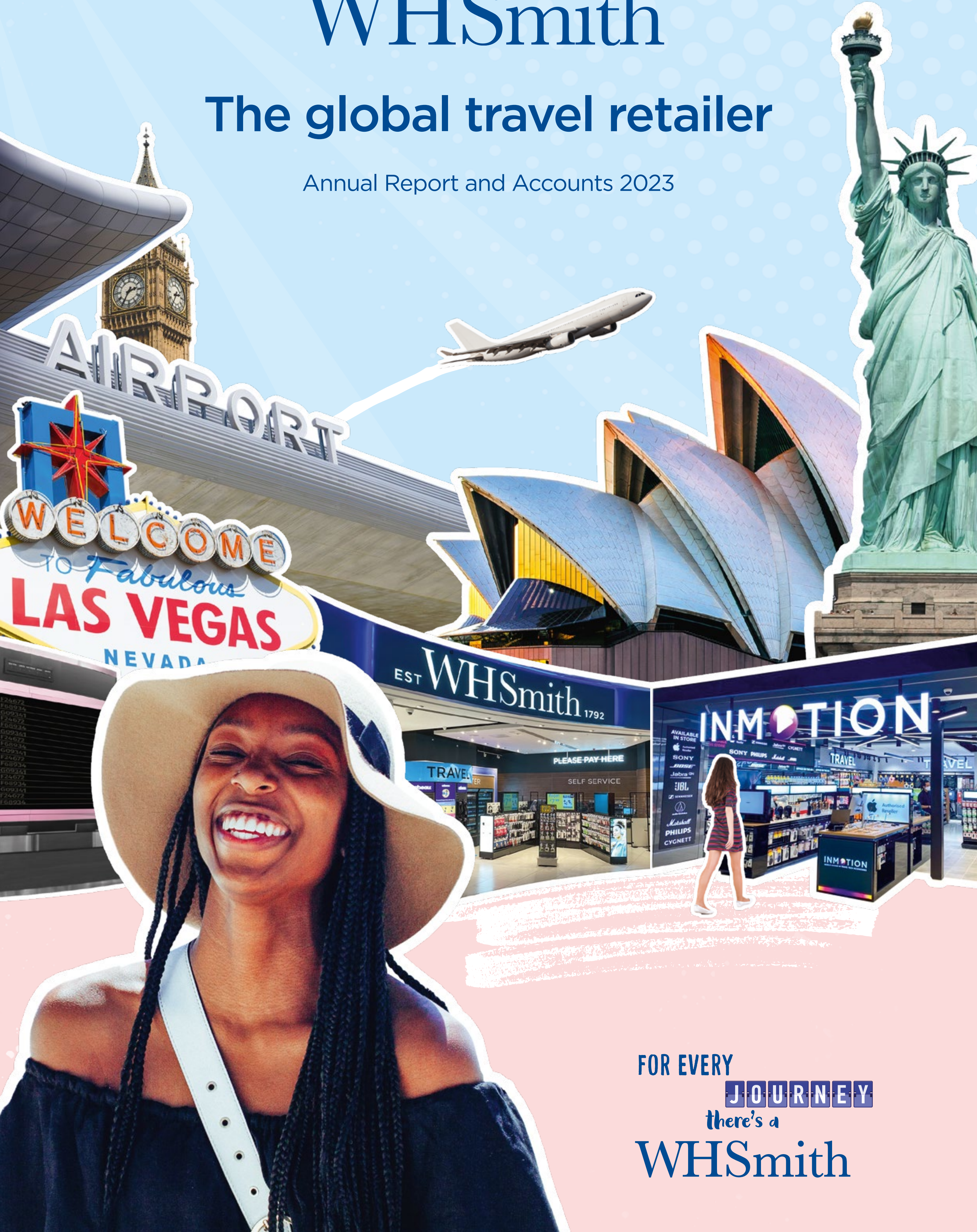
WHSmith

The global travel retailer

Annual Report and Accounts 2023



FOR EVERY JOURNEY there's a WHSmith

In this report

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 our business are our people, customers and partners. We aim to deliver our vision through our strategic priorities and our forensic approach to retailing and by constantly innovating, expanding globally, improving our profitability and delivering sustainable returns.

- WHSmith is a global travel retailer with a presence in 32 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 major 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 ESG
- WHSmith employs over 14,000 colleagues
- WH Smith PLC is listed on the London Stock Exchange ("SMWH") and is included in the FTSE 250 Index
- WHSmith reaches customers online via its digital channels: whsmith.co.uk, funkypigeon.com, cultpens.com and dottyaboutpaper.co.uk

Financial and operational highlights

Revenue

£1.8bn

Group profit before tax

£110m

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

£143m

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

80.3p

Total number of stores

1,767

Dividend per share[2]

28.9p

1 Alternative performance measure described and explained in the Glossary on page 168

2 Includes proposed final dividend of 20.8p. Subject to shareholder approval

Our purpose

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

Supporting the many journeys of our colleagues, customers and shareholders is our top priority.

We're a diverse team of over 14,000 colleagues across 32 countries and we're committed to promoting an open and honest culture where everyone can come to work and be their best self. During the year, we have established five new colleague networks to ensure everyone has a voice and, as a result, we are accelerating positive change driven by our people. We firmly believe in championing the career journeys of our people too, and we know that by providing the right support along each of our colleagues' journeys, we'll create a better business.

Supporting our customers' journeys has been key since the Company was founded in 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 UK high street. 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 stakeholders, 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

youtube.com/WHSmith

@whsmithofficial

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.

Group at a glance – Travel

Scan here for an overview of our Travel UK business.

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, on 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 by our customers.

Our customers need convenience and have less time to browse, so we have tailored our ranges to provide a fast and convenient one-stop-shop solution, including food and drink, books, magazines, tech accessories, health and beauty products and souvenirs.

With WHSmith for travel essentials, and InMotion – our globally recognised tech brand – at UK airports, we're continuing to grow our presence around the UK, providing our customers with the essentials that 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 588 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 and 22 to see how we aim to make every one of life's journeys better.

Stores

588

Revenue

£709m

North America and Rest of the World

As a global travel retailer with a presence in over 30 countries and more than 125 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 at pace.

We have 665 stores outside of the UK and we're growing quickly. 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 tech accessories and bestselling books or food to go in each location, or through the expansion and distinct style of our US retail business, WHSmith North America, or the first-class customer experience we provide under our technology brand, InMotion.

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

Stores

665

Revenue

£615m

Scan here for an overview of our North American 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 pleased with the progress we are making to deliver the step-changes that are needed for sustainable retailing.

Read more about our sustainability on pages 36 to 54.

Group at a glance – High Street

High Street

For generations, WHSmith has supported the UK high street with a presence on nearly every major high street and shopping centre.

Across our diverse estate of 514 stores on UK high streets, with our wide-ranging store sizes and formats, we sell a range of products in the following categories: Stationery (including greeting cards, 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.

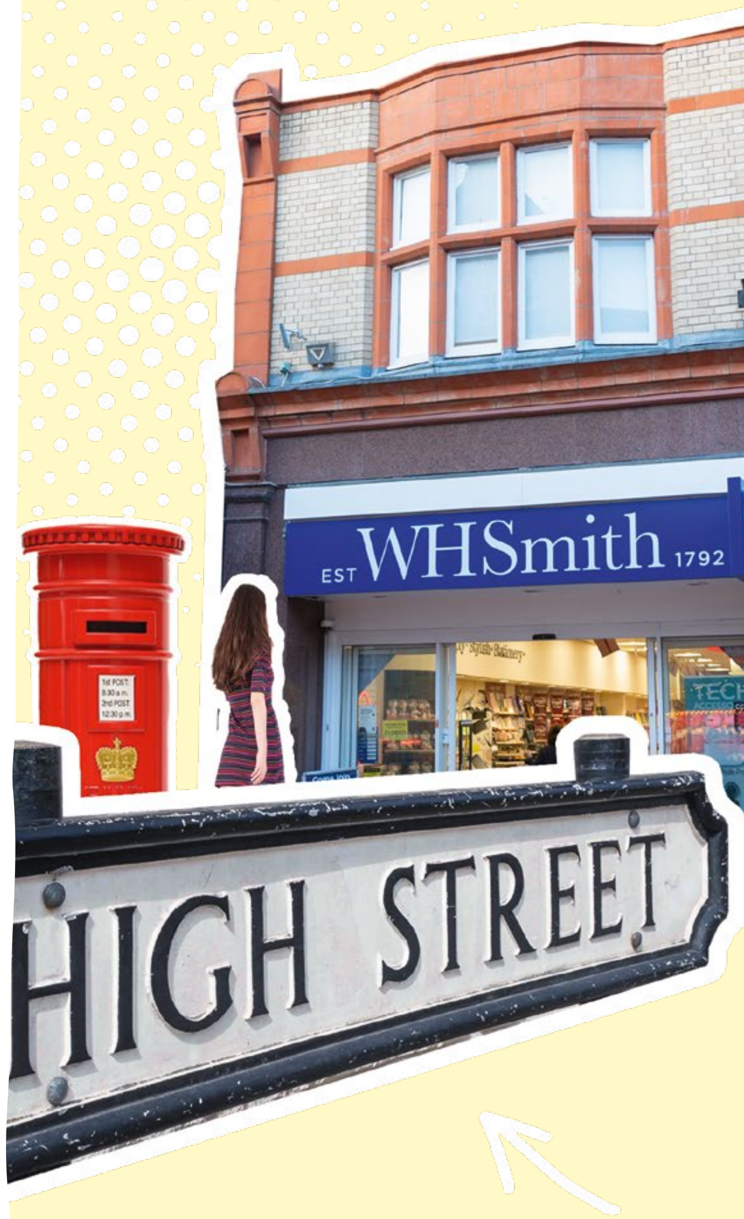
We are also a multichannel retailer with our online personalised greeting cards and gifting site, funkypigeon.com, whsmith.co.uk, cultpens.com, our leading online specialist pen retailer, and personalised wedding stationery site dottyaboutpaper.co.uk.

Stores

514

Revenue

£469m



Scan here for an overview of our High Street business

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 14,000 dedicated colleagues across our stores, distribution centres and support centres.

Store locations
We have a network of 1,253 Travel stores in premium, high footfall locations in 32 countries, and 514 stores in mainly 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, Well Pharmacy 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

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 36.

Product range

We work with our suppliers and partners to bring together a broad range of products and services to meet the needs of our customers

journeys

Forensic approach to retailing

We continuously evaluate our store space and the performance of our categories to ensure that we are maximising returns

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 partnerships 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 29.

Our culture and values

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

Read more on page 49.

Chair’s statement

We’re committed to our journey as a global travel retailer

I am honoured to write to you as your new Chair. The last year has been one of significant progress and growth and it is an exciting time for the Group. I very much look forward to being part of the journey to realise the substantial growth opportunities that exist for us across the globe.

“The last year has been one of significant progress and growth and it is an exciting time for the Group.”

Annette Court
Chair

During the year, we have continued to invest in our new store opening programme, opening a number of world-class travel stores across the globe, with 43 new stores opened in North America. We have also won some important tenders in new and existing markets. We now have a store opening pipeline of over 110 stores[1] won and scheduled to open over the next three years, with the majority of these new business wins in North America. In addition, we also continue to see good opportunities in our UK and Rest of the World divisions.

In our UK High Street business, we have a successful strategy that has served the Group well for many years, focusing on costs, increasing margins and generating cash. Our aim is to ensure that the profits and cash flow of this business remain robust and sustainable.

The proposed final dividend announced today reflects the strength of current trading and a high level of confidence in the future prospects of the Group. As we enter 2024, the Group is in its strongest ever position as a global travel retailer and I look forward to updating you on further progress in due course.

The Board has continued to ensure that it has the right skills to lead the Company, particularly given its continued expansion in North America. Accordingly, the Board appointed Colette Burke as a non-executive director on 1 July 2023 given her significant US and retail experience. Maurice Thompson stepped down from the Board at the Company's AGM in January 2023 and Kal Atwal stepped down from the Board in September 2023 to take up the role of Chair of Funky Pigeon. I succeeded Henry Staunton as Chair on 1 December 2022, and I would like to take this opportunity to thank Henry, Maurice and Kal for their significant contribution and welcome Colette to the Board.

Revenue

£1.8bn

Dividend per share[2]

28.9p

> **"I would like to acknowledge what an exceptional team we have here at WHSmith."**

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 64 to 71.

Sustainability

WHSmith has a long-standing commitment to operating responsibly and to making a positive impact on the planet, the lives of our people and the communities in which we operate. Our sustainability strategy captures how we will ensure that we grow our business in a responsible, inclusive and sustainable way. We are proud of our work this year on carbon reduction activities, on diversity, equity and inclusion initiatives and our continuing partnership with the National Literacy Trust to help more children develop their literacy skills. Further information on all aspects of our sustainability programmes can be found on pages 36 to 54.

People

I would first like to acknowledge what an exceptional team we have here at WHSmith. Over the past year, I have taken great pleasure in meeting many colleagues across each of our divisions, from our support centres to our colleagues in our stores and distribution centres, and further afield in our international markets. I have been made to feel extremely welcome.

It has, without a doubt, been an exceptionally busy year, and our colleagues have shown an unwavering determination to drive the Group forward, support each other, and continue to focus on our customers and partners, and I would like to take this opportunity to thank them.

Outlook

The Group is in its strongest ever position as a global travel retailer and we are very well positioned for another year of significant progress and growth in 2024. We will continue to invest for the longer term while remaining committed to creating value for our shareholders.

Annette Court
Chair

9 November 2023

1 As at 31 August 2023
2 Includes proposed final dividend of 20.8p. Subject to shareholder approval

Q&A with Group Chief Executive Carl Cowling

"The Group has made excellent progress in the year. For me, there are a variety of factors driving the Group's success, not least the global scalability of our business model and our forensic and innovative approach to retail."

Q What has been the highlight of the 2023 financial year?

A We have delivered another year of strong progress with Group revenue of £1.8bn and Headline profit before tax and non-underlying items[1] of £143m. Our Travel divisions have all seen strong growth. While our most exciting opportunity remains in North America, I am really encouraged by the continued progress in the UK and the momentum we are seeing in our Rest of the World division.

We are a highly cash generative business and this has enabled us to invest c.£200m over the past two years in exciting and value creating opportunities. Our store opening programme is on track with 118 stores opened in the year, including a number of world-class stores in locations such as Melbourne, Kansas, Oslo and Brussels. The growth opportunities, particularly in North America, are substantial and we are extremely well positioned as a global travel retailer.

The Board's decision to propose a final dividend of 20.8p per share reflects good trading, the Group's cash generation, and confidence in the future given the multiple growth opportunities that exist for the Group.

There is no doubt that these results would not be possible without the outstanding efforts of our entire team, and I would like to offer my sincere thanks for their support.

Q What is driving the Group's success?

A The Group has made excellent progress in the year. For me, there are a variety of factors driving the Group's success, not least the global scalability of our business model and our forensic and innovative approach to retail. We now operate in over 30 countries, opening our first stores in Norway and Belgium in the year and winning further new stores in new markets.

We are also seeing great results from sharing our retail expertise and innovation across our different geographies. Our North American business is benefitting from our forensic approach to space management which has always been a key feature of our UK Travel operations. In the same way, the ability of our North American business to offer bespoke retail formats to landlords is now being harnessed across all our markets outside of the US.

1 Alternative performance measure described and explained in the Glossary on page 168

In addition, we continue to focus on space growth opportunities. During the year, we opened 118 new stores and we now have a new store pipeline of over 110 stores[1] to open across the globe over the next three years.

ATV growth also remains a key driver of our success and we have continued to focus on re-engineering our ranges and I'm pleased to report that this is delivering good results.

Category development and identifying further opportunities where we can reposition our traditional news, books and convenience format to a one-stop-shop travel essentials format is key for us and we have made good progress across our channels, particularly in the UK in the year.

Finally, and importantly, we remain very focused on cost efficiency and productivity.

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

A We have had another very successful year, with Total Travel generating Headline trading profit[2] of £164m (2022: £89m). The pace of winning new business in Travel remains strong and it is well positioned to continue to create value through the structurally advantaged markets in which it operates.

We saw a strong performance across all our markets with Total Travel revenue up 43 per cent to £1,324m and up 27 per cent on a like-for-like[2] (LFL) basis. This was driven by strong performances in all three Travel divisions, with Travel UK up 36 per cent, North America up 32 per cent, and ROW up 99 per cent.

Total Travel is now approximately 75 per cent of Group revenue and 85 per cent of Headline Group profit from trading operations[2]. Both of these measures will increase as we continue to grow Travel which reinforces that we are now a global travel retailer.

Q What progress have you made on your journey to a more sustainable business?

A Sustainability remains a key focus for the business and we have continued to make good progress this year.

I am delighted that our near term carbon reduction targets have been validated by the Science Based Targets initiative. It defines the next step on our journey to net zero by 2050 and we remain on track to meet our Scope 1 and 2 reduction target.

We have engaged with our suppliers on a range of environmental and social issues this year and have made good progress towards our Scope 3 goal, with 15 per cent of supply chain emissions now covered by science based targets.

Finally, our Long-Term Incentive Plan for senior managers and our new revolving credit facility agreed in the year include targets aligned to the Group's sustainability strategy.

1 As at 31 August 2023
2 Alternative performance measure described and explained in the Glossary on page 168

Expanding our global reach

As a global travel retailer, our brand is already familiar to millions of international passengers, and as we continue to grow our North America and Rest of the World businesses, we're delighted to welcome even more customers across new countries and cities by opening world-class stores. We know that when journeying through an airport, it's the destination that matters to our customers and their 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.

1,767 stores across **32** countries

Key market drivers

Travel

The key market driver for Travel is the number of passengers travelling through the locations in which we operate. Passenger numbers in most of our markets remain below 2019 levels although the gap is narrowing significantly. Analysis from the International Air Transport Association (IATA) suggests that passenger numbers will return to 2019 levels during calendar year 2024 and then will continue to grow in low single digits each year thereafter in the medium term, particularly in countries with a population of growing affluency and where physical distances support air travel, such as the United States.

Our Travel stores around the world experience high levels of seasonal footfall, driven by leisure travel over the summer months.

Footfall in airports is driven by the global demand for flights and, during the year, we have seen an ongoing recovery in passenger numbers across our markets, primarily driven by pent up demand for leisure travel. However, recovery continues to be uneven especially where travel restrictions were in place for a longer period. Where we have reliable data on passenger trends, we see a correlation between changes in passenger numbers and our sales.

Travel faces competition in its product categories primarily from other retailers in air, rail, hospitals and motorway service areas. Our markets are impacted by macro economic conditions. Interest rates, inflation and costs could impact passenger numbers, as could the threat of conflict.

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.

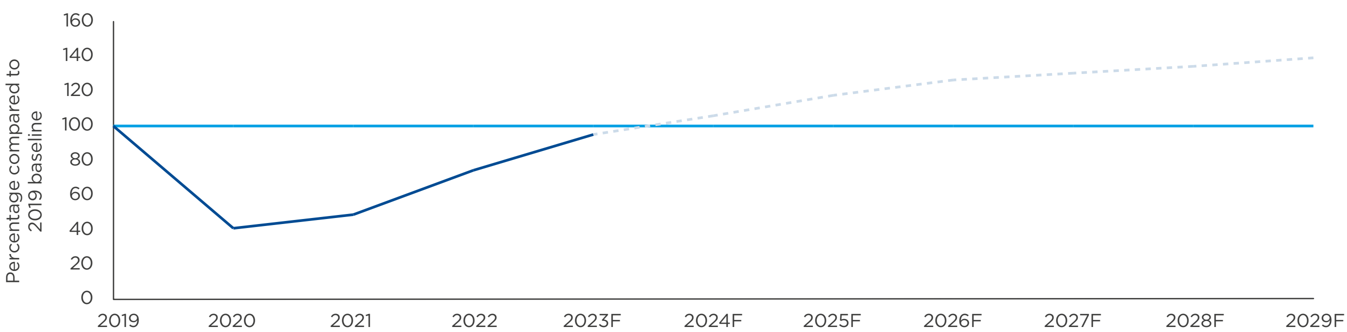
High Street

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 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, aiming to keep the cost base variable with sales.

Global passenger demand



Source: IATA view on 2024 and 2025 (published July 2023) followed by blend into long-term rate.

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

118
new stores opened during the year

110+
new store pipeline[1]

Increasing
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.

1 As at 31 August 2023

WHSmith Group

Travel

Category development

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

Cost and cash management

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

High Street

Maintain profitability and cash generation

V V V

Expanding
food to go, tech accessories, health and beauty

Investing
for future growth and sustainable returns

£200m+
capex investment over the last two years

£32m
Headline trading profit[2]

£15m
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

Disciplined capital allocation. Shareholder returns.

2 Alternative performance measure described and explained in the Glossary on page 168

Key performance indicators

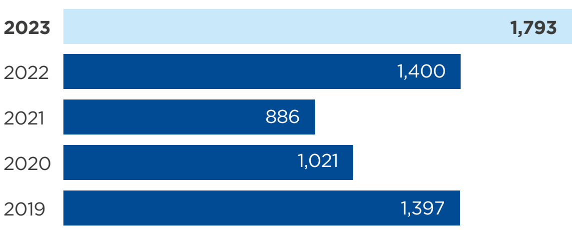
Our key performance indicators ("KPIs") comprise a number of financial and non-financial metrics that enable us to evaluate our performance against our strategic goals. Certain KPIs are Alternative performance measures, which are defined and explained on page 168. These measures are used by the Board as they provide additional useful information on the underlying performance of the Group. Statutory equivalents are provided where relevant.

Financial

Revenue (£m)

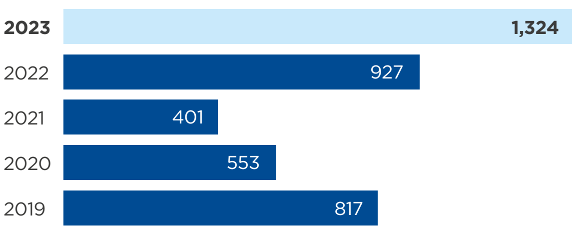
Group

£1,793m



Total Travel

£1,324m



High Street

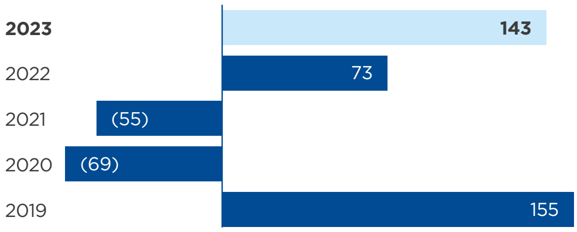
£469m

Profit/(loss) (£m)

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

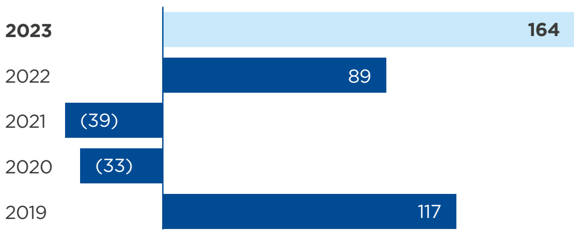
Headline Group profit/(loss) before tax and non-underlying items[1]

£143m



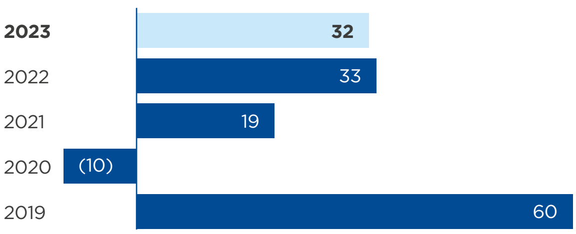
Total Travel Headline trading profit/(loss)[1]

£164m



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

£32m

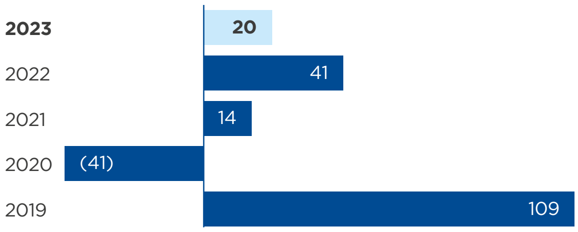


1 Alternative performance measure defined and explained in the Glossary on page 168

Free cash flow[1] (£m)

Free cash flow is defined as net cash inflow from operating activities before the cash flow effect of IFRS 16, non-underlying items, pension funding and other non-cash items, less capital expenditure (see page 27).

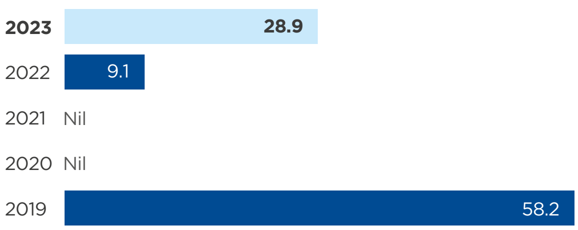
£20m



Dividend per share (p)

Total dividend per share

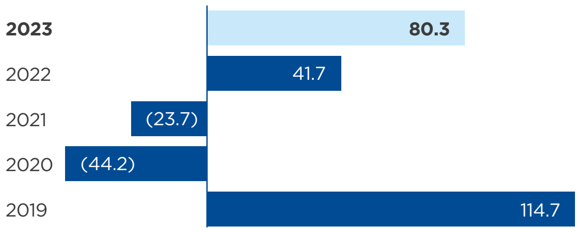
28.9p



Earnings per share (p)

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

80.3p

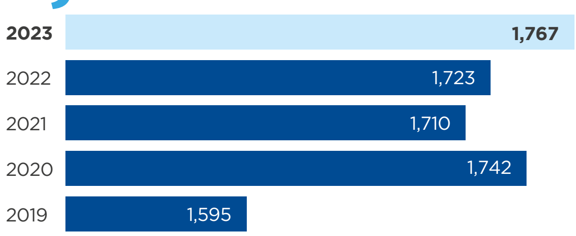


1 Alternative performance measure defined and explained in the Glossary on page 168

Non-financial

Group total number of stores

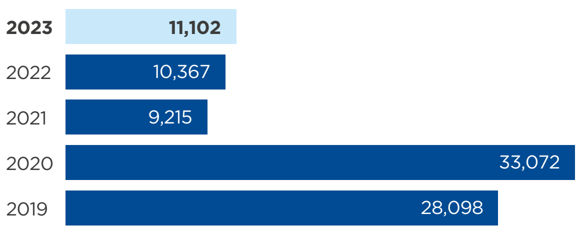
1,767



CO_2 emissions (tonnes of CO_2e)

Global Scope 1 and 2 emissions

11,102



588

Travel stores across the UK

Growing our UK presence

As the trusted one-stop-shop for travel essentials across UK transport hubs, we're here to support the millions of customer journeys made each year. And as we continue to grow our presence, we're committed to making each customer journey that little bit better. So, whether you're travelling by air, on foot, by road or by train, we're here to provide the best possible customer experience to make your journey better.

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

Review of operations

"I am pleased to report that our Travel business has had a strong year and made significant progress."

Carl Cowling
Group Chief Executive

Performance review

I am pleased to report that our Travel business has had a strong year and made significant progress.

Total revenue was £1,324m (2022: £927m), up 43 per cent compared to last year, generating a Total Travel Headline trading profit[1] in the year of £164m (2022: £89m).

	Trading profit[1] (IFRS 16)		Headline trading profit[1] (pre-IFRS 16)		Revenue	
£m	2023	2022	2023	2022	2023	2022
Travel UK	**101**	60	**102**	54	**709**	521
North America	**52**	33	**49**	31	**380**	288
Rest of the World	**13**	3	**13**	4	**235**	118
Total Travel	**166**	96	**164**	89	**1,324**	927

1 Alternative performance measure defined and explained in the Glossary on page 168
2 As at 31 August 2023

Travel

Total Travel revenue

£1,324m

(2022: £927m)

Total Travel Headline trading profit[1]

£164m

(2022: £89m)

Total Travel revenue (year on year)

+43%

(2022: +131%)

In Travel, our initiatives position us well for future growth:

Space growth – 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. During the year, we opened 118 stores (see table of store numbers on page 23) and we now have a store pipeline of over 110 stores[2]. Going forward, we expect to win, on average, around 50 to 60 stores a year. There are significant space growth opportunities across all our Travel markets.

ATV growth

We aim to grow ATV through our forensic analysis of the return on our space, cross-category promotions, merchandising, store layouts and store refits. During the year, we have continued to focus on re-engineering our ranges and we continue to see good ATV growth across all our channels.

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 such as premium food ranges. Throughout the year, we have continued to focus on identifying further opportunities where we can reposition our traditional news, books and convenience ('NBC') format to a one-stop-shop travel essentials format. The results from our one-stop-shop stores have been positive.

Cost and cash management

We remain focused on cost efficiency and productivity, for example, by investing in more energy efficient chillers in-store and increasing the number of self scan tills, particularly in North America.

Review of operations continued

Travel UK

Travel UK, our largest division, has delivered a year of significant growth and we continue to have good opportunities to grow this division further.

Air passenger numbers still remain below pre-pandemic levels and we are confident that, as passenger numbers continue to recover, this division will see an ongoing improvement in profitability as we leverage our fixed cost base. All our channels in Travel UK have performed strongly during the year with total revenue growth of 36 per cent versus last year. We have started the new financial year strongly with all three channels delivering good growth.

	Revenue (% change) Year to 31 August 2023	
	Total vs 2022	LFL[1] vs 2022
Air	48%	37%
Hospitals	32%	26%
Rail	15%	19%
Total Travel UK	**36%**	**30%**

Total revenue in the year was £709m (2022: £521m) which, together with improved margins, resulted in a Headline trading profit[1] of £102m (2022: £54m).

Across all our channels, we continue to focus on our key growth drivers: space growth, increasing ATV and spend per passenger, driving EBIT margins and benefitting from the growth in passenger numbers. Momentum is strong and we are seeing good results, with revenue growing ahead of passenger numbers.

