	**–**	–	–
Marion Sears	**–**	–	–	**n/a**	n/a	n/a	**–**	–	–
Maurice Thompson	**4**	4	86	**n/a**	n/a	n/a	**100**	(100)	–
UK employees	**8**	5	7	**47**	100	(100)	**(16)**	3	18

a) Marion Sears was appointed as a non-executive director and Chair of the Remuneration Committee on 1 February 2022.

b) Carl Cowling's salary increased from £550,000 to £575,000 with effect from 1 September 2021 and to £600,000 with effect from 1 April 2022.

c) Robert Moorhead's salary increased by 3 per cent with effect from 1 April 2022.

d) Kal Atwal was appointed as a non-executive director on 1 February 2021 and was appointed Chair of the ESG Committee with effect from 1 September 2021.

e) The reduction in the taxable benefits for UK employees is as a result of employees ceasing to receive the Company's private medical insurance and the move away from diesel cars under the Company car scheme.

2.16 Group Chief Executive pay compared to pay of UK employees

The ratios comparing the total remuneration of the Group Chief Executive (as included in the single total figure of remuneration table on page 95) to the remuneration of the 25th, 50th and 75th percentile of our UK employees are set out below. 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
2022	**Option A**	**87:1**	**86:1**	**65:1**
2021	**Option A**	**70:1**	**70:1**	**52:1**
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 2022 has been calculated in line with the single figure methodology and reflects their actual earnings received in the financial year ended 31 August 2022 (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	**18,850**	**18,850**	**23,505**
Total pay and benefits	**18,850**	**18,910**	**25,011**

The Company believes the median pay ratio for the year ended 31 August 2022 is consistent with the pay, reward and progression policies for the Company's UK full-time equivalent employees. This group is the most appropriate comparator for the Group Chief Executive as he is a full-time employee based in the UK and approximately 77 per cent of all WH Smith employees are based in the UK. The increase in the pay ratios in 2022 as compared to 2021 is attributable to the increase in base pay and the amount of variable remuneration received by the Group Chief Executive as a result of the Group returning to profitability in the financial year ended 31 August 2022.

2.17 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 paid during the financial year ended 31 August 2022. 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		
2021 £m	**2022 £m**	**% change**	2021 £m	**2022 £m**	**% change**
232	**293**	**26**	–	**–**	**–**

2.18 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. The Committee agreed that the performance targets for the annual bonus plan for the financial year ended 31 August 2022 should be based on Headline profit before tax and non-underlying items[1].

The Committee, in setting the bonus targets for the financial year ended 31 August 2022, was mindful of the impact of Covid-19 on the Company and the markets in which we operate and took into consideration market consensus for the financial year ended 31 August 2022. The Committee agreed that the range used to determine the level of pay-out under the bonus plan in respect of the financial targets should be widened given that the proposed target pay-out under the bonus plan was stretching and uncertain due to on-going and unpredictable Covid-19 restrictions.

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.

For the financial year ended 31 August 2022, no bonus was payable unless both the threshold financial target and at least an acceptable personal rating (i.e. "Developing") were 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 2022 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 and non-underlying items[1] target	Role model	Outstanding	Strong	Developing	Underachiever
Max: £66m	100%	80%	60%	40%	0%
Target: £55m	80%	64%	48%	32%	0%
Threshold: £45m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

The Company's Headline profit before tax and non-underlying items[1] for the financial year ended 31 August 2022 was £73m. This performance resulted in approximately 2,245 employees also receiving a bonus under the annual bonus plan for the financial year ended 31 August 2022. For Carl Cowling, his personal rating is based on a range of objectives including driving employee engagement to ensure that we remain a good place to work and retain our best people; continuing the Group's progress towards Net Zero; developing the talent and succession pipeline of the senior team to ensure the business is prepared for its increasingly global nature; delivering the InMotion international growth strategy; and building and developing the US management team. Following the successful achievement of all of his key personal objectives, Carl Cowling will receive a bonus payment of £960,000 of which £499,200 will be deferred into shares. For Robert Moorhead, his personal rating is based on a range of objectives including driving employee engagement to ensure that we remain a good place to work and retain our best people; continuing the Group's progress towards Net Zero; delivering the Group free cash flow target; working with the Trustee of the Company's DB pension scheme to facilitate the buy-in; and accelerating the transformation in Finance capability in MRG. Following the successful achievement of all of his key personal objectives, Robert Moorhead will receive a bonus payment of £725,120 of which £377,062 will be deferred into shares.

1 Alternative performance measure described and explained in the Glossary on page 173

Directors' remuneration report continued

For the annual bonus plan for the financial year ending 31 August 2023, the bonus metrics will also be based on a similar matrix of financial and personal performance with the financial performance measure being Headline profit before tax and non-underlying items[1]. The financial bonus metrics will apply across the Group's bonus plans, so that the whole organisation is focused on delivering financial performance via the metrics that are applicable to each business. The Committee will publish the Group targets for that financial year in next year's report and, consistent with market practice, has elected not to pre-disclose them (or give numerical personal objectives) on the basis of commercial sensitivity. Any bonus payable in respect of the financial year ending 31 August 2023 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 the date of grant irrespective of whether the recipient is an employee of the Company (other than in a case of termination for misconduct).

2.19 Share plans (audited)

The Committee regularly reviews the performance conditions applicable to the LTIP to ensure that they align with the Company's strategy and reinforce financial performance. The Committee may change the conditions and/or targets in respect of subsequent awards. The Committee retains a broad discretion to reduce vesting levels, including if it considers that there would otherwise be a windfall gain or if management fail to deliver on the Company's ESG expectations.

The performance conditions for awards granted under the LTIP in the financial year ended 31 August 2022 were based on the following Headline diluted earnings per share before non-underlying items[1] and relative TSR targets each measured at the end of the three financial years to 31 August 2024:

- 50 per cent based on Headline pre-tax earnings per share[1] (calculated on a pre-IFRS 16 basis) of 75p to 110p with 25 percent of this component vesting at threshold increasing on a straight-line basis to 100 percent at maximum. EPS is 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); and
- 50 per cent based on relative TSR over three financial years compared with the FTSE All Share Retailers Index. Threshold vesting will occur for TSR in line with median and maximum vesting will occur for TSR in line with the upper quartile of the comparator group consistent with prior awards. FIT independently carries out the relevant TSR growth calculation for the Company.

The performance condition for awards granted under the LTIP in the financial year ending 31 August 2023 will also include ESG performance measures and will therefore be based on the following conditions each measured at the end of the three financial years to 31 August 2025:

- 40 per cent based on Headline pre-tax earnings per share[1] (calculated on a pre-IFRS 16 basis) of 100p to 125p with 25 percent of this component vesting at threshold increasing on a straight-line basis to 100 percent at maximum. EPS is 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);
- 40 per cent based on relative TSR over three financial years compared with the FTSE All Share Retailers Index. Threshold vesting will occur for TSR in line with median and maximum vesting will occur for TSR in line with the upper quartile of the comparator group consistent with prior awards. FIT independently carries out the relevant TSR growth calculation for the Company; and
- 20 per cent based on the Company's ESG strategy as set out in the table below:

Target	Reduction in Scope 1 and 2 emissions per square metre of floor space tonnes per m^2	Scope 3 emissions: Target engagement of suppliers by emissions who will have approved science-based targets by 2025	Gender Diversity Increase in % of women in Senior Executive team	Employee Engagement Score % improvement
Minimum – 25% vesting	5%	35%	5%	Maintain
Maximum – 100% vesting	15%	45%	10%	5%

1 Alternative performance measure described and explained in the Glossary on page 173

Outstanding awards

The Company did not meet the performance conditions for the 2019 LTIP and the awards lapsed on 5 November 2022. The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment.

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 2021[(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 2022[(f)]	Share price at date of grant (pence)[(i)]	Face value of award at date of grant £'000	Exercise period
Carl Cowling									
LTIP 2016[(b)]	17,345	–	281	17,626	–	**–**	1551.00	720	20.10.19 – 20.10.26
LTIP 2017[(c)]	5,104	–	–	–	–	**5,104**	2036.67	743	26.10.20 – 26.10.27
LTIP 2018[(d)]	40,515	–	–	–	40,515	**–**	1832.67	743	01.11.23 – 01.11.28
LTIP 2019[(e)]	79,557	–	–	–	–	**79,557**	2210.67	1,759	05.11.24 – 05.11.29
DBP 2019[(h)]	2,703	–	–	1,351	–	**1,352**	2258.67	90	24.10.20 – 24.10.29
LTIP 2020[(g)]	126,257	–	–	–	–	**126,257**	1459.33	1,843	19.11.25 – 19.11.30
LTIP 2021[(g)]	–	122,769	–	–	–	**122,769**	1569.00	1,926	19.11.26 – 19.11.31
DBP 2021[(h)]	–	8,132	–	–	–	**8,132**	1569.00	128	19.11.22 – 19.11.31
Total	**271,481**	**130,901**	**281**	**18,977**	**40,515**	**343,171**			
Robert Moorhead									
LTIP 2016[(b)]	27,973	–	453	28,426	–	**–**	1551.00	1,161	20.10.19 – 20.10.26
LTIP 2017[(c)]	7,982	–	–	–	–	**7,982**	2036.67	1,161	26.10.20 – 26.10.27
LTIP 2018[(d)]	63,354	–	–	–	63,354	**–**	1832.67	1,161	01.11.23 – 01.11.28
LTIP 2019[(e)]	61,701	–	–	–	–	**61,701**	2210.67	1,364	05.11.24 – 05.11.29
DBP 2019[(h)]	2,685	–	–	1,342	–	**1,343**	2258.67	90	24.10.20 – 24.10.29
LTIP 2020[(g)]	93,468	–	–	–	–	**93,468**	1459.33	1,364	19.11.25 – 19.11.30
LTIP 2021[(g)]	–	86,934	–	–	–	**86,934**	1569.00	1,364	19.11.26 – 19.11.31
DBP 2021[(h)]	–	5,286	–	–	–	**5,286**	1569.00	83	19.11.22 – 19.11.31
Total	**257,163**	**92,220**	**453**	**29,768**	**63,354**	**256,714**			

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, the remaining 50 per cent of the vested shares became exercisable on the fifth anniversary of the date of grant. The value of the 17,626 shares on the date of vesting was £285,870.77 (1621.8698p per ordinary share). In respect of the award granted on 20 October 2016 under the LTIP held by Robert Moorhead, the remaining 50 per cent of the vested shares became exercisable on the fifth anniversary of the date of grant. The value of the 28,426 shares on the date of vesting was £474,443.07 (1669.0462 per ordinary share).

c) In respect of the awards granted on 26 October 2017 under the LTIP held by Carl Cowling and Robert Moorhead, the vested shares were subject to a two year holding period, and became exercisable on 26 October 2022, being the fifth anniversary of the date of grant.

d) The performance conditions for awards granted on 1 November 2018 under the LTIP were:

(i) 40 per cent based on the Company's TSR performance against the FTSE All Share Retailers Index constituents. Vesting will occur on the following basis: below median – Nil; median – 25 per cent; upper quartile – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent; 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 per cent – Nil; 5 per cent – 25 per cent; 10 per cent or more – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent. 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 Company did not meet the performance conditions and the awards lapsed on 1 November 2021.

e) The performance conditions for awards granted on 5 November 2019 under the LTIP were:

(i) 40 per cent based on the Company's TSR performance against the FTSE All Share Retailers Index constituents. Vesting will occur on the following basis: below median – Nil; median – 25 per cent; upper quartile – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent; 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 per cent – Nil; 5 per cent – 25 per cent; 10 per cent or more – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent. 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 Company did not meet the performance conditions and the awards lapsed on 5 November 2022.

f) No awards have been granted to directors between 1 September 2022 and 10 November 2022.

g) The awards granted in the financial years ended 31 August 2021 and 31 August 2022 under the LTIP will only vest to the extent that the performance targets as set out on pages 98 and 99 are satisfied.

h) The awards granted in the financial years ended 31 August 2020 and 31 August 2022 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 98. The awards accrue the benefit of any dividends paid by the Company and are not subject to performance conditions. In respect of the award granted on 24 October 2019 held by Carl Cowling, 1,351 shares vested with a total value of £21,911.46 (1621.8698p per ordinary share). In respect of the award granted on 24 October 2019 held by Robert Moorhead, 1,342 shares vested with a total value of £22,398.60 (1669.0462 per ordinary share).

i) The share price used for calculating the awards at the date of grant is the average of the middle market quotations for the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the three business days prior to the date of grant.

j) None of the Board participate or hold shares in the Company's Sharesave Scheme.

Directors’ remuneration report continued

2.20 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 purchases of 480,286 shares in the financial year ended 31 August 2022, the number of WH Smith PLC shares held in the Trust at 31 August 2022 was 622,989. The Group’s accounting policy with respect to the Trust is detailed within Note 1 to the financial statements (see page 121) and movements are detailed in the Group statement of changes in equity on page 120.

2.21 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.

2.22 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:

			Number of shares subject to holding periods				Number of shares subject to performance conditions	
	Ordinary shares		DBP		LTIP		LTIP	
	31 August 2022 (or date of leaving)	31 August 2021 (or date of appointment)	**31 August 2022**	31 August 2021	**31 August 2022**	31 August 2021	**31 August 2022**	31 August 2021
Kal Atwal	**3,608**	3,608	**–**	–	**–**	–	**–**	–
Carl Cowling	**33,108**	23,051	**9,484**	2,703	**5,104**	22,449	**328,583**	246,329
Nicky Dulieu	**2,500**	–	**–**	–	**–**	–	**–**	–
Simon Emeny	**4,427**	4,427	**–**	–	**–**	–	**–**	–
Robert Moorhead	**197,973**	197,973	**6,629**	2,685	**7,982**	35,955	**242,103**	218,523
Marion Sears[(a)]	**5,000**	2,500	**–**	–	**–**	–	**–**	–
Henry Staunton	**39,523**	39,523	**–**	–	**–**	–	**–**	–
Maurice Thompson	**3,452**	3,452	**–**	–	**–**	–	**–**	–
Directors who resigned during the year								
Annemarie Durbin[(g)]	**1,952**	1,952	**–**	–	**–**	–	**–**	–

a) Marion Sears was appointed as a non-executive director on 1 February 2022.

b) The LTIP amount above is the maximum potential award that may vest subject to the performance conditions described on pages 98 and 99.

c) The performance conditions for the October 2019 LTIP were not met and the awards lapsed.

d) There has been no further change in the directors’ interests shown above between 1 September 2022 and 10 November 2022.

e) The middle market price of an ordinary share at the close of business on 31 August 2022 was 1429.50p (31 August 2021: 1632p).

f) See Table of Outstanding awards on page 99 for details of awards exercised during the financial year ended 31 August 2022.

g) Annemarie Durbin stepped down as a director of the Company on 19 January 2022.

2.23 Voting at the Annual General Meeting

Statement of voting at 2022 AGM

The table below shows the voting outcome at the Annual General Meeting on 19 January 2022 for approval of the Directors’ remuneration policy:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Directors’ remuneration policy	99,470,149	88.36%	13,100,796	11.64%	112,570,945	169,032

Statement of voting at 2022 AGM

The table below shows the voting outcome at the Annual General Meeting on 19 January 2022 for approval of the annual Directors' remuneration report:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of Directors' remuneration report	52,332,420	54.40%	43,861,419	45.60%	96,193,839	16,546,138

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.

As explained in the announcement of the voting outcome at the Annual General Meeting on 19 January 2022, the Company understands that the primary reason for the significant percentage of votes against the resolution to approve the Directors' remuneration report was the payment of bonuses to the executive directors. The Committee sought the views of the Company's largest shareholders and representatives in respect of the Company's remuneration practices to ensure that shareholder concerns are well understood. The Committee is committed to regular engagement with shareholders and to ensuring that executive director remuneration is fair and competitive and supports the long-term success of the Company.