We are investing in our UK store portfolio while also identifying new and better quality space opportunities across each of our channels. During the year, we have made excellent progress opening 20 new stores, including six at airports, eight in hospitals and three in rail. We see this annual space growth of around 15 new stores in Travel UK extending into the medium term. We closed 19 small and less well located stores in the year. This year, we expect to open over 15 new stores in the UK, of which 12 are already contracted, and close four stores.

Air

Air, which is the biggest channel in Travel UK, delivered a strong performance with total revenue up 48 per cent and LFL revenue up 37 per cent on the prior year.

We continually develop our retail formats to better address the changing requirements of airport landlords and customers.

Our one-stop-shop for travel essentials format continues to generate significant opportunities across all channels and improve profitability. We have a very strong customer proposition which is tailored to each location and channel. We have also opened our largest UK Travel store. This is a 6,000 square feet flagship one-stop-shop for travel essentials store at Birmingham International airport, further developing this format. This new store is tailored to the requirements of the landlord and provides passengers with a bespoke, localised customer experience by drawing on our experience from North America. The store offers everything you would expect from a WHSmith, as well as a broader product range, large health and beauty and tech zones, and coffee.

By extending our categories such as health and beauty, tech and food to go, we are able to provide time-pressed customers with all their travel essentials under one roof with a fast and convenient shopping experience. This enables us to expose both new and existing customers to a broader range of categories, which has resulted in an increase in sales per square foot, a higher ATV and spend per passenger. This delivers superior returns with improved margins and attractive economics for our landlords.

Hospitals

The hospital channel, our second largest channel in Travel UK by revenue, continued its very strong growth with total revenue up 32 per cent and LFL revenue up 26 per cent in the year.

This is a growing channel for us with significant opportunities to continue to grow our space and improve the retail proposition using our broad suite of brands. During the year, we opened eight new stores, including Royal Liverpool and Royal Sussex hospitals. Looking ahead, we have a good pipeline of opportunities in this channel, where we see scope for at least one of our four formats (WHSmith, Marks & Spencer Simply Food, Costa Coffee and our proprietary coffee brands) in up to 200 further hospitals.

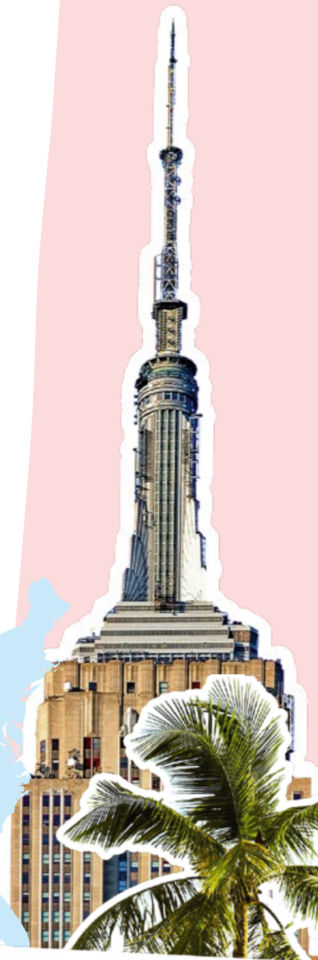
We are excited by the opportunity to grow our coffee offer. By using our expertise in localisation from our North American business, we have also recently won two new stores in Sheffield hospitals under a new coffee concept. Working with local artists and roasteries, we have designed a bespoke store with a local coffee offer.

1 Alternative performance measure defined and explained in the Glossary on page 168

Going big in the US

Being the largest travel retail market in the world, the opportunities in the US are substantial. Through our distinct, localised design formats together with a first-class customer experience, we're committed to our future as the largest tech retailer in airports, globally, under our InMotion brand, and a leading player in the travel specialty market under WHSmith North America.

Read more about our North America business on page 22.



327
stores across North America

Review of operations continued

Rail

Our Rail channel is our smallest channel in Travel UK representing around 15 per cent of revenue. It is an attractive market and has proven to be resilient, delivering a good performance in the year despite the ongoing impact of industrial action.

We have seen a very encouraging return of passengers with leisure and weekend passengers recovering the fastest. We know from our segmentation and return on space analysis that leisure is the most valuable customer segment.

We continue to invest in Rail in new formats and in new opportunities to meet landlord and customer needs. During the year, we successfully completed the refit of our London Paddington store to a one-stop-shop format, extending our health and beauty ranges from one metre of space to eight metres of space and allocating more space to tech. This has been very well received by customers and driven strong sales.

curi.o.city

In line with our strategy to develop our retail formats, we have recently launched a new premium souvenir and gifting brand, curi.o.city. This new concept demonstrates how we are able to adapt, innovate and create a bespoke, localised brand and product offer. In addition to providing a new shopping experience for travellers, this format also offers an incremental sales opportunity in locations where we already have a WHSmith store by selling high margin categories such as souvenirs and fashion stationery, freeing up space in our traditional news, books and convenience stores. We now have six stores open at London Gatwick airport, Bristol airport, St Pancras station and Selfridges in Birmingham and Manchester.

It is still early days, but we also see opportunities outside the UK with two curi.o.city stores due to open in Dubai later this year.

North America

In North America we also saw a good performance as passenger numbers continued to recover. We opened a further 43 stores and closed 14 stores increasing market share and improving the quality of our space. Total revenue was up 32 per cent for the year and up 17 per cent in the second half.

This performance was driven by our core MRG airport business (which is now approximately 50 per cent of the revenue of our North American division) which performed strongly across the year and continues to do so. We are seeing passenger number growth and strong demand for our travel essentials categories.

In our smaller businesses, we saw a lack of new launches in the electricals market in the second half which impacted InMotion (and this has continued into this financial year) and in our Las Vegas resorts business we were up against a strong 2022 summer performance when there was an exceptional number of vacationing visitors.

Overall, our North American business is trading well with total revenue in the first nine weeks of the financial year up 15 per cent and is as such well placed for growth this year and beyond.

Headline trading profit[1] was £49m (2022: £31m), reflecting the strong recovery in passenger numbers, improved margins and a small beneficial impact of currency. The Group is exposed to movements in the GBP:USD exchange rate. A 5 cent move in this rate results in a c.£2m to £3m movement in annual Headline trading profit[1]. Current consensus suggests an average exchange rate of GBP:USD of 1.25.

Our North America business has become an increasingly significant part of the Group and is now our second largest division in profit terms, after Travel UK. The growth prospects are substantial and we are excited by the significant opportunities to grow this business further. Over the last two years, we have won an additional 62 new stores.

The US is the largest travel retail market in the world with annual sales of c.$3.8bn[2]. Our analysis of the North American market shows that there were a total of approximately 2,000 news and gift and specialty retail stores across the top 70 airports, giving our North America business a market share of c.13 per cent[3]. During the year, we have improved our rate of winning new tenders and anticipate a large amount of space to come onto the market over the medium term. As a consequence, we are in a strong position to significantly grow our North America market share to around 20 per cent over the next five years.

1 Alternative performance measure defined and explained in the Glossary on page 168
2 2019 ACI Factbook, increased by CPI
3 Based on store numbers; including stores won and yet to open

We have applied our forensic approach to retailing from the UK to the North American market and are seeing good results. This includes, space management, category development to change the mix to higher margin products such as food to go, enhanced promotional activity and increased operational efficiencies, for example, self-scan tills which we are rolling out across the estate.

We continue to grow our North American business at pace, opening 43 stores in the year at Newark, Phoenix, Orlando, Nashville, Washington Ronald Reagan, Jacksonville, Kansas City, Salt Lake City and Los Angeles airports. In Kansas City airport, we have won 85 per cent of the retail space comprising eight stores, all of which are open. We are seeing strong returns.

We still have a very strong pipeline of new store openings. In the year ending 31 August 2023, we won an additional 40 stores, including at Salt Lake City, Boston, San Diego, Portland, Oakland and Las Vegas airports, as well as 11 stores in Canada, across Calgary and Edmonton airports. We expect to open over 50 stores in this financial year and close six.

Including the 43 store openings in the year, we now have 231 stores in Air (including 123 InMotion stores), 95 stores in Resorts, and one in Rail.

Rest of the World

We saw a good recovery in the year from the ROW division with total revenue up 99 per cent and LFL revenue up 53 per cent on the prior year.

Our strategy for this division is clear: to enter new countries, better understand the market, build our presence from a small base, build global supplier relationships and drive operational leverage to deliver higher returns. The scalability of the Group's retail formats is now evident having entered 28 new countries since we opened our first international stores in 2008 and we see significant market share opportunities for the division.

Utilising our expertise from our North America division to localise our retail offer, combined with our current low market share, means there is significant opportunity to grow this business in new and existing territories through our traditional news, books and convenience retail proposition and with technology tenders under the InMotion brand.

We will continue to use our three operating models of directly run, joint venture and franchise, in order to maximise value and win new business.

We have also had another very successful year in winning new stores with 30 new stores won across the division.

During the year, we opened 55 new stores, including stores in Belgium, Italy, Malaysia, Norway, Spain and Sweden. We closed 28 mainly small, franchised stores.

Outside of the news books and convenience market, we continue to see good opportunities to win new business in the tech accessories market under our InMotion brand. InMotion is now a globally recognised brand with interest coming from all over the world. During the year, we have won three InMotion stores in Italy. We have won a total of 13 InMotion stores outside of the UK and North America, of which ten are open. We remain well positioned to benefit from further opportunities as more space becomes available.

We now have 338 stores of which 50 per cent are directly-run, nine per cent are joint venture and 41 per cent are franchise. During the current financial year, we expect to open 40 stores and close 12 stores.

Total Travel stores

As at 31 August 2023, our global Travel business operated from 1,253 stores[1] (2022: 1,196 stores). As at 31 August 2023, we are present in over 125 airports and 32 countries with 327 stores in North America, 125 in Europe, 91 in the Middle East and India and 122 in Asia Pacific. As part of our strategy to improve the quality of our space, we closed 61 stores in the year, largely smaller, less well located stores.

Excluding franchise units, Travel occupies 1.1m square feet.

Region	At 31 August 2022	Opened	Closed	**At 31 August 2023**
UK	587	20	(19)	**588**
North America				
– Air	198	41	(8)	**231**
– Resorts / Rail	100	2	(6)	**96**
Total North America	298	43	(14)	**327**
Rest of the World				
– Europe	109	31	(15)	**125**
– Middle East and India	84	8	(1)	**91**
– Asia Pacific	118	16	(12)	**122**
Total Rest of the World	311	55	(28)	**338**
Total Travel	1,196	118	(61)	**1,253**

1 Including motorway service area and international joint ventures and franchise units

Review of operations continued

High Street

Performance review

During the year, High Street delivered a good performance with Headline trading profit[1] of £32m in line with expectations (2022: £33m), and revenue of £469m (2022: £473m). We managed the business tightly, keeping focused on costs and cash generation.

The strategy we have in place in our High Street business is as relevant today as it has ever been with a focus on delivering robust and sustainable cashflows and profits.

We utilise our space to maximise returns in ways that are sustainable over the longer term. We have extensive and detailed space and range elasticity data for every store which we use to allocate space to categories.

Driving efficiencies remains a core part of that strategy and we continue to focus on all areas of cost in the business. During the year, we have delivered savings of £15m and we are on track to deliver savings of £21m over the next three years, of which £10m are planned in the current financial year. These savings come from right across the business, including rent savings at lease renewal (on average 50 per cent over the last 12 months) which continue to be a significant proportion, marketing efficiencies and productivity gains from our supply chain.

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 where rents are falling. 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.480 leases due for renewal over the next three years, including over 100 where we are holding over and in negotiation with the landlord. The store closure process is cash neutral.

As at 31 August 2023, the High Street business operated from 514 stores[2] (2022: 527) which occupy 2.5m square feet (2022: 2.5m square feet). 13 stores were closed in the year (2022: 17).

Funkypigeon.com delivered, as expected, total revenue of £32m (2022: £35m) and Headline EBITDA[1] of £5m (2022: £8m). We continue to see opportunities to grow the platform further, growing revenue and profits over the medium term.

Total revenue (year on year)

(1)%

(2022: (2)%)

Headline trading profit[1]

£32m

(2022: £33m)

1 Alternative performance measure defined and explained in the Glossary on page 168

2 Including branches in Guernsey and the Isle of Man

3 As at 31 August 2023

4 On a constant currency basis

Outlook

This has been another year of strong progress, and we enter the new financial year in our strongest ever position as a global travel retailer.

Our Travel divisions have all seen strong growth with Travel UK total revenue up 36 per cent, North America up 32 per cent and ROW up 99 per cent, and I am very pleased with the start to the new financial year.

We are a highly cash generative business and this has enabled us to invest over £200m over the past two years in exciting and value creating opportunities.

We have opened 118 new stores in the year and we now have a pipeline of over 110 new stores[3] yet to open across nine countries and in airports as varied as Salt Lake City, Boston and Gold Coast.

Our InMotion technology stores have had another very good year with our stores in the UK trading ahead of our initial expectations. We continue to see significant scope to grow the brand globally.

Our High Street division delivered a good, profitable performance and continues to generate strong cash flow allowing us to invest across the Group.

The proposed final dividend reflects the good performance, the Group's cash generation and our confidence in the future given the multiple growth opportunities that exist for WHSmith.

We have started the new financial year well with total revenue in Travel UK up 13 per cent, North America up 15 per cent[4], and ROW up 27 per cent[4]. With good trading and very positive prospects, despite the uncertainty in the economic environment, we are confident in the Group's outlook for the new financial year.

Carl Cowling
Group Chief Executive

9 November 2023

Financial review

"The Board is recommending a final dividend of 20.8p per share in respect of the financial year ended 31 August 2023."

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

Group

Total Group revenue at £1,793m (2022: £1,400m) was up 28 per cent compared to the prior year.

	Revenue (% change) Year to 31 August 2023	
	Total vs 2022	LFL[1] vs 2022
Travel UK	36%	30%
North America	32%	11%
Rest of the World	99%	53%
Total Travel	**43%**	**27%**
High Street[2]	(1)%	1%
Group	**28%**	**18%**

In Travel, we saw a strong performance across all our markets with Total Travel revenue up 43 per cent and up 27 per cent on a LFL[1] basis. This was driven by strong performances in all three Travel divisions, with Travel UK up 36 per cent on a total basis, North America up 32 per cent, and ROW up 99 per cent.

We saw a consistently good performance in High Street throughout the period, with the Christmas trading period flat year on year on a LFL basis.

Passenger numbers have recovered strongly during the year and momentum has continued into the new financial year.

We have had a strong start to the new financial year with continued momentum across our Travel markets. Total Travel revenue in the first nine weeks to 4 November 2023 was up 16 per cent[3] on a total basis, with Travel UK up 13 per cent, North America up 15 per cent[3] and ROW up 27 per cent[3].

	IFRS		Headline (pre-IFRS 16)[1]	
£m	**2023**	2022	**2023**	2022
Travel UK trading profit[1]	**101**	60	**102**	54
North America trading profit[1]	**52**	33	**49**	31
Rest of the World trading profit[1]	**13**	3	**13**	4
Total Travel trading profit[1]	**166**	96	**164**	89
High Street trading profit[1]	**43**	45	**32**	33
Group profit from trading operations[1]	**209**	141	**196**	122
Unallocated central costs	**(27)**	(24)	**(27)**	(24)
Group operating profit before non-underlying items[1]	**182**	117	**169**	98
Net finance costs[4]	**(45)**	(34)	**(26)**	(25)
Group profit before tax and non-underlying items[1]	**137**	83	**143**	73
Non-underlying items[1,4]	**(26)**	(20)	**(13)**	(12)
Non-underlying items – Finance costs[1]	**(1)**	–	**(2)**	–
Group profit before tax	**110**	63	**128**	61

Total Travel delivered a Headline trading profit[1] in the year of £164m (2022: £89m) with all three divisions growing significantly: Travel UK increased by £48m to £102m; North America increased by £18m to £49m; and ROW increased by £9m to £13m.

High Street delivered a Headline trading profit[1] of £32m (2022: £33m), in line with expectations.

Headline Group profit from trading operations[1] for the year was £196m (2022: £122m) with Headline Group profit before tax and non-underlying items[1] at £143m (2022: £73m).

The Group profit before tax, including non-underlying items and on an IFRS 16 basis, was £110m (2022: £63m) in the year.

Unallocated central costs increased in the year due to higher share-based payment charges and investing as the business recovers.

1 Alternative performance measure defined and explained in the Glossary on page 168
2 Includes internet businesses
3 On a constant currency basis
4 Excluding non-underlying Finance costs

Financial review continued

Financing and capital allocation

The Group has a strong balance sheet, is highly cash generative and has substantial liquidity.

The Group has the following cash and committed facilities as at 31 August 2023:

£m	31 August 2023	Maturity
Cash and cash equivalents[1]	**£56m**	
Revolving Credit Facility[2]	**£400m**	June 2028
Convertible bonds	**£327m**	May 2026

In June 2023, we completed the refinancing of the Group's borrowing facilities with a new five year sustainability-linked revolving credit facility ('RCF'). The Group also has a £327m convertible bond with a maturity of 7 May 2026 which has a fixed coupon of 1.625 per cent.

As at 31 August 2023, Headline net debt[3] was £330m (2022: £296m) and the Group has access to c.£350m of liquidity. Leverage at the year end was 1.4x Headline EBITDA[3]. We expect to be within our leverage envelope of between 0.75x and 1.25x Headline EBITDA[3] by the end of this financial year.

The cash generative nature of the Group is complemented by our disciplined approach to capital allocation. This has been in place for many years and continues to drive our decision making for utilising our cash:

- investing in our existing business and in new opportunities where rates of return are ahead of the cost of capital; this year, we expect to have capex of c.£140m;
- paying a dividend. We have a progressive dividend policy with a target dividend cover of 2.5x; the Board has proposed a full year dividend of 28.9p per share;
- undertaking attractive value-creating acquisitions in strong and growing markets; and
- returning surplus cash to shareholders via share buy backs.

The Board has proposed a final dividend of 20.8p per share in respect of the financial year ended 31 August 2023, which together with the interim dividend, gives a full year dividend of 28.9p per share. This reflects the cash generative nature of the business and our confidence in the future prospects of the Group. Subject to shareholder approval, the dividend will be paid on 1 February 2024 to shareholders registered at the close of business on 12 January 2024.

1 Cash and cash equivalents comprises cash on deposit of £34m and cash in transit of £22m

2 Draw down of £84m as at 31 August 2023

3 Alternative performance measure defined and explained in the Glossary on page 168

4 Before non-underlying items

Net finance costs

£m	IFRS 2023	IFRS 2022	Headline (pre-IFRS 16)[3] 2023	Headline (pre-IFRS 16)[3] 2022
Interest payable on bank loans and overdrafts	**12**	9	**12**	9
Interest on convertible bonds	**14**	14	**14**	14
Unwind of discount on onerous contract provisions	**–**	–	**–**	2
Interest on lease liabilities	**19**	11	**–**	–
Net finance costs before non-underlying items	**45**	34	**26**	25

Headline net finance costs[3] (pre-IFRS 16) for the year were £26m (2022: £25m). Cash spend in relation to financing costs were £10m lower at £16m.

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.

Lease interest of £19m arises on lease liabilities recognised under IFRS 16, bringing the total net finance costs before non-underlying items under IFRS 16 to £45m (2022: £34m).

Tax

The effective tax rate[3] was 19 per cent (2022: 17 per cent) on the profit for the year. Net corporation tax payments in the year were £13m (2022: £6m). Based on current legislation, we expect the tax rate in the current year to be 25 per cent.

Earnings per share

Calculation of Headline earnings per share

	2023	2022
Headline profit before tax[4] (£m)	**143**	73
Headline income tax expense[4] (£m)	**(28)**	(12)
Headline profit for the year[4] (£m)	**115**	61
Attributable to non-controlling interests[4] (£m)	**(9)**	(6)
Headline profit for the year attributable to equity holders of WH Smith PLC[4] (£m)	**106**	55
Weighted average shares in issue (diluted) (no. of shares, millions)	**132**	132
Headline diluted EPS[4] (p)	**80.3p**	41.7p

The above measures are calculated on a pre-IFRS 16 basis.

EPS calculated on an IFRS 16 basis is provided in Note 9 to the financial statements, and a reconciliation between the IFRS 16 and pre-IFRS 16 earnings per share is provided in Note A4 to the Glossary on page 173.

The diluted weighted average number of shares in issue used in the calculation of Headline diluted EPS[3] assumes that the convertible bond is not dilutive.

Profit attributable to non-controlling interests primarily represents the joint venture partner share of profit in relation to airport contracts in the US. As at 31 August 2023 the profit attributable to non-controlling interests of £9m (2022: £6m), is c.18 per cent (2022: 19 per cent) of North America Headline trading profit[3].

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. Most do not impact cash.

The cash spend relating to non-underlying items in the 2023 financial year was £9m and mainly related to activity announced in 2020 and 2021.

	IFRS		Headline (pre-IFRS 16)[1]	
£m	**2023**	2022	**2023**	2022
Impairment of Property, plant and equipment and Right-of-use assets	**19**	13	**4**	5
Provisions for onerous contracts	**3**	–	**5**	–
Finance costs – discount unwind on provisions for onerous contracts	**–**	–	**1**	–
Other	**5**	7	**5**	7
	27	20	**15**	12

Impairment of Property, plant and equipment and Right-of-use ('ROU') assets

The Group has carried out an assessment for indicators of impairment across the store portfolio.

The impairment review compared the value-in-use of cash-generating units, based on managements' assumptions regarding likely future trading performance, to the carrying values at 31 August 2023. As a result of this exercise, a non-cash charge of £4m (2022: £5m) was recorded for impairment of retail store assets on a pre-IFRS 16 basis, and £19m (2022: £13m) on an IFRS 16 basis which includes an impairment of ROU assets of £15m (2022: £8m). This non-cash impairment to the ROU asset primarily results from the difference between the Incremental Borrowing Rate ('IBR') used to establish the ROU asset and the weighted average cost of capital ('WACC') rate used to discount the future cash flows of certain stores in Spain.

Provisions for onerous contracts

A charge of £3m (on an IFRS 16 basis) has been recognised in the income statement in non-underlying items to provide for the unavoidable costs of continuing to service a non-cancellable contract, in certain locations where revenue recovery to pre-Covid-19 levels has not been observed. On a pre-IFRS 16 basis this charge is £5m.

Finance costs relating to the discount unwind on previously recognised provisions for onerous contracts has also been recognised in non-underlying items.

Other non-underlying items

Other non-underlying items include: non-cash amortisation of acquired intangible assets of £3m (2022: £3m) primarily related to the MRG and InMotion brands; costs associated with pensions £1m related to the pension scheme's purchase of a bulk annuity insurance policy as described in Note 26; and finance costs associated with refinancing £1m to derecognise the carrying value of unamortised fees in respect of the extinguished term loan and revolving credit facility.

Other non-underlying items in the prior year also included costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites. This included impairment of software assets of £1m, third party consultancy support and legal and other costs.

A tax credit of £5m (2022: £4m) has been recognised in relation to the above items (£2m pre-IFRS 16 (2022: £3m)).

Cash flow

Free cash flow[1] reconciliation

	pre-IFRS 16[1]	
£m	**2023**	2022
Headline Group operating profit before non-underlying items[1]	**169**	98
Depreciation, amortisation and impairment (pre-IFRS 16)[2]	**52**	49
Non-cash items	**14**	8
Operating cash flow[1, 2]	**235**	155
Capital expenditure	**(122)**	(83)
Working capital (pre-IFRS 16)[2]	**(64)**	(10)
Net tax paid	**(13)**	(6)
Net finance costs paid (pre-IFRS 16)	**(16)**	(15)
Free cash flow[1]	**20**	41

The Group generated an operating cash flow[1] of £235m in the year (2022: £155m) demonstrating the cash generative nature of the business. Capex was £122m (2022: £83m) as we continued to invest in new stores, IT and energy efficient chillers and other store equipment. As expected we had a working capital outflow of £64m in the year (2022: £10m). This mainly relates to investment in new stores, the recovering Travel business following the Covid-19 pandemic and some timing. Most of the outflow was in the first half. This year we expect a much smaller outflow mainly relating to opening new stores. In total, there was a free cash inflow in the year of £20m (2022: £41m). This year we would expect, subject to investment opportunities, an increase in free cash generation, and Headline net debt[1] to be around £310m.

Net corporation tax payments in the period were £13m (2022: £6m).

1 Alternative performance measure defined and explained in the Glossary on page 168
2 Excludes cash flow impact of non-underlying items

Financial review continued

Capex was £122m (2022: £83m) which includes the additional spend from opening 118 stores around the world.

£m	2023	2022
New stores and store development	**58**	37
Refurbished stores	**20**	22
Systems	**19**	13
Other	**25**	11
Total capital expenditure	**122**	83

Reconciliation of Headline net debt[1]

Headline net debt[1] 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 2023, the Group had Headline net debt[1] of £330m comprising convertible bonds of £301m, £1m of finance lease liabilities and net overdrafts of £28m (2022: £296m, convertible bonds of £292m, term loans of £132m (net of fees), £4m of finance lease liabilities and net cash of £132m).

	Headline (pre-IFRS 16)[1]	
£m	2023	2022
Opening Headline net debt[1]	**(296)**	(291)
Free cash flow[1]	**20**	41
Dividends paid	**(22)**	–
Pension contributions	**–**	(2)
Non-underlying items[1]	**(9)**	(16)
Net purchase of own shares for employee share schemes	**(8)**	(7)
Other	**(15)**	(21)
Closing Headline net debt[1]	**(330)**	(296)
Net (overdraft)/cash	**(28)**	132
Term loans (net of fees)	**–**	(132)
Convertible bond	**(301)**	(292)
Finance leases (pre-IFRS 16)	**(1)**	(4)
Headline net debt[1]	**(330)**	(296)

In addition to the free cash flow, the Group paid £9m 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. The other outflows related to the dividend £22m (2022: £nil) being the final dividend from 2022 and the interim dividend from 2023. In addition we spent £8m (2022: £7m) on own shares for the Group's share schemes. Other includes non-cash accretion on the convertible bond, and payments to non-controlling interests.

On an IFRS 16 basis, net debt was £895m (2022: £869m), which includes an additional £565m (2022: £573m) of lease liabilities.

Fixed charges cover[1]

	pre-IFRS 16[1]	
£m	2023	2022
Headline net finance costs[1]	**26**	25
Net operating lease charges (pre-IFRS 16)[1]	**326**	241
Total fixed charges	**352**	266
Headline profit before tax and non-underlying items[1]	**143**	73
Headline profit before tax, non-underlying items and fixed charges	**495**	339
Fixed charges cover – times	**1.4x**	1.3x

Fixed charges, comprising property operating lease charges and net finance costs, were covered 1.4 times (2022: 1.3 times) by Headline profit before tax, non-underlying items and fixed charges.

Balance sheet

The Group had Headline net assets of £449m, £45m higher than last year end reflecting the investment in store openings and exchange differences on translation of goodwill. Under IFRS the Group had net assets of £340m.

	IFRS		Headline (pre-IFRS 16)[1]	
£m	2023	2022	2023	2022
Goodwill and other intangible assets	**505**	543	**506**	544
Property, plant and equipment	**270**	219	**263**	211
Right-of-use assets	**444**	446	**–**	–
Investments in joint ventures	**2**	2	**2**	2
	1,221	1,210	**771**	757
Inventories	**205**	198	**205**	198
Payables less receivables	**(219)**	(269)	**(216)**	(284)
Working capital	**(14)**	(71)	**(11)**	(86)
Net derivative financial asset	**–**	1	**–**	1
Net current and deferred tax assets	**45**	54	**45**	54
Provisions	**(17)**	(14)	**(26)**	(26)
Operating assets employed	**1,235**	1,180	**779**	700
Net debt	**(895)**	(869)	**(330)**	(296)
Total net assets	**340**	311	**449**	404

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

9 November 2023

1 Alternative performance measure defined and explained in the Glossary on page 168

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.

Section 172(1) statement continued

Our people

The success of WHSmith depends on the 14,000 colleagues who work for the Group. 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 Group's approach to remuneration, including executive remuneration and how this aligns to wider Group pay policy
- The Chief People Officer 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
- Board members and 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

What were the key topics raised?

- Development and growth for all of our colleagues
- Communications on our strategic growth
- Work life balance and wellbeing
- Diversity and inclusion across our business

How did we respond?

- The Board approved an action plan to address actions from the employee survey and monitored implementation throughout the year
- We continued to leverage our e-learning platform, giving all colleagues access to career development modules
- We increased our communication and engagement, including more webinars and business line specific meetings, chaired by our senior executives
- Created a new Head of Wellbeing position to support our global wellbeing strategy and have enhanced our wellbeing offering
- Strengthened our Diversity, Equity and Inclusion Committee, chaired by our Group Chief Executive to include members from across our stores and distribution centres
- Launched five employee networks, chaired by sponsors from our Executive Committee, giving all colleagues the opportunity to participate and influence our broader DEI strategy

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
- The Managing Directors of each business unit updated the Board on customer engagement, market trends and commercial responses
- We continue to use quantitative and qualitative analysis of customer feedback through point of sale, online surveys and focus groups, which 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?

- Convenience of our offering
- Nature of store environments
- Customer service levels
- Product availability
- Pricing

How did we respond?

- The Board received strategy updates from the Managing Directors of each business unit and approved the customer-facing commercial strategies
- We continued to invest in existing and new stores
- We extended choice of product for customers across different categories including food, health and beauty and technology products
- Explored ways to continue to improve our service model to make the customer experience as effortless and efficient as possible
- Customer feedback was communicated to the relevant parts of the business for actioning where appropriate

Section 172(1) statement continued

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
- At our annual general meeting at which the Group Chief Executive gives an update on how the Group is performing and the Board answer questions from shareholders

What were the key topics raised?

- Strategy for growth
- Operational delivery
- Corporate governance practices
- Succession planning
- ESG strategy, targets and reporting

How did we respond?