3. The Directors' remuneration policy: extract

The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 19 January 2022 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 61 to 72 of the 2021 Annual report and accounts which is available in the investor relations section of the Company's website at whsmithplc.co.uk/investors.

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 executive directors 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 at or below median, 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 £680,000 (as increased by RPI from January 2019, approximately £739,000 at the year-end). No changes to this cap are proposed.	• Base salary is paid monthly in cash. • Base salaries are reviewed typically annually with any changes normally taking effect from 1 April.

Directors' remuneration report continued

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 executive directors.	• 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 an employer-sponsored pension plan or equivalent cash allowance. Pension contributions (or cash in lieu) for new executive directors will be aligned with the average rate available to UK-based colleagues more generally, approximately 3 per cent of salary but subject to periodic review. The pension contribution for Carl Cowling is 12.5 per cent and Robert Moorhead is 25 per cent of base salary until 31 December 2022. It will reduce to align with the wider workforce rate, approximately 3 per cent of salary, from 1 January 2023.	• 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 up to 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.

Element and purpose	Policy and opportunity	Operation and performance measures
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 with target levels at 48 per cent of maximum and threshold bonus levels at 16 per cent of maximum. • 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 under the DBP. The shares are released one third on each anniversary of assessment.	• The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. As set out on page 79, currently, 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 target for the financial target and the highest personal performance rating. • In exceptional circumstances, up to 20 per cent of the maximum bonus opportunity may be payable independent of the financial out-turn. • 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 Committee's opinion, 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 delivered in shares to provide further alignment with shareholders.	• The normal 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 for the Group Chief Executive and 310 per cent for any other executive director are made annually. • 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 a combined vesting and holding period of at least five years preventing the delivery and sale of shares until the end of the holding period.	• 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 conditions 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 up to 25 per cent of the award for threshold performance. • The Company will honour the vesting of all outstanding awards granted prior to this remuneration policy coming into force in accordance with the terms of such awards.
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

Marion Sears
Chair of the Remuneration Committee

10 November 2022

Directors' report

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2022. The Company is the ultimate parent company of the WHSmith 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	19 to 29
Branches outside the UK	24
Disclosures concerning greenhouse gas emissions and energy consumption	37 to 56
Employment of disabled persons	42
Employee engagement	40 to 42
Engagement with external stakeholders	30 to 36

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	66 to 82
Directors' biographies	64 and 65
Statement of directors' responsibilities	108
Information on use of financial instruments	151 to 158

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	104 Directors' remuneration report/Note 22 on page 159 of the financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/ future dividends	100 Directors' remuneration report

1 Alternative performance measure described and explained in the Glossary on page 173

Dividends

The Headline Group profit before tax and non-underlying items[1] for the financial year ended 31 August 2022 was £73m (2021: Headline loss before tax and non-underlying items[1] of £55m). The directors recommend the payment of a final dividend for the financial year ended 31 August 2022 of 9.1p per ordinary share on 26 January 2023 to members on the Register at the close of business on 6 January 2023. The total dividend for the financial year ended 31 August 2022 is 9.1p per ordinary share as no interim dividend was declared at the half-year (2021: nil).

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 22 to the financial statements on page 159.

The issued share capital of the Company as at 31 August 2022 was 130,910,434 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 UK 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.

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.

Directors' report continued

Purchase of own shares

At the 2022 AGM, authority was given for the Company to purchase, in the market, up to 13,090,880 ordinary shares of $22\frac{6}{67}$p each, renewing the authority granted at the 2021 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 2023.

Issue of new ordinary shares

During the financial year ended 31 August 2022, 1,633 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 1400p 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/financing 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 £250m multi-currency revolving credit facility with Barclays Bank PLC, HSBC Bank PLC, J.P. Morgan Securities, Santander UK PLC and BNP Paribas for general corporate and working capital purposes. The Company also has an unsecured £133m term loan with Barclays Bank PLC, HSBC Bank PLC, Santander UK PLC and BNP Paribas. 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 loan agreements and all outstanding amounts for that lender, together with accrued interest, shall be immediately payable.

The Company has a £327m convertible bond. The Bond holders have the right to early redemption in the event of a change of control of the Company.

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 2022 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 2022, 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.

Holder	Number	% as at date of notification	Nature of holding
Causeway Capital Management LLC	10,635,624	8.12	Direct
BlackRock Inc.	9,473,306	7.21	Indirect
M&G PLC	7,971,971	6.92	Indirect
The Capital Group Companies Inc.	6,564,720	5.01	Indirect
Marathon Asset Management LLP	6,539,399	4.99	Indirect
Royal London Asset Management Ltd	6,539,691	4.99	Direct

The Company received no other notifications in the period between 31 August 2022 and the date of this report.

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 (2021: £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 63. The Financial review on pages 26 to 29 of the Strategic report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 18 to 21 of the financial statements on pages 153 to 158. As at 31 August 2022, the Group is in a net current liability position. In addition, Note 21 of the financial statements on page 155 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 57 to 63 also highlights the principal risks and uncertainties facing the Group.

The directors are required to assess whether the Group can continue to operate for a minimum of 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis. The directors consider that the Group Company has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The basis of preparation of the financial statements 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 121.

The longer-term viability statement is in the Strategic report on page 62.

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 offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on 18 January 2023 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 10 November 2022.

By order of the Board

Ian Houghton
Company Secretary

10 November 2022

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 UK-adopted international accounting standards and the 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 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 UK-adopted international accounting standards 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's 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.

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

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

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards comprising FRS 101, give a true and fair view of the assets, liabilities, financial position of the Company; 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.

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

10 November 2022

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 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company balance sheets as at 31 August 2022; 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.

Other than those disclosed in Note 3, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

During 2022, the Group continued its recovery from the Covid-19 pandemic and continued its expansion in the travel sector with the opening of a number of InMotion stores in the UK and further store openings in the USA. 2022 saw a return to profitability after the impact of the pandemic in 2020 and 2021. In planning our work, we were mindful of the increased focus on the impacts of climate change risk on the companies and their financial reporting. As part of our audit we made enquiries of management to understand the process adopted to assess the extent of the potential impact of climate change on the Group's financial statements. The Directors consider that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Group to evaluate the Directors' assessment. We particularly considered how climate change risks could impact the assumptions made in the forecasts prepared by management and used in their impairment and going concern assessments. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Our audit approach

Overview

Audit scope

- For the purposes of scoping the Group audit we have assessed the seven components of the business; High Street, Travel UK, InMotion, MRG, Rest of World, 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 Rest of World, Central and Company components based on their value relative to the rest of the Group.
- The audits of the InMotion and MRG components were performed by PwC Las Vegas.
- Our audit scoping gave us coverage of approximately 97% of absolute Group profit before tax, with approximately 97% coverage of revenue.
- We performed a full scope audit for the Company.

Key audit matters

- Impairment of store property, plant & equipment and right-of-use (Group) and impairment of investments (Company).
- Inventory valuation (Group)
- Pension buy-in disclosure and liability valuation (Group)

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

Materiality

- Overall Group materiality: £7,000,000 (2021: £5,700,000) based on professional judgement of considering a number of potential benchmarks (specifically revenue and certain profit based benchmarks, both for the current year and over a number of years), given that using 5% of a three year average of profit before tax and exceptional items (used in the prior year) would have resulted in a lower level of materiality in 2022 than in 2021 despite the fact that the Group's profit before tax has increased year-on-year.
- Overall company materiality: £8,400,000 (2021: £8,400,000) based on 1% of total assets.
- Performance materiality: £5,250,000 (2021: £4,300,000) (Group) and £6,300,000 (2021: £6,300,000) (company).

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.

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.

The pension buy-in accounting is a new key audit matter this year. The Convertible bond and refinancing was a one off transaction in the prior year. One off transactions and equal prominence of Alternative Performance Measures 'APMs' and Going concern, which were key audit matters last year, are no longer included because of the reduced number of non-underlying items, lack of new APMs and improved performance of the Group meaning that these items had a lower impact on audit effort this financial year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of store property, plant & equipment and right-of-use (Group) and impairment of investments (Company) Refer to Note 1 (a), Basis of preparation, Non-underlying items and 1(q) Critical accounting judgements and key sources of estimation uncertainty and Notes 11 and 12 (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). A review of impairment triggers was performed at the operating segment level. This identified the need for a full impairment assessment for High Street stores. Management performed a store level value-in-use-model which resulted in the recognition of an impairment charge. In Travel UK, North America and Rest of World, impairment triggers were not identified at the operating segment level. However, a store level impairment trigger review identified outlying stores which resulted in an impairment charge in Rest of World, Travel UK and North America. We focused 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, and the magnitude of the assets under consideration. Recoverability of investments in subsidiary undertakings (Company). Refer to note 3 in the Company financial statements. The parent company had £835m of investments in subsidiary undertakings. There is a risk that the performance of the subsidiary undertakings is not sufficient to support their carrying value and the assets may be impaired.	We obtained management's impairment trigger assessment, both at the operational format and store level, and considered the conclusions reached to be appropriate. We obtained an understanding of how management had developed its forecast for the future trading for those stores where an impairment trigger had been identified, including obtaining a detailed understanding of the key assumptions made in developing these forecasts. We satisfied ourselves that the forecasts were reasonable and had been prepared with appropriate Board involvement. In forming this conclusion, we benchmarked projections to credible third parties where available. With the assistance of our valuation experts we tested the impairment models for the High Street stores, including challenging management forecasts at a store level, as well considering other assumptions such as the sales profile and discount rate, and found that these assumptions were reasonable. We assessed the mathematical accuracy and integrity of the models and determined that the impairment charge had been appropriately calculated. Given the estimation uncertainty inherent in the impairment process, we re-performed the sensitivity analysis. We satisfied ourselves that any reasonable possible change that results in a material adjustment to the impairment charge had been considered. We considered the disclosure of the non-underlying impairment charge and were satisfied that this is in line with management's policy. We evaluated management's assessment of impairment indicators and considered the consistency with other audit procedures performed. We evaluated management's assessment of impairment indicators for the investment in subsidiary undertaking and considered the consistency with other audit procedures performed. We found that management's view that there were no impairment indicators was appropriate.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation (Group) Refer to Note 1 (h) Inventories and Note 1 (q) Critical accounting judgements and key sources of estimate uncertainty. Inventory consists of a number of product categories including books, news and magazines, impulse, stationery, travel essentials and consumer electronics. 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 or not on a sale or return basis, and items such as books, fashion, journey solutions and consumer electronics are at a greater risk of obsolescence. The Group's inventory provision is primarily based on ageing profile, obsolescence risk and forecast sales performance. The assumptions in the calculation are consistent with the prior year. Judgement is required to estimate future sales to clear this inventory and 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 the estimates involved in determining the future sales forecasts and the complexity of the calculation.	We gained an understanding of each provision category and analysed the movement between current year and prior year. We developed an independent expectation of the provision required using a combination of ageing analysis and historic inventory data. We performed testing over the ageing data to ensure its accuracy. For the consumer electronics inventory, we developed an independent expectation using comparable external stock turn data. The provisions are consistent with the Group's accounting policy and also reflect changes in the ageing profile. We satisfied ourselves that the inventory provisions were materially accurate. Given the estimates involved we reviewed a sensitivity analysis to satisfy ourselves that a reasonable possible change would not result in a material adjustment to the carrying value of the inventory.
Pension buy-in disclosure and liability valuation (Group) Refer to Note 5 to the financial statements. During the year the WHSmith Pension Trust Final Salary Section scheme (the Trust) was subject to a pension buy-in; whereby the liabilities of the scheme are now covered by a bulk annuity insurance policy insuring all liabilities to pay all future defined benefit pensions to the Trust's 12,950 members and any eligible dependants. The bulk annuity policy matches the Trust's cash flow benefit obligations to its members, removing longevity and other demographic risks as well as investment, interest rate and inflation risks. The value of this policy, which sits within plan assets, has been set as equal to the liability of the membership which it covers. The bulk annuity policy and the remaining scheme assets have been restricted to the present value of the defined benefit obligation, as the Group does not recognise a surplus under IFRIC 14. The value of the assets which were used to purchase the policy were higher than the buy-in asset value, with the resulting asset loss being taken to other comprehensive income alongside actual asset losses experienced as a result of market movements. We focused on this area due to it being a one off transaction related to material balances and the judgement in respect the treatment of the asset losses recorded through other comprehensive income. 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.	For the accounting treatment of the buy-in, we engaged our actuarial experts to review the buy-in contract and are comfortable that the contract does not obligate the Group to convert the buy-in contract to a buy-out at a future date and that the buy-in asset is equal to the scheme liability. Our experts also reviewed the accounting entries posted as part of the buy-in to ensure that these are appropriate and in line with expectations for the asset losses, which in accordance with IAS19 have been recognised in other comprehensive income. We reviewed the pension liability assumptions, including discount rates, inflation and mortality rates. We compared 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. Based on the procedures performed, we noted no material issues arising from our work.

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

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 components of the business; High Street, Travel UK, InMotion, MRG, Rest of World, 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 Las Vegas as component auditors operating under our instruction. Audit work was performed over the consolidation process, tax, impairment, pensions 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. We held detailed discussions with the InMotion and MRG component audit team, including performing a pre-year end site visit, 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. The components where we performed audit work accounted for approximately 97% of absolute Group loss before tax and approximately 92% of revenue. We performed audit procedures over specific financial statement line items within Rest of World, Central and Company components based on their value relative to the rest of the Group. A full scope audit was performed over the Company financial statements.

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:

	Financial statements – Group	Financial statements – Company
Overall materiality	£7,000,000 (2021: £5,700,000).	£8,400,000 (2021: £8,400,000).
How we determined it	professional judgement of considering a number of potential benchmarks (specifically revenue and certain profit based benchmarks, both for the current year and over a number of years), given that using 5% of a three year average of profit before tax and exceptional items (used in the prior year) would have resulted in a lower level of materiality in 2022 than in 2021 despite the fact that the Group's profit before tax has increased year-on-year	1% of total assets
Rationale for benchmark applied	As noted above, we considered a range of benchmarks for determining materiality. We selected a level of materiality that was within the range of outcomes suggested by these benchmarks and reflected an appropriate increase on the prior year materiality level given the improved performance of the Group in the current year. The materiality selected is equivalent to approximately 8% of current year profit before tax (2020: approximately 5% of a three-year average of profit before tax and non-underlying items).	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 £4.0 million and £6.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £5,250,000 (2021: £4,300,000) for the Group financial statements and £6,300,000 (2021: £6,300,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £350,000 (Group audit) (2021: £305,000) and £420,000 (Company audit) (2021: £420,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- critically assessed the assumptions within the models including; assessing the historical accuracy of management's forecasts and obtained corroborating evidence for the assumptions used including forecast air passenger numbers;
- obtained and reviewed the Group's financing agreements;
- considered the assumptions made regarding the extent of an economic downturn in the severe but plausible downside case to historical actuals and external sources;
- performed independent sensitivity analyses to the severe but plausible case to assess the impact on liquidity and covenant headroom; and
- confirmed that consistent approaches to going concern, viability, impairment and other key areas of estimation assumptions have been used.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety, GDPR, employment law, general food law and the UK Listing Rules, 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 financial statements such as the Companies Act 2006 and 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 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:

- 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 (refer key audit matters); and
- Identifying and testing unusual journals posted to revenue.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.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 obtained 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 January 2015 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 January 2015 to 31 August 2022.

Other matter
As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

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

10 November 2022

Group income statement

For the year ended 31 August 2022

		2022			2021		
£m	Note	Before non-underlying items[1]	Non-underlying items[2]	Total	Before non-underlying items[1]	Non-underlying items[2]	Total
Revenue	2	**1,400**	**–**	**1,400**	886	–	886
Group operating profit/(loss)	2, 3	**117**	**(20)**	**97**	(27)	(65)	(92)
Finance costs	7	**(34)**	**–**	**(34)**	(24)	–	(24)
Profit/(loss) before tax		**83**	**(20)**	**63**	(51)	(65)	(116)
Income tax (expense)/credit	8	**(14)**	**4**	**(10)**	24	12	36
Profit/(loss) for the year		**69**	**(16)**	**53**	(27)	(53)	(80)
Attributable to equity holders of the parent		**63**	**(16)**	**47**	(29)	(53)	(82)
Attributable to non-controlling interests		**6**	**–**	**6**	2	–	2
		69	**(16)**	**53**	(27)	(53)	(80)
Earnings/(loss) per share							
Basic	9			**36.2p**			(62.6)p
Diluted	9			**35.6p**			(62.6)p

All results relate to continuing operations of the Group.