- Annette Court met with shareholders as part of her induction programme as Chair of the Board
- We conducted investor interactions through meetings with major institutional shareholders, individual shareholder groups and financial analysts
- Meetings were attended by Directors and senior management including our Chair, Group Chief Executive, CFO/COO
- The ESG Committee incorporated investor feedback into the ESG strategy. We also delivered an online ESG briefing for shareholders

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
- Customer service and satisfaction
- 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 Australia, Hungary, Italy, Norway, Sweden and USA
- Commercial recovery post Covid-19 and the associated upturn in passenger numbers
- Operational impacts of staffing levels and the impact on stock availability in European airports
- Emerging trends in retailing and implications for store formats
- Commercial terms for lease agreements for High Street stores
- Sustainability requirements as part of tender submissions and subsequent landlord partner dialogue

How did we respond?

- 55 new stores opened
- A heightened focus on product ranges, stock volumes and staffing levels to match an upturn in airport footfall and meet demand
- Further investment in store design, shop fit outs and product ranging
- Variety of format options including extension of a one stop shop for journey essentials, greater localisation of designs and a providing a platform for a variety of brands
- 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

Section 172(1) statement continued

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 maintain a vibrant retail offering providing core services for local communities
- Support for community groups and charities local to our stores
- The importance of support for pre-school children in disadvantaged areas to address disparities in levels of literacy

How did we respond?

- The ESG Committee reviewed and approved the Sustainability Strategy, action plans and targets for the year under the three pillars of Planet, People and Community
- We continued our long-term partnerships with the National Literacy Trust in the UK and Miracle Flights in North America, and provided financial and in-kind support to a number of other charities and community causes
- We discussed possible partnerships with landlord partners to look at ways to help local communities
- Participation in industry working groups on key environmental and social issues

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 agreed 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
- Supply chain operations to ensure right products at the right time
- 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
- We worked with business partners to provide suppliers with customer insight data specific to our stores
- Provided an option for suppliers to access information through a dedicated data portal
- We engaged with suppliers on human rights due diligence in their supply chains and carbon reduction targets and plans

Sustainability

Continuing our journey to a more sustainable business

WHSmith has a long-standing commitment to operate in a responsible and sustainable way. As a major international retailer, our operations can have far-reaching consequences and we are increasingly sensitive to the environmental and social challenges facing the world today. Our customers, colleagues and business partners all want us to act in a responsible way and we know that operating sustainably enables better business performance.

Our sustainability strategy is a key part of how we operate. It concentrates on those areas which are important for the success of our business and where we can bring positive change. It was developed taking into account the views of our stakeholders on the issues that they felt were important for our business and where we have the greatest potential impacts on society and the environment.

The three main pillars of our strategy, focus on Planet, People and our Communities and provide the framework for our activities. They are underpinned by a strong foundation of responsible business principles and practices to ensure we operate in the right way.

Our Journey to a Sustainable Business

Creating value for all stakeholders

Minimising our impact on the planet

Net zero by 2050

Reduce impacts from packaging and waste

Net zero deforestation

Engaging our people

Support wellbeing

Increase diversity of senior management

Protect worker rights in the supply chain

Contributing to communities

Help children develop a love of reading

Make a positive impact through fundraising, donations and volunteering

Responsible business policies and processes

Governance

Good environmental and social governance (ESG) is central to successful risk management, business development and delivery of the expectations of shareholders. A robust framework of clear governance structures, risk management processes and internal controls are embedded across WHSmith and are key for the delivery of our sustainability commitments.

Our board-level ESG Committee, leads and oversees delivery of our sustainability strategy, setting our ambition and monitoring progress. The Committee is responsible for understanding the potential impact and related risks of ESG considerations on the business. It approves the Company's sustainability strategy, including policies, objectives and a roadmap for delivery and monitors progress against agreed targets. The work of the Committee is detailed on pages 79 and 80.

The ESG Committee receives input from the ESG Steering Group, which is chaired by the Group Chief Executive and has responsibility for leading the delivery of our sustainability commitments. The ESG Steering Group meets monthly to review progress against our objectives. Each of the key components of our strategy has a series of targets and an action plan for implementation.

Individual issues are managed by the most appropriate owners across the business. They work with WHSmith's Sustainability Director whose role is to advance the various initiatives, co-ordinate implementation of the sustainability programme and provide updates to the key governance bodies.

Quarterly updates are also provided to the Group Audit Committee on key ESG risk areas. As part of WHSmith's risk management processes (see pages 55 to 60), detailed risk registers are maintained by each business and used to identify, manage and monitor risks at quarterly Business Risk Committees. The Business Risk Committees review the progress made towards achieving our long-term sustainability targets once a quarter, together with any emerging issues which need to be considered.

We include ESG metrics in our incentive plans for senior management. Further details are provided on pages 86 to 96. This year we agreed a new revolving credit facility with a syndicate of banks for a five-year term with extension options. The facility includes specific annual targets aligned to the Group's sustainability strategy with lower interest rates if the targets are met.

Our governance framework

Board

Ultimate responsibility for all aspects of ESG, including strategy, risk management and prioritisation of key issues

Audit Committee

Provides oversight of risk management of ESG, including internal controls and external reporting requirements

ESG Committee

Provides oversight of the ESG strategy and monitors progress against objectives and targets

Remuneration Committee

Ensures remuneration policies and plans support ESG targets

Group Executive Committee

Defines and monitors business strategy and financial plans, including those related to ESG

Business Risk Committees

Responsible for implementing risk management processes including those relating to ESG

ESG Steering Group

Responsible for developing ESG action plans and delivering progress against objectives and targets

Sustainability continued

Materiality and our approach to reporting

We undertake an annual materiality assessment to determine the most important sustainability issues for our business. This assessment is based on the extent to which our activities could impact society and the environment, and the extent to which a socio-economic, environmental or ethical issue could impact our business financially.

Our materiality assessment incorporates the views of internal and external stakeholders who provide input in a number of different ways, which are set out in more detail on pages 29 to 35. We use feedback from stakeholders to identify the issues that are most important to them, the areas where they believe our activities could have the biggest impact on society and the environment and the extent to which different issues could generate significant risks or commercial opportunities for our business.

Our ESG Committee and other relevant governance bodies regularly discuss new and existing themes and issues that matter to our stakeholders. Priority issues are addressed by programmes and action plans with clear and measurable targets and committed resources. Our ESG Steering Committee reviews our materiality assessment annually and chooses what we measure and include within our reporting based on priority issues for our investors, customers, colleagues and other stakeholders. Our reporting is informed by stock exchange listing and disclosure rules.

We remain committed to transparent and balanced sustainability reporting and commissioned SLR Consulting to conduct a limited assurance engagement over selected Information which is marked with a * in this report. Further details are provided in our **Sustainability Addendum**.

This year we have streamlined our sustainability reporting to reduce duplication and help stakeholders find the information they need more easily. All of our reporting is available on our **website**:

- This Annual Report has a summary of the progress against our sustainability strategy and targets for the year and meets our statutory obligations
- The **Sustainability Addendum** is updated annually and includes our most recent materiality matrix, sustainability performance data, third party assurance statement and content tables for key reporting standards
- **Policies and position statements** describe our expectations and management approach for key topics

Benchmarks and external ratings

We engage with a number of external proxy agencies, benchmarking schemes and other membership organisations. This year we became signatories of the UN Global Compact and we continue to rank highly in external benchmarks and indices, including the following (as at 31 August 2023):

Member of Dow Jones Sustainability Indices Powered by the S&P Global CSA

For the third year WHSmith has been included in the Dow Jones Sustainability World Index, one of only eleven speciality retailers to be included.

SUSTAINALYTICS a Morningstar company

WHSmith received an ESG Risk Rating of 10.1 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors.

ENVIRONMENTAL QUALITYSCORE 1 HIGHEST RANKED BY ISS ESG

WHSmith achieved a 'C+' rating. This is supported by our 'Prime' status, which is given to companies that are perceived to be sustainability leaders in their industry.

MSCI ESG RATINGS AA

WHSmith has a rating of AA in the MSCI ESG Ratings assessment.

CDP DISCLOSURE INSIGHT ACTION

WHSmith achieved a climate disclosure score of 'A', one of just 283 companies to achieve this score globally.

Minimising our impact on the planet

	Aim	Target	Progress
Climate action	**Net zero emissions by 2050**	By 2030: reduce absolute Scope 1 and 2 emissions by 80 per cent from 2020 base year.	2023 emissions are 66* per cent lower than 2020.
		By 2027: 75 per cent of suppliers by emissions covering purchased goods and services and up-stream transport and distribution will have science based targets.	15* per cent of GHG emissions from purchased goods and services and up-stream transport and distribution are from suppliers with science based targets.
Reducing waste	**Reduce environmental impact from packaging and materials**	By 2025: reduce waste material and minimise own-brand plastic packaging.	In 2020 we sent 400 tonnes (12 per cent) of waste to landfill. In 2023 we sent 24* tonnes (one* per cent) of waste to landfill.
Protecting natural resources	**Net zero deforestation**	By 2025: ensure forestry materials in own-brand products and core non-trade goods come from recycled or certified sources.	In 2023, 100* per cent of pulp, paper and timber products purchased for resale were from certified sources or recycled material. Further work is planned to assess certification in relation to non-trade goods.

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

Climate action

The impacts of climate change are being felt across our operations and our supply chains and by many of those who form part of our wider value chain. We are committed to playing our part in helping to reduce emissions to avoid the most severe consequences of climate change.

WHSmith has a long history of reducing carbon emissions through greater energy efficiency, investment in technology and equipment and switching to lower carbon sources of energy and fuel.

We have set a target to be net zero across our full value chain by 2050, aligned to a 1.5˚C trajectory. Our carbon transition plan includes a number of initiatives to reduce energy and fuel use, switch more of our power to renewable sources and take action to adapt to the changing climate. We know that we will not be able to reach net zero in isolation, and therefore are encouraging customers, suppliers, business partners and policy makers to join us on our journey.

More information on our climate strategy, including our commitments, climate risks and opportunities and action plans for transitioning to net zero are included in our TFCD disclosures on pages 41 to 48.

Reducing 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. Separate facilities for waste segregation are available in our distribution centres and offices. We use reusable skips to transport goods between our distribution centres and stores, rather than less robust cardboard boxes which would need to be recycled more frequently and add to the waste we generate.

More widely across the Group, we are working with our suppliers to minimise the quantities of secondary packaging used to protect products being transported to our stores, which helps to reduce the waste being generated from our operational activity.

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.

Sustainability continued

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 solutions such as cardboard and forms of plastic that can be recycled where these provide a better environmental option.

We track the types and volumes of different types of packaging associated with our own-brand products and have removed loose plastic glitter from all WHSmith-branded products, including stationery items and seasonal items such as cards and gift wrap.

The number of food lines that we sell continues to grow, and so 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 better stock control systems to improve forecasting and ordering of chilled food, 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.

We partner with the food redistribution organisation Too Good to Go, who provide an online application to connect customers to any of 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 reduced price. This is working well at our hospital locations and we are expanding its use to other stores in other locations.

These actions all help to minimise the amount and proportion of waste which is sent for treatment and disposal. This year 99* per cent (2022: 99* per cent) of our waste was sent for recycling or to energy from waste facilities rather than for disposal to landfill.

Operational waste

	2023	2022	2021
Total waste (tonnes)	**3,105***	3,247*	3,623*
Percentage diverted from landfill	**99***	99*	93*

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

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 the sourcing of any paper, card or wood components for our products.

Our **Sustainable Forests Policy** sets out our standards and requirements for our supply chain, and includes a zero deforestation policy for any WHSmith-branded products. Our standards require that all paper, card and wood for our own-brand products are sourced from legal and well managed forests that have been certified to credible certification standards such as FSC® or PEFC™ or from verified recycled sources.

Suppliers must provide proof of Chain of Custody certification 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 can now demonstrate through certification that 100* per cent (2022: 99.7* per cent) of WHSmith-branded products containing paper-based materials originate from certified or recycled material.

We are currently updating our procedures and supplier guidance to ensure we are ready for the introduction of the EU Deforestation Regulation in 2024.

TCFD Reporting

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. Our target is to be net zero across our value chain by 2050.

We have considered our TCFD-related reporting obligations under the UK's Financial Conduct Authority Listing Rules and in line with the requirements of Listing Rule 9.8.6R, our disclosure of climate-related financial information is consistent with the Recommendations of the TCFD and the recommended disclosures and all-sector guidance. Our approach to materiality for TCFD reporting is the same as for other components of ESG and is set out on page 38.

Board oversight of climate risks and opportunities

The Board has ultimate responsibility for ensuring climate change is embedded into the Group's strategy, risk management, financial and business planning processes. Climate considerations are taken into account for performance monitoring and any decisions regarding major financial approvals and acquisitions. The ESG, Audit and Remuneration Committees of the Board provide oversight of certain climate-related activities and any issues of material significance are discussed as they occur. The work of the committees is detailed on pages 72 to 80.

The Audit Committee has responsibility for ensuring that the Group has identified climate risks and opportunities, that those risks and opportunities have been adequately assessed and that appropriate risk management, monitoring and mitigation plans are in place. The Committee also oversees the Group's wider obligations in relation to non-financial reporting. Climate-related matters are included in quarterly updates from the Group Audit and Risk Director as part of the Group's wider risk management processes.

The ESG Committee has responsibility for ensuring the Group 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, development of a carbon transition plan and monitoring progress. This year, the ESG Committee discussed climate change in three meetings. The Committee received dedicated briefings from the Sustainability Director on current legislation and emerging developments in relation to carbon and nature, and reviewed progress against the Group's carbon targets. Climate-related skills and experience of individual Committee members are set out on pages 62 to 63.

TCFD recommendations and recommended disclosures

	Disclosure location (page)
Governance	
(a) Describe the board's oversight of climate-related risks and opportunities	Page 41
(b) Describe management's role in assessing and managing climate-related risks and opportunities	Page 42
Strategy	
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Pages 43 to 44
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Page 44
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 44
Risk management	
(a) Describe the organisation's processes for identifying and assessing climate-related risks	Page 42
(b) Describe the organisation's processes for managing climate-related risks	Pages 43 to 45
(c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Pages 43 to 45
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	Page 46
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Pages 47 to 48
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 48

The Remuneration Committee ensures that the Group's incentive plans are aligned with targets relating to climate-change. Climate-related performance indicators formed part of the Annual Bonus scorecard for the Group Chief Executive and CFO/COO and carbon reduction targets were included in the Long-Term Incentive Plan awards as set out on page 96. Incentives associated with decarbonisation targets were discussed in two of the Committee meetings this year.

Sustainability continued

Management's role

The Group Chief Executive has the delegated authority from the Board to manage WHSmith's actions in relation to the Group's strategy and 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 developing climate scenarios, identifying climate risks and opportunities, developing transition plans and embedding them into business activities, and ensuring progress is appropriately 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, monitor, manage and mitigate climate 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 Group's processes for managing climate risks. 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 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 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.

Identifying and assessing risks and opportunities

Our framework for identifying and assessing climate-related risks is integrated into company-wide processes for risk identification and prioritisation (see pages 55 to 60). We use the following processes to identify and assess transition and physical risks and opportunities:

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

We maintain a register of climate risks and opportunities, across short, medium and long-term time horizons. These time horizons are defined as follows:

- Short-term – up to three years: we develop financial plans and use them to manage expectations and 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 some store leases, contractual agreements with landlord partners, and the useful economic life of our assets often exceed three years. Medium-term climate risks are considered in all investment decisions involving longer-term commitments and many of our climate-related opportunities are often materialised within this time.
- 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 to transitioning to a net zero world. This timescale is beyond our financial planning and investment period horizons, but we recognise that longer-term risks may need to be incorporated into our future business strategy and planning.

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 all other risks included in the Group's risk register. Determination of the severity of impact includes both financial and reputational components, and other factors such as our ability to respond to a particular risk. In assessing the likelihood, we consider factors such as whether similar risks have materialised in the past and our ability to mitigate the risk. This allows us to identify the more significant potential risks, for more detailed financial assessment and incorporation into the risk registers and summary risk maps prepared by all business functions.

We consider Environment and Social 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. Failing to deliver our sustainability agenda could damage our reputation, introduce higher costs and impact our ability to meet our strategic objectives.

Scenario analysis

In order to further assess and evaluate climate risk and opportunities, in 2022 we commissioned external consultants to help us understand how our business could be affected under two climate scenarios over short, medium and long-term horizons.

Current policies scenario

This scenario assumes only currently implemented government policies are preserved. There is no reduction in emissions and climate change accelerates to 2.5°C of warming by 2050 and >4°C by 2100 bringing irreversible change. This scenario provides an indication of potential outcomes under business as usual. It involves little to no transition risks in the early stages (as no additional action is being taken), but results in irreversible and disruptive physical risks.

Net zero 2050 scenario

This is an ambitious scenario that limits global warming to 1.5°C by 2100 through stringent and immediate climate policies and innovation, reaching net zero emissions around 2050. It offers an indication of potential outcomes where global warming is limited to current internationally agreed levels. It involves more transition risks in the early stages and physical risks are less extreme than under the Current Policies scenario. It is only relevant to medium and long-term time horizons because of the timescales needed to implement.

Climate risks and opportunities and their impact on our business

This analysis helped us to estimate indicative financial impacts from different climate risks under the two scenarios. The table on page 44 sets out the most significant climate risks and opportunities for WHSmith, the potential impacts they may have on our business and our resilience to respond. We have assessed transition risks associated with societal changes in policies, technologies, markets and stakeholder expectations and physical risks arising from acute climate-related weather events, or longer-term chronic changes to the climate. Opportunities from mitigation and adaptation to climate change are also included.

The impacts detailed in the table on page 44 are stated prior to mitigation or controls being in place and are subject to uncertainties attributed to the underlying scenario models, impact pathways and assumptions made. They assume that our business activities remain largely unchanged throughout and any increases in costs are fully absorbed by WHSmith. The financial impacts quoted are not forecasts but are based on the outputs from the 2022 modelling derived from different data inputs and plausible modelled scenarios and are subject to a wide range of uncertainties.

The financial implications of the risks and opportunities identified are considered within the Group's financial planning processes. The modelling undertaken to date has determined that the financial impacts are not expected to be significant within our short-term forecast period. Over the medium and longer-term the results of the scenario analysis have been considered in the assessment of viability and goodwill impairment where appropriate but are not considered to be material. We will continue to keep this assessment under review.

The results of our scenario analysis do not currently identify any significant impact on our business model over the time horizon assessed, and therefore no further changes in strategy are required, beyond our current activities to decarbonise our business in line with limiting global temperature rises to 1.5°C.

Managing climate risks and opportunities

Climate 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 risks within our overall risk appetite over different time horizons.

Sustainability continued

Summary of climate-related risk and opportunities

Climate risk and business impact	Potential financial impact[1]			Business resilience and strategic response
	Short term	Medium term	Long term	
Increased energy and fuel prices from changes in carbon taxes, geopolitical energy policies and industry decarbonisation could result in higher costs for operating buildings, transport and purchase of goods. (Policy and legal, and market risk). Geographies affected: global retail, purchasing and distribution operations.	**Current policies**			We closely monitor any changes in legislation, taxation policies and market dynamics. Our procurement team seek to minimise the price we pay for electricity and gas. We have a balanced energy purchasing strategy to mitigate price volatility. We continue to reduce energy consumption and switch to low carbon alternatives wherever feasible. Future cost projections for energy and fuel are included in our financial plans. Metrics used: Electricity, gas and fuel consumption (page 47); Energy and fuel pricing (not disclosed).
	£	££	££	
	Net zero 2050			
	NA	£££	£££	
Switching to lower carbon sources of power and fuel could result in increased costs. In the UK, our Swindon distribution centre and some of High Street stores are heated by natural gas. To meet net zero targets and new building standards, we will need to invest in gas replacement systems and electric vehicles which could incur additional costs. (Technology and Reputation risk). Geographies affected: global operations, but particularly UK.	**Current policies**			Capital expenditure on gas control systems has reduced our reliance on natural gas. We continue to invest in lower-carbon alternatives for heating and air conditioning during store refits and building upgrades. Both capital and operating expenditure projections for energy and fuel are included in our financial plans. Metrics used: Scope 1, 2 and 3 emissions (pages 47 to 48); Electricity, gas and fuel consumption (page 47); Renewable electricity pricing (not disclosed); Landlord partner commercial terms (not disclosed).
	£	£	£	
	Net zero 2050			
	£	£	£	
Climate change is likely to result in chronic changes in precipitation patterns with some regions experiencing droughts and others greater rainfall. These changes could affect the supply and availability of raw materials for some product categories such as stationery and food and drink, with a resulting increase in the cost of supply. (Chronic physical risk). Geographies affected: global purchasing operations.	**Current policies**			We sell a broad range of products which means that even if certain categories 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 and if necessary, adapt our ranges as appropriate. Metrics used: Cost of Sales (page 133); Scope 3 emissions (page 48).
	£	£	£££	
	Net zero 2050			
	£	£	££	
Extreme weather events, including storms and flooding are becoming more frequent and could cause disruption to transport routes affecting our distribution network 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. (Acute physical risk). Geographies affected: global retail and distribution operations.	**Current policies**			Our stock is held across a number of WHSmith-operated distribution centres, by suppliers at their sites and over 1,750 stores in 32 different countries. The impact of a flood event would therefore be limited. 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. Metrics used: Insurance costs (not disclosed).
	£	£	£	
	Net zero 2050			
	£	£	£	
There may be opportunities for increased revenues as a result of changing consumer trends relating to a switch to public transport and increased sales from new and existing product categories. A switch to lower-carbon intensity forms of transport could result in an increase in revenues in some of our channels. As the climate changes, there is also likely to be an increase in customer demand for some of our existing lines and new products. These include those that have the potential to mitigate the impacts of climate change, because they have a lower environmental footprint, or products that help customers to adapt to a changing climate, particularly for those who are travelling. (Physical opportunity). Geographies affected: global retail operations.	**Current policies**			WHSmith is collaborating with our landlord partners on net zero strategies to play our part in demonstrating industry's intent for greener forms of travel. We have a diverse portfolio of stores across air, rail, hospitals, shopping centres and high street locations which would maximise the opportunities for growth in any of these formats. Our commercial teams are constantly assessing consumer trends and the potential for new products and can quickly adapt to any developments in the marketplace to capitalise on new opportunities. For example, in response to a warmer climate, we are ensuring ranges of travel products are meeting the needs of travellers. Metrics used: Commercial sales from products designed for a lower-carbon economy (not disclosed).
	££	£££	£££	
	Net zero 2050			
	££	££	£££	

1 Potential financial impact determined by impact on annual margin prior to any mitigation activity. Ranges have been chosen to align with our other accounting processes. There have been no identified impacts on investment in research and development, acquisitions or divestments or access to capital.

£ <£10m ££ £10–30m £££ >£30m

In addition to the strategic responses in the table, other processes for managing climate risks and opportunities are undertaken at Group, business function and individual property level and include:

- A Group-wide policy framework which includes our Environment Policy, Code of Business Conduct and **Responsible Sourcing Requirements** for Suppliers;
- Monitoring of key metrics including energy and fuel consumption and pricing, cost of sales, consumer trend data and sales information;
- 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. The ESG Committee evaluates the annual update of the climate risk and opportunity register and ensures appropriate responses are in place. At an operational level, each business division reviews its risk profile and risk responses throughout the year to ensure climate 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 risk management. For example, this year climate risk was included in the internal audit of supply chain operations.

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

Climate strategy

The Group's strategy incorporates the delivery of our sustainability plans as a key enabler, including minimising our impact on the planet and decarbonising our activities (pages 14 to 15). We recognise that transitioning to a net zero business is the best way of mitigating our climate risks and capitalising on any climate-related opportunities. Our target is to become a net zero emissions business by 2050. Our intention is to reduce Scope 1, 2 and 3 emissions by at least 90 per cent by 2050 (from a 2020 baseline) before neutralising any residual emissions.

As a first step to this long-term goal, we have set near term targets to help track our performance against our overall climate target over time. The following targets were developed using SBTI's Criteria and Recommendations for Near-Term Targets, Version 5.0 and have been validated by SBTi.

- We will reduce absolute Scope 1 and 2 GHG emissions by 80 per cent by 2030 from a 2020 base year; and
- 75 per cent 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.

Our carbon transition strategy focuses on a number of key actions:

- Continuing to reduce our electricity and gas consumption through increased energy efficiency and investment in more efficient heating, lighting and cooling;
- Continuing to invest in renewable electricity for direct and indirect power purchases;
- Reducing our dependence on fossil fuels for transport and logistics;
- Enhancing supplier engagement across all Business Divisions to ensure our supply chain is adequately disclosing carbon emissions and setting targets to reduce them;
- Working with landlord and franchise partners to look at opportunities to collaborate to reduce emissions;
- Reducing carbon emissions from packaging;
- Working with others in the retail sector to encourage other stakeholders such as governments and policy makers to make more rapid and larger scale interventions towards net zero. We were a founding member of the British Retail Consortium's Climate Action Roadmap which was established to bring together retailers, suppliers, policy makers and other stakeholders, and to support customers to deliver the UK retail industry's ambition to be net zero by 2040.

Sustainability continued

Metrics and performance against targets

We use a number of different metrics to measure our climate-related impacts, evaluate progress against our targets and monitor risks and opportunities. They have been developed with consideration of the cross-industry metrics described in the TCFD implementation guidance table A2.1, where we consider these to be material to our business. Key metrics used to measure and manage climate risk and opportunities are listed below and included in the table on page 44.

Metrics for managing climate risk

Metric	Link to risk	Units	2023	2022	2021
Electricity and gas consumption	Increased costs for energy and fuel	MWh	**83,908***	82,581*	78,449*
Fuel consumption	Increased costs for energy and fuel	millions of litres	**1.73***	1.54*	1.08*
Electricity from renewable sources	Increased costs for energy and fuel Increased costs for meeting net zero targets	MWh	**52,101***	53,231*	50,064*
Absolute Scope 1 emissions	Increased costs for meeting net zero targets	tonnes CO_2e	**1,765***	1,609*	2,687*
Absolute Scope 2 emissions	Increased costs of raw materials		**9,337***	8,758*	6,528*
Absolute Scope 3 emissions			**404,420***	291,730*	234,940*

Other climate-related metrics

Metric	Significance	Units	2023	2022	2021
Suppliers with science based targets in place	Linked to Scope 3 target	Number	**54***	20*	NA*
Percentage of Category 1 and 4 Scope 3 emissions covered by science based targets	Linked to Scope 3 target	Per cent	**15***	NA	NA
Own brand wood and paper-based products from sustainable sources	Linked to Deforestation target	Per cent	**100***	>99*	99*
Waste diverted from landfill	Component of Scope 3 emissions	Per cent	**99***	99	93
GHG emissions intensity	Industry benchmark	tonnes CO_2e/£revenue	**6.2***	7.4*	10.4*
		tonnes CO_2e/sq ft	**2,437***	2,352*	2,014*

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

Other metrics used to monitor climate-related impacts include:

Executive remuneration: Climate-related performance indicators formed part of last year's Annual Bonus scorecard for the Group Chief Executive and CFO/COO and the Long-Term Incentive Plan (see Directors' remuneration report on pages 81 to 102).

Revolving credit facility: This year we agreed a new revolving credit facility for a five-year term with two uncommitted extension options of one year each with a syndicate of banks. The facility includes specific annual targets aligned to the Group's Sustainability strategy and we will benefit from lower interest rates on any drawdown if we meet these targets. These targets include on-going delivery of Scope 1 and 2 reductions and agreement with suppliers to set science-based carbon reduction targets to cover Scope 3.

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 International Energy Authority and the Network for Greening the Financial System.

External benchmarks: We monitor performance on climate change in external benchmarks, including the CDP Climate Change disclosure initiative and this year we were included in the leadership group of companies with an 'A' rating.

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 2023 was 83,908* MWh (2022: 82,581*) an increase of two per cent. The main reason for this increased consumption was an expansion in the number of stores that we operate from 1,723 in 2022 to 1,767 in 2023. We are continuing with a range of energy reduction measures to minimise the amount of electricity and gas that we use. These include:

- 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 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 in 2023 was 1.73 million* litres (2022: 1.54 million*) an increase of 12 per cent due to expansion of our Travel business requiring more transport of stock from our distribution centres to stores.

Energy and fuel use

	2023	2022	2021
Energy use (buildings) MWh			
UK	**61,750***	62,048*	64,737*
Non-UK	**22,158***	20,533*	13,712*
Total	**83,908***	82,581*	78,449*
Energy use (buildings) MWh			
Gas	**9,649***	8,817*	14,673*
Grid electric (renewable)	**52,101***	53,231*	50,064*
Grid electric (non-renewable)	**22,158***	20,533*	13,712*
Total	**83,908***	82,581*	78,449*
Fuel use (litres)	**1.73 million***	1.54 million*	1.08 million*

Scope 1, Scope 2, and Scope 3 greenhouse gas (ghg) emissions, and the related risks

Global Scope 1 and 2 emissions (tonnes CO_2e)

	2023	2022	2021
Scope 1 emissions			
From natural gas to heat stores, offices and distribution centres.	**1,765***	1,609*	2,687*
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.	**9,337***	8,758*	6,528*
Percentage of emissions from UK-based operations.	**0%***	0%*	0%*
Total Scope 1 and 2 emissions (market based)	**11,102***	10,367*	9,215*
Percentage of emissions from UK-based operations.	**16%***	16%*	29%*
Market based carbon intensity metric (revenue)			
(tonnes CO_2e per £m revenue)	**6.2***	7.4*	10.4*
Market based carbon intensity metric (floorspace)			
(tonnes CO_2e per sq foot)	**2,437***	2,352*	2,014*
Scope 2 emissions (location based)			
From electricity purchased to power stores, offices and distribution centres.	**19,361***	18,625*	17,013*

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. Our reported Scope 1 and 2 emissions include all UK and international properties, both owned and leased, over which we have operational control.

*We engaged SLR Consulting 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 SLR Consulting's full assurance statement is available at **whsmithplc.co.uk/sustainability**

Sustainability continued

Our total Scope 1 and 2 market based emissions increased slightly this year to 11,102* tonnes CO_2e (2022: 10,367*), as a result of an expansion in our Travel Rest of World business. Emissions reductions were made through investments in more efficient lighting, better gas and electricity control systems and changes to refrigeration units, including the deployment of new ranges of chillers with closing doors.