1 Alternative performance measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 173.

2 See Note 4 for an analysis of non-underlying items. See Glossary on page 173 for a definition of Alternative performance measures.

Group statement of comprehensive income

For the year ended 31 August 2022

£m	Note	2022	2021
Profit/(loss) for the year		**53**	(80)
Other comprehensive income/(loss):			
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses on defined benefit pension schemes	5	**–**	(1)
		–	(1)
Items that may be reclassified subsequently to the income statement:			
Gains on cash flow hedges			
– Net fair value gains	21	**3**	–
Exchange differences on translation of foreign operations		**71**	(13)
		74	(13)
Other comprehensive income/(loss) for the year, net of tax		**74**	(14)
Total comprehensive income/(loss) for the year		**127**	(94)
Attributable to equity holders of the parent		**120**	(96)
Attributable to non-controlling interests		**7**	2
		127	(94)

Group balance sheet

As at 31 August 2022

£m	Note	2022	2021
Non-current assets			
Goodwill	10	**471**	406
Other intangible assets	10	**72**	67
Property, plant and equipment	11	**219**	174
Right-of-use assets	12	**446**	328
Investments in joint ventures		**2**	2
Deferred tax assets	17	**55**	57
Trade and other receivables	13	**9**	6
		1,274	1,040
Current assets			
Inventories		**198**	135
Trade and other receivables	13	**87**	45
Derivative financial assets	21	**1**	–
Cash and cash equivalents	18	**132**	130
		418	310
Total assets		**1,692**	1,350
Current liabilities			
Trade and other payables	14	**(365)**	(265)
Bank overdrafts and other borrowings	18	**(20)**	–
Retirement benefit obligations	5	**–**	(1)
Lease liabilities	15	**(131)**	(108)
Current tax liability		**(1)**	–
Short-term provisions	16	**–**	(2)
		(517)	(376)
Non-current liabilities			
Retirement benefit obligations	5	**–**	(2)
Bank loans and other borrowings	18	**(404)**	(415)
Long-term provisions	16	**(14)**	(12)
Lease liabilities	15	**(446)**	(362)
		(864)	(791)
Total liabilities		**(1,381)**	(1,167)
Total net assets		**311**	183
Shareholders' equity			
Called up share capital	22	**29**	29
Share premium		**316**	316
Capital redemption reserve		**13**	13
Translation reserve		**43**	(27)
Other reserves	25	**(244)**	(240)
Retained earnings		**138**	82
Total equity attributable to the equity holders of the parent		**295**	173
Non-controlling interests		**16**	10
Total equity		**311**	183

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 116 to 168 were approved by the Board of Directors and authorised for issue on 10 November 2022 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 2022

£m	Note	2022	2021
Operating activities			
Cash generated from operating activities	20	**213**	113
Interest paid[1]		**(26)**	(13)
Net cash inflow from operating activities		**187**	100
Investing activities			
Purchase of property, plant and equipment		**(70)**	(37)
Purchase of intangible assets		**(13)**	(7)
Acquisition of subsidiaries, net of cash acquired		**–**	1
Net cash outflow from investing activities		**(83)**	(43)
Financing activities			
Distributions to non-controlling interests		**(1)**	–
Issue of new shares for employee share schemes	22	**–**	1
Purchase of own shares for employee share schemes		**(7)**	(2)
Proceeds from issuance of convertible bonds	18	**–**	327
Repayments of borrowings	18	**–**	(267)
Financing arrangement fees		**–**	(8)
Capital repayments of obligations under leases	18	**(96)**	(86)
Net cash outflow from financing activities		**(104)**	(35)
Net increase in cash and cash equivalents in the year		**–**	22
Opening cash and cash equivalents		**130**	108
Effect of movements in foreign exchange rates		**2**	–
Closing cash and cash equivalents	18	**132**	130

1 Includes interest payments of £11m on lease liabilities (2021: £5m)

Group statement of changes in equity

For the year ended 31 August 2022

£m	Called up share capital and share premium	Capital redemption reserve[1]	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 2021	**345**	**13**	**(27)**	**(240)**	**82**	**173**	**10**	**183**
Profit for the year	**–**	**–**	**–**	**–**	**47**	**47**	**6**	**53**
Other comprehensive income:								
Cash flow hedges	**–**	**–**	**–**	**3**	**–**	**3**	**–**	**3**
Exchange differences on translation of foreign operations	**–**	**–**	**70**	**–**	**–**	**70**	**1**	**71**
Total comprehensive income for the year	**–**	**–**	**70**	**3**	**47**	**120**	**7**	**127**
Employee share schemes	**–**	**–**	**–**	**(7)**	**9**	**2**	**–**	**2**
Non-cash movement on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance at 31 August 2022	**345**	**13**	**43**	**(244)**	**138**	**295**	**16**	**311**

£m	Called up share capital and share premium	Capital redemption reserve[1]	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 2020	**344**	**13**	**(14)**	**(279)**	**158**	**222**	**5**	**227**
Loss for the year	–	–	–	–	(82)	(82)	2	(80)
Other comprehensive loss:								
Actuarial losses on defined benefit pension schemes (Note 5)	–	–	–	–	(1)	(1)	–	(1)
Exchange differences on translation of foreign operations	–	–	(13)	–	–	(13)	–	(13)
Total comprehensive loss for the year	**–**	**–**	**(13)**	**–**	**(83)**	**(96)**	**2**	**(94)**
Issue of new shares (Note 22)	1	–	–	–	–	1	–	1
Issue of convertible bonds – value of conversion rights (Note 25)	–	–	–	40	–	40	–	40
Deferred tax on share-based payments	–	–	–	–	1	1	–	1
Employee share schemes	–	–	–	(1)	6	5	–	5
Non-cash movement on non-controlling interests	–	–	–	–	–	–	3	3
Balance at 31 August 2021	**345**	**13**	**(27)**	**(240)**	**82**	**173**	**10**	**183**

1 For further explanation and analysis of Capital redemption reserve and Other reserves, see Note 25.

Notes to the financial statements

1. Accounting policies

a) Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated company financial statements on 1 September 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 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 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.

The directors report that they have undertaken a rigorous assessment of current performance and forecasts, including expenditure commitments, capital expenditure and borrowing facilities, and have concluded that the Group is able to adequately manage its financing and principal risks, and that the Group will be able to operate within the level of its facilities and meet the required covenants for the period to February 2024. Based on this assessment, which is outlined below, it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

In making the going concern assessment, the directors have modelled a number of scenarios for the period to February 2024. The base case scenario is consistent with the Board approved 2023 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2024.

As a result of inherent uncertainties due to the impact of Covid-19 and challenges in the macroeconomic environment, a severe but plausible scenario has also been modelled which assumes a 10 per cent reduction in revenue versus base case across all our businesses (Travel UK, North America, Rest of the World and High Street). We have also assumed a five per cent increase in labour costs against base case and a 50 per cent increase in energy costs against base case where energy costs have not been fixed. Apart from an equal reduction in turnover rents in our Travel businesses, we have not assumed any decrease in other variable costs.

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 are tested half-yearly. The covenant test at 31 August 2022 is based on minimum liquidity. The covenant tests as at 28 February 2023, 31 August 2023 and 28 February 2024 are based on fixed charges cover and net borrowings. Under both the base case and the severe but plausible scenarios, the Group would meet these covenant tests.

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.

New standards

The Group has adopted the following standards and interpretations which became mandatory for the year ended 31 August 2022:

Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate benchmark reform – Phase 2

The Group has considered the above new standards and amendments and has concluded that they are either not relevant to the Group or they do not have a significant impact on the Group's consolidated financial statements.

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:

Amendments to IAS 16	Proceeds before intended use
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract
Narrow scope amendments to IAS 1 and IAS 8	

Notes to the financial statements continued

1. Accounting policies (continued)

a) Basis of preparation (continued)

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' APMs.

The key APMs that the Group uses include: measures before non-underlying items, Headline profit before tax, Headline earnings per share, trading profit, Headline trading profit, Headline Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Headline EBITDA, Net debt/funds and Headline net debt/funds and free cash flow. These APMs are set out in the Glossary on page 173 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 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 operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, 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. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

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.

Further details of 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.

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.

1. Accounting policies (continued)

a) Basis of preparation (continued)

Basis of consolidation (continued)

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.

Revenue on in-store transactions is recognised at the point of sale when control of the goods is deemed to have transferred to the customer. 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 arrangements

The Group receives income from its suppliers in the form of supplier incentives and discounts (collectively "Supplier arrangements"). 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 arrangements recognised by the Group, and the recognition policies are detailed below.

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.

Notes to the financial statements continued

1. Accounting policies (continued)

c) Supplier arrangements (continued)

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 the group of CGUs making up the Group's operating segments, as this is the lowest level at which management monitor goodwill. Where the Group's operating segments have changed, goodwill is allocated to the new operating segments identified on a relative value basis.

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.

1. Accounting policies (continued)

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.

Cloud-based software arrangements are treated as service contracts and expensed in the Group income statement as the service is received, except where the arrangement meets the requirements for recognition as an intangible asset of the Group under IAS 38. These criteria are met when the Group has both a contractual right to take possession of the software without significant penalty, and the ability to run the software independently of the software host. Configuration and customisation costs in relation to a cloud-based software arrangements are expensed alongside the related service contract in the consolidated income statement, unless they create a separately identifiable resource controlled by the Group, in which case they are capitalised.

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 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.

Notes to the financial statements continued

1. Accounting policies (continued)

g) Leasing (continued)

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.

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 accounting policies in Note 1 f) Property, plant and equipment.

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 further extension granted in March 2021. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, 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.

1. Accounting policies (continued)

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 and government assistance

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 £2m in the year (2021: £40m).

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 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.

Notes to the financial statements continued

1. Accounting policies (continued)

l) Taxation (continued)

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.

Borrowings

Borrowings comprise interest-bearing bank loans and overdrafts and compound financial instruments (convertible bonds).

Bank loans 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.

Compound financial instruments issued by the Group comprise convertible bonds. The convertible bonds are bifurcated into a liability component and an equity component on initial recognition. The carrying value of the liability at initial recognition is measured using a market interest rate for an equivalent non-convertible bond at the issue date. The remainder of the proceeds is allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. Any directly attributable transaction costs are allocated to each component in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. Any transaction costs apportioned to the liability is included in the carrying amount and recognised over the contractual life of the liability using the effective interest rate method.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the the effective interest rate method.

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

1. Accounting policies (continued)

m) Financial instruments (continued)

ii) Derecognition of financial assets and 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 21.

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.

Notes to the financial statements continued

1. Accounting policies (continued)

m) Financial instruments (continued)

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.

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 25.

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, impairment reviews of non-current assets and inventory valuation.

Consideration of climate-related matters

In preparing the Financial statements, management has considered the potential impacts of climate change, in the context of the Principal risks and TCFD disclosures included in the Strategic report on pages 44 to 56 in the following areas:

- going concern assessment and viability of the Group over the next three years;
- cash flow forecasts used in the impairment assessments of non-current assets including goodwill;
- carrying value and useful economic lives of property, plant and equipment, right-of-use assets and intangible assets;
- carrying value of inventories and valuation of other current assets;
- valuation of pension scheme assets.

1. Accounting policies (continued)

q) Critical accounting judgements and key sources of estimation uncertainty (continued)

Consideration of climate-related matters (continued)

Current assets, including inventories, are expected to be utilised within a short timeframe, and therefore no risks relating to climate change have been identified.

Defined benefit pension scheme assets are primarily a single bulk annuity insurance policy, the valuation of which moves in tandem with the valuation of the defined benefit obligation. As such, no climate-related risks have been identified in relation to valuation of pension scheme assets.

The costs expected to be incurred in connection with our net zero commitments (as described on pages 44 to 56) are included within the Group's budget and three year plan, which have been used to support the impairment reviews of non-current assets, including goodwill, and the going concern and viability assessments. Further disclosures in relation to the impact of climate change on the impairment assessment of right-of-use assets and property, plant and equipment are included in Note 11, and on goodwill in Note 10.

The Group's initial quantitative scenario analysis (as described on pages 44 to 56) has determined that operational impacts are not expected to be significant within the short-term forecast period. Beyond the forecast periods, the results of the quantitative scenario analysis have been incorporated into the sensitivity analyses of viability and goodwill impairment where appropriate, however climate change is not considered to be a key driver in determining the outcomes of these exercises and is therefore not currently classified as a key source of estimation uncertainty within our financial statements. This assessment will be kept under review going forward.

Critical accounting judgements

Non-underlying items

The Group has chosen to present a 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 operations of the Group. These measures exclude 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 other property costs, 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 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 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.

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.

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

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 the pre-tax discount rate. Due to the effects of the 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 11 and 12 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

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

For management and financial reporting purposes, the Group is organised into two operating divisions which comprise four reportable segments – Travel UK, North America, Rest of the World within the Travel division, and High Street.

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 173 (Note A2).

A) Revenue

£m	2022	2021
Travel UK	521	195
North America	288	166
Rest of the World	118	40
Total Travel	927	401
High Street	473	485
Revenue	**1,400**	886

Rest of the World revenue includes revenue from Australia of £40m (2021: £20m). No other country has individually material revenue.

B) Group results

	2022				2021			
£m	Headline before non-underlying items[1] (pre-IFRS 16)	Headline non-underlying items[1] (pre-IFRS 16)	IFRS 16	Total	Headline before non-underlying items[1] (pre-IFRS 16)	Headline non-underlying items[1] (pre-IFRS 16)	IFRS 16	Total
Travel UK trading profit/(loss)	54	–	6	60	(32)	–	3	(29)
North America trading profit/(loss)	31	–	2	33	6	–	(4)	2
Rest of the World trading profit/(loss)	4	–	(1)	3	(13)	–	(4)	(17)
Total Travel trading profit/(loss)	89	–	7	96	(39)	–	(5)	(44)
High Street trading profit	33	–	12	45	19	–	17	36
Group profit/(loss) from trading operations	122	–	19	141	(20)	–	12	(8)
Unallocated central costs	(24)	–	–	(24)	(19)	–	–	(19)
Group operating profit/(loss) before non-underlying items	98	–	19	117	(39)	–	12	(27)
Non-underlying items (Note 4)	–	(12)	(8)	(20)	–	(49)	(16)	(65)
Group operating profit/(loss)	98	(12)	11	97	(39)	(49)	(4)	(92)
Finance costs	(25)	–	(9)	(34)	(16)	–	(8)	(24)
Profit/(loss) before tax	73	(12)	2	63	(55)	(49)	(12)	(116)
Income tax (expense)/credit	(12)	3	(1)	(10)	26	9	1	36
Profit/(loss) for the year	61	(9)	1	53	(29)	(40)	(11)	(80)

1 Presented on a pre-IFRS 16 basis. Alternative performance measures are defined and explained in the Glossary on page 173

Notes to the financial statements continued

2. Segmental analysis of results (continued)

C) Other segmental items

	2022				
	Non-current assets[1]			Right of use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	**30**	**(16)**	**–**	**–**	**–**
North America	**22**	**(11)**	**–**	**–**	**–**
Rest of the World	**13**	**(2)**	**–**	**–**	**–**
Total Travel	**65**	**(29)**	**–**	**–**	**–**
High Street	**25**	**(15)**	**(2)**	**–**	**–**
Unallocated	**–**	**(3)**	**–**	**–**	**–**
Headline, before non-underlying items (pre-IFRS 16)	**90**	**(47)**	**(2)**	**–**	**–**
Headline non-underlying items (pre-IFRS 16)	**–**	**(3)**	**(6)**	**–**	**–**
Headline, after non-underlying items (pre-IFRS 16)	**90**	**(50)**	**(8)**	**–**	**–**
Impact of IFRS 16	**–**	**–**	**–**	**(81)**	**–**
Non-underlying items (IFRS 16)	**–**	**–**	**–**	**–**	**(8)**
Group	**90**	**(50)**	**(8)**	**(81)**	**(8)**

	2021				
	Non-current assets[1]			Right of use assets	
£m	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	11	(14)	–	–	–
North America	15	(10)	–	–	–
Rest of the World	2	(3)	–	–	–
Total Travel	28	(27)	–	–	–
High Street	16	(17)	(2)	–	–
Unallocated	–	(4)	–	–	–
Headline, before non-underlying items (pre-IFRS 16)	44	(48)	(2)	–	–
Headline non-underlying items (pre-IFRS 16)	–	(3)	(18)	–	–
Headline, after non-underlying items (pre-IFRS 16)	44	(51)	(20)	–	–
Impact of IFRS 16	–	1	–	(84)	–
Non-underlying items (IFRS 16)	–	–	4	–	(28)
Group	44	(50)	(16)	(84)	(28)

1 Non-current assets including property, plant and equipment and intangible assets, but excluding right-of-use assets.

D) Non-current assets by geographical location

Non-current assets include plant, property and equipment, intangible assets and right-of-use assets.

£m	2022	2021
UK	**383**	397
USA	**689**	553
Australia	**19**	14
Other international	**117**	11
Total	**1,208**	975

3. Group operating profit

£m	2022 Before non-underlying items	2022 Non-underlying items	2022 Total	2021 Before non-underlying items	2021 Non-underlying items	2021 Total
Revenue	**1,400**	**–**	**1,400**	886	–	886
Cost of sales	**(538)**	**–**	**(538)**	(358)	–	(358)
Gross profit	**862**	**–**	**862**	528	–	528
Distribution costs[1]	**(588)**	**–**	**(588)**	(419)	–	(419)
Administrative expenses	**(161)**	**–**	**(161)**	(140)	–	(140)
Other income[2]	**4**	**–**	**4**	4	–	4
Non-underlying items (Note 4)	**–**	**(20)**	**(20)**	–	(65)	(65)
Group operating profit	**117**	**(20)**	**97**	(27)	(65)	(92)

1 During the year there was an underlying impairment charge of £2m (2021: £2m) for property, plant and equipment and other intangible assets included in distribution costs. Other impairment charges related to Covid-19 are included in non-underlying items. See Note 4.

2 Other income relates to remeasurement of right-of-use assets, and profit attributable to property.

£m	2022	2021
Cost of inventories recognised as an expense	**538**	358
Write-down of inventories in the year[3]	**2**	7
Depreciation of property, plant and equipment	**37**	36
Depreciation of right-of-use assets		
– land and buildings	**78**	80
– other	**3**	4
Amortisation of intangible assets	**13**	14
Impairment of property, plant and equipment	**7**	16
Impairment of right-of-use assets	**8**	28
Impairment of intangibles	**1**	–
(Income)/expenses relating to leasing:		
– expense relating to short-term leases	**17**	14
– expense relating to variable lease payments not included in the measurement of the lease liability	**29**	27
– income relating to Covid-19 rent reductions	**(5)**	(23)
Other occupancy costs	**59**	27
Staff costs (Note 6)	**293**	232
Government grant income	**–**	(11)
Auditors' remuneration (see below)		

	2022	2021
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	**0.9**	1.2
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.2**	0.3
Total audit and audit-related services	**1.1**	1.5
Non-audit services		
Fees payable to the Group's auditors for other services:		
All other non-audit services	**0.1**	0.1
Non-audit fees including taxation and other services	**0.1**	0.1
Total auditors' remuneration	**1.2**	1.6

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.

3 Write-down of inventories in the year are included within the amounts disclosed as Cost of inventories recognised as an expense, and recognised in Cost of sales.

Notes to the financial statements continued

4. Non-underlying items

Items which are not considered part of the normal operations of the business, are non-recurring or 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 27.

£m	2022	2021
Amortisation of acquired intangible assets	**3**	3
Costs related to cyber incident	**4**	–
Store Impairments		
– property, plant and equipment	**5**	14
– right-of-use assets	**8**	28
Write-down of inventories	**–**	5
Restructuring costs	**–**	9
Costs associated with refinancing	**–**	6
Costs relating to business combinations	**–**	2
Other	**–**	(2)
Non-underlying items, before tax	**20**	65
Tax credit on non-underlying items	**(4)**	(12)
Non-underlying items, after tax	**16**	53

Non-underlying items recognised in the year are as follows:

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands (see Note 10).

Costs related to cyber incident

Costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites include impairment of software assets of £1m, third party consultancy support and legal and other costs.

Impairment of property, plant and equipment and right-of-use assets

The Group has carried out an assessment for indicators of impairment across the store portfolio. This assessment has identified a number of stores where experience and expectations of the longer-term impact of Covid-19 is more negative than previously assumed, primarily driven by the impact of Covid-19 on consumer shopping patterns.

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 latest view of the recovery from Covid-19, to the carrying values at 31 August 2022. As a result of this exercise, a charge of £13m (2021: £42m) was recorded within non-underlying items for impairment of retail store assets, of which £5m (2021: £14m) relates to property, plant and equipment and £8m (2021: £28m) relates to right-of-use assets. Refer to Note 11 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 173.

A tax credit of £4m (2021: £12m) has been recognised in relation to non-underlying items.

Other prior year non-underlying items

Other non-underlying items in the prior year included stock provisioning and impairment relating to the impact of Covid-19, restructuring costs following a review of store operations across our High Street business, costs associated with the refinancing activity in April 2021 and further integration costs in relation to the acquisition of MRG which completed in December 2019.

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	2022	2021
WHSmith Pension Trust	–	(2)
United News Shops Retirement Benefits Scheme	–	(1)
Retirement benefit obligation recognised in the balance sheet	–	(3)
Recognised as:		
Current liabilities	–	(1)
Non-current liabilities	–	(2)

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 Articles of Association of WH Smith Pension Trustees Limited (the corporate trustee) there are four directors nominated by the sponsor, two independent directors and four member-nominated directors. Under the member-nominated director arrangements, the term of office of a member-nominated director is four years.

In August 2022 the WH Smith Pension Trust purchased a bulk annuity insurance policy from Standard Life, part of Phoenix Group, insuring all liabilities to pay all future defined benefit pensions to the Trust's 12,950 members and any eligible dependants.

The insurance policy was purchased using most of the existing assets held within the Trust, without the need for the Group to make any additional cash contributions. The bulk annuity policy matches the Trust's cash flow benefit obligations to its members, removing longevity and other demographic risks as well as investment, interest rate and inflation risks. As the purchase price of the annuity of £1.1bn was greater than the IAS 19 accounting value of the corresponding liabilities, an asset remeasurement loss of £508m has been recorded in other comprehensive income. This has been offset by actuarial gains on the liabilities due to changes in financial assumptions and experience of £337m, and gains relating to changes in amounts not recognised due to the effect of the asset ceiling of £169m.

As a result of this comprehensive risk-removal, WH Smith will not be required to make any future cash contributions into the Trust regarding defined benefit liabilities, therefore the previously recognised minimum funding liability (£2m as at 31 August 2021) has been derecognised. The prior year liability of £2m relates to the recognition of the schedule of contributions as a liability in accordance with the requirements of IFRIC 14. During the year ended 31 August 2022, prior to the completion of the buy-in transaction, the Group made a contribution of £2m to the scheme (2021: £3m) in accordance with the agreed funding schedule.

The WHSmith Pension Trust had assets valued at £933m, as at 31 August 2022 (2021: £1,456m).

Notes to the financial statements continued

5. Retirement benefit obligations (continued)

A) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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 Group 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.

The weighted average duration of the defined benefit obligation is 15 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	2022	2021
Present value of the obligations	(813)	(1,172)
Fair value of plan assets	933	1,456
Surplus before consideration of asset ceiling	120	284
Amounts not recognised due to effect of asset ceiling	(120)	(284)
Additional liability recognised due to minimum funding requirements	–	(2)
Retirement benefit obligation recognised in the balance sheet	–	(2)

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 £120m (2021: £284m) available on a reduction of future contributions is £nil (2021: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet.

Income statement

The amounts recognised in the income statement were as follows:

£m	2022	2021
Net interest cost on the defined benefit liability	–	–
Past service cost	–	–
	–	–

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

Statement of comprehensive income

Total (expense)/income recognised in the statement of comprehensive income ("SOCI"):

£m	2022	2021
Asset remeasurement (losses)/gains arising during the year	(508)	58
Actuarial (loss)/gain on defined benefit obligations arising from experience	(13)	5
Actuarial gain/(loss) on defined benefit obligations arising from changes in financial assumptions	350	(56)
Actuarial gain on defined benefit obligations arising from changes in demographic assumptions	–	1
Total actuarial (loss)/gain before consideration of asset ceiling	(171)	8
Gain/(loss) resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	169	(11)
Gain resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest cost	2	1
Total actuarial loss recognised in other comprehensive income relating to the WH Smith Pension Trust	–	(2)
Actuarial gain recognised in other comprehensive income relating to the UNS scheme	–	1

5. Retirement benefit obligations (continued)

A) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

	2022				2021			
£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	1,456	(1,172)	(286)	(2)	1,412	(1,144)	(271)	(3)
Current service cost	–	–	–	–	–	–	–	–
Past service cost	–	–	–	–	–	–	–	–
Interest income/(expense)	25	(20)	(5)	–	24	(19)	(5)	–
Actuarial gains/(losses)	(508)	337	171	–	58	(50)	(10)	(2)
Contributions from the sponsoring companies	2	–	–	2	3	–	–	3
Benefits paid	(42)	42	–	–	(41)	41	–	–
At 31 August	933	(813)	(120)	–	1,456	(1,172)	(286)	(2)

The actual return on scheme assets was a loss of £483m (2021: gain of £82m). During the year, the full trust buy-in led to an asset remeasurement loss of £508m. Actuarial losses on scheme liabilities have also arisen due to: experience losses of £13m, as a result of the triennial valuation at 31 March 2020, which applied membership and other demographic movements over the last 3 years; offset by the increase in the discount rate resulting in a gain of £350m.

The decrease in scheme liabilities combined with a decrease in the scheme assets, resulted in a decrease of £164m in the unrecognised IAS 19 surplus, to £120m.

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below:

	2022				2021			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
– Government bonds	–	–	–	–	1,211	–	1,211	83
– Corporate bonds								
UK	–	–	–	–	264	–	264	18
Non-UK	–	–	–	–	342	–	342	24
Insurance policy	–	813	813	87	–	–	–	–
Investment funds[1]	71	42	113	12	43	186	229	16
Derivatives								
– Interest rate swaps	–	–	–	–	–	(85)	(85)	(6)
– Inflation swaps	–	–	–	–	–	(157)	(157)	(11)
– Other[2]	–	(1)	(1)	–	–	(503)	(503)	(35)
Cash and cash equivalents	8	–	8	1	155	–	155	11
Total	79	854	933	100	2,015	(559)	1,456	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.

No amount is included in the market value of assets relating to either financial instruments or property occupied by the Group.

Notes to the financial statements continued

5. Retirement benefit obligations (continued)

A) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

%	2022	2021
Rate of increase in pension payments	**3.30**	3.35
Rate of increase in deferred pensions	**3.30**	2.55
Discount rate	**4.20**	1.75
RPI inflation assumption	**3.70**	3.45
CPI inflation assumption	**3.30**	2.55

The mortality assumptions in years underlying the value of the accrued liabilities for 2022 and 2021 are:

	2022		2021	
Years	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	**22.8**	**24.0**	22.7	23.9
Member currently aged 45	**23.4**	**25.4**	23.3	25.3

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 2022, while keeping all other assumptions consistent; in practice, changes in some of the assumptions may be correlated. As noted above, the bulk annuity insurance policy has removed the Group's exposure to these risks.

£m	Effect on liabilities at 31 August 2022
Discount rate +/- 0.1% per annum	**-12/+12**
Inflation assumptions +/- 0.1% per annum	**+10/-10**
Life expectancy +/- 1 year	**+48/-48**

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 2021 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	2022	2021
Present value of the obligations	**(6)**	(8)
Fair value of plan assets	**6**	7
Retirement benefit obligation recognised in the balance sheet	**–**	(1)

All of the assets of the UNSRBS scheme have a quoted market price in an active market. In the prior year there was a credit of £1m recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

B) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £5m for the year ended 31 August 2022 (2021: £4m).

6. Staff costs and employees

A) Staff costs

The aggregate remuneration of employees was:

£m	2022	2021
Wages and salaries	**261**	208
Social security costs	**17**	14
Other pension costs	**5**	4
Share-based payments	**10**	6
Total Group	**293**	232

B) Employee numbers

The monthly average total number of employees (including executive directors) was:

No. of employees	2022	2021
Total retailing	**12,459**	11,194
Support functions	**43**	41
Total Group	**12,502**	11,235

7. Finance costs

£m	2022	2021
Interest payable on bank loans and overdrafts	**9**	10
Interest on convertible bonds	**14**	4
Interest on lease liabilities	**11**	10
	34	24

Notes to the financial statements continued

8. Income tax

£m	2022	2021
Tax on profit/loss	6	–
Standard rate of UK corporation tax 19% (2021: 19%)		
Adjustment in respect of prior years	–	(1)
Total current tax expense/(credit)	**6**	(1)
Deferred tax – current year (Note 17)	8	(11)
Deferred tax – prior year (Note 17)	–	(4)
Deferred tax – adjustment in respect of change in tax rates	–	(8)
Tax on profit/loss before non-underlying items	**14**	(24)
Tax on non-underlying items – current tax	–	–
Tax on non-underlying items – deferred tax (Note 17)	(4)	(12)
Total tax on profit/loss	**10**	(36)

Reconciliation of the taxation charge/(credit)

£m	2022	2021
Tax on profit/loss at standard rate of UK corporation tax 19% (2021: 19%)	12	(22)
Tax effect of items that are not deductible or not taxable in determining taxable loss	–	1
Unrecognised tax losses	(1)	(1)
Differences in overseas tax rates	(1)	(1)
Adjustment in respect of prior years	–	(5)
Adjustment in respect of change in tax rates	–	(8)
Total income tax charge/(credit)	**10**	(36)

The effective tax rate, before non-underlying items, is 17 per cent (2021: 47 per cent). The effective tax rate is lower than the prior year rate and the UK corporation tax rate of 19 per cent primarily due to the recognition of brought forward previously unrecognised tax losses and the prior year effective tax rate included a credit arising on the UK tax rate change which was substantively enacted on the 24 May 2021 from 19 to 25 per cent.

The UK corporation tax rate is 19 per cent. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25 per cent . This new law was substantively enacted on 24 May 2021, and the main impact of this change has been factored into 31 August 2021 year end financial statements.

The OECD has published a framework for the introduction of a global minimum effective tax rate of 15 per cent, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these “Pillar 2” rules with effect for accounting periods beginning on or after 31 December 2023. The Group is reviewing these draft rules to determine any potential impact.

9. Earnings per share

A) Earnings/(loss)

£m	2022	2021
Profit/(loss) for the year, attributable to equity holders of the parent	**47**	(82)
Non-underlying items (Note 4)	**16**	53
Profit/(loss) for the year before non-underlying items, attributable to equity holders of the parent	**63**	(29)

B) Weighted average share capital

Millions	2022	2021
Weighted average ordinary shares in issue	**130**	131
Less weighted average ordinary shares held in ESOP Trust	**–**	–
Weighted average shares in issue for earnings per share	**130**	131
Add weighted average number of ordinary shares under option	**2**	–
Weighted average ordinary shares for diluted earnings per share	**132**	131

C) Basic and diluted earnings/(loss) per share

Pence	2022	2021
Basic earnings/(loss) per share	**36.2**	(62.6)
Adjustment for non-underlying items	**12.3**	40.5
Basic earnings/(loss) per share before non-underlying items	**48.5**	(22.1)

Pence	2022	2021
Diluted earnings/(loss) per share	**35.6**	(62.6)
Adjustment for non-underlying items	**12.1**	40.5
Diluted earnings/(loss) per share before non-underlying items	**47.7**	(22.1)

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid. As the Group incurred a loss in the year ended 31 August 2021, the impact of its potential dilutive ordinary shares was excluded as they would have been anti-dilutive.