One hundred per cent of the electricity for buildings in the UK is renewably sourced, as a result of certificates purchased under the Renewable Guarantees of Origin scheme. All certificates are retired on our behalf to avoid double-counting.

Emissions from our UK operations were 1,765* tonnes CO_2e (2022: 1,609*). 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 the technology and nature of our operations evolve, we expect to be able to reduce emissions from these activities.

Global Scope 3 emissions (tonnes CO_2e)

Scope 3 category	2023	2022	2021
1. Purchased goods and services and capital goods and services	332,000	210,000	178,000
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	6,400*	3,700*	3,300*
4. Upstream transport and distribution	19,000	23,000	14,500
5. Waste generated in operations	80*	90*	200*
6. Business travel	1,940*	1,440*	640*
7. Employee commuting	17,600	16,900	14,500
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	Not calculated	1,700	1,000
12. End of life treatment of sold product	22,000	30,600	19,300
13. Downstream leased assets	Not relevant for our business.		
14. Franchises	5,400	4,300	3,500
15. Investments	Not relevant for our business.		
Total Scope 3 emissions	**404,420**	**291,730**	**234,940**

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 SLR Consulting 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. Further data and full details of the scope and methodology for reporting emissions and SLR Consulting's full assurance statement are available at **whsmithplc.co.uk/sustainability**

The majority of our Scope 3 emissions are from Category 1: Purchased Goods and Services, and emissions increased this year as our sales continued to grow. As a first step towards our target for 75 per cent of suppliers to have science-based targets in place, we have started to engage with our largest suppliers. 54 of them now have science based targets in place, representing 15 per cent of Category 1, 2 and 4 emissions.

We are working with our transport and logistics operators to reduce Category 4 emissions, and have reduced emissions per pallet moved by approximately 30* per cent since 2007, through better route planning and optimisation of delivery schedules, driver training and working with suppliers to reduce fuel consumption and emissions.

Progress against targets

	2020 baseline	2023	Progress
Reduce Scope 1 and 2 GHG emissions by 80% by 2030	33,072* tonnes CO_2e	11,102* tonnes CO_2e 66%* reduction	●
75% of suppliers by emissions to have science-based targets in place by 2027	Unknown	15%* of emissions are covered by science-based targets	●
All forestry materials will be from recycled or certified sources in WHSmith-branded products	99%*	100%*	●

● On track to meet target

Engaging our people

	Aim	Target	Progress
Health and wellbeing	**Create an environment that supports physical, mental and financial wellbeing**	By 2025: improve our employee engagement score from a 2021 base year.	Our second global engagement survey took place in October 2022, with a 24 per cent improvement in engagement scores. In 2023, our third global engagement survey delivered a consistent engagement score.
		On-going: ensure all managers receive mental wellbeing training.	Improved data collection has highlighted a gap in line manager training which is currently being addressed.
		On-going: maintain at least as many mental health first aiders as physical first aiders.	We have at least as many mental health first aiders as physical first aiders.
Diversity, equity and inclusion	**Increase diversity of senior management**	By 2025: increase gender and ethnic diversity of the Board, Group Executive Committee and Senior Manager populations.	At 31 August, 2023, the proportion of women at Board level had increased to 63* per cent. There was a slight decrease in the proportion of women on the Group Executive Committee. The proportion of female Senior Managers increased from 32* per cent in 2021 to 40* per cent in 2023. four per cent of Senior Managers were from ethnic minorities.
Supply chain human rights	**Protect worker rights in our supply chains**	On-going: ensure we audit our own-brand suppliers at least every two years.	As at 31 August 2023 86 per cent of supplier sites had been audited through site visits and 14 per cent had been assessed through desktop audit within the previous two year period.
		By 2023: develop an audit and engagement programme for our tier two suppliers.	As at 31 August 2023, 173 tier two suppliers to our direct tier one suppliers have been identified for additional due diligence. To date we have visited 21 per cent of these suppliers.
		By 2025: 15 per cent of own-brand suppliers will have worker representation committees in place.	As at 31 August, 2023 five* per cent of own brand suppliers have worker representation committees in place.

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

Employee engagement

Effective colleague engagement and an open, inclusive culture are essential to creating an environment for our teams to deliver for our customers. Our Group Chief Executive, CFO/COO and the Managing Directors of each business brief our head office teams on a monthly basis to provide updates on the Company's strategy and the latest operational developments and answer any questions.

We have a number of other communication channels that are used for engaging colleagues across the business, including feedback forums with senior management and various network committees with executive sponsors.

To help us to understand more about how our colleagues feel about working for WHSmith, we use a third-party research organisation to carry out our annual engagement survey.

The results of the survey are used each year to create an action plan to improve the working environment in head offices and stores; improve dialogue and engagement; and build collaboration across our teams. Continuing to improve the culture of the business is important to the long-term success of the Group and our target to improve employee engagement by 2025 has now been included as a performance measure in senior management incentive plans.

Sustainability continued

Learning and development

Our learning and development programmes are designed to provide our employees with the knowledge and skills they need to deliver their role and to support them as they develop their careers. We provide a range of learning opportunities and initiatives that are designed to help our employees develop their aptitude and experience.

These include online courses, workshops, mentoring and coaching and we continue to review and develop these activities, to ensure that they meet the requirements of our business and the learning and development needs for our employees. Individuals also have regular career conversations with their managers during the year, with more formal performance reviews taking place twice yearly.

Mentoring plays a critical role in the development of our talent pipeline at all levels, providing targeted one-to-one support for individuals from someone in a more senior role. Managers and senior executives act as mentors supporting employees with their development requirements to ensure they are ready to take on more challenging roles.

Reward and benefits

We believe in rewarding all employees with fair and competitive reward packages. All employees are entitled to a base salary and benefits, including pension and staff discount. Participation in a pension plan is offered to all employees in accordance with local legislation.

In the UK, WHSmith 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 on favourable terms. At the end of the savings period, the participant has the opportunity to buy the shares at a special option price that is fixed at the start of the scheme at a discount to the share price at that time. As at the 31 August 2023, 835 employees were participating in our Sharesave scheme.

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 responsibilities, processes and procedures.

This year, there were 48* reportable accidents across the group involving employees, contractors and members of the public and no fatalities. This increase is regrettable and we continue to look at the root causes of safety incidents to try to eradicate them at source.

Reportable accidents

	2023	2022
UK	**33***	27*
USA	**0***	0*
Australia	**1***	0*
Rest of the World	**14***	7*
Total	**48***	**34***

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

We are committed to creating a workplace where our colleagues feel valued, that they have a sense of belonging and are supported at every stage of their career with WHSmith. Our aim is to ensure that all line managers are trained in mental health awareness and that they have access to the right tools to be able to support colleagues who may be experiencing stressful life events. We continue to have at least as many trained mental health first aiders as physical first aiders to ensure colleagues can access support when they need it.

WHSmith has partnered with several organisations to ensure our mental wellbeing provision is robust and meaningful. In the UK, the Retail Trust provides our Employee Assistance Programme (EAP), offering support for employees and immediate family members, and in store counselling when incidents occur which could impact the wellbeing of the whole team. Localised EAP offerings are also available for employees in other countries.

Research shows that financial wellbeing can have a strong impact on our mental health. Current and retired employees and their families who are in financial difficulty or hardship can apply to the WHSmith Benevolent Fund, a registered charity established in 1925.

This year, we have also continued our partnership with Salary Finance, enabling UK colleagues to access free financial education and loans at lower rates than those typically offered by traditional lenders. To enhance this offer, financial support and many useful budgeting and educational resources are also available for our employees to access through our EAP.

Diversity, equity and inclusion

At WHSmith, our people are fundamental to the success of our business whatever their age, race, religion, gender, sexual orientation or disability. We continue to focus on developing a culture of diversity, equity and inclusion (DEI), backed up by a framework of policies, procedures and ways of working.

We hope that our people genuinely feel that they can bring their whole selves to work. 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 working environment that is free from discrimination and harassment and we will not permit or tolerate this in any form.

Our DEI action plans set out how we are working towards our goal of creating an environment where everybody is welcome and feels they belong. Our DEI Committee enables colleagues from across our business to engage directly with leadership and work collaboratively on improvements.

We have continued to improve the quality of data and information that we hold in relation to our people, with data collection identified as an ongoing priority for our business.

We recognise the value that employee networks can bring. The founding of employee networks, including those for Pride, Gender Equity, Race and Culture, Disability and Parents and Carers has provided a vehicle for employee-led engagement and input to our DEI strategy.

The networks are each sponsored by a member of the Group Executive, providing visible senior leadership and a way for employee views to be relayed to the senior management team.

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.

As part of our ongoing DEI strategy, we have several external partnerships that have evolved over the years. These not only allow us to build our external profile as both a retailer and employer of choice, but they also allow us to benchmark our work against peer organisations.

We have signed several industry charters, committing to making progress on improving DEI in our business. We are signatories to the British Retail Consortium's Diversity and Inclusion Charter, have joined the industry organisation, Diversity in Retail and are partnering with Black Young Professionals to help us to attract, engage, recruit and retain black talent. This year we also joined the Stonewall Diversity Champions programme, developed to unlock the potential of our LGBTQ+ workforce.

We benchmark our diversity profile versus national averages to ensure that our employee profile and that of our management team reflect our commitment to diversity.

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.

We remain committed to improving diversity at senior levels and the proportion of women at Senior manager level has increased this year. 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 contacts, connections and relationships can be made easily.

Our latest **Gender Pay Report** can be found on our website. It shows a reduction in the pay gap due to a greater proportion of females moving into senior roles.

Male and female representation across the Group (as at 31 August 2023)

	2023				2022				2021			
	Male		**Female**		Male		Female		Male		Female	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Board[1]	**3***	**37***	**5***	**63***	5*	63*	3*	37*	5*	63*	3*	37*
Group Executive Committee Members[2]	**9***	**82***	**2***	**18***	7*	70*	3*	30*	7*	78*	2*	22*
Senior managers[3]	**49***	**60***	**32***	**40***	49*	65*	26*	35*	46*	68*	22*	32*
Managers[4]	**349***	**49***	**369***	**51***	349*	48*	371*	52*	315*	48*	345*	52*
All employees	**5710***	**38***	**9,225***	**62***	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. 2022 figures previously included Board Members so have been restated.

4 Includes head office colleagues graded at the level below 3 plus Store Managers, Cluster Managers and Post Office Managers.

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

Ethnicity data for UK employees (as at 31 August 2023)

	2023[1]	2022[1]	2021 Census[2]
Asian	**17%***	15%*	9%
Black	**3%***	4%*	4%
Mixed	**1%***	1%*	3%
Other	**2%***	1%*	2%
White	**77%***	79%*	82%

1 The data covers 91 per cent of UK based employees in 2023 and 89 per cent in 2022.

2 Census data covers England and Wales.

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Sustainability continued

Human rights and our supply chain

As an international retailer, we have a responsibility to respect and support the dignity, wellbeing and human rights of those in our own business, our supply chain and the communities that we serve.

We must act in a way that avoids infringing the rights of others and prevents adverse human rights impacts from our activities. We manage human rights risks through our due diligence processes in line with the United Nations Guiding Principles for Business and Human Rights.

Our **Human Rights Policy** provides further details on our approach and sets out the minimum requirements that everyone working for and with WHSmith must meet. We are committed to ensuring full respect for the human rights of anyone working for us in any capacity and to fair and safe work for all workers throughout our supply chain.

We have mapped out our salient labour issues and 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 use a number of sources of information and data including generic information published by governments, international agencies, trade unions, non-governmental organisations (NGOs) and other third-party experts; and information specific to our supply chain gathered from workers during site visits, worker surveys and worker representation committee meetings. We prioritise those risks where the impact on workers is likely to be greatest and where we are likely to be able to have the greatest impact through our actions.

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 and 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.

To ensure we are identifying and assessing any risks from workers' rights or environmental issues through our sourcing activities, we have developed a due diligence process to provide appropriate risk control, mitigation and remedy where needed.

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.

This year, we commenced an audit programme of key tier two suppliers who manufacture major components that are then used by our direct tier one suppliers of finished products. These audits are identifying similar levels of compliance and issues as for our tier one suppliers, and we are now working with them to build capacity to improve standards for workers further down our supply chains.

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 progress against our responsible sourcing strategy annually, looking at our audit and engagement programmes, emerging trends and risks, targets and performance.

The most frequent issues identified in our audits include health and safety non-conformances, compliance with conditions relating to working hours and missing paperwork. We also frequently identify non-conformance with social insurance requirements, a common problem in China where most of our suppliers are based.

This year, we identified three suppliers who were unable to provide the necessary levels of documentation and assurance, even after on-going dialogue and engagement. As a result, orders have been suspended until such time as we can reach the necessary level of assurance that suppliers are meeting our standards.

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 supplier management to ensure any complaints or suggestions are dealt with in the appropriate way. Calls to the hotline typically involve queries about topics such as pay, accommodation and relations with other workers.

This year, we set a target to increase the number of suppliers covered by our worker representation initiative. The aim of this programme is to help suppliers to develop fully functioning worker committees to represent workers on any matter affecting their rights, employment conditions or working environment to resolve problems as they arise. 11* suppliers (five per cent of the total supplier base) have now joined this programme and have established committees that have been operating for a year or more.

Contributing to communities

	Aim	Target	Progress
Literacy	**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.	Since 2021, we have donated over 420,000 books (or cash equivalent).
Supporting charities and local causes	**Make a positive impact through fundraising, donations and volunteering**	By 2025: increase the number of employees involved in supporting charities through fundraising and volunteering.	Applications for support to the WHSmith Trust from employees supporting charities through fundraising and volunteering increased by 50 per cent this year.

Literacy

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 cities and towns and areas of greater socio-economic deprivation.

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. This was augmented by the WHSmith Group Charitable Trust (the WHSmith Trust) which provided a financial contribution towards the programme, supported by donations from WHSmith customers and employees.

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 over 420,000 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 325,000 World Book Day vouchers were redeemed and WHSmith vouchers totalling £20,000 were donated to over 200 schools.

* We engaged SLR Consulting to provide independent limited assurance of the data marked with * in accordance with assurance standard ISAE 3000. Full details of the methodology and SLR Consulting's assurance statement are available at **whsmithplc.co.uk/sustainability**

Supporting charities and local causes

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 £996,000* to charities and other good causes. The full extent of our community investment activity is outlined in our **Sustainability Addendum 2023** and details of how we engage with charities and other good causes are set out in our **Code of Business Conduct**.

Our North American business has a longstanding partnership with a charity called Miracle Flights which is a non profit organisation providing commercial flights for children in need of life-saving medical care, not found in their local communities. WHSmith North America sells their toy bear mascot in stores and this year raised over £100,000 for the work of the charity.

Our International team have also raised money and provided product donations for local charities and causes in the vicinity of our airport stores.

Sustainability continued

Responsible business practices

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. Everyone who works for or on behalf of WHSmith has a responsibility to report anything that they are aware of that may be unlawful or criminal or could amount to an abuse of our policies, systems or processes.

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. Reports can be made internally or using our independently operated and confidential Whistle blowing helpline at **safecall.co.uk/report**.

Safecall operates under a non-retaliation policy, so that anyone who raises a concern in good faith is treated fairly, with no negative consequences for their employment. Each report is formally and robustly investigated and monitored to ensure that any corrective action or remediation has been undertaken.

Safecall is available to our suppliers and business partners and is communicated through our Responsible Sourcing Standards. These standards set out in more detail the behaviours and conduct we expect from all suppliers.

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.

Non-financial and sustainable information statement

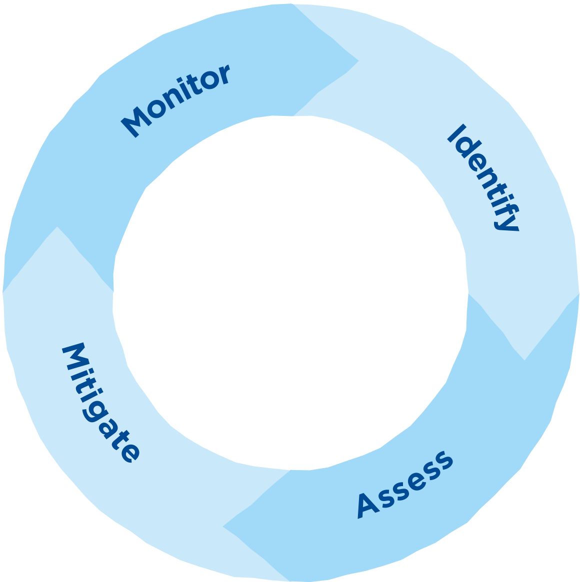
The sustainability section of the Annual Report on pages 36 to 54, the **2023 Sustainability Addendum** and the **Policies and Position Statements** section of our website contain a wide range of information about the environment, employees and social matters. The table below sets out where information on non-financial and sustainability matters can be found within our Annual Report and Accounts. The due diligence arrangements for each topic are included in the respective policy documentation on our website.

Disclosure	Policies and standards which govern our approach	Pages
Business model		6 and 7
Environmental matters	Section 172(1) statement	29 to 35
	Sustainability – planet	39 to 48
	Principal risks and uncertainties	55 to 60
Climate-related matters	TCFD reporting	41 to 48
Colleagues	Section 172(1) statement	29 to 35
	Sustainability – people	49 to 52
	Directors' remuneration report	81 to 102
Social matters	Section 172(1) statement	29 to 35
	Sustainability – communities	53
	Principal risks and uncertainties	55 to 60
Respect for human rights	Section 172(1) statement	29 to 35
	Sustainability – people	49 to 52
	Principal risks and uncertainties	55 to 60
Anti-corruption and anti-bribery matters	Sustainability – Responsible business	54
	Principal risks and uncertainties	55 to 60
Non-financial KPIs	Key Performance Indicators – Non-financial	17
	Sustainability	36 to 54
Principal risks and uncertainties	TCFD reporting	41 to 48
	Principal risks and uncertainties	55 to 60

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 and emerging risks and uncertainties

The Board has undertaken a robust assessment of the principal and emerging 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 pages 56 to 59 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 pandemic risks

While we are well prepared for the re-introduction of any possible trading and travel restrictions, there remains a risk that the Group could be negatively impacted by the emergence of new variants of Covid or of other future pandemics. We continue to reflect this potential impact within our various Principal Risk headings, to the extent that these may generate further risks of business interruption, disruption to our supply chain, or result in wider economic and market uncertainty.

Ongoing global conflicts

WHSmith has no direct operations in countries impacted by current ongoing global conflicts. The business could however be significantly impacted by any further potential escalation of these conflicts or wider geopolitical threats.

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 revenue, changing demographics and customer shopping patterns, and raw material costs could impact on profit performance. The Group may also be impacted by political developments both in the UK and Internationally, such as regulatory and tax changes, increasing scrutiny by competition authorities and other changes in the general condition of retail and travel markets or impacts from further geopolitical threats or escalation in global conflict.	The Group's performance is dependent upon the 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.	↑ Uncertainties relating to the impacts of geopolitical threats/ any escalation of global conflict, or from the cost of living crisis on consumer spending, or a reintroduction of constraints due to new pandemic activity.

Risk/description	Mitigation	Change in risk level
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 offer in travel locations introducing a wider range of products, associated risks include compliance with food hygiene and health and safety procedures, product and service quality, environmental or ethical sourcing, and associated legislative and regulatory requirements.	The Group monitors the Company's reputation, brand standards and key service and compliance measures to ensure the maintenance of operating standards and regulatory compliance across all our operations. We undertake regular customer engagement to understand and adapt our product, offer and store environment. We operate a framework for monitoring compliance with all regulatory, hygiene and safety standards, encompassing supplier and store audits and clearly defined sourcing policies and procedures. Our ESG related policies and processes encompass risk identification and mitigation in respect of all environmental, ethical sourcing and other reputational risks.	↔
Key suppliers and supply chain management		
The Group has agreements with key suppliers in the UK, Europe and the Asia and other countries in which it operates. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade.	The Group 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 from any geopolitical threats/ escalation in global conflict; increasing energy prices; or further pandemic constraints impacting our Asian supply chain.
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. 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. 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.	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.	↔

Principal risks and uncertainties continued

Risk/description	Mitigation	Change in risk level
Business interruption		
An act of terrorism or war, or an outbreak of a 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 particularly 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 three distribution centres and the closure of any one of them may cause disruption to the business. In common with most retail businesses, the Group also relies on a number of important IT systems, where any system performance problems, cyber risks or other breaches in data security could affect our ability to trade.	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.	↑ Uncertainties relating to the impacts of geopolitical threats/ any escalation in global conflict, or a reintroduction of constraints due to new pandemic activity generating further possible business interruption.
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.	↑ Continued growth of International operations and uncertainties relating to the impact of geopolitical threats / any escalation of global conflict.
Cyber risk, data security and GDPR compliance		
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 revenue.	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 the GDPR.	↑ Continuing increase in no. of externally reported cyber threats and recent ransomware attack.

Risk/description	Mitigation	Change in risk level
Treasury, financial and credit risk management		
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 21 on page 149 of the financial statements. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings 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. In June we announced completion of our refinancing, with a new £400m revolving credit facility. The new facility is provided by a syndicate of banks and is sustainability linked. It consists of a five year term with two uncommitted extension options of one year each, which would, subject to lender approval, extend the tenor of the new revolving credit facility to six or seven years if exercised.	↔
Environment and Social 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 effectively respond and influence our value chain and wider stakeholders to decarbonise could damage our reputation and introduce higher costs. Delivery against our sustainability targets and meeting regulatory obligations is vital. We have identified several climate related risks, including: • increases in the cost of energy and fuel from carbon pricing and changing market dynamics; and • disruption to supply of goods and increases in supply chain costs caused by acute and chronic changes in weather patterns. Although the impact is limited over our outlook period, these risks are potentially significant over the longer term.	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. We also have business continuity plans in place for our most significant product lines to protect supply chain disruption.	↔

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.

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, data security and GDPR compliance	Environment and social 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	✓	✓	✓	✓					✓	✓
Disciplined 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 will be 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 55 to 60).

The Group's business model and strategy is presented on pages 2 to 28. 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 £400m multi-currency revolving credit facility ('RCF') maturing in June 2028. As at 31 August 2023 the Group had drawn down £84m on the RCF, and had £34m cash on deposit. The Group also has £327m convertible bonds in issue with a maturity of May 2026.

The covenants on the above facilities are tested half-yearly and 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 ongoing 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 and 2023 Budget was approved by the Board in September 2023.

Assessment of viability

In making the viability assessment, the directors have modelled a number of scenarios for the three year period 31 August 2026. As disclosed in the Strategic report on pages 55 to 60, 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 55 to 60 of the Strategic report.

Within the viability scenario modelling we have applied an assumption that we will be able to refinance existing lending facilities as they become due.

The base case scenario is consistent with the Board approved 2024 Budget and the three year plan, which takes into consideration uncertainties regarding the ongoing 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 substantial cost inflation, in the context of ongoing challenges in the macro-economic environment.

We have applied the same assumptions modelled as part of the going concern assessment (refer to page 119) extrapolated across the remainder of the three year viability assessment period. This scenario assumes reductions to revenue assumptions of between five and ten per cent versus base case as appropriate by division; additional inflation in labour costs beyond that included in the base case; and margin pressures. 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:

- 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 scenarios 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 41 to 48, 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 of all 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.

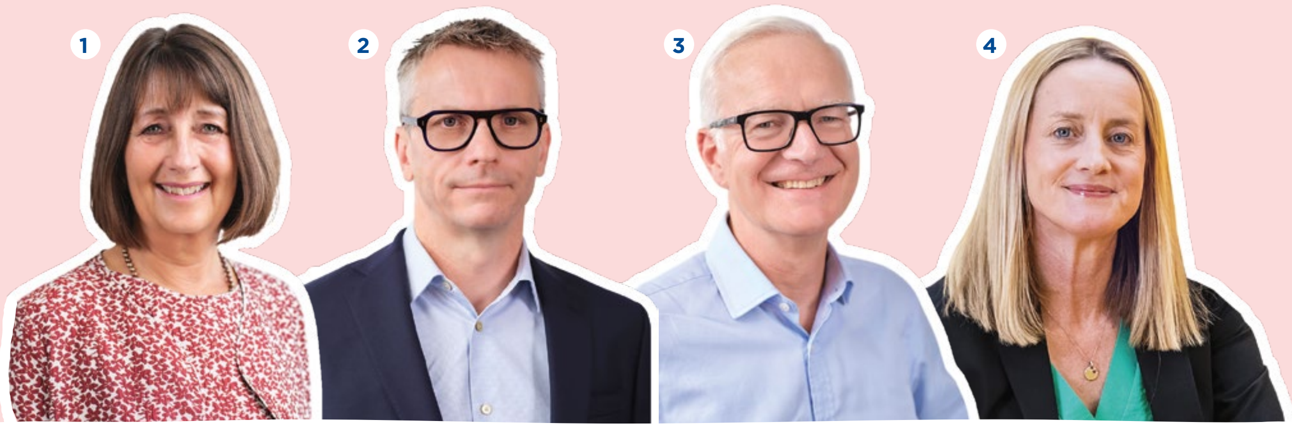
This Strategic report was approved by the Board on 9 November 2023.

On behalf of the Board

Carl Cowling
Group Chief Executive

9 November 2023

Directors' biographies



1. Annette Court
Chair

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

Committee membership: Chair of the Nominations Committee.

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 a non-executive director of Sage Group plc. She was previously the chair of Admiral Group plc, 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).

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: Member of the ESG 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. Colette Burke
Non-executive director

Date of appointment: 1 July 2023.

Committee membership: Member of the Audit Committee, ESG Committee, Nominations Committee and Remuneration Committee.

Skills and experience: Colette has significant US and retail experience. She is the Executive Vice President and Chief Commercial Officer of the LEGO Group, responsible for the Group's global commercial strategy. Prior to joining the LEGO Group, she had a 25-year career at consumer electronics company, Bose Corporation as Global Head of Sales and Marketing and across a wide range of commercial, general management and marketing leadership roles at a global, regional and national level, including 19 years working in the United States.

5 6 7

5. 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 the Senior Independent Director at Redrow Plc and The Unite Group PLC and a non-executive director of the John Lewis Partnership plc.

7. Marion Sears
Non-executive director

Date of appointment: 1 February 2022.

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

Skills and experience: Marion has considerable 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 a non-executive director at Dunelm Group PLC and Keywords Studios PLC. Marion is also a Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events.

6. 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 is also a non-executive director of National Gallery Global Limited. He was previously the Senior Independent Director of Dunelm Group PLC.

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

Previous directors who served during the financial year ended 31 August 2023:

Henry Staunton stepped down as Chairman of the Company on 30 November 2022.

Maurice Thompson stepped down as a director of the Company on 18 January 2023.

Kal Atwal stepped down as a director of the Company on 12 September 2023.

Corporate governance report

> “The Board of the Company is committed to achieving the highest standards of corporate governance.”
>
> **Annette Court**
> Chair

Board role and effectiveness

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

As Chair, 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 over 230 years, providing a retail destination of choice and a sense of community for thousands of customers every day. We have a presence in 32 countries, employ over 14,000 employees, source products from thousands of suppliers and play an important part in creating vibrant and sustainable local economies.

We recognise we have an obligation to grow our business sustainably, providing financial returns for our shareholders, whilst maintaining high standards of environmental stewardship and social equity. In delivering these obligations, it is important that our colleagues, business partners and suppliers are able to make the right decisions. We support them with a strong values-based culture, ongoing training and development, and a solid foundation of responsible business governance, policies and programmes. You can read more about our purpose, values and culture on pages 29 to 54.

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 colleagues, customers, shareholders and the communities we are part of. You can read about our engagement with investors on page 32, with our customers on page 31, with our employees on page 30 and community involvement on page 34 and our approach to rewarding our workforce in the Remuneration report on pages 86 and 87.

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. Board members attended employee forums and engaged with employees throughout the year on a wide range of subjects, including the Company’s approach to executive pay.

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 29 to 35.

Board changes

The Board has continued to give thought to ensuring that it has the right skills to lead the Company, particularly given its continued expansion in North America. Accordingly, the Board appointed Colette Burke as a non-executive director on 1 July 2023 given that she has significant US and retail experience. Maurice Thompson stepped down from the Board at the Company’s AGM in January 2023 and Kal Atwal stepped down from the Board in September 2023 to take up the role of Chair of Funky Pigeon. As previously announced, I succeeded Henry Staunton as Chair on 1 December 2022.

Thanks

I would like to thank our shareholders and stakeholders for their support in my appointment as Chair of the Company. I would also like to thank the Board and my colleagues across the Group for their tremendous efforts and ongoing commitment to its continued success.

Annette Court
Chair

9 November 2023

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 2023 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. Chair'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. Henry Staunton retired from the Board on 30 November 2022 and was replaced by Annette Court 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.
2. Pension Alignment (Provision 38): The pension contribution rates for executive directors. Carl Cowling and Robert Moorhead's pension contribution rates previously reflected the historical retirement benefits available to employees that joined the Company at similar times. The pension contributions for Carl Cowling and Robert Moorhead were aligned 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	
Chair's letter	See pages 64 and 65
ESG Committee report	See pages 79 and 80
Purpose, values and culture	See page 64
Strategy	See pages 1 to 61
Shareholder and stakeholder engagement	See pages 29 to 35
Division of responsibilities	
Leadership, commitment and Board support	See pages 65 and 66
Composition, succession and evaluation	
Board evaluation	See pages 68 and 69
Nominations Committee report	See pages 77 and 78
Audit, risk and internal control	
Risks, viability and going concern	See pages 73 to 76
Audit Committee report	See pages 72 to 76
Remuneration	
Directors' remuneration report	See pages 81 to 102

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 81 to 102 and in the Directors' report on pages 103 to 105.

Composition and operation of the Board

As at the date of this report, the Board comprised the Chair, two executive directors and four independent non-executive directors. Short biographies of each of these directors, which illustrate their range of experience, are set out on pages 62 and 63. There is a clear division of responsibility at the head of the Company: Annette Court (Chair) 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 62 and 63, served throughout the financial year ended 31 August 2023 and up to the date of this report with the exception of Colette Burke who was appointed as a non-executive director on 1 July 2023.