As at 31 August 2022 the convertible bond has no dilutive effect as the inclusion of these potentially dilutive shares would improve earnings per share (31 August 2021: improve loss per share).

The calculation of earnings per share on a pre-IFRS 16 basis is provided in the Glossary on page 173.

Notes to the financial statements continued

10. Intangible assets

£m	Goodwill	Brands and franchise contracts	Tenancy rights	Software	Total
Cost					
At 1 September 2021	406	42	13	102	563
Additions	–	–	–	13	13
Disposals	–	–	–	(2)	(2)
Foreign exchange	65	8	–	1	74
At 31 August 2022	**471**	**50**	**13**	**114**	**648**
Accumulated amortisation					
At 1 September 2021	–	7	8	75	90
Amortisation charge	–	3	–	10	13
Impairment charge	–	–	–	1	1
Disposals	–	–	–	(2)	(2)
Foreign exchange	–	2	–	1	3
At 31 August 2022	**–**	**12**	**8**	**85**	**105**
Net book value at 31 August 2022	**471**	**38**	**5**	**29**	**543**
Cost					
At 1 September 2020	418	43	13	96	570
Acquisitions	(1)	–	–	–	(1)
Additions	–	–	–	7	7
Disposals	–	–	–	(1)	(1)
Foreign exchange	(11)	(1)	–	–	(12)
At 31 August 2021	406	42	13	102	563
Accumulated amortisation					
At 1 September 2020	–	4	8	65	77
Amortisation charge	–	3	–	11	14
Disposals	–	–	–	(1)	(1)
At 31 August 2021	–	7	8	75	90
Net book value at 31 August 2021	406	35	5	27	473

Goodwill of USD $70m (£60m) 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	2022	2021
Travel UK	**295**	253
North America	**132**	113
Rest of the World	**29**	25
Total Travel	**456**	391
High Street	**15**	15
	471	406

10. Intangible assets (continued)

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2021: £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 Group can continue to occupy and trade from certain premises for an indefinite period. These assets are reviewed annually for indicators of impairment.

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 the Group's operating segments as appropriate. Acquired brands are considered together with goodwill for impairment testing purposes, and are therefore considered annually for impairment.

Goodwill and acquired brands have 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. 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 11.9 per cent (2021: 10.4 per cent).
- The long-term growth rate assumptions are between 0 per cent and 2 per cent.

The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three year plan which have been used to support the impairment reviews, with no material impact on cash flows.

The value-in-use estimates indicated that the recoverable amount of goodwill exceeded the carrying value for each group of CGUs. As a result, no impairment has been recognised in respect of the carrying value of goodwill in the year (2021: £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 inherent uncertainties due to challenges in the macroeconomic environment and the continued recovery from Covid-19, management have considered a range of sensitivities on each of the key assumptions, with other variables held constant. The sensitivities include applying 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.

Furthermore, outputs of the quantitative climate change scenario analysis as described on pages 44 and 56 have also been taken into consideration in the sensitivity analysis, and has shown that climate change is not considered to be a key driver in determining the outcome.

The sensitivity analysis showed that no reasonably possible change in assumptions would lead to an impairment.

Notes to the financial statements continued

11. Property, plant and equipment

	Land and buildings				
£m	Freehold properties	Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2021	18	290	196	110	614
Additions	–	32	29	16	77
Disposals	–	(3)	(1)	(1)	(5)
Foreign exchange	–	10	8	2	20
At 31 August 2022	**18**	**329**	**232**	**127**	**706**
Accumulated depreciation:					
At 1 September 2021	10	206	140	84	440
Depreciation charge	–	19	11	7	37
Impairment charge	–	4	2	1	7
Disposals	–	(3)	(1)	(1)	(5)
Foreign exchange	–	4	3	1	8
At 31 August 2022	**10**	**230**	**155**	**92**	**487**
Net book value at 31 August 2022	**8**	**99**	**77**	**35**	**219**
Cost or valuation:					
At 1 September 2020	15	272	198	108	593
Additions	3	12	15	7	37
Acquisitions	–	(1)	–	–	(1)
Disposals	–	(5)	(5)	(2)	(12)
Reclassifications	–	14	(11)	(3)	–
Foreign exchange	–	(2)	(1)	–	(3)
At 31 August 2021	**18**	**290**	**196**	**110**	**614**
Accumulated depreciation:					
At 1 September 2020	10	185	127	79	401
Depreciation charge	–	17	12	7	36
Impairment charge	–	9	5	2	16
Disposals	–	(5)	(5)	(2)	(12)
Reclassifications	–	–	2	(2)	–
Foreign exchange	–	–	(1)	–	(1)
At 31 August 2021	**10**	**206**	**140**	**84**	**440**
Net book value at 31 August 2021	**8**	**84**	**56**	**26**	**174**

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU. CGUs are tested for impairment at the balance sheet date if any indicators of impairment have been identified. The identified indicators include loss-making stores, stores earmarked for closure, and under-performance of individual stores versus forecast as a result of slower than expected recovery from Covid-19.

11. Property, plant and equipment (continued)

Impairment of property, plant and equipment (continued)

For those CGUs where an indicator of impairment has been identified, property, plant and equipment and right-of-use assets have been tested for impairment by comparing the carrying amount of the 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.

The value-in-use of CGUs is calculated using discounted cash flows derived from the Group's latest Board-approved budget and three-year plan, taking into account the projected recovery from Covid-19, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth for these specific stores. Cash flows beyond the forecast 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 immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's budget and three year plan which have been used to support the impairment reviews, with no material impact on cash flows. The useful economic lives of store assets are short in the context of climate change scenario models therefore no medium to long-term effects have been considered.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include revenue 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 recovery versus a "pre-Covid-19" 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 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 11.9 per cent (2021: 10.4 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 assets was recorded. These stores were impaired to their recoverable amount of £18m, which is their carrying value at year end. The Group has recognised an impairment charge of £7m (2021: £16m) to property, plant and equipment, £1m (2021: £nil) to software and £8m (2021: £28m) to right-of-use assets. Impairments of £14m (2021: £42m) have been presented as non-underlying items in the current year (see Note 4), and impairments of £2m (2021: £2m) have been included in underlying results.

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 continued recovery from 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 charge of changes in key assumptions. The most significant assumption is the revenue assumption. The impact of a 10 per cent reduction in revenue in the relevant CGUs, with no change to subsequent forecast revenue growth rate assumptions, has been modelled. This would result in a £15m increase in the impairment charge of retail store assets in the year ended 31 August 2022.

Other changes in assumptions, including an increase or decrease of 1 per cent in the discount rate, have been modelled and have shown that any reasonably possible changes would not lead to a significant impact on the impairment charge.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 173.

Notes to the financial statements continued

12. Right-of-use assets

£m	Land and buildings	Equipment	Total
At 1 September 2021	**319**	**9**	**328**
Additions	**160**	**–**	**160**
Modifications and remeasurements	**25**	**–**	**25**
Disposals	**(2)**	**–**	**(2)**
Depreciation charge	**(78)**	**(3)**	**(81)**
Impairment charge	**(8)**	**–**	**(8)**
Effect of movements in foreign exchange rates	**24**	**–**	**24**
Net book value at 31 August 2022	**440**	**6**	**446**

£m	Land and buildings	Equipment	Total
At 1 September 2020	400	13	413
Additions	45	–	45
Modifications and remeasurements	(13)	–	(13)
Disposals	(1)	–	(1)
Depreciation charge	(80)	(4)	(84)
Impairment charge	(28)	–	(28)
Effect of movements in foreign exchange rates	(4)	–	(4)
Net book value at 31 August 2021	319	9	328

Information on the Group's leasing activities is included in Note 15, Lease liabilities.

Impairment of right-of-use assets

Right-of-use assets of £8m (2021: £28m) 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 11, Property, plant and equipment.

13. Trade and other receivables

£m	2022	2021
Current receivables		
Trade receivables	**57**	25
Other receivables	**2**	5
Prepayments	**12**	10
Accrued income	**16**	5
	87	45
Non-current receivables		
Other receivables	**3**	2
Prepayments	**6**	4
Total trade and other receivables	**96**	51

Included in accrued income is £10m (2021: £3m) 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.

There were no government grants receivables included in other receivables this year (2021: nil).

13. Trade and other receivables (continued)

The ageing of the Group's current trade and other receivables is as follows:

£m	2022	2021
Trade and other receivables gross	**68**	35
Expected credit losses	**(6)**	(3)
Trade and other receivables net	**62**	32
Of which:		
Amounts neither impaired nor past due on the reporting date	**46**	25
Amounts past due but not impaired:		
Less than one month old	**8**	3
Between one and three months old	**4**	2
Between three and six months old	**3**	1
Between six months and one year old	**1**	1
Trade and other receivables net carrying amount	**62**	32

The Group has limited exposure to expected credit losses due to the business model. An allowance has been made for lifetime expected credit losses from receivables at 31 August 2022 of £6m (31 August 2021: £3m). 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	2022	2021
Less than one month old	**–**	–
Between one and three months old	**2**	–
Between three and six months old	**2**	1
Between six months and one year old	**2**	2
	6	3

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.

14. Trade and other payables

£m	2022	2021
Trade payables	**130**	70
Other tax and social security	**30**	24
Other payables	**96**	72
Accruals	**95**	83
Deferred income	**14**	16
	365	265

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 65 days (2021: 56 days). The directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade payables is stated net of £7m (2021: £4m) 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.

Notes to the financial statements continued

15. Lease liabilities

£m	Land and buildings	Equipment	Total
At 1 September 2021	**463**	**7**	**470**
Additions	**159**	**–**	**159**
Modifications and remeasurements	**18**	**–**	**18**
Disposals	**(4)**	**–**	**(4)**
Interest	**11**	**–**	**11**
Payments	**(103)**	**(4)**	**(107)**
Effect of movements in foreign exchange rates	**30**	**–**	**30**
At 31 August 2022	**574**	**3**	**577**

£m	Land and buildings	Equipment	Total
At 1 September 2020	548	11	559
Additions	41	–	41
Modifications and remeasurements	(37)	–	(37)
Disposals	(7)	–	(7)
Interest	10	–	10
Payments	(87)	(4)	(91)
Effect of movements in foreign exchange rates	(5)	–	(5)
At 31 August 2021	463	7	470

£m	2022	2021
Analysis of total lease liabilities:		
Non-current	**446**	362
Current	**131**	108
Total	**577**	470

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.

15. Lease liabilities (continued)

In response to the Covid-19 pandemic, an amendment was issued to IFRS 16 in June 2020 and further extended in March 2021. This amendment (practical expedient) allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, 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. This has resulted in a credit to the Income statement of £5m for the year ended 31 August 2022 (2021: £23m).

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 12. Interest expense incurred on lease liabilities is presented in Note 7. The maturity of undiscounted future lease liabilities are set out in Note 21.

The total cash outflow for leases in the financial year was £150m (2021: £123m). This includes cash outflow for short-term leases of £16m (2021: £14m) and variable lease payments (not included in the measurement of lease liability) of £28m (2021: £18m). The total future income from sub-leasing the right-of-use assets is £1m (2021: £1m).

16. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2021	**13**	**1**	**14**
Charge in the year	**–**	**–**	**–**
Utilised in year	**–**	**(1)**	**(1)**
Reclassifications from creditors	**1**	**–**	**1**
At 31 August 2022	**14**	**–**	**14**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2020	13	1	14
Charge in the year	–	–	–
Utilised in year	–	–	–
Unwinding of discount	–	–	–
At 31 August 2021	13	1	14

Total provisions are split between current and non-current liabilities as follows:

£m	2022	2021
Included in current liabilities	**–**	2
Included in non-current liabilities	**14**	12
	14	14

Property provisions relate to reinstatement liabilities for stores where the long-term viability has been impacted primarily by Covid-19. These expected costs of store closures are reviewed frequently and are based on information available as at the reporting date as well as management's historical experience of similar transactions. Utilisations of the property provisions are expected to be incurred in line with the profile of the leases to which they relate.

Notes to the financial statements continued

17. 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	At 1 September	Rate change	(Credited) / charged to income	Credited to equity	Foreign exchange	At 31 August
Accelerated tax depreciation	**8**	**–**	**(4)**	**–**	**(1)**	**3**
Leases	**5**	**–**	**–**	**–**	**–**	**5**
Share-based payments	**2**	**–**	**2**	**–**	**–**	**4**
Retirement benefit obligation	**1**	**–**	**(1)**	**–**	**–**	**–**
Intangible assets	**(11)**	**–**	**(1)**	**–**	**(2)**	**(14)**
Losses carried forward	**45**	**–**	**(3)**	**–**	**3**	**45**
Unutilised interest expense	**5**	**–**	**–**	**–**	**2**	**7**
Provisions	**2**	**–**	**3**	**–**	**–**	**5**
Year ended 31 August 2022	**57**	**–**	**(4)**	**–**	**2**	**55**
Accelerated tax depreciation	7	3	(2)	–	–	8
Leases	4	1	–	–	–	5
Share-based payments	–	–	1	1	–	2
Retirement benefit obligation	1	–	–	–	–	1
Intangible assets	(11)	–	–	–	–	(11)
Losses	17	4	24	–	–	45
Unutilised interest expense	3	–	2	–	–	5
Provisions	–	–	2	–	–	2
Year ended 31 August 2021	**21**	**8**	**27**	**1**	**–**	**57**

Deferred tax assets have not been recognised in respect of the following tax losses:

£m	2022	2021
Capital losses	**84**	84
Trading losses	**15**	23
	99	107

The majority of the deferred income tax assets are expected to be recovered after more than one year.

The UK corporation tax rate is 19 per cent. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25 per cent . This new law was substantively enacted on 24 May 2021, and the main impact of this change has been factored into 31 August 2021 year end financial statements.

At 31 August 2022, deferred tax assets have been recognised in respect of tax losses, US unutilised interest expense and other short term timing differences. The deferred tax assets on losses of £188m relate to carried forward tax losses 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. The Group has not recognised deferred tax assets on losses amounting to £99m (2021: £107m) and US unutilised interest expense amounting to £13m (2021: £8m) due to uncertainty over the timing and extent of their utilisation. The losses and US unutilised interest expense 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	2022	2021
Deferred tax liabilities (non-current liabilities)	**–**	–
Deferred tax assets	**55**	57
	55	57

18. Analysis of net debt

Movements in net debt can be analysed as follows:

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2021	**(132)**	**(283)**	**–**	**(470)**	**(885)**	**130**	**(755)**
Other non-cash movements	**–**	**(9)**	**–**	**(184)**	**(193)**	**–**	**(193)**
Other cash movements	**–**	**–**	**–**	**107**	**107**	**–**	**107**
Currency translation	**–**	**–**	**–**	**(30)**	**(30)**	**2**	**(28)**
At 31 August 2022	**(132)**	**(292)**	**–**	**(577)**	**(1,001)**	**132**	**(869)**

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2020	(400)	–	–	(559)	(959)	108	(851)
Proceeds from borrowings	–	(327)	–	–	(327)	327	–
Repayments of borrowings	267	–	–	–	267	(267)	–
Bifurcation of convertible bond	–	41	–	–	41	–	41
Other non-cash movements	–	(2)	–	(7)	(9)	–	(9)
Other cash movements	1	5	–	91	97	(38)	59
Currency translation	–	–	–	5	5	–	5
At 31 August 2021	(132)	(283)	–	(470)	(885)	130	(755)

An explanation of Alternative Performance Measures, including Net debt on a pre-IFRS 16 basis, is provided in the Glossary on page 173.