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 91 to 102.

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 13 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 Chair in advance of the meeting. Following the meeting, the Chair 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 2023 and the attendance record of individual directors:

			Number of meetings attended				
Directors and role	**Board skills and competencies**	**Board Tenure – Years**	**Board 13**	**Audit 5**	**ESG 3**	**Nominations 3**	**Remuneration 5**
Annette Court[(a)] Chair	Finance and retail expertise; strong board leadership and considerable governance experience.	1	12 of 13[(b)]	–	–	3 of 3	2 of 2
Kal Atwal[(c)] Non-executive director	Marketing and digital expertise; entrepreneurial approach to business.	3	13 of 13	5 of 5	3 of 3	3 of 3	5 of 5
Colette Burke[(d)] Non-executive director	US and retail expertise; strong commercial and marketing experience on a global level.	1	2 of 2	2 of 2	1 of 1	–	–
Carl Cowling[(e)] Group Chief Executive	Strategic and retail expertise; strong leadership of the Group and creation of shareholder value.	4	12 of 13[(f)]	–	3 of 3	3 of 3	–
Nicky Dulieu Non-executive director	Finance and retail expertise; extensive knowledge of retail and customer service.	3	13 of 13	5 of 5	3 of 3	3 of 3	5 of 5
Simon Emeny Non-executive director	Commercial expertise and a wealth of consumer facing experience.	4	13 of 13	5 of 5	3 of 3	3 of 3	5 of 5
Robert Moorhead[(g)] Chief Financial Officer/ Chief Operating Officer ("CFO/COO")	Retail and financial expertise; deep understanding of the Group and strategy, and creation of shareholder value.	15	13 of 13	–	–	–	–
Marion Sears Non-executive director	Financial and retail expertise with extensive board and remuneration committee experience.	2	13 of 13	5 of 5	3 of 3	3 of 3	5 of 5

a) Annette Court attended the Remuneration Committee meetings following her appointment as a non-executive director of the Company on 1 September 2022 but ceased to be a member of this committee following her appointment as Chair on 1 December 2022. Annette Court was invited to and attended 4 meetings of the Audit Committee, 2 meetings of the ESG Committee and 3 meetings of the Remuneration Committee.

b) Annette Court was unable to attend the November 2022 Audit, ESG and Board meetings due to a prior commitment which had been arranged before the meetings were convened. She received the papers in advance of the meetings and gave her comments to the Chairman.

c) Kal Atwal stepped down from the Board on 12 September 2023.

d) Colette Burke was appointed as a director of the Company on 1 July 2023.

e) Carl Cowling ceased to be a member of the Nominations Committee on 31 August 2023. Carl Cowling was invited to and attended 5 meetings of the Audit Committee and 5 meetings of the Remuneration Committee.

f) Carl Cowling was unable to attend the July 2023 Board 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.

g) Robert Moorhead was invited to and attended 5 meetings of the Audit Committee, 3 meetings of the ESG Committee and 2 meetings of the Nominations Committee.

h) Henry Staunton stepped down from the Board on 30 November 2022. Prior to leaving the Company he attended one meeting of the Board.

i) Maurice Thompson stepped down from the Board on 18 January 2023. Prior to leaving the Company he attended 3 meetings of the Board.

j) The Board and the Remuneration Committee have met twice since 31 August 2023. The Audit Committee and the ESG Committee have met once since 31 August 2023.

Board and executive management diversity

The table below shows a breakdown of the composition of the Board and executive management as at 31 August 2023 in accordance with the new Listing Rules disclosure requirements. As at 31 August 2023, one of the four senior positions on the Board was held by a woman and the representation of women on the Board was 63 per cent, and the Board composition included one director from an ethnic minority background. As at the date of this report, the representation of women on the Board was 57 per cent following Kal Atwal's departure from the Board on 12 September 2023. The Board recognises that it does not currently meet the Listing Rules ethnic diversity target of at least one director from an ethnic minority background, however the Board is committed to continued enhancement of its diversity, as set out further in the Nominations Committee report on pages 77 and 78. At the year end, the Board and members of executive management were asked to complete a diversity disclosure questionnaire to confirm which of the categories set out in the table below they identify with:

Gender identity	Number of Board members	% of the Board	Number of senior positions on the Board (CEO, CFO, Chair and SID)	Number in executive management	% of executive management[1]
Women	5	63	1	2	18
Men	3	37	3	9	82
Non-binary	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Ethnic background	Number of Board members	% of the Board	Number of senior positions on the Board (CEO, CFO, Chair and SID)	Number in executive management	% of executive management[1]
White British or other White (including minority-White Groups)	7	88	4	11	100
Mixed/Multiple Ethnic Groups	–	–	–	–	–
Asian/Asian British	1	12	–	–	–
Black/African/Caribbean/ Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

1 Executive management includes the Group Executive Committee (most senior executive body below the Board) and the Company Secretary, excluding administrative and support staff, as defined by the Listing Rules.

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; risk management; dividend policy; investor relations; health and safety; whistleblowing; sustainability strategy; Board evaluation; governance and compliance; communications and the Annual report.

The Board set itself a number of objectives, including People and future talent planning, Culture, Group operations, growing the Company's North American businesses and sustainability at the beginning of the year to help it manage the Company and support its strategy. The Board reviewed how it had met its objectives at each meeting during the year and as part of the Board evaluation. The Board has set new objectives for the financial year ending 31 August 2024.

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 1 to 61.

Corporate governance report continued

Board activities in the financial year ended 31 August 2023

Strategy		
	• Approval of Company purpose and values • 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	• 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 • Climate related disclosures • Approval of new Bank facility	• Dividend, treasury and tax strategies • Approval of the budget • Approval of capital expenditure • Audit tender – approval of re-appointment of PwC
Other stakeholder engagement		
Customers	• Customer initiatives and experience updates • Extending our categories and ranges, including a greater focus on food, health and beauty and technology products • Global sourcing strategy	• 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
Shareholders	• Annual General Meeting • Investor relations updates	• Consultation on Board composition and executive remuneration • Chair met significant shareholders
Employees	• Annual health, safety and wellbeing reviews to ensure employee safety • Company culture • Focus on Diversity, Equity and Inclusion • People strategy • 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 • Colleague leadership and development
Governance and risk		
	• Risk framework and internal control review • Regulatory compliance updates • Group delegation of authority review • Succession planning	• Principal risks and uncertainties review • Cyber security • Conflicts of Interest and new appointments • Committee Terms of Reference review • Board evaluation process

Climate-related financial disclosures

The Board received presentations and updates on the progress of the Company to comply with the Listing Rules requirement to make disclosures which are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and recommended disclosures, and the new Companies Act 2006 requirements in relation to climate-related financial disclosures. You can read more on our climate-related financial disclosures on pages 39 to 48.

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. An internally facilitated evaluation was carried out in October 2023. The evaluation was co-ordinated and directed by the Chair with the support of the Company Secretary. A questionnaire was prepared by the Chair and the Company Secretary.

The main areas considered during the evaluation were strategy, operations and risk; succession planning; Board composition; Company purpose, values and culture; ESG and sustainability; 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, with the appropriate level of challenge, discussion and debate. As a result of the review, the Board agreed an action plan that will be implemented in the financial year ending 31 August 2024 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 effectiveness, including more time with members of the senior leadership team and continual improvement of the strategy process. The results of the review were also fed into the Board's agreed objectives for 2024. The Board reviewed the actions agreed following the internally facilitated evaluation carried out in 2022 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 a new non-executive director with considerable US experience) and a greater focus on talent management and succession plans at Senior Leadership level to strengthen the diversity of the senior management pipeline. 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 Chair reviews the performance of the Group Chief Executive.

The Chair also undertook a review with each of the non-executive directors to assess their effectiveness and commitment to the role. During the year, the Chair 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 an assessment of Annette Court's performance. The non-executive directors confirmed that there are no relationships or circumstances which are likely to affect, or could appear to affect, her judgement or independence. The non-executive directors, taking into account the views of the executive directors, concluded that Annette Court is an effective Chair and clearly demonstrates her 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 18 January 2023, all the directors at that time (aside from Maurice Thompson) stood for election or re-election and were duly elected by shareholders. The Board is proposing to update the Company's Articles of Association at the AGM on 26 January 2024 to include a provision that all directors will retire and offer themselves for reappointment at each AGM. Carl Cowling's service contract provides for notice of 12 months from either party and Robert Moorhead's service contract provides for notice of 12 months from the Company and nine months from Robert Moorhead. The Chair, who has a letter of appointment, is appointed for an initial term of three years. Her appointment may be terminated at any time by either the Company or the Chair on three months notice. The non-executive directors, who have letters of appointment, are appointed for an initial term of three years. These appointments can be terminated at any time by either the Company or the non-executive director without notice.

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, DE&I, workforce composition and demographics; and

Corporate governance report continued

engaging with other stakeholders, as described in the Section 172 Statement on pages 29 to 35 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 Brussels Airport and Gatwick Airport to gain a better understanding of the operation and culture of the International and UK Travel 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, Annette Court 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, Chief People Officer, Group Risk Director, Investor Relations Director and Legal Director/Company Secretary;
- meetings with key shareholders;
- attended trading and risk committees;
- meetings with advisers; and
- store visits.

A similar induction programme has been designed for Colette Burke who joined the Board as a non-executive director on 1 July 2023.

The Board considered and approved that Nicky Dulieu could be appointed as a non-executive director of The John Lewis Partnership plc, with effect from 27 April 2023. The Board concluded that there was no conflict in Nicky Dulieu being appointed to the board of The John Lewis Partnership plc and that the demands associated with a non-executive director role would not affect her commitment to the Company.

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 sets out the Company's approach to diversity applicable to the Board, its Committees and senior management and aims to ensure that the Board nominations and appointments process and the hiring and promotions process for senior management is based on fairness, respect and inclusion, and that the search for candidates will be conducted with due regard to the benefits of diversity.

Further information on the Company's commitment to diversity can be found in the Nominations Committee report on pages 77 and 78 and in the Employees section of the Strategic report on pages 49 to 51.

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. During the year, the Company was the target of a cyber security incident in the UK which resulted in illegal access to some company data. Upon becoming aware of the incident, the Company immediately launched an investigation, engaged specialist support services and implemented its incident response plans, which included notifying the relevant authorities. There was no impact on the trading activities of the Group. The Board takes the issue of cyber security extremely seriously and has implemented the recommendations that were made following the investigation into the causes of the incident.

The Board confirms that there is an ongoing process for identifying, evaluating and managing emerging and principal risks faced by the Group, including those risks relating to social, environmental and ethical matters. The Board undertakes a robust assessment of the 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 55 to 61.

Further information on internal controls and risk management can be found in the Audit Committee report on pages 75 and 76.

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 32.

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 Chair and non-executive directors attend meetings with major shareholders.

The Chair, following her appointment, met and spoke to some of the Company's largest shareholders to gain their views on the Company and the composition of the Board. The Chair and Chair of the Remuneration Committee also engaged with the Company's largest shareholders and representatives prior to the Company's AGM in January 2023.

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 2023 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 75.

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 72 to 76, the ESG Committee on pages 79 and 80, the Nominations Committee on pages 77 and 78 and the Remuneration Committee in the Directors' remuneration report on pages 81 to 102. 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 2023."

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 2023. 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 auditor, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Colette Burke, Simon Emeny and Marion Sears, who are all independent non-executive directors. The Board considers that I have recent and relevant financial experience, as required by the Code, and that the Committee, as a whole, has competence relevant to the sector in which the Company operates. The Committee met five times during the year. 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 auditor attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

During the financial year ended 31 August 2023, the Committee held a competitive tender for external audit services and recommended to the Board that PricewaterhouseCoopers LLP ("PwC") be re-appointed as the Company's external auditor. You can read more about this process on page 76.

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

- reviewing the Company's approach to cyber security including the actions taken following the cyber-incident;
- considering the Company's re-financing arrangements including a new long term sustainability linked facility;
- 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 Company's climate-related financial 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;
- 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, Corporate Governance Code and statutory reporting requirements and recommending those documents for Board approval;
- receiving updates and recommendations on the reforms to Corporate Governance Code and internal controls proposed by the UK Government;
- 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 (which is operated by an external company, Safecall, who were appointed in 2022);

- 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's 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 auditor;
- reviewing the Company's treasury policy;
- approval of the Group Tax Strategy;
- receiving updates on the policies and procedures for the UK General Data Protection Regulation ("GDPR");
- considering and approving the report on the Company's payment practices;
- assessing the impact of new accounting standards and guidance; and
- reviewing the Committee's Terms of Reference.

Audit Committees and the External Audit: Minimum Standard

In May 2023, the Financial Reporting Council published the Audit Committees and the External Audit: Minimum Standard (the "Standard"). The Standard took effect immediately for FTSE 350 companies on a comply or explain basis. Given that the Standard was published in the latter half of the Company's financial year and both the tender process and the evaluation of the effectiveness of PwC's 2022 financial year audit had been largely completed by the time the Standard was published, those processes did not comply, or comply in full, with the provisions of the Standard.
This Audit Committee report describes how and the extent to which the Company has complied with the provisions of the Standard (in particular the External Auditor section of this report). The Committee is working to embed the requirements of the Standard into its policies, practices and procedures and this will be a focus for the Committee in the coming year.

There were no shareholder requests for certain matters to be covered in the audit during the year and there were no regulatory inspections of the quality of the Company's audit.

An explanation of the application of the Group's accounting policies is provided on pages 119 to 130.

FRC Corporate Reporting Review

The Company received a letter on 22 February 2023 from the Financial Reporting Council (FRC) noting that it had carried out a limited review of the Annual report and accounts for the year ended 31 August 2022. The letter indicated that the FRC had not identified any matters on which it wished to raise specific questions but made some observations relating to certain disclosures included in the Annual report. As a result, the Company has sought to improve its disclosures in the Annual report this year.

The FRC's letter points out that its review was solely based on a review of the Company's Annual report and accounts for the year ended 31 August 2022. It states that the review did not benefit from a detailed knowledge of the Company's business or an understanding of the underlying transactions entered into and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements and, as a result, the review provides no assurance that the Company's 2022 Annual report and accounts are correct in all material respects.

Significant financial reporting issues and areas of judgement

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

Going concern and viability statement

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.

Corporate governance report continued

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 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 pages 60 and 61 and the basis of preparation within Note 1 of the financial statements on page 119.

The viability statement is set out in the Strategic report on page 60.

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, the rationale for the impairment charge, and its disclosure as a non-underlying item. The Committee also 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 the disclosures made. 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, 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. 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.

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 and provisions for onerous contracts recognised in relation to stores where carrying value of assets is not expected to be recovered by the store's value-in-use; costs associated with pensions; costs associated with refinancing; 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.

Fair, balanced and understandable assessment

At the request of the Board, the Committee has considered whether, in its opinion, the 2023 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 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;
- 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

Corporate governance report continued

- 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.

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. PwC were first appointed as external auditor 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.

External Audit tender

In accordance with the Competition and Markets Authority ("CMA") Statutory Audit Services Order 2014, the Company undertook a competitive audit tender during the financial year ended 31 August 2023. The tender was led by me as Chair of the Committee supported by the CFO/COO and the Group Finance Team (the "Selection Panel") and overseen by the Committee. The Selection Panel invited a number of firms, including PwC the incumbent auditor, to participate in the audit tender. The Company ensured that all tendering firms had the necessary access to information and individuals during the tendering process. The Company received formal tenders from those firms who were in a position to tender. The Selection Panel developed a scoring matrix for the tender to assess the quality of each candidate firm and the deliverability of its proposals, with a clear emphasis placed on the quality, independence, experience and capacity of the audit team and partner; global geographic presence and experience of overseas audits; the use of data analytics and digital techniques to improve audit quality and efficiency; experience and understanding of the challenges, risks and constraints within the Retail sector and how this will translate into value added insight and advice; and the ability to provide the full range of services required, including financial audit, specialist technical support and audit of tax.

The Selection Panel received formal presentations and held a number of meetings with each candidate firm to ensure that every candidate firm received sufficient information about the Group. The Committee after deliberation, agreed to recommend two candidate firms to the Board for consideration and, after discussion, the Board agreed that PwC should be re-appointed as the Company's Statutory Auditor for the 2025 financial year. The directors will be proposing the re-appointment of PwC at the forthcoming AGM. The Committee will continue to monitor the objectivity, effectiveness and independence of PwC as external auditor.

External Auditor effectiveness

In line with the Committee's Terms of Reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the 2022 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 and whether the agreed audit plan had been met; 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 and that the audit was of a sufficiently high standard. As a result, PwC's re-appointment as external auditor at the forthcoming AGM is recommended to shareholders.

External Auditor independence

The Committee has a formal policy on the Company's relationship with its external auditor 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 significant non-audit work undertaken by PwC in the financial year ended 31 August 2023 related to the interim review. The auditor 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 it was compliant during the year with its policy 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 2023 the non-audit fees paid to PwC were £123,000, of which £122,000 related to the interim review, and the audit fees payable to PwC were £1,398,000.

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

9 November 2023

Nominations Committee report

> “
> **The Committee will continue to focus on succession planning and talent management for key roles in the business.”**
>
> **Annette Court**
> Chair of the Nominations Committee

Nominations Committee report

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 2023. 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 Colette Burke, Nicky Dulieu, Simon Emeny and Marion Sears. In the event of any matters arising concerning my membership of the Board, I would absent myself from the meeting as required by the Code and the Senior Independent Director would take the Chair.

The Committee met three times during the year. The principal matters discussed at the meetings were succession planning for Board and senior executives, career planning, identifying talent across the businesses and reviewing the work that has been undertaken in respect of improving diversity in the Company's senior leadership group and the appointment of Colette Burke as a non-executive director. The Committee appointed an external recruitment consultant, Lygon Group, to assist in the appointment of Colette Burke. Lygon Group have signed up to the voluntary code of conduct for executive search firms and had no other connection to the Company or its Directors.

As part of the Board's succession plan, the Committee has appointed an external recruitment consultant, Russell Reynolds Associates, to assist in the identification of potential candidates to join the Board following the departure of Maurice Thompson and Kal Atwal from the Board. Russell Reynolds Associates have signed up to the voluntary code of conduct for executive search firms and have no other connection to the Company or its Directors. Following Kal Atwal's departure from the Board, the Committee recognises that the Board does not currently meet the Listing Rules ethnic diversity target of at least one director from an ethnic minority background, however the Board is committed to continued enhancement of its diversity.

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. 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 the new Listing Rules targets for gender and ethnic diversity.

Corporate governance report continued

During the year under review, the Company had 63 per cent women on the Board and 40 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 51. 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. During the year, the Company complied with the recommendations of the Parker Review. Actions include the provision of mentoring, as well as focused initiatives to better understand the challenges faced by under-represented groups employed within the Company. The Company's recruitment policy requires that for all senior management roles there must be a shortlist which includes at least one candidate from an ethnic minority 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 Chief People Officer. The committee met three times during the financial year ended 31 August 2023 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 49 to 51.

The Committee will continue to focus on succession planning and talent management for key roles across the Group, 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 with the appropriate level of challenge, discussion and debate. 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 October 2023 are set out on pages 68 and 69.

Annette Court
Chair of the Nominations Committee

9 November 2023

ESG Committee report

> **“Sustainability is key to the long-term success of our business and maintaining trust in our brand.”**
>
> **Marion Sears**
> Chair of the ESG Committee

ESG Committee report

Dear Shareholder

As previously announced, I was appointed as Chair of the ESG Committee on 12 September 2023 as a result of Kal Atwal stepping down from the Board to take up an executive role within the Group. I would like to thank Kal for her contribution to the Committee and wish her every success in her new role.

As Chair, I am pleased to present my report on the activities of the ESG Committee for the financial year ended 31 August 2023. 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 Colette Burke, Carl Cowling, Nicky Dulieu and Simon Emeny.

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. These include:

- 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 receives an annual update from the Group Sustainability Director on emerging developments for key external drivers and the views of different stakeholder groups. This year, this included consideration of the work of the Taskforce on Nature-Related Financial Disclosures (TNFD), developments in standards for carbon transition plans, policy making in relation to human rights due diligence and emerging standards and legislation for sustainability reporting. The Committee discussed how these developments should be incorporated into the Company's sustainability strategy.

The Committee assessed the material ESG risks and the mitigation measures in place to ensure they are being appropriately managed and reported. This work then informed the Committee's review of the Company's sustainability strategy, assessing recent progress under the three strategic pillars of Planet, People and Communities. The Committee approved objectives, targets and action plans for the financial year and beyond.

Under the Planet pillar of the strategy, the Committee considered the impact of the Company's activities on climate change. The Company has a target to be net zero across its value chain by 2050.

The Group Sustainability Director provided an update on climate change and the Committee reviewed and approved the Company's action plans to become a net zero emissions business by 2050. A series of short to medium-term targets to reduce Scope 1, 2 and 3 emissions have been approved by the Committee and were validated during the year by the SBTi.

Corporate governance report continued

The Committee received a presentation and provided feedback on the work the Company is undertaking to engage its suppliers and encourage them to adopt their own science-based targets and develop carbon reduction plans.

In respect of waste reduction and minimisation, the Committee reviewed the plans to reduce the amount of waste material that is sent to landfill, to minimise plastic packaging and to remove loose plastic glitter from the Company's own brand products.

The Committee continued to monitor the Company's progress on complying with the Listing Rules requirement to make disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures, and the Companies Act 2006 requirements in relation to climate-related financial disclosures.

In relation to the People pillar of the strategy, the Committee reviewed the results of the Employee Engagement survey and approved the action plan to increase engagement across the Company. Following the appointment of a new Head of Wellbeing, the Committee received an update on the Company's evolving work on colleague wellbeing, mental health first aid and financial support.

The Committee received updates on the Company's Diversity, Equity and Inclusion programme, including the work of the DEI networks, executive sponsorship and work with external organisations such as Diversity in Retail, Stonewall and Everywoman.

The Committee received an update on the Company's work on responsible sourcing practices and the work that is being undertaken in respect of improving the human rights of workers in its supply chain. The update included audit and engagement activity with both tier 1 and tier 2 suppliers, a review of the typical issues that were encountered and how the Company's engagement activities are designed to build capacity with its supply chain to identify and remedy common challenges.

The Committee also reviewed proposals for the Company to extend its due diligence activity beyond own-brand products to consider policies, processes and engagement with suppliers for third party branded goods.

The Committee reviewed the Company's approach to Modern Slavery due diligence and recommended to the Board approval of the Group Modern Slavery statement.

During the year, the Committee also discussed the Company's approach to community engagement in the UK and the work that is being undertaken with the National Literacy Trust in respect of the Young Readers Programme. Committee members heard of the work of the Trust to empower children and young people to develop the literacy skills they need to succeed in life, and how WHSmith is supporting the work of the Trust with early years and primary school children.

As in 2022, ESG performance metrics will form part of the Long Term Incentive Plan for awards in 2023. 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 which are set out on page 96. The ESG Committee also approved the targets included in the Company's new sustainability linked loan finance facility.

All ESG-related policies, covering Company activity in relation to issues such as the environment, health and safety, human rights, anti bribery and corruption and employee and supplier codes of conduct are reviewed and updated annually. The ESG Committee reviewed and approved finalised policies for publication.

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 2024, in addition to regular reviews covering emerging issues and materiality, and sustainability strategy, action plans and targets, the Committee will receive updates and review the following:

- Progress on net zero, carbon transition plans and targets for Scope 1 and 2 emission reductions and supplier targets for Scope 3 emissions;
- Further evolution of due diligence for worker rights in WHSmith's supply chain;
- Any potential implications of the recommendations for nature-related risk management and disclosure from the TNFD;
- Progress against employee engagement and DEI targets and the Company's work to continue to evolve its offering, including consideration of the recommendation from the latest Parker Review report to set a target for the percentage of senior management who identify as being in an ethnic minority; and
- Sustainability strategy and action plans for WHSmith North America.

Marion Sears
Chair of the ESG Committee

9 November 2023

Directors' remuneration report

> "The Directors' Remuneration Policy has worked well, delivering pay for performance."
>
> **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 2023 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 and the Directors' remuneration report was supported by 99 per cent of our shareholders at our AGM in 2023.

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 performance.

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
- 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 91.

Executive pay outcome for the financial year ended 31 August 2023

The Group performed strongly during the year with Headline profit before tax and non-underlying items[1] almost doubling to £143m (2022: £73m). This strong performance was achieved by management continuing to capitalise on multiple growth opportunities including the significant recovery in passenger numbers, growing average transaction values, expanding ranges and categories and winning new stores across the globe utilising the Group's broad suite of brands. We have achieved a significant comeback from the issues caused by the pandemic and have a clear vision to move from convenience stores to one-stop shops for travel essentials around the world. As a result, the Group is in its strongest ever position as a global travel retailer.
Further information regarding the Company's performance during the year can be found in the Strategic report on pages 1 to 61.

We believe that this strong performance is fairly reflected in a full bonus pay-out for the executive directors. The 2020 LTIP vesting percentage is determined by the growth in the Company's relative TSR over the three-year performance period which ended on 31 August 2023. The Company substantially met the performance targets for the 2020 LTIP as the Company's TSR ranked between 6 and 7 out of 17 companies in the comparator group and this delivered 65 per cent LTIP vesting. Accordingly, the total remuneration earned by Carl Cowling was £2,914,000 and the total remuneration earned by Robert Moorhead was £2,204,000.

Salary

Following the annual salary review in March 2023, the majority of the Company's employees (who are based in stores and distribution centres) received a 6.5 per cent pay increase, head office employees received a 6 per cent pay increase and senior executives received a 4 per cent pay increase with effect from 1 April 2023.

Carl Cowling and Robert Moorhead, in line with other senior executives, received a pay increase of 4 per cent with effect from 1 April 2023.

Annual bonus

For the financial year ended 31 August 2023, the financial bonus target was Headline profit before tax and non-underlying items[1]. The Group's Headline profit before tax and non-underlying items[1] for the financial year ended 31 August 2023 was £143m compared to £73m for the financial year ended 31 August 2022. This excellent performance resulted in approximately 2,420 employees across the Group receiving a bonus under the annual bonus plan for the financial year ended 31 August 2023.

1 Alternative performance measure defined and explained in the Glossary on page 168

Directors' remuneration report continued

The Company's long-standing approach to determining bonus out-turns is to consider the Headline profit before tax against a pre-set range. No adjustments were made to the target originally set with the maximum of that range exceeded. Once the financial element has been assessed, this essentially becomes the maximum bonus which may be awarded in normal circumstances with each executive's personal performance then considered using the standard grading system applied on a company-wide basis. Each of the two executive directors were assessed as "Role Models" which led to the formulaic financial out-turn being applied without any reduction on the basis of their personal performance.

As a result of this performance, each of the executive directors were awarded 100 per cent of their potential resulting in Carl Cowling receiving a bonus payment of £998,400 of which £519,168 will be deferred into shares and Robert Moorhead receiving a bonus payment of £754,125 of which £392,145 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 bonus out-turn also takes account of the executive directors' performance against personal objectives and this is set out on pages 94 and 95. The Committee determined that the formulaic out-turn under the annual bonus plan was appropriate and should be applied without discretionary adjustment.

LTIP

The 2020 LTIP vesting percentage was determined solely by the growth in the Company's TSR relative to the constituents of the FTSE All Share General Retailers sector over the three-year performance period which ended on 31 August 2023. This was because the performance condition was set in November 2020 when the Company was significantly impacted by the effects of Covid-19. The Company substantially met the performance target for the 2020 LTIP with 65 per cent of the award vesting. The Committee considered the formulaic outcome carefully as to whether the award vesting should be adjusted for windfall gains and concluded that it should not because the share price at grant did not reflect a one-off low point. The purpose of companies adjusting for windfall gains is to remove the benefit of artificially low share prices at grant. The Company out-performed the wider retail sector over the performance period but the absolute share price has not risen above the level at grant (although it has risen significantly from the Covid low point) so there is not considered to be any windfall. The effects of the Covid-19 pandemic on the Company resulted in structural changes in share capital and debt which remain. There has not been any significant share price rebound to indicate a windfall gain and the sole use of relative TSR as the performance metric means that vesting is truly aligned to shareholder experience. Accordingly, 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 2024

The Company will continue to apply the Directors' remuneration policy during the financial year ending 31 August 2024. 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 2024.

Stakeholder alignment

After considering the experience of each of our stakeholder groups during the financial year ended 31 August 2023, the Committee believes that the remuneration of the executive directors is proportionate and appropriate. 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, the Company made a Headline profit before tax and non-underlying items[1] of £143m.
- We have continued to make significant progress on the Group's strategic objectives and are well placed to generate growth as the global travel market continues to recover and we deliver new stores and formats.
- We supported our workforce. The majority of the Company's employees (who are based in stores and distribution centres) received a 6.5 per cent pay increase, head office employees received a 6 per cent pay increase and senior executives received a 4 per cent pay increase with effect from 1 April 2023.
- 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 34.
- The directors have proposed a final dividend of 20.8 pence per share which together with the interim dividend of 8.1 pence per share paid in August 2023 makes a total dividend of 28.9 pence per share for the financial year ended 31 August 2023.

Shareholder engagement

During the year, the Committee consulted with our largest shareholders and their representative bodies on the Company's approach to remuneration. The feedback was supportive of the approach adopted by the Committee and the Company received 99 per cent support for the Remuneration Report at the AGM in January 2023. We will begin engaging with our largest shareholders in respect of our new Directors' remuneration policy in early 2024. The new policy will be submitted to shareholders for approval at our AGM in 2025.

1 Alternative performance measure defined and explained in the Glossary on page 168

Conclusion

During the year the leadership team focused on the strategic decisions needed to develop the Group's position further as an important global travel retailer. As a result of the improving performance of the Global Travel business, securing new Travel outlets, maintaining High Street performance, introducing further pay and benefit support for workforce colleagues and supporting local communities, management has delivered a strong financial result for shareholders, significantly increasing profitability and recommending the payment of a final dividend of 20.8p per share. Accordingly, and taking into account shareholder experience, we consider the total remuneration earned by the CEO and CFO/COO of a full bonus payment and 65 per cent vesting of the 2020 LTIP award to be appropriate and well deserved.