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

Non-cash movements in lease liabilities mainly relate to new leases, modifications and remeasurements in the year.

Term loans and revolving credit facilities

In the prior year, the Group announced new financing arrangements. These included the issuance of £327m of convertible bonds, the repayment of the existing £400m term loans and replacement with a new £133m term loan, and an increased revolving credit facility of £250m.

The Group has in place a four-year committed multi-currency revolving credit facility of £250m with Santander UK PLC, BNP Paribas, HSBC UK Bank PLC, JP Morgan Securities PLC and Barclays Bank PLC. The revolving credit facility is due to mature on 28 April 2025. The utilisation is interest bearing at a margin over SONIA. As at 31 August 2022, the Group has drawn down £nil on this facility (2021: £nil).

The Group has a four-year committed £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing in April 2021. This loan is interest bearing at a margin over SONIA and is due to mature on 28 April 2025. Instalments due within the next 12 months are recorded in current liabilities.

Transaction costs of £1m (2021: £1m) relating to the term loan are amortised to the Income statement through the effective interest rate method. Transaction costs of £1m (2021: £1m) relating to the RCF were capitalised in the previous financial year and are amortised to the Income statement on a straight-line basis.

Notes to the financial statements continued

18. Analysis of net debt (continued)

Convertible bonds

In the prior year, the Group issued £327m guaranteed senior unsecured convertible bonds due in 2026. The bond of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the bonds will be redeemed at par on 7 May 2026.

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds was allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £286m was initially recognised as a liability in the balance sheet on issue and the remainder of the proceeds of £41m, which represents the option component, was recognised in equity.

Transaction costs of £6m were allocated between the two components and the element relating to the debt component of £5m is amortised through the effective interest rate method. The issue costs apportioned to the equity component of £1m have been deducted from equity.

Further information regarding the Group's borrowings and revolving credit facilities is provided in Note 21.

19. Contingent liabilities and capital commitments

£m	2022	2021
Bank guarantees and guarantees in respect of lease agreements	**51**	31

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amount to £30m (2021: £26m).

£m	2022	2021
Commitments in respect of property, plant and equipment	**28**	25
Commitments in respect of other intangible assets	**2**	1
	30	26

20. Cash generated from operating activities

£m	2022	2021
Group operating profit/(loss)	**97**	(92)
Depreciation of property, plant and equipment	**37**	36
Impairment of property, plant and equipment	**7**	16
Amortisation of intangible assets	**13**	14
Impairment of intangible assets	**1**	–
Depreciation of right-of-use assets	**81**	84
Impairment of right-of-use assets	**8**	28
Non-cash change in lease liabilities	**(5)**	(23)
Share-based payments	**9**	6
Gain on remeasurement of leases	**(4)**	(3)
Other non-cash items (incl. foreign exchange)	**(12)**	(2)
(Increase)/decrease in inventories	**(56)**	14
(Increase)/decrease in receivables	**(42)**	4
Increase in payables	**88**	24
Pension funding	**(2)**	(3)
Income taxes paid	**(6)**	–
Income taxes refunded	**–**	10
Movement on provisions (through utilisation or income statement)	**(1)**	–
Cash generated from operating activities	**213**	113

21. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2022	2021
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	**–**	–
Receivables at amortised cost (including cash and cash equivalents)[2]	**210**	167
Financial liabilities		
Amortised cost[3]	**(1,352)**	(1,134)

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 receivables held at amortised cost are trade and other receivables (excluding prepayments) and cash and cash equivalents.

3 Included within amortised cost are trade payables, other payables, accruals, 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.

Notes to the financial statements continued

21. Financial instruments (continued)

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.

The Group has in place a £250m committed multi-currency revolving credit facility, and a syndicated £133m term loan. The covenants, tested half-yearly, are based on minimum liquidity for the period ending 31 August 2022, and from 28 February 2023 are based on fixed charges cover and leverage (defined as total borrowings excluding lease liabilities that would have been treated as an operating lease prior to the adoption of IFRS 16, less cash and cash equivalents/consolidated EBITDA).

In the prior year, the Group issued £327m of guaranteed senior unsecured convertible bonds due in 2026. Settlement and delivery of the convertible bonds took place on 7 May 2021. The total bond offering of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of the WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

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 28 April 2025.

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.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2022 (£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	**29**	**37**	**424**	**–**	**490**
Trade and other payables	**351**	**–**	**–**	**–**	**351**
Lease liabilities	**146**	**100**	**235**	**177**	**658**
Total cash flows	**526**	**137**	**659**	**177**	**1,499**

2021 (£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	10	30	461	–	501
Trade and other payables	249	–	–	–	249
Lease liabilities	115	92	159	148	514
Total cash flows	374	122	620	148	1,264

21. Financial instruments (continued)

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 high volume, low-value and of 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 2022, the Group had drawn down £nil (2021 £nil) from its £250m committed revolving credit facility. If the Group draws down on this facility, it 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 £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing (April 2021). This loan is interest-bearing at a margin over SONIA. The Group monitors the risk associated with the loan. At present, the Group has not entered into interest rate derivatives in respect of the loan.

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 2022 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, Netherlands, 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	2022	2021
Fair value of derivative assets	1	–

At 31 August 2022, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$30m (2021: US$25m). These instruments will be used to hedge cash flows occurring up to one year from the balance sheet date.

Notes to the financial statements continued

21. Financial instruments (continued)

Gains of £nil (2021: £nil) have been transferred to the income statement and gains of £3m (2021: £nil) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2022. In the year to 31 August 2022, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £3m (2021: £nil).

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 2022

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 1.1640/1 (2021: 1.3769/1), EUR/GBP 1.1607/1 (2021: 1.1652/1) and AUD/GBP 1.6967/1 (2021: 1.8821/1).
- Group debt and hedging activities reflect the positions at 31 August 2022 and 31 August 2021 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 SONIA/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.

Using these assumptions, the following table shows the illustrative effect on the Group income statement and equity.

	2022		2021	
£m	**Income gain/(loss)**	**Equity gain/(loss)**	Income (loss)/gain	Equity (loss)/gain
GBP SONIA/base rate interest rates 1% increase	**–**	**–**	–	–
USD/GBP exchange rates 10% increase	**(1)**	**(56)**	1	(47)
EUR/GBP exchange rates 10% increase	**–**	**–**	1	1
AUD/GBP exchange rates 10% increase	**–**	**2**	–	1
GBP SONIA/base rate interest rates 1% decrease	**–**	**–**	–	–
USD/GBP exchange rates 10% decrease	**2**	**63**	(1)	57
EUR/GBP exchange rates 10% decrease	**1**	**–**	(1)	(1)
AUD/GBP exchange rates 10% decrease	**–**	**(2)**	–	(2)

22. Called up share capital

Allotted and fully paid

£m	2022 Number of shares (millions)	2022 Nominal value £m	2021 Number of shares (millions)	2021 Nominal value £m
Equity:				
Ordinary shares of $22\frac{6}{67}$p	**131**	**29**	131	29
Total	**131**	**29**	131	29

During the year, 1,633 ordinary shares were allotted under the terms of the Company's Sharesave Scheme (2021: 43,345). There was no effect from this allotment on share premium (2021: increase of £1m).

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 £9m (2021: £5m) 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 622,989 (2021: 304,641).

23. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	LTIPs	PSP	Cash-settled awards	Total
Outstanding at 1 September 2021	**388,479**	**1,982,314**	**532,974**	**52,032**	**2,955,799**
Options and awards granted	**–**	**1,150,443**	**180,368**	**62,213**	**1,393,024**
Options and awards exercised	**(1,633)**	**(124,721)**	**(32,164)**	**–**	**(158,518)**
Options and awards lapsed / cancelled	**(68,231)**	**(495,629)**	**(219,901)**	**(2,311)**	**(786,072)**
Outstanding at 31 August 2022	**318,615**	**2,512,407**	**461,277**	**111,934**	**3,404,233**
Exercisable at 31 August 2022	**95,906**	**39,251**	**27,561**	**–**	**162,718**
Outstanding at 1 September 2020	307,077	1,179,064	513,695	17,041	2,016,877
Options and awards granted	272,790	1,103,099	180,468	56,330	1,612,687
Options and awards exercised	(43,345)	(5,915)	(10,833)	(21,339)	(81,432)
Options and awards lapsed / cancelled	(148,043)	(293,934)	(150,356)	–	(592,333)
Outstanding at 31 August 2021	**388,479**	**1,982,314**	**532,974**	**52,032**	**2,955,799**
Exercisable at 31 August 2021	**–**	**–**	**4,839**	**–**	**4,839**

Pence	2022	2021
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**192.20**	232.88
– Granted in the year	**–**	236.81
– Exercised in the year	**15.71**	767.49
– Lapsed in the year	**126.54**	373.06
– Outstanding at the end of the year	**136.94**	192.20
– Exercisable at the end of the year	**947.30**	–

Notes to the financial statements continued

23. Share-based payments (continued)

Detail of movements in options and awards

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:

	Number of shares			
Date of grant	**2022**	2021	Exercise price (pence)	Exercise period
20 October 2016	**11,892**	136,613	Nil	Oct 2019 – 20.10.26
26 October 2017	**38,315**	38,315	Nil	Oct 2020 – 26.10.27
1 November 2018	**–**	332,766	Nil	Nov 2023 – 01.11.28
5 November 2019	**365,640**	371,521	Nil	Nov 2024 – 05.11.29
19 November 2020	**1,015,635**	1,103,099	Nil	Nov 2025 – 19.11.30
19 November 2021	**1,080,925**	–	Nil	Nov 2026 – 19.11.31
	2,512,407	1,982,314		

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 applies to 50 per cent of any shares which vest. For awards made in November 2018, and all subsequent awards, the holding period applies to 100 per cent of any shares that vest. The awards will accrue dividends paid over the performance and any holding period. LTIP awards are equity-settled.

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 three 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. SAYE options are equity-settled.

Outstanding options granted under the Sharesave Scheme at 31 August 2022 and 31 August 2021 are as follows:

	Number of shares			
Date of grant	**2022**	2021	Exercise price (pence)	Exercise period
5 June 2019 (3 year)	**95,906**	115,689	1609.60	01.08.22 – 31.01.23
9 June 2021 (3 year)	**222,709**	272,790	1400.00	01.08.24 – 31.01.25
	318,615	388,479		

23. Share-based payments (continued)

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. PSP awards are equity-settled.

Outstanding awards granted under the PSP are as follows:

	Number of shares			
Date of grant	**2022**	2021	Exercise price (pence)	Exercise period
23 October 2014	**870**	870	Nil	Oct 2017 – 23.10.24
20 October 2016	**3,561**	3,969	Nil	Oct 2019 – 20.10.26
1 November 2018	**–**	137,553	Nil	Nov 2021 – 01.11.28
7 December 2018	**–**	10,476	Nil	Dec 2021 – 07.12.28
5 November 2019	**178,398**	205,170	Nil	Nov 2022 – 05.11.29
19 November 2020	**121,289**	174,936	Nil	Nov 2021 – 19.11.30
19 November 2021	**157,159**	–	Nil	Nov 2024 – 19.11.31
	461,277	532,974		

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.

At 31 August 2022, 18,473 (2021: 10,108) shares remain deferred in accordance with this plan.

Cash-settled schemes

Under the terms of the LTIP and PSP, 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 2022 there were 111,934 outstanding nil-cost cash-settled awards (2021: 52,032), which will be settled between November 2022 and November 2031. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2021: less than £1m).

Fair value information

	2022	2021
Weighted average share price at date of exercise of share options exercised during year – pence	**1,573.69**	1,558.60
Weighted average remaining contractual life at end of year – years	**8**	8

Notes to the financial statements continued

23. Share-based payments (continued)

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted in the year is:

£m	2022	2021
	15	16

The fair values of the LTIP and PSP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2022	2021
Share price – pence	**1,514**	1,482
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**41**	42
Expected life – years	**3.0**	2.8
Risk-free rate – per cent	**0.44**	(0.03)
Dividend yield – per cent	**0%-2%**	0%–2%
Weighted average fair value of options – pence	**1,068.26**	1,060.81

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 2021 were measured using a Black Scholes model. None were granted in the year ended 31 August 2022. The input range into the Black Scholes models was as follows in the year ended 31 August 2021:

	2021
Share price – pence	**1,785**
Exercise price – pence	**1,400**
Expected volatility – per cent	**37**
Expected life – years	**3.4**
Risk-free rate – per cent	**0.16**
Dividend yield – per cent	**Nil**
Weighted average fair value of options – pence	**616.43**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

24. 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 83 to 104.

£'000	2022	2021
Short-term employee benefits	**3,327**	2,470
Post-employment benefits	**182**	176
Share-based payments	**1,577**	1,042
	5,086	3,688

There are no other transactions with directors.

25. Other reserves and Capital redemption reserve

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Convertible bond reserve	Total
Balance as at 1 September 2021	(277)	2	(5)	–	40	(240)
Cash flow hedges	–	–	–	3	–	3
Employee share schemes	(3)	–	(4)	–	–	(7)
Balance at 31 August 2022	**(280)**	**2**	**(9)**	**3**	**40**	**(244)**

£m	Other reserves	Revaluation reserve	ESOP reserve	Hedging reserve	Convertible bond reserve	Total
Balance as at 1 September 2020	(277)	2	(4)	–	–	(279)
Issue of convertible bond – value of conversion rights	–	–	–	–	40	40
Employee share schemes	–	–	(1)	–	–	(1)
Balance at 31 August 2021	**(277)**	**2**	**(5)**	**–**	**40**	**(240)**

The Other reserves include reserves created in relation to historical capital reorganisation and proforma restatement, £(238)m (2021: £(238)m), demerger from Smiths News PLC in 2006, £69m (2021: £69m), and cumulative amounts relating to employee share schemes of £108m (2021: £(108)m).

The convertible bond reserve is a reserve created to recognise the equity component of the convertible bond issued in April 2021 (see Note 18) and represents the value of the conversion rights at initial recognition of £41m, net of transaction costs of £1m.

The Capital redemption reserve of £13m (2021: £13m) represents the par value of shares repurchased and cancelled under the Group's share buyback programme and is reclassified from Share capital to the Capital redemption reserve.

Notes to the financial statements continued

26. 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

26. Subsidiary companies (continued)

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 2022.

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
The Card Gallery (UK) Limited	05157486
The SQL Workshop Limited	02676287
WH Smith Travel 2008 Limited	6560390

International joint ventures

The below entities are joint ventures and per the Group's accounting policies on page 122, 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	15	Ordinary	50	Retailing
WH Smith Malaysia SDN BHD	Malaysia	11	Ordinary	50	Retailing
WH Smith LLC	Oman	10	Ordinary	50	Retailing
MSP Innovations, LLC	USA	16	Ordinary	33	Retailing
Nash Nails MRG, LLC	USA	16	Ordinary	39	Retailing

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 122, the Group has determined that it has control of these entities and has therefore consolidated their results.