In the current year we will continue to support workforce colleagues with competitive pay and listen carefully to feedback through continued engagement. We will work hard to ensure that we deliver continued business growth 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

9 November 2023

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 2023;
- Section 2.11 – Summary of executive directors' remuneration 2023;
- 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 81 to 83, 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 Colette Burke, Nicky Dulieu and Simon Emeny. Henry Staunton stepped down as a director and member of the Committee on 30 November 2022, Annette Court stepped down as a member of the Committee on 30 November 2022, Maurice Thompson stepped down as a director and member of the Committee at the AGM on 18 January 2023 and Kal Atwal stepped down as a director and member of the Committee on 12 September 2023. At the invitation of the Committee, the Chair, Group Chief Executive, Chief People Officer and representatives of the Committee's external independent remuneration adviser regularly attend meetings.

The Committee met five times during the year. All Committee members are expected to attend meetings. The table on page 66 in the Corporate governance report shows the number of meetings held during the year ended 31 August 2023 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 £51,831 (excluding VAT) and were charged on the basis of FIT's standard terms of business.

Helen Webb, Chief People Officer, and Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to their own remuneration. The Chair and Group Chief Executive also attend Committee meetings but exclude themselves in relation to discussions in respect of their own remuneration.

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.

Directors' remuneration report continued

Key Committee activities during the year

Alignment to strategy and wider workforce	Assessed the ongoing alignment of remuneration structures, measures and targets to strategy. This included the introduction of ESG measures into the LTIP awards which align with our business objectives for carbon reduction, leadership diversity and workforce engagement. 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. The Committee Chair 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. Representatives confirmed that they were reassured by the uniform structure of remuneration throughout the Group, the governance surrounding executive pay and the fact that high pay out-turns are only made on the basis of strong performance.
Shareholder engagement	The Committee Chair and Company Secretary met with major shareholders and discussed the Directors' remuneration Policy, FY22 outcomes and FY23 implementation. Considered investor feedback on remuneration.
Pay for performance	Assessed performance against bonus targets set for the financial year ended 31 August 2022 and LTIP awards granted in the financial year ended 31 August 2020 and considered whether any discretion should be used to adjust formulaic outcomes. Reviewed the performance of the executive directors and senior leadership team against personal objectives. Reviewed and approved targets for annual bonus and LTIP awards made in November 2022.
Governance	Reviewed progress of the executive directors against shareholding requirements. Approved the 2022 Directors' remuneration report. Reviewed proxy agent commentary.
Pay/fees	Approved pay rises for Carl Cowling, Robert Moorhead and the senior leadership team. Agreed that the Chair would not receive an increase in her fee.

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	• Policy and remuneration structure have been broadly consistent over many years and 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 outcomes 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 deliver 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 required shareholding 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 inclusion of ESG targets in the LTIP further helps to ensure incentive schemes drive behaviours consistent with Company purpose, values and strategy.

Directors' remuneration report continued

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. The table below shows how the performance measures that we use in our variable pay align to our strategy.

	Alignment to Strategy	Alignment to our Stakeholders' Interests
Annual Bonus		
Headline PBT[1]	• Headline PBT[1] is one of our main KPIs assessing the profitability of the Group and provides stakeholders with information on the performance of the Group before the effect of non-underlying items. The indicative financial out-turn is subject to both potential reduction under the assessment of personal performance which includes behaviour and ESG based factors and through the broad power to apply malus.	Shareholders and Investors
LTIP		
EPS	• EPS indicates how we are creating long term value for our shareholders.	Shareholders and Investors
Relative TSR	• Aligns management with the wider shareholder experience and reinforces our focus on creating superior returns for shareholders.	Shareholders and Investors
ESG	• The Company has an ambitious ESG strategy. We have set stretching targets in respect of our impact on the environment, senior executive team diversity and supplier engagement.	Customers and communities, Workforce, Suppliers, Shareholders and Investors

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 and there is always provision for questions, and to hear feedback.

The Committee receives regular reports from the Chief People Officer 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. Representatives told us they were reassured by the uniform structure of remuneration throughout the Group, the governance surrounding executive pay and the fact that high pay out-turns are only made on the basis of strong performance. The introduction of ESG targets for our leaders was considered to be good for the Company. The Committee considers the feedback from these sessions when making decisions on executive remuneration and any 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.

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 Chief People Officer 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 Save-As-You-Earn share option scheme ("Sharesave Scheme") which provides employees with the opportunity to acquire shares in the Company.

1 Alternative performance measure defined and explained in the Glossary on page 168

Approximately 835 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. The Company's senior executives also participate in the Company's long term incentive plan designed to support the Company's long-term strategy to create shareholder value.

Participation in a pension plan is offered to all employees on a contributory basis and we have approximately 6,730 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 50 and 51.

2.6 Senior executive remuneration

The Committee approved the remuneration of the Company's senior executives during the financial year ended 31 August 2023.

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 2023 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 2023, was mindful of the enduring 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 2023. The Committee agreed that the target range used to determine the level of pay-out under the annual bonus plan should be narrower than that applied in the financial year ended 31 August 2022.

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 measures 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 measures for awards made under the LTIP in the financial year ended 31 August 2023 were 40 per cent growth in Headline pre-tax earnings per share, 40 per cent based on relative TSR over three financial years ending 31 August 2025 compared with the FTSE All Share Retailers Index and 20 per cent based on ESG measures.

The Committee is proposing that any awards made in the financial year ending 31 August 2024 will have the same structure and be based on the following targets each measured over the three financial years ending 31 August 2026:

- 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 (in particular, including significant non-recurring expenditure which was not included within the Group's plans at the time the targets were set) 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 96.

1 Alternative performance measure defined and explained in the Glossary on page 168

Directors' remuneration report continued

2.8 Implementation of Directors' remuneration policy in the financial year ended 31 August 2023

This section sets out how the Directors' remuneration policy has been implemented in the financial year ended 31 August 2023.

Element of pay	Implementation of policy
Executive directors	
Base salary	Carl Cowling and Robert Moorhead, in line with other senior executives, received a pay increase of four per cent with effect from 1 April 2023. The current salaries are: Carl Cowling – £624,000; and Robert Moorhead – £471,328.
Benefits	No changes were made to these elements of remuneration within the financial year ended 31 August 2023 (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 2023.
Pension	The pension contributions for Carl Cowling and Robert Moorhead were reduced to align with the wider workforce rate of three per cent from 1 January 2023. During the financial year ended 31 August 2023 Carl Cowling received a total benefit equivalent to six per cent of base salary and Robert Moorhead received a total benefit equivalent to ten per cent of base salary. 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 2023 in respect of Carl Cowling and Robert Moorhead was £998,400 and £754,125 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 2023 and achievement of personal objectives is set out on pages 93 to 95.
Long-term incentives	Annual LTIP awards were again 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 2023 are described on page 96. 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 is based on ESG metrics. 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 2020 substantially met the performance condition and 65 per cent of the 2020 LTIP award vested.
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 2023 Carl Cowling held 37,965 shares with a value of £556,947 (approximately 89 per cent of salary) and Robert Moorhead held 203,847 shares with a value of £2,669,091 (approximately 565 per cent of salary). Carl Cowling is required to retain shares worth 300 per cent of salary (or his actual holding if lower) and Robert Moorhead (or any other executive directors) to retain shares worth 250 per cent of salary (or his actual holding if lower) 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.

1 Alternative performance measure defined and explained in the Glossary on page 168

Element of pay	Implementation of policy
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 current fee of the Chair of the Board is £320,000 and this did not increase with other annual increases in April 2023 in view of the Chair's recent appointment. 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 non-executive directors were increased with effect from 1 April 2023. The current fees are £62,400 for the role of non-executive director with additional fees of: (i) £15,600 payable for the role of Senior Independent Director ("SID"); and (ii) £15,600 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 2024

This section sets out how the Directors' remuneration policy will be implemented in the financial year ending 31 August 2024.

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 2024 following the March 2024 review.
Benefits	No changes are expected to be made to these elements of remuneration within the financial year ending 31 August 2024.
Pension	The pension contributions for Carl Cowling and Robert Moorhead are three per cent in line with the wider workforce.
Annual bonus	The bonus opportunity for Carl Cowling and Robert Moorhead will remain at 160 per cent of annual salary. It is envisaged that the bonus metrics will be based on a matrix of financial and personal performance. 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 in excess of the on-target level will be deferred into shares.
Long-term incentives	Annual LTIP awards will remain 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 as described on page 96, 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 emissions; engagement with suppliers in respect of reducing Scope 3 carbon emissions; meeting senior leadership team gender and ethnic diversity targets.
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 (or his actual holding if lower) and Robert Moorhead (or any other executive directors appointed) to retain shares worth 250 per cent of salary (or actual holding if lower) 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.

Directors' remuneration report continued

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 Chair and non-executive directors will be subject to a review in March 2024.

2.10 Summary of non-executive directors' remuneration 2023 (audited)

The table below summarises the total remuneration for non-executive directors as a single figure for the financial year ended 31 August 2023. 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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Annette Court[b]	**255**	–	**–**	–	**–**	–	**255**	–
Kal Atwal[c]	**61**	57	**15**	13	**1**	–	**77**	70
Colette Burke[d]	**10**	–	**–**	–	**–**	–	**10**	–
Nicky Dulieu	**61**	57	**15**	13	**–**	1	**76**	71
Simon Emeny	**61**	57	**15**	13	**–**	–	**76**	70
Marion Sears	**61**	34	**15**	8	**–**	–	**76**	42
Directors who resigned during the year								
Henry Staunton[e]	**64**	244	**–**	–	**–**	–	**64**	244
Maurice Thompson[f]	**23**	57	**–**	–	**–**	2	**23**	59
Directors who resigned in 2022								
Annemarie Durbin[g]	**–**	23	**–**	5	**–**	–	**–**	28
Total £'000s	**596**	529	**60**	52	**1**	3	**657**	584

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) Annette Court was appointed as a non-executive director on 1 September 2022 and was appointed Chair with effect from 1 December 2022.

c) Kal Atwal stepped down as a director of the Company on 12 September 2023.

d) Colette Burke was appointed as a non-executive director on 1 July 2023.

e) Henry Staunton stepped down as a director of the Company on 30 November 2022.

f) Maurice Thompson stepped down as a director of the Company on 18 January 2023.

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

2.11 Summary of executive directors' remuneration 2023 (audited)

The table below summarises the total remuneration for executive directors as a single figure for the financial year ended 31 August 2023:

	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	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Carl Cowling	**610**	585	**15**	14	**37**	73	**662**	672	**998**	960	**1,254**	–	**2,252**	960	**2,914**	1,632
Robert Moorhead	**461**	445	**14**	14	**46**	109	**521**	568	**754**	725	**929**	–	**1,683**	725	**2,204**	1,293
Total £'000s	**1,071**	1,030	**29**	28	**83**	182	**1,183**	1,240	**1,752**	1,685	**2,183**	–	**3,935**	1,685	**5,118**	2,925

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

b) The pension figures in the table above are the salary supplement received in lieu of any pension contribution into the Company's defined contribution pension scheme.

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 93 to 95.

d) The performance measures for the LTIP, and achievement against them, are set out on page 97. The performance conditions for the awards granted in November 2020 were substantially met and 65 per cent of the award vested and the remaining 35 per cent lapsed. The share price used to calculate the LTI figure in the table is 1511.7p, being the average share price for the Company over the last quarter of the financial year ended 31 August 2023. The LTI figures in the table for 2023 include share price appreciation of £43,000 for Carl Cowling and £32,000 for Robert Moorhead as the share price as at the date of grant on 19 November 2020 was 1459.33p.

The total aggregate emoluments (excluding LTI) paid to the Board in the financial year ended 31 August 2023 was £3,592,000 and in the financial year ended 31 August 2022 was £3,509,000.

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 2017 LTIP award which vested in 2020 but was subject to a two year holding period.

Stephen Clarke also retained awards under the DBP. These awards vested in respect of 2,360 shares in the financial year ended 31 August 2023.

No other payments were made in the financial year ended 31 August 2023 to former directors of the Company.

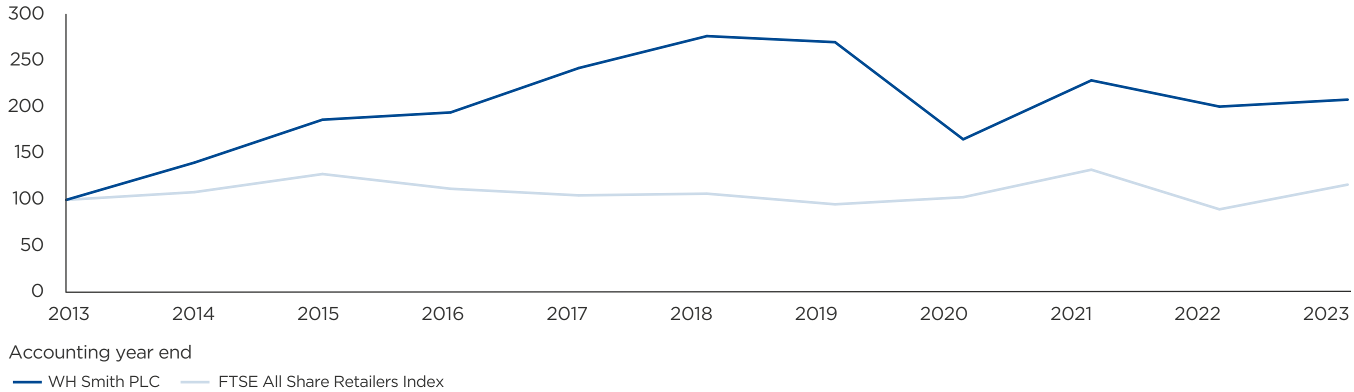
2.13 Payments for loss of office (audited)

No payments were made in respect of any director's loss of office in the financial year ended 31 August 2023.

2.14 Assessing pay and performance

You can see how the Company has generated shareholder value since 2013 in the TSR graph below. As can be seen from the graph, the Company generated a return of 109 per cent over the financial year ended 31 August 2023 compared to the FTSE All Share Retailers Index which generated a return of 17 per cent over the same period.

Total shareholder return performance since 31 August 2013



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) %
2023	Carl Cowling	2,914	100	65
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

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 four financial years to 31 August 2023 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	**2023**	2022	2021	2020	**2023**	2022	2021	2020	**2023**	2022	2021	2020
Carl Cowling	**4**	6	14	140	**4**	75	100	(100)	**7**	10	–	100
Robert Moorhead	**4**	1	5	5	**4**	103	100	(100)	**–**	–	–	–
Annette Court[a]	**–**	–	–	–	**n/a**	n/a	n/a	n/a	**–**	–	–	–
Kal Atwal[b]	**9**	119	–	–	**n/a**	n/a	n/a	n/a	**100**	–	–	–
Colette Burke [c]	**–**	–	–	–	**n/a**	n/a	n/a	n/a	**–**	–	–	–
Nicky Dulieu	**9**	15	–	–	**n/a**	n/a	n/a	n/a	**(100)**	100	–	–
Simon Emeny	**9**	4	14	111	**n/a**	n/a	n/a	n/a	**–**	–	–	–
Marion Sears	**81**	–	–	–	**n/a**	n/a	n/a	n/a	**–**	–	–	–
UK employees	**11**	8	5	7	**(4)**	47	100	(100)	**15**	(16)	3	18

a) Annette Court was appointed as a non-executive director on 1 September 2022 and was appointed Chair with effect from 1 December 2022.

b) Kal Atwal stepped down as a director of the Company on 12 September 2023.

c) Colette Burke was appointed as a non-executive director on 1 July 2023.

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 90) 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
2023	**Option A**	**135:1**	**135:1**	**107:1**
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 2023 has been calculated in line with the single figure methodology and reflects their actual earnings received in the financial year ended 31 August 2023 (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	**21,598**	**21,598**	**27,030**
Total pay and benefits	**21,598**	**21,598**	**27,340**

The Company believes the median pay ratio for the year ended 31 August 2023 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 71 per cent of all WH Smith employees are based in the UK. The increase in the pay ratios in 2023 as compared to 2022 is attributable to the increase in base pay and the amount of variable remuneration received by the Group Chief Executive.

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 2023. 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		
2022 £m	**2023 £m**	**% change**	2022 £m	**2023 £m**	**% change**
293	**367**	**25**	–	**22**	**N/A**

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 2023 should be based on Headline profit before tax and non-underlying items[1].

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 2023, 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 2023 could be earned according to the following scale (as a percentage of each executive's respective maximum):

Financial performance against Headline Group profit before tax[1] target	Role model	Outstanding	Strong	Developing	Underachiever
Max: £141.75m	100%	80%	60%	40%	0%
Target: £135m	80%	64%	48%	32%	0%
Threshold: £114.75m	40%	32%	24%	16%	0%

Interpolation between points in the matrix is permitted.

1 Alternative performance measure defined and explained in the Glossary on page 168

Directors' remuneration report continued

The executive directors' personal ratings are based on a range of objectives. Carl Cowling's personal objectives included:

Objective	Achievement
Deliver strategy review	• Carl Cowling undertook and presented the strategy review and set out clear actions for approval by the Board • Successfully delivered against those objectives over the remainder of the year with Headline PBT up 96 per cent compared to 2022
Supply Chain and Systems transformation	• Development of the Supply Chain and Systems transformation road map for Board approval • Reviewed risks, opportunities and valuations for proposed plans
Develop the talent and succession pipeline of the senior leadership team	• Senior Leadership Team performed strongly throughout the year • Retained the current highly experienced and regarded team despite significant pressure in the external recruitment market • The Board approved the succession plan for the senior leadership team
Global Food Offer	• Carl Cowling successfully oversaw the creation and development of both a premium food offer and meal deal range for the Group's key global markets • Successful roll-out of the plan across all businesses. New food offer well received by landlords and customers
North American operating model	• Carl Cowling launched various initiatives following a review of the North American operating model • Creation of a plan for upgrading the IT infrastructure and supply chain to allow accelerated expansion of the North American business
ESG – Net Zero	• Setting ambitious targets on climate action which are SBTi approved, reducing waste and protecting natural resources. By 2030 reduce absolute Scope 1 and 2 GHG emissions by 80 per cent; by 2025 reducing waste, minimising plastic; and by 2025 ensure forestry materials in own-brand products and core non-trade products come from recycled or certified sources • Launched initiative of encouraging suppliers to sign up to Scope 3 science based targets • The Board approved the Group's carbon transition plan for the business to be Net Zero by 2050

Robert Moorhead's personal objectives included:

Objective	Achievement
Deliver strategy review	• Robert Moorhead undertook and presented the strategy review and set out clear actions for approval by the Board • Successfully delivered against those objectives over the remainder of the year with Headline PBT up 96 per cent compared to 2022
Deliver ESG commitments – TCFD	• Robert Moorhead undertook and presented the plan for the Company to meet all of the 11 TCFD requirements as set out in the Sustainability section of the Annual Report on pages 39 to 48 • Robert Moorhead successfully delivered the actions over the remainder of the year so that the Company now fully meets the TCFD reporting requirements
Develop Finance Team	• Developing a highly experienced finance team • The Board approved the succession plan for the finance team
To commence refinancing of facilities	• Robert Moorhead undertook and presented the strategy for the refinancing of the Group's facilities and set out clear actions for approval by the Board • Robert Moorhead successfully delivered against those objectives and the Company completed the refinancing of the Group's facilities in June 2023
Work with the Trustees of the DB pension scheme	• Robert Moorhead successfully worked with the Trustees of the Group's Defined Benefit Pension Scheme
ESG – Net Zero	• Setting ambitious targets on climate action which are SBTi approved, reducing waste and protecting natural resources. By 2030 reduce absolute Scope 1 and 2 GHG emissions by 80 per cent; by 2025 reducing waste, minimising plastic; and by 2025 ensure forestry materials in own-brand products and core non-trade products come from recycled or certified sources • Launched initiative of encouraging suppliers to sign up to Scope 3 science based targets • The Board approved the Group's carbon transition plan for the business to be Net Zero by 2050

The Company's Headline profit before tax and non-underlying items[1] for the financial year ended 31 August 2023 was £143m. This performance resulted in approximately 2,420 employees across the Group also receiving a bonus under the annual bonus plan for the financial year ended 31 August 2023. Both Carl Cowling and Robert Moorhead were awarded a Personal Rating of Role Model and following the successful achievement of all of his key personal objectives, Carl Cowling will receive a bonus payment of £998,400 of which £519,168 will be deferred into shares for a period of up to three years. Following the successful achievement of all of his key personal objectives, Robert Moorhead will receive a bonus payment of £754,125 of which £392,145 will be deferred into shares for a period of up to three years.

For the annual bonus plan for the financial year ending 31 August 2024, 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 2024 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).

1 Alternative performance measure defined and explained in the Glossary on page 168

Directors' remuneration report continued

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 condition for awards granted under the LTIP in the financial year ending 31 August 2023 were 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 per cent of this component vesting at threshold increasing on a straight-line basis to 100 per cent at maximum. EPS is defined as fully diluted (including an assumption that the convertible bonds issued in 2020 fully convert into shares) before 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 intensity (tonnes CO_2e 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 Leadership team	Employee Engagement Score % improvement
Minimum – 25% vesting	5%	35%	5%	Maintain
Maximum – 100% vesting	15%	45%	10%	5%

The performance condition for awards granted under the LTIP in the financial year ending 31 August 2024 will be based on the following conditions each measured at the end of the three financial years to 31 August 2026:

- 40 per cent based on Headline pre-tax earnings per share[1] (calculated on a pre-IFRS 16 basis) of 121p to 146p with 25 per cent of this component vesting at threshold increasing on a straight-line basis to 100 per cent at maximum. As in previous years, EPS has been defined as fully diluted (assuming that the convertible bonds issued in 2020 fully convert into shares) and before non-underlying items and excluding IAS 19 pension charges. This year the Committee has also reserved the flexibility to exclude specific non-recurring investment expenditure that was not included in the Group's plans at the time the targets were set. The purpose of this flexibility is to ensure a fair measurement of performance and to avoid the EPS targets acting as a disincentive to any investments or major projects which the Board may approve to underpin the long-term growth strategy. A full explanation of any excluded costs would be provided at the time of vesting;
- 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 target (tonnes CO_2e)	Scope 3 emissions: Target engagement of suppliers by emissions who will have approved science-based targets by 2026	Gender Diversity: % of women in Senior Leadership team	Ethnic Diversity: % of employees of ethnic background in Senior Leadership team
Minimum – 25% vesting	8,960	45%	40%	6%
Maximum – 100% vesting	8,491	60%	42%	10%

Outstanding awards

The performance conditions for the awards granted in November 2020 were substantially met and 65 per cent of the award vested and the remaining 35 per cent lapsed. The Committee determined that the formulaic out-turn under the LTIP was appropriate and should be applied without discretionary adjustment as it was satisfied that the Company's TSR was reflective of the Company's underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period.

1 Alternative performance measure defined and explained in the Glossary on page 168

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 2022[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[b]	Number of shares subject to awards at 31 August 2023[c]	Share price at date of grant (pence)[d]	Face value of award at date of grant £'000	Exercise period
Carl Cowling									
LTIP 2017[e]	5,104	–	–	5,104	–	**–**	2036.67	743	26.10.20 – 26.10.27
LTIP 2019	79,557	–	–	–	79,557	**–**	2210.67	1,759	05.11.24 – 05.11.29
DBP 2019[f]	1352	–	–	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[h]	122,769	–	–	–	–	**122,769**	1569.00	1,926	19.11.26 – 19.11.31
DBP 2021[f]	8,132	–	–	2,710	–	**5,422**	1569.00	128	19.11.22 – 19.11.31
LTIP 2022[i]	–	146,430	–	–	–	**146,430**	1372.67	2,010	21.11.27 – 21.11.32
DBP 2022[f]	–	36,367	–	–	–	**36,367**	1372.67	499	21.11.23 – 21.11.32
Total	**343,171**	**182,797**	**–**	**9,166**	**79,557**	**437,245**			
Robert Moorhead									
LTIP 2017[e]	7,982	–	–	7,982	–	**–**	2036.67	1,161	26.10.20 – 26.10.27
LTIP 2019	61,701	–	–	–	61,701	**–**	2210.67	1,364	05.11.24 – 05.11.29
DBP 2019[f]	1,343	–	–	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[h]	86,934	–	–	–	–	**86,934**	1569.00	1,364	19.11.26 – 19.11.31
DBP 2021[f]	5,286	–	–	1,762	–	**3,524**	1569.00	83	19.11.22 – 19.11.31
LTIP 2022[i]	–	102,349	–	–	–	**102,349**	1372.67	1,405	21.11.27 – 21.11 32
DBP 2022[f]	–	27,736	–	–	–	**27,736**	1372.67	381	21.11.23 – 21.11 32
Total	**256,714**	**130,085**	**–**	**11,087**	**61,701**	**314,011**			

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, consistent with market practice, any part of the awards which vest will benefit from the accrual of dividend roll-up.

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

c) No awards have been granted to directors between 1 September 2023 and 9 November 2023.

d) 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.

e) In respect of the award granted on 26 October 2017 under the LTIP held by Carl Cowling, the vested shares became exercisable on the fifth anniversary of the date of grant. The value of the 5,104 shares on the exercise date was £69,689.64 (13.6539p per ordinary share). In respect of the award granted on 26 October 2017 under the LTIP held by Robert Moorhead, the vested shares became exercisable on the fifth anniversary of the date of grant. The value of the 7,982 shares on the exercise date was £108,985.63 (13.6539p per ordinary share).

f) The awards granted in the financial years ended 31 August 2022 and 31 August 2023 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 97. 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, 1,352 shares vested with a total exercise value of £18,460.11 (13.6539p per ordinary share). In respect of the award granted on 24 October 2019 held by Robert Moorhead, 1,343 shares vested with a total exercise value of £18,337.22 (13.6539p per ordinary share). In respect of the award granted on 19 November 2021 held by Carl Cowling, 2,710 shares vested with a total exercise value of £37,002.14 (13.6539p per ordinary share). In respect of the award granted on 19 November 2021 held by Robert Moorhead, 1,762 shares vested with a total exercise value of £24,058.22 (13.6539p per ordinary share).

g) The performance condition for awards granted in the financial year ended 31 August 2021 under the LTIP was based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents. Vesting will occur on the following basis: Below median – Nil; Median – 25 per cent; Upper quartile – 100 per cent; and on a straight-line basis between 25 per cent and 100 per cent. The performance conditions were substantially met with 65 per cent of the shares subject to the awards vesting. As a result, the total number of shares vesting for Carl Cowling will be 82,985 shares including 918 dividend accrual shares and for Robert Moorhead 61,434 shares including 680 dividend accrual shares. The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the performance period. The award is subject to a two year holding period.

h) The performance conditions for awards granted on 19 November 2021 under the LTIP were:

(i) 50 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) 50 per cent based on growth in the adjusted diluted EPS of the Company. Vesting will occur on the following basis: below 75p – Nil; 75p – 25 per cent; 110p 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 awards are subject to a two-year holding period and will become exercisable on the fifth anniversary of the date of grant.

i) The awards granted in the financial year ended 31 August 2023 under the LTIP will only vest to the extent that the performance targets as set out on page 96 are satisfied.

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 522,508 shares in the financial year ended 31 August 2023, the number of WH Smith PLC shares held in the Trust at 31 August 2023 was 1,031,943. The Group's accounting policy with respect to the Trust is detailed within Note 1 to the financial statements (see page 119) and movements are detailed in the Group statement of changes in equity on page 118.

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 ordinary shares		Number of shares subject to holding periods				Number of shares subject to performance conditions	
			DBP		LTIP		LTIP	
	31 August 2023 (or date of leaving)	31 August 2022 (or date of appointment)	**31 August 2023**	31 August 2022	**31 August 2023**	31 August 2022	**31 August 2023**	31 August 2022
Kal Atwal	**3,608**	3,608	**–**	–	**–**	–	**–**	–
Colette Burke	**–**	–	**–**	–	**–**	–	**–**	–
Annette Court	**6,000**	3,000	**–**	–	**–**	–	**–**	–
Carl Cowling	**37,965**	33,108	**41,789**	9,484	**–**	5,104	**395,456**	328,583
Nicky Dulieu	**2,500**	2,500	**–**	–	**–**	–	**–**	–
Simon Emeny	**4,427**	4,427	**–**	–	**–**	–	**–**	–
Robert Moorhead	**203,847**	197,973	**31,260**	6,629	**–**	7,982	**282,751**	242,103
Marion Sears	**7,600**	5,000	**–**	–	**–**	–	**–**	–
Directors who resigned during the year								
Henry Staunton	**39,523**	39,523	**–**	–	**–**	–	**–**	–
Maurice Thompson	**3,452**	3,452	**–**	–	**–**	–	**–**	–

a) Kal Atwal stepped down as a director of the Company on 12 September 2023.
b) Colette Burke was appointed as a non-executive director on 1 July 2023.
c) Annette Court was appointed as a non-executive director on 1 September 2022.
d) The LTIP amount above is the maximum potential award that may vest subject to the performance conditions described on pages 96 and 97.
e) The performance conditions for the awards granted in November 2020 were substantially met and 65 per cent of the award vested and the remaining 35 per cent lapsed.
f) There has been no further change in the directors' interests shown above between 1 September 2023 and 9 November 2023.
g) The middle market price of an ordinary share at the close of business on 31 August 2023 was 1467p (31 August 2022: 1429.50p).
h) See Table of Outstanding awards on page 97 for details of awards exercised during the financial year ended 31 August 2023.
i) Henry Staunton stepped down as a director of the Company on 30 November 2022.
j) Maurice Thompson stepped down as a director of the Company on 18 January 2023.

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 2023 AGM

The table below shows the voting outcome at the Annual General Meeting on 18 January 2023 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	111,077,545	99%	1,119,902	1%	112,197,447	52,097

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

3. The Directors' remuneration policy: extract

The Directors' remuneration policy was approved by shareholders at the Annual General Meeting held on 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 three 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 three 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.
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.

Directors' remuneration report continued

Element and purpose	Policy and opportunity	Operation and performance measures
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

9 November 2023

Directors' report

Directors' report

The directors present their report and the audited consolidated financial statements for the financial year ended 31 August 2023. 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 28
Branches outside the UK	24
Disclosures concerning greenhouse gas emissions and energy consumption	39 to 48
Employment of disabled persons	51
Employee engagement	49 to 51
Engagement with external stakeholders	29 to 35

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	64 to 80
Directors' biographies	62 and 63
Statement of directors' responsibilities	106
Information on use of financial instruments	149 to 152

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	102 Directors' remuneration report/Note 22 on page 153 of the financial statements
Arrangement under which the WH Smith Employee Benefit Trust has waived or agreed to waive dividends/ future dividends	98 Directors' remuneration report

Dividends

The Headline Group profit before tax and non-underlying items[1] for the financial year ended 31 August 2023 was £143m (2022: £73m). The directors recommend the payment of a final dividend for the financial year ended 31 August 2023 of 20.8p per ordinary share on 1 February 2024 to members on the Register at the close of business on 12 January 2024. The final dividend and the interim dividend of 8.1p per ordinary share paid on 3 August 2023 make a total dividend of 28.9p per ordinary share for the financial year ended 31 August 2023 (2022: 9.1p).

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 153.

The issued share capital of the Company as at 31 August 2023 was 130,912,453 ordinary shares of 22 6/67p 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.

1 Alternative performance measure defined and explained in the Glossary on page 168

Directors' report continued

Purchase of own shares

At the 2023 AGM, authority was given for the Company to purchase, in the market, up to 13,091,043 ordinary shares of 22$\frac{6}{67}$p each, renewing the authority granted at the 2022 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 2024.

Issue of new ordinary shares

During the financial year ended 31 August 2023, 2,019 ordinary shares of the Company were issued under the Sharesave Scheme at 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.

New financing arrangements

On 14 June 2023, the Company completed the refinancing of the Group's existing £363m lending facilities. The Group's previous £363m lending facilities, which consisted of a £250m revolving credit facility ('RCF') and a £113m term loan were cancelled and repaid. This repayment was funded by drawings under new facility consisting of a £400m RCF (the 'New RCF'). The New RCF is a sustainability linked loan finance facility.

The New RCF is for a five-year term with two uncommitted extension options of one year each, which would, subject to lender approval, extend the tenor of the New RCF to six or seven years, if exercised. The New RCF is provided by a syndicate of banks: Barclays, BNP Paribas, Citi Commercial Bank, Fifth Third, HSBC, JP Morgan, PNC, Santander and SEB.

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 2023 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 2023, 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	9,124,792	6.97	Direct
BlackRock Inc.	9,046,160	6.90	Indirect
FMR LLC	6,570,219	5.02	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

a) On 8 September 2023 Causeway Capital Management LLC notified the Company of a holding of 9,173,890 shares (7.01 per cent Direct holding).

b) On 12 September 2023 M&G Plc notified the Company of a holding of 6,575,480 shares (5.02 per cent Indirect holding).

c) On 14 September 2023 FMR LLC notified the Company of a holding of 6,511,725 shares (4.97 per cent Indirect holding).

d) On 5 October 2023 FMR LLC notified the Company of a holding of 6,982,997 shares (5.33 per cent Indirect holding).

The Company received no other notifications in the period between 31 August 2023 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 (2022: £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 1 to 61. The Financial review on pages 25 to 28 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 147 to 152. As at 31 August 2023, the Group is in a net current liability position. In addition, Note 21 of the financial statements on pages 149 to 152 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 55 to 60 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 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 119.

The longer-term viability statement is in the Strategic report on page 60.

Independent auditors

During the year the Company conducted a tender of the Statutory Auditor contract. More information on the tender process can be found in the Audit Committee report on pages 72 to 76. Following the tender process, the Audit Committee recommended to the Board that PwC should be re-appointed as the Company's Statutory Auditor to take effect from 1 September 2024. Accordingly, the Board has taken the decision to recommend the re-appointment of PwC as the Company's Statutory Auditor and resolutions to re-appoint PwC and to authorise the Audit Committee to determine their 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 26 January 2024 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 9 November 2023.

By order of the Board

Ian Houghton
Company Secretary

9 November 2023

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and accounts 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, 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 materialdepartures 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 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 also 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, and 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

9 November 2023

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 2023 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 as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 and Accounts 2023 (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 August 2023; 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 in the period under audit.

Our audit approach

Overview

Audit scope

- For the purposes of scoping the Group audit, we have identified three financially significant components which required a full scope audit; High Street, Travel UK, and North America.
- We also performed a full scope audit on Jersey, funkypigeon.com, and Hospitals and audited specific financial statement line items within Travel Rest of World, Retail Holdings, and the Company based on their value relative to the rest of the Group.
- The audit of the North America component (comprising InMotion and MRG) was performed by PwC Las Vegas.
- Our audit scoping gave us coverage of approximately 86 per cent of Group revenue.
- We performed a full statutory audit of the Company (WH Smith PLC).

Key audit matters

- Impairment of store property, plant & equipment and right-of-use assets (Group) and impairment of investments in subsidiaries (Company) (Group and Company)
- Inventory valuation (Group)

Materiality

- Overall Group materiality: £8,000,000 (2022: £7,000,000) based on professional judgement of considering a number of potential benchmarks (specifically revenue and profit based benchmarks), given that some aspects of the business are still in recovery following the pandemic.
- Overall Company materiality: £9,200,000 (2022: £8,400,000) based on one per cent of total assets.
- Performance materiality: £6,000,000 (2022: £5,250,000) (Group) and £6,900,000 (2022: £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.

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

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, which was a key audit matter last year, is no longer included because it was a one-off transaction in the prior 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 assets (Group) and impairment of investments in subsidiaries (Company) (Group and Company) Refer to Note 1(a), Basis of preparation, Non-underlying items and 1(p) Critical accounting judgements and key sources of estimation uncertainty and Notes 11 and 12 (Property, plant & equipment and Right-of-use assets) and Note 3 in the Company Financial statements. The Group has a material operational retail asset base which may be vulnerable to impairment in the event of trading performance being below expectations. In the majority of cases, for the purposes of impairment testing, each retail store is considered to be a separate Cash Generating Unit (CGU). Management performed an impairment trigger assessment. No triggers were identified at the Group and Operating Segment level, however, specific impairment indicators were identified for certain CGUs within the Travel Rest of World and North America businesses. The subsequent value-in-use-models resulted in the recognition of a material impairment charge in Travel Rest of World. No impairment triggers were identified within Travel UK or High Street. 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. The 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 and assessed its methodology for reasonableness. We considered the underlying data points and found these to be consistent with other audit work performed. We challenged the definition of CGUs and verified that this is appropriate based on evidence available. We obtained an understanding of how management had developed its forecast for the future trading for those CGUs 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 party evidence where available. With the assistance of our valuation experts we tested the impairment models for the Travel Rest of World CGUs, 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 management's sensitivity analyses. We satisfied ourselves that any reasonable possible change that results in a material adjustment to the impairment charge has been disclosed. For the Company investments in subsidiary undertakings, we evaluated whether there were any indicators of an impairment, with specific consideration given to the following: • the market capitalisation of the Group, which is significantly in excess of the investments balance; and • the trading results of the Group, which are in line with expectations. We consider management's conclusion that there are no indicators of impairment to be appropriate. We considered the disclosure of the impairment charge as a non-underlying item and satisfied ourselves that this is in line with management's policy.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation (Group) Refer to Note 1 (h) Inventories and Note 1 (p) 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, and items such as 'firm sale' books, fashion, and stationery 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 inherent in the provision 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 in High Street 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, including stock turn and write-offs. We performed testing over the ageing data to ensure its accuracy. 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.

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 performed a full scope audit on three financially significant components (High Street, Travel UK, and North America) and three other components (Jersey, funkypigeon.com, and Hospitals). All full scope audits were performed by the UK Group team with the exception of North America, which was audited by PwC Las Vegas as component auditors operating under our instruction. Audit work was performed over the consolidation process, tax, impairment, leases 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 North America 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 86 per cent of revenue. We performed audit procedures over specific financial statement line items within Travel Rest of World, Retail Holdings, and the Company components based on their value relative to the rest of the Group using an allocation of Group materiality. We have also performed a statutory audit over the Company financial statements using a stand-alone materiality.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group's financial statements and support the disclosures made within the Strategic Report.

We challenged the completeness of management's climate risk assessment by reviewing the consistency of management's climate impact assessment with internal climate plans and board minutes, including whether the time horizons management has used take account of all relevant aspects of climate change.

Management considers that the impact of climate change does not give rise to a material financial statement impact. We considered the impairment of store assets and going concern to potentially be materially impacted by climate change and consequently we focused our audit work in these areas. In particular, we challenged management on how the impact of their climate commitments would impact the assumptions within the cash flows used for the impairment analysis. In addition we ensured that the going concern and viability assessments were also consistent with management's view of the impact of climate change.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section) within the Annual Report and our knowledge obtained from our audit.

Our procedures did not identify any material impact to the financial statements.

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

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 is shown in the table below:

	Financial statements – Group	Financial statements – Company
Overall materiality	£8,000,000 (2022: £7,000,000).	£9,200,000 (2022: £8,400,000).
How we determined it	Professional judgement of considering a number of potential benchmarks (specifically revenue and profit based benchmarks), given that some aspects of the business are still in recovery following the pandemic	One per cent 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 six per cent of current year profit before tax and 0.4 per cent of current year revenue.	WH Smith PLC is a holding company for the Group and therefore the materiality benchmark has been determined 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 £0.1m to £7.2m.

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 per cent (2022: 75 per cent) of overall materiality, amounting to £6,000,000 (2022: £5,250,000) for the Group financial statements and £6,900,000 (2022: £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 £400,000 (Group audit) (2022: £350,000) and £460,000 (Company audit) (2022: £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 performing a sensitivity on the revenue growth assumption to erode the covenant headroom;
- obtained and reviewed the Group's financing agreements, including the new revolving credit facility the Group entered into during the year;
- 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.

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 2023 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.

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

Our review of the directors' statement regarding the longer-term viability of the Group and Company 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 GDPR, employment 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 regulations. 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;
- Enquiring of management, those charged with governance, internal audit, and internal legal counsel regarding instances of non-compliance with laws and regulations and fraud;
- Scanning external sources for evidence of instances of non-compliance with laws and regulations in the public domain;
- Reviewing internal audit reports and minutes of meetings of those charged with governance;
- Identifying and testing unusual journals posted to revenue; and
- Challenging assumptions made by management in determining their significant judgements and accounting estimates.

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 August 2015 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 August 2015 to 31 August 2023.

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

9 November 2023

Group income statement
For the year ended 31 August 2023

£m	Note	2023 Before non-underlying items[1]	2023 Non-underlying items[2]	2023 Total	2022 Before non-underlying items[1]	2022 Non-underlying items[2]	2022 Total
Revenue	2	**1,793**	**–**	**1,793**	1,400	–	1,400
Group operating profit/(loss)	2, 3	**182**	**(26)**	**156**	117	(20)	97
Finance costs	6	**(45)**	**(1)**	**(46)**	(34)	–	(34)
Profit/(loss) before tax		**137**	**(27)**	**110**	83	(20)	63
Income tax (expense)/credit	7	**(27)**	**5**	**(22)**	(14)	4	(10)
Profit/(loss) for the year		**110**	**(22)**	**88**	69	(16)	53
Attributable to equity holders of the parent		**101**	**(22)**	**79**	63	(16)	47
Attributable to non-controlling interests		**9**	**–**	**9**	6	–	6
		110	**(22)**	**88**	69	(16)	53
Earnings per share							
Basic	9			**60.8p**			36.2p
Diluted	9			**59.8p**			35.6p

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 168.

2 See Note 4 for an analysis of non-underlying items. See Glossary on page 168 for a definition of Alternative performance measures.

Group statement of comprehensive income

For the year ended 31 August 2023

£m	Note	2023	2022
Profit for the year		**88**	53
Other comprehensive (loss)/income:			
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains on defined benefit pension schemes		**1**	–
		1	–
Items that may be reclassified subsequently to the income statement:			
(Losses)/gains on cash flow hedges			
– Net fair value (losses)/gains	21	**(3)**	3
Exchange differences on translation of foreign operations		**(40)**	71
		(43)	74
Other comprehensive (loss)/income for the year, net of tax		**(42)**	74
Total comprehensive income for the year		**46**	127
Attributable to equity holders of the parent		**39**	120
Attributable to non-controlling interests		**7**	7
		46	127

Group balance sheet

As at 31 August 2023

£m	Note	2023	2022
Non-current assets			
Goodwill	10	**436**	471
Other intangible assets	10	**69**	72
Property, plant and equipment	11	**270**	219
Right-of-use assets	12	**444**	446
Investments in joint ventures		**2**	2
Deferred tax assets	17	**43**	55
Trade and other receivables	13	**9**	9
		1,273	1,274
Current assets			
Inventories		**205**	198
Trade and other receivables	13	**112**	87
Derivative financial assets	21	**1**	1
Current tax receivable		**3**	–
Cash and cash equivalents	18	**56**	132
		377	418
Total assets		**1,650**	1,692
Current liabilities			
Trade and other payables	14	**(340)**	(365)
Bank overdrafts and other borrowings	18	**(84)**	(20)
Lease liabilities	15	**(116)**	(131)
Derivative financial liabilities	21	**(1)**	–
Current tax liability		**(1)**	(1)
Short-term provisions	16	**(1)**	–
		(543)	(517)
Non-current liabilities			
Bank loans and other borrowings	18	**(301)**	(404)
Long-term provisions	16	**(16)**	(14)
Lease liabilities	15	**(450)**	(446)
		(767)	(864)
Total liabilities		**(1,310)**	(1,381)
Total net assets		**340**	311
Shareholders' equity			
Called up share capital	22	**29**	29
Share premium		**316**	316
Capital redemption reserve	25	**13**	13
Translation reserve		**5**	43
Other reserves	25	**(255)**	(244)
Retained earnings		**209**	138
Total equity attributable to the equity holders of the parent		**317**	295
Non-controlling interests		**23**	16
Total equity		**340**	311

The consolidated financial statements of WH Smith PLC, registered number 5202036, on pages 114 to 163 were approved by the Board of Directors and authorised for issue on 9 November 2023 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 2023

£m	Note	2023	2022
Operating activities			
Cash generated from operating activities	20	**302**	219
Interest paid[1]		**(35)**	(26)
Financing arrangement fees		**(3)**	–
Income taxes paid		**(15)**	(6)
Income taxes refunded		**2**	–
Net cash inflow from operating activities		**251**	187
Investing activities			
Purchase of property, plant and equipment		**(106)**	(70)
Purchase of intangible assets		**(16)**	(13)
Net cash outflow from investing activities		**(122)**	(83)
Financing activities			
Dividends paid	8	**(22)**	–
Purchase of own shares for employee share schemes		**(8)**	(7)
Distributions to non-controlling interests		**(6)**	(1)
Repayments of term loans	18	**(133)**	–
Net drawdown on short term borrowings	18	**84**	–
Capital repayments of obligations under leases	18	**(118)**	(96)
Net cash outflow from financing activities		**(203)**	(104)
Net decrease in cash and cash equivalents in the year		**(74)**	–
Opening cash and cash equivalents		**132**	130
Effect of movements in foreign exchange rates		**(2)**	2
Closing cash and cash equivalents	18	**56**	132

1 Includes interest payments of £19m on lease liabilities (2022: £11m)

Group statement of changes in equity

For the year ended 31 August 2023

£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 2022	**345**	**13**	**43**	**(244)**	**138**	**295**	**16**	**311**
Profit for the year	**–**	**–**	**–**	**–**	**79**	**79**	**9**	**88**
Other comprehensive (loss)/income:								
Cash flow hedges	**–**	**–**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Actuarial gains on defined benefit pension schemes (Note 26)	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Exchange differences on translation of foreign operations	**–**	**–**	**(38)**	**–**	**–**	**(38)**	**(2)**	**(40)**
Total comprehensive (loss)/income for the year	**–**	**–**	**(38)**	**(3)**	**80**	**39**	**7**	**46**
Employee share schemes	**–**	**–**	**–**	**(8)**	**12**	**4**	**–**	**4**
Dividends paid (Note 8)	**–**	**–**	**–**	**–**	**(22)**	**(22)**	**–**	**(22)**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Distributions to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Non-cash movement on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Balance at 31 August 2023	**345**	**13**	**5**	**(255)**	**209**	**317**	**23**	**340**

£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**

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

The consolidated 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 at least 12 months from the date of approval of these financial statements.

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 21 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.

In making the going concern assessment, the directors have undertaken a rigorous assessment of current performance and forecasts for the 12-month period to November 2024, including expenditure commitments, capital expenditure and available borrowing facilities. The Group's borrowing facilities are described in the Strategic report on page 26. The covenants on these facilities are tested half-yearly and are based on fixed charges cover and net borrowings. The directors have also considered the existence of factors beyond the going concern period that could indicate that the going concern basis is not appropriate.

The directors have modelled a base case scenario consistent with the latest Board approved forecasts, which include management's best estimates of market conditions and include a number of assumptions including passenger numbers, sales growth and cost inflation. Under this scenario the Group has significant liquidity and complies with all covenant tests throughout the assessment period.

As a result of uncertainty and challenges in the macroeconomic environment, this base case scenario has been stress-tested by applying severe, but plausible, downside assumptions of a magnitude and profile in line with previous experience of economic downturns. These assumptions include reductions to revenue assumptions of between five and ten per cent versus the base case as appropriate by division; additional inflation in labour costs beyond that included in the base case; and margin pressures. Apart from an equal reduction in turnover-based rents in our Travel businesses, this scenario does not assume a decrease in other variable costs, and is therefore considered severe. Under this downside scenario the Group would continue to have significant liquidity headroom on its existing facilities and complies with all covenant tests throughout the assessment period.

Based on the above analysis, the directors have concluded that the Group is able to adequately manage its financing and principal risks, and that the Group will be able to continue to meet its obligations as they fall due and operate within the level of its facilities for at least 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 2023:

Amendments to IFRS 3	Business combinations
Amendment to IAS 16	Property, plant and equipment
Amendment to IAS 37	Provisions, contingent liabilities and contingent assets
Annual Improvements 2018–2020	Amendments to IFRS 1, IFRS 9 and IFRS 16

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:

IFRS 17	Insurance contracts
Amendment to IAS 12	Taxation
Amendment to IAS 8	Accounting policies, Changes in Accounting Estimates and Errors
Amendments to IAS 1	Presentation of financial statements
Amendments to IFRS 16	Leases
Narrow scope amendments to IFRS 3, IAS 16 and IAS 37	

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 and Headline net debt and free cash flow. These APMs are set out in the Glossary on page 168 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 and transformation 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 and share-based payments 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, the excess is immediately recognised in the income statement. The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate. Non-controlling interests are stated at the non-controlling interests' proportion of the fair values of the assets and liabilities recognised.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group.

1. Accounting policies (continued)

a) Basis of preparation (continued)

Basis of consolidation (continued)

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 year 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 WH Smith 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 United News Shops Retirement Benefits Scheme is 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 year 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 year 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, or in some cases a group of stores is considered to be a CGU where the stores do not generate largely independent cash inflows. 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.

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)

e) Intangible assets (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 on a straight line basis 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.

The useful economic lives of other intangible assets are as follows:

Software	– up to five years
Brands	– ten to twenty years

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 year 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 distribution costs 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)

The Group as a lessee (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 year 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 year 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.

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) 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.

j) 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 year. 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 year.

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).

k) 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 year, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the year 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. Deferred tax assets and liabilities are offset where there is considered to be a legally enforceable right to do so.

Notes to the financial statements continued

1. Accounting policies (continued)

l) 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. Credit card receivables are included in cash and cash equivalents.

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 year 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)

l) Financial instruments (continued)

ii) Derecognition of financial assets and liabilities

a) 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.

b) 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 a qualitative review of its contractual terms shows that the terms have been significantly changed or where 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 financial year. 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)

l) Financial instruments (continued)

v) Derivative financial instruments and hedge accounting (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.

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.

m) 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.

n) Dividends

Final dividends are recorded in the financial statements in the year in which they are approved by the Company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

o) 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.

p) 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 41 to 48 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; and
- carrying value of inventories and valuation of other current assets.

1. Accounting policies (continued)

p) 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.

The costs expected to be incurred in connection with our net zero commitments (as described on pages 41 to 48) 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 41 to 48) 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 and transformation 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 at the Group's discretion, 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)

p) 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. Further information in respect of the Group's intangible assets, property, plant and equipment and right-of-use assets is included in Notes 10, 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 year 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. The key assumption driving the stock provision calculation is forecast revenue. A ten per cent change in the revenue assumptions applied in the provision calculation, representing a reasonably possible outcome, would reduce the carrying value of inventories by £2m (2022: £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 168 (Note A2).

a) Revenue

£m	2023	2022
Travel UK	**709**	521
North America	**380**	288
Rest of the World	**235**	118
Total Travel	**1,324**	927
High Street	**469**	473
Revenue	**1,793**	1,400

Rest of the World revenue includes revenue from Australia of £82m (2022: £40m), Ireland £47m (2022: £30m) and Spain £46m (2022: £21m). No other country has individually material revenue.

b) Group results

	2023				2022			
£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)	**102**	**–**	**(1)**	**101**	54	–	6	60
North America trading profit	**49**	**–**	**3**	**52**	31	–	2	33
Rest of the World trading profit/(loss)	**13**	**–**	**–**	**13**	4	–	(1)	3
Total Travel trading profit	**164**	**–**	**2**	**166**	89	–	7	96
High Street trading profit	**32**	**–**	**11**	**43**	33	–	12	45
Group profit from trading operations	**196**	**–**	**13**	**209**	122	–	19	141
Unallocated central costs	**(27)**	**–**	**–**	**(27)**	(24)	–	–	(24)
Group operating profit before non-underlying items	**169**	**–**	**13**	**182**	98	–	19	117
Non-underlying items (Note 4)	**–**	**(13)**	**(13)**	**(26)**	–	(12)	(8)	(20)
Group operating profit/(loss)	**169**	**(13)**	**–**	**156**	98	(12)	11	97
Finance costs	**(26)**	**–**	**(19)**	**(45)**	(25)	–	(9)	(34)
Non-underlying finance costs (Note 4)	**–**	**(2)**	**1**	**(1)**	–	–	–	–
Profit/(loss) before tax	**143**	**(15)**	**(18)**	**110**	73	(12)	2	63
Income tax (expense)/credit	**(28)**	**2**	**4**	**(22)**	(12)	3	(1)	(10)
Profit/(loss) for the year	**115**	**(13)**	**(14)**	**88**	61	(9)	1	53

1 Presented on a pre-IFRS 16 basis. Alternative performance measures are defined and explained in the Glossary on page 168.

Notes to the financial statements continued

2. Segmental analysis of results (continued)

c) Other segmental items

£m	2023				
	Non-current assets[1]			Right of use assets	
	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	**30**	**(17)**	**–**	**–**	**–**
North America	**47**	**(13)**	**–**	**–**	**–**
Rest of the World	**17**	**(6)**	**–**	**–**	**–**
Total Travel	**94**	**(36)**	**–**	**–**	**–**
High Street	**28**	**(15)**	**–**	**–**	**–**
Unallocated	**–**	**(2)**	**–**	**–**	**–**
Headline, before non-underlying items (pre-IFRS 16)	**122**	**(53)**	**–**	**–**	**–**
Headline non-underlying items (pre-IFRS 16)	**–**	**(3)**	**(4)**	**–**	**–**
Headline, after non-underlying items (pre-IFRS 16)	**122**	**(56)**	**(4)**	**–**	**–**
Impact of IFRS 16	**–**	**–**	**–**	**(104)**	**–**
Non-underlying items (IFRS 16)[2]	**–**	**–**	**–**	**–**	**(15)**
Group	**122**	**(56)**	**(4)**	**(104)**	**(15)**

£m	2022				
	Non-current assets[1]			Right of use assets	
	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)

1 Non-current assets including property, plant and equipment and intangible assets, but excluding right-of-use assets.

2 The impairment under IFRS 16 mostly relates to the Rest of the World segment.

d) Non-current assets by geographical location

Non-current assets include property, plant and equipment, intangible assets and right-of-use assets.

£m	2023	2022
UK	**396**	383
USA	**704**	689
Spain	**84**	104
Australia	**18**	19
Other international	**17**	13
Total	**1,219**	1,208

3. Group operating profit

£m	2023 Before non-underlying items	2023 Non-underlying items	2023 Total	2022 Before non-underlying items	2022 Non-underlying items	2022 Total
Revenue	**1,793**	**–**	**1,793**	1,400	–	1,400
Cost of sales	**(682)**	**–**	**(682)**	(538)	–	(538)
Gross profit	**1,111**	**–**	**1,111**	862	–	862
Distribution costs[1]	**(746)**	**–**	**(746)**	(588)	–	(588)
Administrative expenses	**(197)**	**–**	**(197)**	(161)	–	(161)
Other income[2]	**14**	**–**	**14**	4	–	4
Non-underlying items (Note 4)	**–**	**(26)**	**(26)**	–	(20)	(20)
Group operating profit	**182**	**(26)**	**156**	117	(20)	97

1 During the year there was an underlying impairment charge of £nil (2022: £2m) for property, plant and equipment and other intangible assets included in distribution costs. Other impairment charges are included in non-underlying items. See Note 4.

2 Other income includes remeasurement of right-of-use assets, insurance recoveries and other property related income.

£m	2023	2022
Cost of inventories recognised as an expense	**682**	538
Write-down of inventories in the year[3]	**3**	2
Depreciation of property, plant and equipment	**42**	37
Depreciation of right-of-use assets		
– land and buildings	**101**	78
– other	**3**	3
Amortisation of intangible assets	**14**	13
Impairment of property, plant and equipment	**4**	7
Impairment of right-of-use assets	**15**	8
Impairment of intangibles	**–**	1
(Income)/expenses relating to leasing:		
– expense relating to short-term leases	**22**	17
– expense relating to variable lease payments not included in the measurement of the lease liability	**29**	29
– income relating to Covid-19 rent reductions	**–**	(5)
Other occupancy costs	**49**	59
Staff costs (Note 5)	**367**	293
Auditors' remuneration (see below)		

	2023	2022
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	**1.1**	0.9
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	**0.3**	0.2
Total audit and audit-related services	**1.4**	1.1
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	**1.5**	1.2

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	2023	2022
Amortisation of acquired intangible assets	**3**	3
Impairment of assets		
– property, plant and equipment	**4**	5
– right-of-use assets	**15**	8
Provisions for onerous contracts	**3**	–
Costs associated with pensions	**1**	–
Costs related to cyber incident	**–**	4
Non-underlying items, included in operating profit	**26**	20
Finance costs associated with refinancing	**1**	–
Non-underlying items, before tax	**27**	20
Tax credit on non-underlying items	**(5)**	(4)
Non-underlying items, after tax	**22**	16

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).

Impairment of property, plant and equipment and right-of-use assets and provisions for onerous contracts

The Group has carried out an assessment for indicators of impairment across the store portfolio. Where an indicator of impairment has been identified, an impairment review has been performed to compare the value-in-use of store cash generating units, based on management's assumptions regarding likely future trading performance, to the carrying value of the cash-generating unit as at 31 August 2023. As a result of this exercise, a charge of £19m (2022: £13m) was recorded within non-underlying items for impairment of retail store assets, of which £4m (2022: £5m) relates to property, plant and equipment and £15m (2022: £8m) relates to right-of-use assets. The majority of the impairment of right-of-use assets relates to the difference between the incremental borrowing rate used to establish the right-of-use assets and the WACC rate used to discount the future cash flows of certain stores in Spain. Refer to Note 11 for details of impairment of cash-generating units.

The impairment recognised on a pre-IFRS 16 basis is provided in the Glossary on page 174.

A charge of £3m has been recognised in the income statement to provide for the unavoidable costs of continuing to service a non-cancellable contract. This provision will be utilised over the next three financial years.

Costs associated with pensions

Professional fees of £1m (2022: £nil) have been incurred related to the pension scheme's purchase of a bulk annuity insurance policy as described in Note 26.

Costs associated with refinancing

A charge of £1m (2022: £nil) has been included in non-underlying items to derecognise the carrying value of unamortised fees in respect of the extinguished term loan and revolving credit facility. See Note 18.

Other prior year non-underlying items

Other non-underlying items in the prior year included costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites. This includes impairment of software assets of £1m, third party consultancy support and legal and other costs.

A tax credit of £5m (2022: £4m) has been recognised in relation to non-underlying items.

5. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2023	2022
Wages and salaries	**322**	261
Social security costs	**27**	17
Other pension costs	**6**	5
Share-based payments	**12**	10
Total Group	**367**	293

b) Employee numbers

The monthly average total number of employees (including executive directors) was:

No. of employees	2023	2022
Total retailing	**14,124**	12,459
Support functions	**53**	43
Total Group	**14,177**	12,502

6. Finance costs

£m	2023	2022
Interest payable on bank loans and overdrafts	**12**	9
Interest on convertible bonds	**14**	14
Interest on lease liabilities	**19**	11
Costs associated with refinancing	**1**	–
	46	34

Costs associated with refinancing are included in non-underlying items (see Note 4).

Notes to the financial statements continued

7. Income tax expense

£m	2023	2022
Tax on profit	13	6
Blended standard rate of UK corporation tax 21.5% (2022: 19.0%)		
Adjustment in respect of prior years	(2)	–
Total current tax expense	11	6
Deferred tax – current year (Note 17)	19	8
Deferred tax – prior year (Note 17)	(3)	–
Tax on profit before non-underlying items	27	14
Tax on non-underlying items – deferred tax (Note 17)	(5)	(4)
Total tax on profit	22	10

Reconciliation of the taxation charge

£m	2023	2022
Tax on profit at blended standard rate of UK corporation tax 21.5% (2022: 19.0%)	24	12
Tax effect of items that are not deductible or not taxable in determining taxable profit	(3)	–
Derecognition / (recognition) of deferred tax balances	7	(1)
Differences in overseas tax rates	(1)	(1)
Adjustment in respect of prior years – current tax	(2)	–
Adjustment in respect of prior years – deferred tax	(3)	–
Total income tax charge	22	10

The effective tax rate, before non-underlying items, is 19 per cent (2022: 17 per cent).