Notes to the financial statements continued

26. Subsidiary companies (continued)

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 Calais S.A.S	France	4	Ordinary	100	Retailing
WH Smith Germany GmbH	Germany	5	Ordinary	100	Retailing
WH Smith Ireland Limited	Ireland	6	Ordinary	100	Retailing
WH Smith Italia S.R.L	Italy	7	Ordinary	100	Retailing
WH Smith Jersey Limited	Jersey	8	Ordinary	100	Retailing
WH Smith LLC	Qatar	9	Ordinary	49	Retailing
WH Smith Nederland B.V.	Netherlands	12	Ordinary	100	Dormant
WH Smith Belgium	Belgium	18	Ordinary	100	Retailing
WH Smith Norway	Norway	19	Ordinary	100	Retailing
WH Smith Singapore Pte. Limited	Singapore	13	Ordinary	100	Retailing
WH Smith Spain S.L.	Spain	14	Ordinary	100	Retailing
WH Smith USA Holdings Inc	USA	16	Ordinary	100	Holding Company
InMotion Entertainment Holdings LLC	USA	16	Ordinary	100	Holding Company
InMotion Entertainment Personnel Leasing Corp	USA	16	Ordinary	100	Holding Company
WH Smith USA Retail Inc	USA	16	Ordinary	100	Holding Company
InMotion SFO, LLC	USA	16	Ordinary	88	Retailing
Wild Retail Group Pty Limited	Australia	3	Ordinary	100	Retailing
InMotion Entertainment Group, LLC	USA	16	Ordinary	100	Retailing
BTS – InMotion Atlanta, LLC	USA	16	Ordinary	100	Retailing
InMotion AUS, LLC	USA	16	Ordinary	88	Retailing
InMotion BNA, LLC	USA	16	Ordinary	84	Dormant
InMotion BNA-C,LLC	USA	16	Ordinary	80	Retailing
Soundbalance BOS, LLC	USA	16	Ordinary	67	Dormant
InMotion BOS-A, LLC	USA	16	Ordinary	80	Dormant
InMotion BOS, LLC	USA	16	Ordinary	70	Dormant
InMotion BOS-BCE, LLC	USA	16	Ordinary	80	Retailing
InMotion BWI, LLC	USA	16	Ordinary	60	Retailing
InMotion CLE, LLC	USA	16	Ordinary	67	Retailing
Soundbalance CLT, LLC	USA	16	Ordinary	67	Retailing
InMotion – SB DC, LLC	USA	16	Ordinary	75	Retailing
InMotion DCA, LLC	USA	16	Ordinary	75	Retailing
InMotion DEN-B, LLC	USA	16	Ordinary	75	Retailing
DFW-A Retail Partners, LLC	USA	16	Ordinary	60	Retailing
DFW-E Retail Partners, LLC	USA	16	Ordinary	65	Retailing
DFW-D/E Retail Partners, LLC	USA	16	Ordinary	70	Retailing
Soundbalance DTW, LLC	USA	16	Ordinary	67	Retailing
InMotion DTW, LLC	USA	16	Ordinary	75	Retailing
InMotion EWR, LLC	USA	16	Ordinary	80	Retailing
InMotion EWR-B, LLC	USA	16	Ordinary	85	Retailing
InMotion FLL, LLC	USA	16	Ordinary	62	Retailing
InMotion FLL-T4, LLC	USA	16	Ordinary	62	Retailing
InMotion IAD, LLC	USA	16	Ordinary	75	Retailing
Soundbalance IAH, LLC	USA	16	Ordinary	67	Retailing
BR InMotion IAH, LLC	USA	16	Ordinary	65	Retailing
InMotion LAX, LLC	USA	16	Ordinary	75	Retailing

26. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
InMotion LAX-IT,LLC	USA	16	Ordinary	80	Retailing
Soundbalance MCO, LLC	USA	16	Ordinary	67	Retailing
InMotion MCO, LLC	USA	16	Ordinary	73	Retailing
Soundbalance Miami, LLC	USA	16	Ordinary	67	Retailing
InMotion Bright, LLC	USA	16	Ordinary	75	Retailing
InMotion MKE, LLC	USA	16	Ordinary	79	Dormant
InMotion MSY, LLC	USA	16	Ordinary	64	Retailing
InMotion ORD, LLC	USA	16	Ordinary	70	Retailing
InMotion ORD T2, LLC	USA	16	Ordinary	70	Retailing
Soundbalance PDX, LLC	USA	16	Ordinary	67	Retailing
Soundbalance PHL, LLC	USA	16	Ordinary	67	Retailing
InMotion PHL, LLC	USA	16	Ordinary	70	Dormant
Soundbalance ATL-E, LLC	USA	16	Ordinary	67	Retailing
InMotion ATL-A, LLC	USA	16	Ordinary	64	Retailing
InMotion ATL, LLC	USA	16	Ordinary	80	Retailing
InMotion PHX, LLC	USA	16	Ordinary	80	Retailing
InMotion PHX T3, LLC	USA	16	Ordinary	90	Retailing
Soundbalance SAN, LLC	USA	16	Ordinary	55	Retailing
InMotion SAT, LLC	USA	16	Ordinary	75	Retailing
InMotion SEA, LLC	USA	16	Ordinary	88	Retailing
InMotion SFO-T3, LLC	USA	16	Ordinary	85	Retailing
InMotion SFO-IT, LLC	USA	16	Ordinary	90	Retailing
Soundbalance SJC, LLC	USA	16	Ordinary	67	Dormant
InMotion SLC,LLC	USA	16	Ordinary	80	Retailing
InMotion IAH, LLC	USA	16	Ordinary	70	Dormant
InMotion SLC-A,LLC	USA	16	Ordinary	85	Retailing
InMotion SLC-B,LLC	USA	16	Ordinary	90	Retailing
InMotion SMF,LLC	USA	16	Ordinary	90	Retailing
InMotion CLT, LLC	USA	16	Ordinary	74	Retailing
SBIP, LLC	USA	16	Ordinary	50	Dormant
InMotion LGA, LLC	USA	16	Ordinary	75	Dormant
Marshall Retail Group Holding Co Inc	USA	16	Ordinary	100	Holding company
MRG Holdings Corp	USA	16	Ordinary	100	Holding company
Marshall Retail Group LLC	USA	16	Ordinary	100	Retailing
The Marshall Retail Group Canada Inc	Canada	17	Ordinary	100	Retailing
MRG Baltimore Concourse A, LLC	USA	16	Ordinary	70	Retailing
MRG Baltimore (BWI), LLC	USA	16	Ordinary	70	Retailing
MRG Chicago, LLC	USA	16	Ordinary	65	Retailing
MRG Denver, LLC	USA	16	Ordinary	75	Retailing
MRG Dallas II, LLC	USA	16	Ordinary	65	Retailing
MRG Kansas City, LLC	USA	16	Ordinary	80	Retailing
MRG LaGuardia, LLC	USA	16	Ordinary	80	Retailing
MRG LaGuardia Terminal A, LLC	USA	16	Ordinary	75	Retailing
MRG Los Angeles, LLC	USA	16	Ordinary	70	Retailing
MRG Los Angeles T3	USA	16	Ordinary	70	Retailing
MRG Nashville, LLC	USA	16	Ordinary	80	Retailing

Notes to the financial statements continued

26. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
MRG Newark, LLC	USA	16	Ordinary	74	Retailing
MRG Newark 2, LLC	USA	16	Ordinary	74	Retailing
MRG Orlando, LLC	USA	16	Ordinary	70	Retailing
MRG Phoenix 1, LLC	USA	16	Ordinary	65	Retailing
MRG Phoenix 2, LLC	USA	16	Ordinary	65	Retailing
MRG Raleigh Terminal 1, LLC	USA	16	Ordinary	55	Retailing
MRG RDU T2, LLC	USA	16	Ordinary	80	Retailing
MRG Sacramento, LLC	USA	16	Ordinary	90	Retailing
MRG Salt Lake City, LLC	USA	16	Ordinary	80	Retailing
MRG San Francisco, LLC	USA	16	Ordinary	80	Retailing
MRG San Francisco Terminal 1, LLC	USA	16	Ordinary	80	Retailing
MRG San Francisco Terminal 2, LLC	USA	16	Ordinary	85	Retailing
MRG San Francisco Terminal 3, LLC	USA	16	Ordinary	80	Retailing
MRG Savannah, LLC	USA	16	Ordinary	55	Retailing
MR Seattle, LLC	USA	16	Ordinary	80	Retailing
MRG Washington (DCA), LLC	USA	16	Ordinary	75	Retailing
MRG Washington (IAD), LLC	USA	16	Ordinary	75	Retailing
Midway Fresh MRG, LLC	USA	16	Ordinary	20	Retailing
WH Smith DEN, LLC	USA	16	Ordinary	70	Retailing
WH Smith DCA, LLC	USA	16	Ordinary	75	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	38 Rue des Mathurins, 75008 Paris 8, France
5	Terminal Ring 1, Zentralgebaude Ost, Zi. 5. 035, 40474 Dusseldorf, Germany
6	6th Floor, Grand Canal Square, Dublin 2, Ireland
7	Via Borgogna, Cap 20122, Milano, Italy
8	72/74 King Street, St Helier, Jersey, JE2 4WE
9	27 Um Ghwalinah Road, 230 C-ring Road, Doha, Qatar
10	PO Box 3275, PC112, Ruwi, Oman
11	C2–6–1, Solaris Dutamas, 1, Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
12	Weteringschans 94, 1017 XS, Amsterdam, Netherlands
13	11 Keng Cheow Street #3–10 The Riverside Piazza, Singapore 059608
14	Paseo de Recoletos, 27, 7ª, 28004, Madrid, Spain
15	Avenida das Americas, No. 3434, Barra da Tijuca, CEP 22640–102, Rio de Janeiro, RJ, Brazil
16	3755 W Sunset Road, Las Vegas, Nevada, NV 89118, USA
17	2200 HSBC Building, 885 West Georgia Street, Vancouver, BC V6C 3E8, Canada
18	Posthofbrug 10 boîte 4, 2600 Anvers, Belgique
19	C/o CMS Kluge Advokatfirma AS, Bryggegata 6, 0250 Oslo, Norway

Company balance sheet

As at 31 August 2022

£m	Note	2022	2021
Non-current assets			
Investments	3	**835**	835
		835	835
Current assets			
Receivables: amounts falling due within one year	4	**287**	298
		287	298
Current liabilities			
Payables: amounts falling due within one year	5	**(166)**	(168)
Borrowings	6	**(20)**	–
		(186)	(168)
Net current assets		**101**	130
Non-current liabilities			
Borrowings	6	**(404)**	(415)
		(404)	(415)
Total net assets		**532**	550
Shareholders' equity			
Called up share capital	8	**29**	29
Share premium account		**316**	316
Other reserves	9	**40**	40
Capital redemption reserve	9	**13**	13
Profit and loss account[1]		**134**	152
Total equity		**532**	550

1 The loss for the year attributable to shareholders was £18m (2021: loss of £14m). See Note 2.

The financial statements of WH Smith PLC, registered number 5202036, on pages 169 to 172 were approved by the Board of Directors and authorised for issue on 10 November 2022 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 2022

£m	Share capital	Share premium	Capital redemption reserve	Other reserves	Profit and loss account	Total
Balance at 1 September 2021	**29**	**316**	**13**	**40**	**152**	**550**
Loss for the financial year	–	–	–	–	(18)	(18)
Total comprehensive loss for the year	–	–	–	–	(18)	(18)
Balance at 31 August 2022	**29**	**316**	**13**	**40**	**134**	**532**
Balance at 1 September 2020	**29**	**315**	**13**	**–**	**166**	**523**
Loss for the financial year	–	–	–	–	(14)	(14)
Total comprehensive loss for the year	–	–	–	–	(14)	(14)
Premium on issue of shares	–	1	–	–	–	1
Issue of convertible bonds – value of conversion rights (Note 10)	–	–	–	40	–	40
Balance at 31 August 2021	**29**	**316**	**13**	**40**	**152**	**550**

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 105.

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 payments, 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 2022, have had a material impact on the Company.

In the application of the Company's accounting policies, the Directors do not consider that there are any further critical accounting judgements or sources of estimation uncertainty that could lead to a material change in the carrying amounts of assets and liabilities.

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) Receivables

Receivables represent amounts due from other Group companies. Receivables 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 credit 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. Profit/(loss) 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 £18m (2021: 14m) comprising finance costs of £22m (2021: £14m), non-underlying items of £nil (2021: £6m), offset by a tax credit of £4m (2021: £6m). There were no other recognised gains or losses.

The Company did not have any employees during the year ended 31 August 2022 (2021: nil). All directors were remunerated by other Group companies.

3. Investments

A full list of the Company's subsidiary undertakings is included in Note 26 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. Receivables: amounts falling due within one year

£m	2022	2021
Amounts owed by subsidiary undertakings	**282**	293
Prepayments	**1**	1
Current tax receivable	**4**	4
	287	298

Amounts receivable from subsidiary undertakings are non-interest bearing and repayable on demand. The Company has undertaken a review of the liquidity position of the counterparty subsidiaries and noted that the subsidiaries continue to 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 the current year in respect of these receivables.

5. Payables: amounts falling due within one year

£m	2022	2021
Amounts owed to subsidiary undertakings	**162**	162
Bank overdrafts	**2**	3
Accruals and deferred income	**2**	3
	166	168

Amounts owed to subsidiary undertakings are unsecured, non-interest bearing and repayable on demand.

6. Borrowings

£m	2022	2021
Current Term loans	**20**	–
Non-current Term loans	**112**	132
Convertible bonds	**292**	283
	424	415

In the prior year, the Group announced new financing arrangements. These included the issuance of £327m of convertible bonds, the repayment of the existing £400m term loans and replacement with a new £133m term loan, and an increased revolving credit facility of £250m.

Term loans and revolving credit facilities

At 31 August 2022, alongside other Group companies, the Company is a guarantor on a five-year committed multi-currency revolving credit facility of £250m with Santander UK PLC, BNP Paribas, HSBC UK Bank PLC, JP Morgan Securities PLC and Barclays Bank PLC. The revolving credit facility is due to mature on 28 April 2025. The utilisation is interest bearing at a margin over SONIA.

At 31 August 2022, the Company has a four-year committed £133m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC, that was drawn down at the time of the refinancing in April 2021. This loan is interest bearing at a margin over SONIA and is due to mature on 28 April 2025.

Transaction costs of £1m relating to the term loan are being amortised through the effective interest rate method.

Convertible bonds

In the prior year, the Company issued £327m of guaranteed senior unsecured convertible bonds due in 2026. Settlement and delivery of convertible bonds took place on 7 May 2021. The total bond offering of £327m covers a five-year term beginning on 7 May 2021 with a 1.625 per cent per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40 per cent above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

Notes to the Company financial statements continued

6. Borrowings (continued)

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £286m was initially recognised as a liability in the balance sheet on issue and the remainder of the proceeds of £41m, which represents the option component, was recognised in equity.

Transaction costs of £6m were allocated between the two components and the element relating to the debt component of £5m is amortised through the effective interest rate method. The issue costs apportioned to the equity component of £1m have been deducted from equity.

7. Contingent liabilities

Contingent liabilities of £1m (2021: £1m) are in relation to insurance standby letters of credit.

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
The Card Gallery (UK) Limited	05157486
The SQL Workshop Limited	02676287
WH Smith Travel 2008 Limited	6560390

8. Called up share capital

Allotted and fully paid

	2022		2021	
	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**	131	29
Total	**131**	**29**	131	29

During the year, 1,633 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. There was no effect from this allotment on share premium (2021: increase of £1m).

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.

9. Other reserves and Capital redemption reserve

Other reserves are reserves created to recognise the equity component of the convertible bond issued in April 2021 (see Note 6) and represents the value of the conversion rights at initial recognition of £41m, net of transaction costs of £1m.

The Capital redemption reserve of £13m (2021: £13m) represents the par value of shares repurchased and cancelled under the Company's share buyback programme is reclassified from Share capital to the Capital redemption reserve.

Glossary (unaudited)

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 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 operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, 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. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

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.

IFRS 16

The Group adopted IFRS 16 in the year ended 31 August 2020. 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.

Management have chosen to exclude the effects of IFRS 16 for the purposes of narrative commentary on the Group's performance and financial position in the Strategic report. The effect of IFRS 16 on the Group income statement is to front-load total lease expenses, being higher at the beginning of a lease contract, and lower towards the end of a contract, and this is further influenced by timing of renewals and contract wins, and lengths of contracts. As a result of these complexities, IFRS 16 measures of profit and EBITDA (used as a proxy for cash generation) do not provide meaningful KPIs or measures for the purposes of assessing performance, concession quality or for trend analysis, therefore management continue to use pre-IFRS 16 measures internally.

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 flows from operating activities being offset by a decrease in net cash flows from financing activities, as set out in Note A9 below. The balance sheet as at 31 August 2022 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Leases 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.

Glossary (unaudited) continued

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 measures	Various	See Notes A1–A11	Headline measures exclude the impact of IFRS 16 (applying the principles of IAS 17). Reconciliations of all Headline measures are provided in Notes A1 to A11.
Group profit/(loss) before tax and non-underlying items	Group profit/(loss) before tax	See Group income statement and Note A1	Group profit/(loss) before tax and non-underlying items excludes the impact of non-underlying items as described below. A reconciliation from Group profit/(loss) before tax and non-underlying items to Group profit/(loss) before tax is provided on the Group income statement on page 116, and on a Headline (pre-IFRS 16) basis in Note A1.
Group profit/(loss) from trading operations and segment trading profit/(loss)	Group operating profit/(loss)	See Note 2 and Note A2	Group profit/(loss) from trading operations and segment trading profit/(loss) 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 profit/(loss) and Group profit/(loss) before tax on an IFRS 16 basis is provided in Note 2 to the financial statements and on a Headline (pre-IFRS 16) basis in Note A2.
Non-underlying items	None	Refer to definition and see Note 4 and 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 a Headline (pre-IFRS 16) basis in Note A6.
Earnings/(loss) per share before non-underlying items	Earnings/(loss) per share	Non-underlying items, see Note 10 and Note A4	Profit/(loss) 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. A reconciliation is provided on an IFRS 16 basis in Note 10 and on a Headline (pre-IFRS 16) basis in Note A4.
Headline EBITDA	Group operating profit/(loss)	Refer to definition	Headline EBITDA is Headline Group operating profit/(loss) before non-underlying items adjusted for pre-IFRS 16 depreciation, amortisation and impairment.
Effective tax rate	None	Non-underlying items	Total income tax charge/credit excluding the tax impact of non-underlying items divided by Group Headline profit/(loss) before tax and non-underlying items. See Note 8 on an IFRS 16 basis, and Notes A3 and A6 on a Headline pre-IFRS 16 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 a pre-IFRS 16 basis. The calculation of this measure is outlined in Note A5.

Definitions and reconciliations (continued)

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures (continued)			
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.
Balance sheet measures			
Headline net debt	Net debt	Reconciliation of net debt	Headline 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 a pre-IFRS 16 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of net debt on an IFRS 16 basis is provided in Note A8.
Other measures			
Free cash flow	Net cash inflow from operating activities	See Note A7 and Strategic report page 28	Free cash flow is defined as the net cash inflow from operating activities before the cash flow effect of IFRS 16, 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 28, as part of the Strategic report.

Glossary (unaudited) continued

A1. Reconciliation of Headline to Statutory Group operating profit and Group profit before tax

	2022				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Revenue	**1,400**	**–**	**1,400**	**–**	**1,400**
Cost of sales	**(538)**	**–**	**(538)**	**–**	**(538)**
Gross profit	**862**	**–**	**862**	**–**	**862**
Distribution costs	**(604)**	**–**	**(604)**	**16**	**(588)**
Administrative expenses	**(160)**	**–**	**(160)**	**(1)**	**(161)**
Other income	**–**	**–**	**–**	**4**	**4**
Non-underlying items	**–**	**(12)**	**(12)**	**(8)**	**(20)**
Group operating profit	**98**	**(12)**	**86**	**11**	**97**
Finance costs	**(25)**	**–**	**(25)**	**(9)**	**(34)**
Profit before tax	**73**	**(12)**	**61**	**2**	**63**
Income tax (charge)/credit	**(12)**	**3**	**(9)**	**(1)**	**(10)**
Profit for the year	**61**	**(9)**	**52**	**1**	**53**
Attributable to:					
Equity holders of the parent	**55**	**(9)**	**46**	**1**	**47**
Non-controlling interests	**6**	**–**	**6**	**–**	**6**
	61	**(9)**	**52**	**1**	**53**

	2021				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Revenue	886	–	886	–	886
Cost of sales	(358)	–	(358)	–	(358)
Gross profit	528	–	528	–	528
Distribution costs	(431)	–	(431)	12	(419)
Administrative expenses	(136)	–	(136)	(4)	(140)
Other income	–	–	–	4	4
Non-underlying items	–	(49)	(49)	(16)	(65)
Group operating loss	(39)	(49)	(88)	(4)	(92)
Finance costs	(16)	–	(16)	(8)	(24)
Loss before tax	(55)	(49)	(104)	(12)	(116)
Income tax credit	26	9	35	1	36
Loss for the year	(29)	(40)	(69)	(11)	(80)
Attributable to:					
Equity holders of the parent	(31)	(40)	(71)	(11)	(82)
Non-controlling interests	2	–	2	–	2
	(29)	(40)	(69)	(11)	(80)

A2. Reconciliation of Headline to Statutory segmental trading profit/(loss) and Group profit/(loss) from trading operations

	2022				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Travel UK trading profit	54	–	54	6	60
North America trading profit	31	–	31	2	33
Rest of the World trading profit/(loss)	4	–	4	(1)	3
Total Travel trading profit	89	–	89	7	96
High Street trading profit	33	–	33	12	45
Group profit from trading operations	122	–	122	19	141
Unallocated central costs	(24)	–	(24)	–	(24)
Group operating profit before non-underlying items	98	–	98	19	117
Non-underlying items	–	(12)	(12)	(8)	(20)
Group operating profit/(loss)	98	(12)	86	11	97

	2021				
	pre-IFRS 16 basis			IFRS 16 basis	
£m	Headline, before non-underlying items (pre-IFRS 16)	Headline non-underlying items (pre-IFRS 16)	Headline (pre-IFRS 16)	IFRS 16 adjustments	Total
Travel UK trading loss	(32)	–	(32)	3	(29)
North America trading profit/(loss)	6	–	6	(4)	2
Rest of the World trading loss	(13)	–	(13)	(4)	(17)
Travel trading loss	(39)	–	(39)	(5)	(44)
High Street trading profit	19	–	19	17	36
Group (loss)/profit from trading operations	(20)	–	(20)	12	(8)
Unallocated central costs	(19)	–	(19)	–	(19)
Group operating (loss)/profit before non-underlying items	(39)	–	(39)	12	(27)
Non-underlying items	–	(49)	(49)	(16)	(65)
Group operating loss	(39)	(49)	(88)	(4)	(92)

Glossary (unaudited) continued

A3. Reconciliation of Headline to Statutory tax expense/(credit)

£m	2022 Headline (pre-IFRS 16)	2022 IFRS 16 adjustments	2022 IFRS 16	2021 Headline (pre-IFRS 16)	2021 IFRS 16 adjustments	2021 IFRS 16
Profit/(loss) before tax and non-underlying items	**73**	**10**	**83**	(55)	4	(51)
Tax on profit/loss – Standard rate of UK corporation tax (19.00%; 2021: 19.00%)	**5**	**1**	**6**	–	–	–
Adjustment in respect of prior years	**–**	**–**	**–**	(1)	–	(1)
Total current tax charge/(credit)	**5**	**1**	**6**	(1)	–	(1)
Deferred tax – current year	**7**	**1**	**8**	(13)	2	(11)
Deferred tax – prior year	**–**	**–**	**–**	(4)	–	(4)
Deferred tax – adjustment in respect of change in tax rates	**–**	**–**	**–**	(8)	–	(8)
Tax charge/(credit) on Headline profit/loss	**12**	**2**	**14**	(26)	2	(24)
Tax on non-underlying items – current tax	**–**	**–**	**–**	–	–	–
Tax on non-underlying items – deferred tax	**(3)**	**(1)**	**(4)**	(9)	(3)	(12)
Total tax charge/(credit) on profit/loss	**9**	**1**	**10**	(35)	(1)	(36)

A4. Calculation of Headline and Statutory earnings per share

Millions	2022 Basic EPS	2022 Diluted EPS	2021 Basic EPS	2021 Diluted EPS
Weighted average shares in issue (Note 9)	**130**	**132**	131	131

	2022 Profit for the year attributable to equity holders of the parent £m	2022 Basic EPS pence	2022 Diluted EPS pence	2021 Profit for the year attributable to equity holders of the parent £m	2021 Basic EPS pence	2021 Diluted EPS pence
Headline (pre-IFRS 16 basis)						
– Before non-underlying items	**55**	**42.3**	**41.7**	(31)	(23.7)	(23.7)
– Non-underlying items	**(9)**	**(6.9)**	**(6.9)**	(40)	(30.5)	(30.5)
– Total	**46**	**35.4**	**34.8**	(71)	(54.2)	(54.2)
IFRS 16 adjustments						
– Before non-underlying items	**8**	**6.2**	**6.0**	2	1.6	1.6
– Non-underlying items	**(7)**	**(5.4)**	**(5.2)**	(13)	(10.0)	(10.0)
– Total	**1**	**0.8**	**0.8**	(11)	(8.4)	(8.4)
IFRS 16 basis						
– Before non-underlying items	**63**	**48.5**	**47.7**	(29)	(22.1)	(22.1)
– Non-underlying items	**(16)**	**(12.3)**	**(12.1)**	(53)	(40.5)	(40.5)
– Total	**47**	**36.2**	**35.6**	(82)	(62.6)	(62.6)

A5. Fixed charges cover

£m	Note	2022	2021
Headline net finance costs (pre-IFRS 16)	A1	**25**	16
Net operating lease charges (pre-IFRS 16)	A11	**241**	151
Total fixed charges		**266**	167
Headline profit before tax and non-underlying items	A1	**73**	(55)
Headline profit before tax, non-underlying items and fixed charges		**339**	112
Fixed charges cover – times		**1.3x**	0.7x

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

	2022		2021	
£m	Headline (pre-IFRS 16)	IFRS 16	Headline (pre-IFRS 16)	IFRS 16
Amortisation of acquired intangible assets	**3**	**3**	3	3
Costs related to cyber incident	**4**	**4**	–	–
Impairment				
– property, plant and equipment	**5**	**5**	18	14
– right-of-use assets	**–**	**8**	–	28
Other property costs	**–**	**–**	5	–
Write-down of inventories	**–**	**–**	5	5
Restructuring costs	**–**	**–**	9	9
Costs associated with refinancing	**–**	**–**	6	6
Costs relating to business combinations	**–**	**–**	2	2
Other	**–**	**–**	1	(2)
Non-underlying items, before tax	**12**	**20**	49	65
Tax credit on non-underlying items	**(3)**	**(4)**	(9)	(12)
Non-underlying items, after tax	**9**	**16**	40	53

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 £4m (2021: £12m) has been recognised in relation to the above items (£3m pre-IFRS 16 (2021: £9m)).

Impairment of property, plant and equipment and right-of-use assets

The impairment charge recognised on a pre-IFRS 16 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base pre-IFRS 16, 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 pre-IFRS 16. The pre-tax discount rate used in the IFRS 16 calculation was 11.9 per cent (2021: 10.4) and the pre-tax discount rate used in the pre-IFRS 16 calculation was 14.4 per cent (2021: 13.9).

Right-of-use assets are not recognised on a pre-IFRS 16 basis.

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. In the prior year, as a result of the impact of Covid-19, the Group included a charge of £5m for stores where we anticipate that we will make a cash loss over the remaining term of their leases.

Glossary (unaudited) continued

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases (continued)

The Group's pre-IFRS 16 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.

A7. Free cash flow

£m	2022	2021
Cash generated from operating activities (Note 20)	213	113
Interest paid	(26)	(13)
Net cash inflow from operating activities	187	100
Cash flow impact of IFRS 16 (Note A9)	(93)	(83)
Add back:		
– Cash impact of non-underlying items	16	38
– Pension funding	2	3
– Other non cash items	12	–
Deduct:		
– Purchase of property, plant and equipment	(70)	(37)
– Purchase of intangible assets	(13)	(7)
Free cash flow	**41**	14

A8. Headline net debt

The table below shows Headline net debt (pre-IFRS 16). 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, described in the Glossary on page 173), but excludes additional lease liabilities recognised on application of IFRS 16.

£m	2022	2021
Borrowings		
– Revolving credit facility	–	–
– Convertible bonds	(292)	(283)
– Bank loans	(132)	(132)
– Lease liabilities (Note 16)	(577)	(470)
Liabilities from financing activities	**(1,001)**	(885)
Cash and cash equivalents	132	130
Net debt (IFRS 16) (Note 18)	**(869)**	(755)
Add back lease liabilities recognised under IFRS 16[1]	573	464
Headline net debt (pre-IFRS 16)	**(296)**	(291)

1 Excludes lease liabilities previously recognised as finance leases on a pre-IFRS 16 basis.

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 flows from operating activities being offset by a decrease in net cash flows from financing activities.

	2022			2021		
£m	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16
Net cash inflows from operating activities	94	93	187	17	83	100
Net cash outflows from investing activities	(83)	–	(83)	(43)	–	(43)
Net cash (outflows)/inflows from financing activities	(11)	(93)	(104)	48	(83)	(35)
Net increase in cash in the period	–	–	–	22	–	22

A10. Balance sheet impact of IFRS 16

The balance sheet including and excluding the impact of IFRS 16 is shown below:

	2022			2021		
£m	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16	Headline (pre-IFRS 16)	IFRS 16 adjustment	IFRS 16
Goodwill and other intangible assets	**544**	**(1)**	**543**	474	(1)	473
Property, plant and equipment	**211**	**8**	**219**	167	7	174
Right-of-use assets	**–**	**446**	**446**	–	328	328
Investments in joint ventures	**2**	**–**	**2**	2	–	2
	757	**453**	**1,210**	643	334	977
Inventories	**198**	**–**	**198**	135	–	135
Payables less receivables	**(284)**	**15**	**(269)**	(237)	23	(214)
Working capital	**(86)**	**15**	**(71)**	(102)	23	(79)
Derivative financial asset	**1**	**–**	**1**	–	–	–
Net current and deferred tax assets	**54**	**–**	**54**	46	10	56
Provisions	**(26)**	**12**	**(14)**	(28)	14	(14)
Operating assets employed	**700**	**480**	**1,180**	559	381	940
Net debt	**(296)**	**(573)**	**(869)**	(291)	(464)	(755)
Net assets excluding pension liability	**404**	**(93)**	**311**	268	(83)	185
Pension liability	**–**	**–**	**–**	(3)	–	(3)
Deferred tax asset on pension liability	**–**	**–**	**–**	1	–	1
Total net assets	**404**	**(93)**	**311**	266	(83)	183

A11. Operating lease expense

Amounts recognised in Headline Group operating profit on a pre-IFRS 16 basis are as follows:

£m	2022	2021
Net operating lease charges	**241**	151

In the year ended 31 August 2020, the Group adopted IFRS 16. IFRS 16 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, as described in the Glossary on page 173.

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 2022, 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 offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG on Wednesday 18 January 2023 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.

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 www.investorcentre.co.uk. 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 or email notification of availability of AGM documents.

Please note that dealing fees will apply and will vary between providers.

Dividend mandates

If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers' Automated Clearing Services) system, you should contact Computershare for a Dividend Mandate Form or apply online at www.investorcentre.co.uk. Shareholders who receive their dividend payments in this way receive an annual dividend confirmation once a year, with the final dividend, detailing all payments made throughout the UK tax year.

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 2022
Preliminary results announced	10 November 2022
Annual report posted	December 2022
Final dividend ex-dividend date	5 January 2023
Final dividend record date	6 January 2023
AGM	18 January 2023
Christmas trading statement	18 January 2023
Final dividend payment date	26 January 2023
Half-year end	28 February 2023
Interim results announced	April 2023
Trading statement	June 2023
Interim dividend ex-dividend date	July 2023
Interim dividend record date	July 2023
Interim dividend payment date	August 2023
Financial year end	31 August 2023

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.

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 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 $55^5/_9$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 $55^5/_9$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 $55^5/_9$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^5/_9$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.

Notes

Designed and produced by **Radley Yeldar www.ry.com**

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