The UK corporation tax rate is 25 per cent. Up to the 1 April 2023 the corporation tax rate was 19 per cent.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15 per cent. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting years starting on or after 31 December 2023. The Group has applied the exemption under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes. This will be applicable for the year ending 31 August 2025.

8. Dividends

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

£m	2023	2022
Final dividend for the year ended 31 August 2022 of 9.1p per ordinary share (2022: nil)	12	–
Interim dividend for the year ended 31 August 2023 of 8.1p per ordinary share (2022: nil)	10	–
	22	–

The Board has proposed a final dividend of 20.8p per share, amounting to a final dividend of £27m, which is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 1 February 2024 to shareholders registered at the close of business on 12 January 2024.

9. Earnings per share

a) Earnings

£m	2023	2022
Profit for the year, attributable to equity holders of the parent	**79**	47
Non-underlying items, after tax (Note 4)	**22**	16
Profit for the year before non-underlying items, attributable to equity holders of the parent	**101**	63

b) Weighted average share capital

Millions	2023	2022
Weighted average ordinary shares in issue	**130**	130
Less weighted average ordinary shares held in ESOP Trust	**–**	–
Weighted average shares in issue for earnings per share	**130**	130
Add weighted average number of ordinary shares under option	**2**	2
Weighted average ordinary shares for diluted earnings per share	**132**	132

c) Basic and diluted earnings per share

Pence	2023	2022
Basic earnings per share	**60.8**	36.2
Adjustment for non-underlying items	**16.9**	12.3
Basic earnings per share before non-underlying items	**77.7**	48.5

Pence	2023	2022
Diluted earnings per share	**59.8**	35.6
Adjustment for non-underlying items	**16.7**	12.1
Diluted earnings per share before non-underlying items	**76.5**	47.7

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

As at 31 August 2023 the convertible bond has no dilutive effect as the inclusion of these potentially dilutive shares would improve earnings per share (2022: improve earnings 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 2022	471	50	13	114	648
Additions	–	–	–	16	16
Foreign exchange	(35)	(4)	–	(2)	(41)
At 31 August 2023	**436**	**46**	**13**	**128**	**623**
Accumulated amortisation					
At 1 September 2022	–	12	8	85	105
Amortisation charge	–	3	–	11	14
Foreign exchange	–	(1)	–	–	(1)
At 31 August 2023	**–**	**14**	**8**	**96**	**118**
Net book value at 31 August 2023	**436**	**32**	**5**	**32**	**505**

£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**

Goodwill of US$64m (£50m) (2022: US$70m / £60m) relating to the acquisition of the InMotion Entertainment Group of companies 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	2023	2022
Travel UK	**272**	295
North America	**122**	132
Rest of the World	**27**	29
Total Travel	**421**	456
High Street	**15**	15
	436	471

10. Intangible assets (continued)

Included within Tenancy rights are certain assets that are considered to have an indefinite life of £4m (2022: £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, 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 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 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). Country-specific discount rates were not considered to be materially different to the Group rate. The pre-tax discount rate used in the calculations was 13.2 per cent (2022: 11.9 per cent).
- The long-term growth rate assumptions are between zero per cent and two per cent (2022: zero per cent and two 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 (2022: £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, 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 two per cent and reductions in the long-term growth rates to zero per cent. Under these 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 41 and 48 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

£m	Land and buildings: Freehold properties	Land and buildings: Leasehold improvements	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2022	18	329	232	127	706
Additions	–	63	24	19	106
Reclassifications	–	–	5	(5)	–
Foreign exchange	–	(7)	(7)	(1)	(15)
At 31 August 2023	**18**	**385**	**254**	**140**	**797**
Accumulated depreciation:					
At 1 September 2022	10	230	155	92	487
Depreciation charge	–	20	15	7	42
Impairment charge	–	3	–	1	4
Reclassifications	–	1	(1)	–	–
Foreign exchange	–	(2)	(3)	(1)	(6)
At 31 August 2023	**10**	**252**	**166**	**99**	**527**
Net book value at 31 August 2023	**8**	**133**	**88**	**41**	**270**
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**

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU or in some cases a group of stores is considered to be a CGU where the stores do not generate largely independent cash inflows. 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.

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, 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 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. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows.

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). Country-specific discount rates were not considered to be materially different to the Group rate. The pre-tax discount rate used in the calculations was 13.2 per cent (2022: 11.9 per cent).

Where the value-in-use was less than the carrying value of the CGU, an impairment of property, plant and equipment and right-of-use assets was recorded. These stores were impaired to their recoverable amount of £34m, which is their carrying value at year end. The Group has recognised an impairment charge of £4m (2022: £7m) to property, plant and equipment, no impairment to software (2022: £1m) and £15m (2022: £8m) to right-of-use assets. The majority of the impairment of right-of-use assets relates to the difference between the incremental borrowing rate used to establish the right-of-use assets and the WACC rate used to discount the future cash flows of certain stores in Spain. Impairments of £19m (2022: £14m) have been presented as non-underlying items in the current year (see Note 4).

As disclosed in Note 1, Accounting policies, the forecast cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and changes to these assumptions could lead to further impairments to assets. As a result, the Group has applied certain sensitivities in isolation to demonstrate the impact on the impairment charge of changes in key assumptions. An increase of one per cent in the discount rate has been modelled and would have resulted in an increase in the impairment charge of £1m across intangible assets, property, plant and equipment and right of use assets.

The impairment assessment has also been performed on a pre-IFRS 16 basis. See Glossary on page 174.

Notes to the financial statements continued

12. Right-of-use assets

£m	Land and buildings	Equipment	Total
At 1 September 2022	**440**	**6**	**446**
Additions	**93**	**–**	**93**
Modifications and remeasurements	**41**	**1**	**42**
Depreciation charge	**(101)**	**(3)**	**(104)**
Impairment charge	**(15)**	**–**	**(15)**
Effect of movements in foreign exchange rates	**(18)**	**–**	**(18)**
Net book value at 31 August 2023	**440**	**4**	**444**

£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

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 £15m (2022: £8m) have been impaired in the year. 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	2023	2022
Current receivables		
Trade receivables	**68**	57
Other receivables	**3**	2
Prepayments	**15**	12
Accrued income	**26**	16
	112	87
Non-current receivables		
Other receivables	**5**	3
Prepayments	**4**	6
Total trade and other receivables	**121**	96

Included in accrued income is £12m (2022: £10m) of accrued supplier income relating to retrospective discounts and other promotional and marketing income that has been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against trade payables balances is included in trade payables where the Group has a right to offset.

13. Trade and other receivables (continued)

The ageing of the Group's trade and other receivables is as follows:

£m	2023	2022
Trade and other receivables gross	**80**	68
Expected credit losses	**(4)**	(6)
Trade and other receivables net	**76**	62
Of which:		
Amounts neither impaired nor past due on the reporting date	**54**	46
Amounts past due but not impaired:		
Less than one month old	**15**	8
Between one and three months old	**5**	4
Between three and six months old	**2**	3
Between six months and one year old	**–**	1
Trade and other receivables net carrying amount	**76**	62

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 2023 of £4m (2022: £6m). 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	2023	2022
Less than one month old	**–**	–
Between one and three months old	**–**	2
Between three and six months old	**1**	2
Between six months and one year old	**3**	2
	4	6

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	2023	2022
Trade payables	**130**	130
Other tax and social security	**30**	30
Other payables	**95**	96
Accruals	**68**	95
Deferred income	**17**	14
	340	365

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 58 days (2022: 65 days). The directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade payables is stated net of £8m (2022: £7m) 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 2022	**574**	**3**	**577**
Additions	**91**	**–**	**91**
Modifications and remeasurements	**39**	**1**	**40**
Disposals	**(2)**	**–**	**(2)**
Interest	**19**	**–**	**19**
Payments	**(135)**	**(2)**	**(137)**
Effect of movements in foreign exchange rates	**(22)**	**–**	**(22)**
At 31 August 2023	**564**	**2**	**566**

£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	2023	2022
Analysis of total lease liabilities:		
Non-current	**450**	446
Current	**116**	131
Total	**566**	577

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 four 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 three 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 year 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 resulted in a credit to the Income statement of £5m for the year ended 31 August 2022.

The Group's accounting policy for leases is set out in Note 1. Details of Income statement charges 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 6. The maturity of undiscounted future lease liabilities are set out in Note 21.

The total cash outflow for leases in the financial year was £181m (2022: £150m). This includes cash outflow for short-term leases of £19m (2022: £16m) and variable lease payments (not included in the measurement of lease liability) of £25m (2022: £28m).

16. Provisions

£m	Property provision	Contingent consideration provision	Total
At 1 September 2022	**14**	**–**	**14**
Charge in the year	**3**	**–**	**3**
Utilised in year	**(1)**	**–**	**(1)**
Reclassifications from creditors	**1**	**–**	**1**
At 31 August 2023	**17**	**–**	**17**

£m	Property provision	Contingent consideration provision	Total
At 1 September 2021	13	1	14
Utilised in year	–	(1)	(1)
Reclassifications from creditors	1	–	1
At 31 August 2022	14	–	14

Total provisions are split between current and non-current liabilities as follows:

£m	2023	2022
Included in current liabilities	**1**	–
Included in non-current liabilities	**16**	14
	17	14

A charge of £3m has been recognised in the income statement in the current year to provide for the unavoidable costs of continuing to service a non-cancellable contract. This provision will be utilised over the next three financial years.

Property provisions principally 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, which range from one year up to ten years.

Notes to the financial statements continued

17. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years.

£m	Opening balance	Rate change	(Credited) / charged to income	(Credited) / charged to equity	Foreign exchange	Closing balance
Accelerated tax depreciation	**3**	**(1)**	**(14)**	**–**	**1**	**(11)**
Leases	**5**	**–**	**–**	**–**	**–**	**5**
Share-based payments	**4**	**–**	**2**	**–**	**–**	**6**
Intangible assets	**(14)**	**–**	**–**	**–**	**–**	**(14)**
Losses carried forward	**45**	**1**	**(15)**	**–**	**(1)**	**30**
Unutilised interest expense	**7**	**–**	**2**	**–**	**(1)**	**8**
Provisions	**5**	**–**	**14**	**–**	**–**	**19**
Year ended 31 August 2023	**55**	**–**	**(11)**	**–**	**(1)**	**43**
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

Deferred tax assets have not been recognised in respect of the following tax losses:

£m	2023	2022
Capital losses	**83**	84
Trading losses	**28**	15
	111	99

Substantially all of the deferred income tax assets are expected to be recovered after more than one year.

The UK corporation tax rate is 25 per cent.

At 31 August 2023, deferred tax assets have been recognised in respect of tax losses and US unutilised interest expense. The deferred tax assets of £119m (2022: £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 (including capital losses) amounting to £111m (2022: £99m) and US unutilised interest expense amounting to £33m (2022: £13m) due to uncertainty over the timing and extent of their utilisation. These losses can be carried forward indefinitely and have no expiry date.

All deferred tax assets and liabilities are offset where there is considered to be a legally enforceable right to do so. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

£m	2023	2022
Deferred tax liabilities (non-current liabilities)	**–**	–
Deferred tax assets	**43**	55
	43	55

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 2022	**(132)**	**(292)**	**–**	**(577)**	**(1,001)**	**132**	**(869)**
Other non-cash movements	**(1)**	**(9)**	**–**	**(148)**	**(158)**	**–**	**(158)**
Other cash movements	**133**	**–**	**(84)**	**137**	**186**	**(74)**	**112**
Currency translation	**–**	**–**	**–**	**22**	**22**	**(2)**	**20**
At 31 August 2023	**–**	**(301)**	**(84)**	**(566)**	**(951)**	**56**	**(895)**

£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)

An explanation of Alternative Performance Measures, including Net debt on a pre-IFRS 16 basis, is provided in the Glossary on page 168.

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
On 14 June 2023 the Group announced new financing arrangements. The Group's existing lending facilities, comprising a £250m revolving credit facility ('RCF') and a term loan were cancelled and repaid. The Group's four-year committed £133m term loan with Santander UK PLC, Barclays Bank PLC, BNP Paribas, J.P. Morgan Securities PLC and HSBC UK Bank PLC, was repaid as part of the above refinancing. Instalments of £20m were paid prior to the repayment.

This repayment was funded by drawings under new facilities consisting of a £400m RCF (the 'New RCF'). The New RCF is for a five-year term due to mature on 13 June 2028, with two uncommitted extension options of one year each, which would, subject to lender approval, extend the tenor to six or seven years if exercised. The New RCF is provided by a syndicate of banks: Barclays Bank PLC, BNP Paribas, Citibank N.A. London Branch, Fifth Third Bank National Association, HSBC UK Bank PLC, JP Morgan Securities PLC, PNC Capital Markets LLC, Banco Santander SA London Branch and Skandinaviska Enskilda Banken AB (PUBL). Utilisation is interest bearing at a margin over SONIA. As at 31 August 2023, the Group has drawn down £84m on the New RCF (2022: £nil, on the RCF).

Transaction costs of £4m relating to the New RCF have been capitalised 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

The Group has issued £327m (2022: £327m) guaranteed senior unsecured convertible bonds due in 2026. The bond 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). The conversion price at 31 August 2023 was £24.7032. 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	**2023**	2022
Bank guarantees and guarantees in respect of lease agreements	**61**	51

Bank guarantees are principally in favour of landlords and could be drawn down on by landlords in the event that the Group does not settle its contractual obligations under lease or other agreements.

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amount to £27m (2022: £30m).

£m	**2023**	2022
Commitments in respect of property, plant and equipment	**25**	28
Commitments in respect of other intangible assets	**2**	2
	27	30

20. Cash generated from operating activities

£m	2023	2022
Group operating profit	**156**	97
Depreciation of property, plant and equipment	**42**	37
Impairment of property, plant and equipment	**4**	7
Amortisation of intangible assets	**14**	13
Impairment of intangible assets	**–**	1
Depreciation of right-of-use assets	**104**	81
Impairment of right-of-use assets	**15**	8
Non-cash change in lease liabilities	**–**	(5)
Share-based payments	**12**	9
Gain on remeasurement of leases	**(5)**	(4)
Other non-cash items (incl. foreign exchange)	**7**	(12)
Increase in inventories	**(12)**	(56)
Increase in receivables	**(22)**	(42)
(Decrease)/increase in payables	**(15)**	88
Pension funding	**–**	(2)
Movement on provisions (through utilisation or income statement)	**2**	(1)
Cash generated from operating activities	**302**	219

21. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2023	2022
Financial assets		
Derivative instruments not in designated hedge accounting relationships[1]	**1**	–
Derivative instruments in designated hedge accounting relationships[1]	**–**	1
Receivables at amortised cost[2]	**102**	78
Cash and cash equivalents	**56**	132
Financial liabilities		
Derivative instruments in designated hedge accounting relationships[1]	**(1)**	–
Amortised cost[3]	**(1,244)**	(1,322)

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. Prior year number restated to remove £30m of payables related to other taxes and social security.

Comparison of carrying values and fair values

The carrying value of the convertible bond on the Group's balance sheet is £301m. The fair value of the convertible bond has been estimated at £287m using a discounted cash flow approach based on market interest rates. This represents Level 2 fair value measurements as defined by IFRS 13.

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 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 18 for the value of the Group's net debt 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 two and a half times by earnings calculated on a normalised tax basis.

The Group has in place a £400m committed multi-currency revolving credit facility. The covenants, tested half-yearly, 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 pre-IFRS 16 EBITDA).

The Group has 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). The conversion price at 31 August 2023 is £24.7032 (2022: £24.99). 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 13 June 2028.

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:

2023 (£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	**89**	**5**	**331**	**–**	**425**
Trade and other payables	**293**	**–**	**–**	**–**	**293**
Lease liabilities	**136**	**110**	**253**	**164**	**663**
Total cash flows	**518**	**115**	**584**	**164**	**1,381**

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	321	–	–	–	321
Lease liabilities	146	100	235	177	658
Total cash flows	496	137	659	177	1,469

Non-derivative financial liabilities related to Trade and other payables for the year ended 31 August 2022 have been restated to remove balances related to other taxes and social security. This has resulted in a £30m reduction in the balance disclosed.

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 deposits and overdrafts.

At 31 August 2023, the Group had drawn down £84m from its £400m committed revolving credit facility. In the prior year, the Group had drawn down £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.

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 2023 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 within derivative assets/liabilities is shown below:

£m	2023	2022
Fair value of derivative (liabilities) / assets	**(1)**	1

At 31 August 2023, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$30m (2022: US$30m). 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)

Foreign currency risk (continued)

Gains of £nil (2022: £nil) have been transferred to the income statement and gains of £nil (2022: gains of £3m) have been transferred to inventories in respect of contracts that matured during the year ended 31 August 2023. In the year to 31 August 2023, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £2m (2022: gain of £3m).

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 2023

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 1.2689/1 (2022: 1.1640/1), EUR/GBP 1.1666/1 (2022: 1.1607/1) and AUD/GBP 1.9583/1 (2022: 1.6967/1).
- Group debt and hedging activities reflect the positions at 31 August 2023 and 31 August 2022 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. 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.

	2023		2022	
£m	**Income gain/(loss)**	**Equity gain/(loss)**	Income (loss)/gain	Equity (loss)/gain
GBP SONIA/base rate interest rates 1% increase	**(1)**	**–**	–	–
USD/GBP exchange rates 10% increase	**(3)**	**(36)**	(1)	(56)
EUR/GBP exchange rates 10% increase	**1**	**(4)**	–	–
AUD/GBP exchange rates 10% increase	**–**	**(1)**	–	2
GBP SONIA/base rate interest rates 1% decrease	**1**	**–**	–	–
USD/GBP exchange rates 10% decrease	**3**	**47**	2	63
EUR/GBP exchange rates 10% decrease	**(2)**	**(2)**	1	–
AUD/GBP exchange rates 10% decrease	**1**	**1**	–	(2)

22. Called up share capital

Allotted and fully paid

	2023		2022	
	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, 2,019 ordinary shares were allotted under the terms of the Company's Sharesave Scheme (2022: 1,633). There was no effect from this allotment on share premium (2022: £nil).

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 £15m (2022: £9m) 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 1,031,943 (2022: 622,989).

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 2022	**318,615**	**2,512,407**	**461,277**	**111,934**	**3,404,233**
Options and awards granted	**246,718**	**1,403,432**	**278,982**	**–**	**1,929,132**
Options and awards exercised	**(2,019)**	**(69,916)**	**(34,111)**	**–**	**(106,046)**
Options and awards lapsed / cancelled	**(130,165)**	**(514,693)**	**(219,049)**	**–**	**(863,907)**
Outstanding at 31 August 2023	**433,149**	**3,331,230**	**487,099**	**111,934**	**4,363,412**
Exercisable at 31 August 2023	**245**	**10,764**	**41,726**	**–**	**52,735**
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**

Pence	2023	2022
Weighted average exercise price of awards:		
– Outstanding at the beginning of the year	**136.94**	192.20
– Granted in the year	**16.46**	–
– Exercised in the year	**30.65**	15.71
– Lapsed in the year	**233.18**	126.54
– Outstanding at the end of the year	**134.87**	136.94
– Exercisable at the end of the year	**7.48**	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	**2023**	2022	Exercise price (pence)	Exercise period
20 October 2016	**8,404**	11,892	Nil	Oct 2019 – 20.10.26
26 October 2017	**2,360**	38,315	Nil	Oct 2020 – 26.10.27
5 November 2019	**–**	365,640	Nil	Nov 2024 – 05.11.29
19 November 2020	**1,004,807**	1,015,635	Nil	Nov 2025 – 19.11.30
19 November 2021	**1,004,940**	1,080,925	Nil	Nov 2026 – 19.11.31
21 November 2022	**1,310,719**	–	Nil	Nov 2027 – 21.11.32
	3,331,230	2,512,407		

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 2023 and 31 August 2022 are as follows:

	Number of shares			
Date of grant	**2023**	2022	Exercise price (pence)	Exercise period
5 June 2019 (3 year)	**245**	95,906	1,609.60	01.08.22 – 31.01.23
9 June 2021 (3 year)	**191,679**	222,709	1,400.00	01.08.24 – 31.01.25
14 June 2023 (3 year)	**241,225**	–	1,325.60	01.08.26 – 31.01.27
	433,149	318,615		

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	**2023**	2022	Exercise price (pence)	Exercise period
23 October 2014	**870**	870	Nil	Oct 2017 – 23.10.24
20 October 2016	**3,287**	3,561	Nil	Oct 2019 – 20.10.26
5 November 2019	**–**	178,398	Nil	Nov 2022 – 05.11.29
19 November 2020	**83,774**	121,289	Nil	Nov 2021 – 19.11.30
19 November 2021	**145,123**	157,159	Nil	Nov 2024 – 19.11.31
21 November 2022	**254,045**	–	Nil	Nov 2025 – 21.11.32
	487,099	461,277		

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 2023, 73,049 (2022: 18,473) 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 2023 there were 111,934 outstanding nil-cost cash-settled awards (2022: 111,934), which will be settled at various dates up to November 2031. The carrying amount of liabilities arising from share-based payment transactions is less than £1m (2022: less than £1m).

Fair value information

	2023	2022
Weighted average share price at date of exercise of share options exercised during year – pence	**1,429.62**	1,573.69
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	2023	2022
	20	15

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:

	2023	2022
Share price – pence	**1,364.50**	1,514.00
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**47**	41
Expected life – years	**3.0**	3.0
Risk-free rate – per cent	**3.17**	0.44
Dividend yield – per cent	**0%–2%**	0%–2%
Weighted average fair value of options – pence	**1,042.45**	1,068.26

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 2023 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 2023:

	2023
Share price – pence	**1,638.00**
Exercise price – pence	**1,325.60**
Expected volatility – per cent	**76**
Expected life – years	**3.5**
Risk-free rate – per cent	**4.14**
Dividend yield – per cent	**1.05**
Weighted average fair value of options – pence	**946**

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 81 to 102.

£'000	2023	2022
Short-term employee benefits	**3,509**	3,327
Post-employment benefits	**83**	182
Share-based payments	**2,076**	1,577
	5,668	5,086

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 2022	(280)	2	(9)	3	40	(244)
Cash flow hedges	–	–	–	(3)	–	(3)
Employee share schemes	(2)	–	(6)	–	–	(8)
Balance at 31 August 2023	**(282)**	**2**	**(15)**	**–**	**40**	**(255)**

£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)**

The Other reserves include reserves created in relation to historical capital reorganisation and proforma restatement of £(238)m (2022: £(238)m), demerger from Smiths News PLC in 2006 of £69m (2022: £69m), and cumulative amounts relating to employee share schemes of £(113)m (2022: £(111)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 (2022: £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.

26. 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.

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. 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.

In August 2022 the WHSmith 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 a result of this comprehensive risk-removal, WH Smith PLC is no longer required to make any future cash contributions into the Trust regarding defined benefit liabilities. During the prior year ended 31 August 2022, prior to the completion of the buy-in transaction, the Group made a contribution of £2m to the scheme in accordance with the agreed funding schedule.

The Group does not have an unconditional right to derive economic benefit from any surplus in the scheme, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of any IAS 19 surplus in the pension scheme available on a reduction of future contributions is £nil (2022: £nil). Accordingly, no balance sheet asset or liability exists in relation to this scheme. The income statement impact of this scheme is limited to administrative costs only.

Notes to the financial statements continued

26. Retirement benefit obligations (continued)

a) Defined benefit pension schemes (continued)

ii) United News Shops Retirement Benefit Scheme

The Group also operates a smaller scheme, the United News Shops Retirement Benefits Scheme ("UNSRBS"), which is closed to new entrants and further service accrual. 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 present value of obligations and fair value of assets are stated below.

£m	2023	2022
Present value of the obligations	**(5)**	(6)
Fair value of plan assets	**5**	6
Retirement benefit obligation recognised in the balance sheet	**–**	–

All of the assets of the UNSRBS scheme have a quoted market price in an active market.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £6m for the year ended 31 August 2023 (2022: £5m).

27. 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

Notes to the financial statements continued

27. 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 2023.

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 120, 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 120, the Group has determined that it has control of these entities and has therefore consolidated their results.

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
Held indirectly:					
WH Smith Asia Limited	Hong Kong	2	Ordinary	100	Product sourcing for Group companies
WH Smith Australia Pty Limited	Australia	3	Ordinary	100	Retailing
WH Smith Calais S.A.S	France	4	Ordinary	100	Retailing
WH Smith Germany GmbH	Germany	5	Ordinary	100	Retailing
WH Smith Hungary	Hungary	21	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

27. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
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 Sweden AB	Sweden	20	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-C,LLC	USA	16	Ordinary	80	Retailing
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
BR InMotion IAH, LLC	USA	16	Ordinary	65	Retailing
InMotion LAX, LLC	USA	16	Ordinary	75	Retailing
InMotion LAX-IT,LLC	USA	16	Ordinary	80	Retailing
Soundbalance IAH, LLC	USA	16	Ordinary	67	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 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, LLC	USA	16	Ordinary	80	Retailing
InMotion ATL-A, LLC	USA	16	Ordinary	64	Retailing

Notes to the financial statements continued

27. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
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
InMotion SLC,LLC	USA	16	Ordinary	80	Retailing
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 BNA, LLC	USA	16	Ordinary	84	Dormant
InMotion BOS-A, LLC	USA	16	Ordinary	80	Dormant
InMotion BOS, LLC	USA	16	Ordinary	70	Dormant
InMotion MKE, LLC	USA	16	Ordinary	79	Dormant
Soundbalance SJC, LLC	USA	16	Ordinary	67	Dormant
InMotion IAH, LLC	USA	16	Ordinary	65	Dormant
Soundbalance BOS, LLC	USA	16	Ordinary	67	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 Jacksonville, LLC	USA	16	Ordinary	70	Retailing
MRG Las Vegas, LLC	USA	16	Ordinary	90	Retailing
MRG Oakland, LLC	USA	16	Ordinary	80	Retailing
MRG Palm Springs, LLC	USA	16	Ordinary	75	Retailing
MRG Portland, LLC	USA	16	Ordinary	75	Retailing
MRG Phoenix 1, LLC	USA	16	Ordinary	65	Retailing
MRG Phoenix 2, LLC	USA	16	Ordinary	65	Retailing
MRG Newark, LLC	USA	16	Ordinary	74	Retailing
MRG Newark 2, LLC	USA	16	Ordinary	74	Retailing
MRG Nashville, LLC	USA	16	Ordinary	80	Retailing
MRG Orlando, LLC	USA	16	Ordinary	70	Retailing
MRG Raleigh Terminal 1, LLC	USA	16	Ordinary	55	Retailing
MRG RDU T2, LLC	USA	16	Ordinary	80	Retailing

27. Subsidiary companies (continued)

Name	Country of incorporation/ registration	Registered address	Class of shares	Proportion of shares held by Group companies %	Principal activity
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
MRG Seattle, LLC	USA	16	Ordinary	80	Retailing
MRG Washington (DCA), LLC	USA	16	Ordinary	75	Retailing
MRG Washington (DCA) II, LLC	USA	16	Ordinary	75	Retailing
MRG Washington (DCA) III, LLC	USA	16	Ordinary	75	Retailing
MRG Washington (DCA) IV, 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 Porlezza 12, Cap 20123, 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, Belgium
19	Bryggegata 6, 0250 Oslo, Norway
20	Norrlandsgatan 16, 111 43 Stockholm
21	1139 Budapest, Vaci ut 99-105, Hungary

Company balance sheet

As at 31 August 2023

£m	Note	2023	2022
Non-current assets			
Investments	3	**835**	835
		835	835
Current assets			
Receivables: amounts falling due within one year	4	**87**	287
		87	287
Current liabilities			
Payables: amounts falling due within one year	5	**(130)**	(166)
Borrowings	6	**–**	(20)
		(130)	(186)
Net current assets		**(43)**	101
Non-current liabilities			
Borrowings	6	**(301)**	(404)
		(301)	(404)
Total net assets		**491**	532
Shareholders' equity			
Called up share capital	9	**29**	29
Share premium account		**316**	316
Other reserves	10	**40**	40
Capital redemption reserve	10	**13**	13
Profit and loss account[1]		**93**	134
Total equity		**491**	532

1 The loss for the year attributable to shareholders was £19m (2022: loss of £18m). See Note 2.

The financial statements of WH Smith PLC, registered number 5202036, on pages 164 to 167 were approved by the Board of Directors and authorised for issue on 9 November 2023 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 2023

£m	Share capital	Share premium	Capital redemption reserve	Other reserves	Profit and loss account	Total
Balance at 1 September 2022	**29**	**316**	**13**	**40**	**134**	**532**
Loss for the financial year	**–**	**–**	**–**	**–**	**(19)**	**(19)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(19)**	**(19)**
Equity dividends paid during the year	**–**	**–**	**–**	**–**	**(22)**	**(22)**
Balance at 31 August 2023	**29**	**316**	**13**	**40**	**93**	**491**
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**

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 2023, 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. 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 £19m (2022: loss of £18m) comprising finance costs of £23m (2022: £22m), non-underlying items of £1m (2022: £nil), offset by a tax credit of £5m (2022: £4m). There were no other recognised gains or losses.

The Company did not have any employees during the year ended 31 August 2023 (2022: nil). All directors were remunerated by other Group companies. Disclosure of audit fees payable in respect of the Company is included in Note 3 to the Group's consolidated financial statements.

3. Investments

A full list of the Company's subsidiary undertakings is included in Note 27 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	2023	2022
Amounts owed by subsidiary undertakings	**82**	282
Prepayments	**–**	1
Current tax receivable	**5**	4
	87	287

Notes to the Company financial statements continued

4. Receivables: amounts falling due within one year (continued)

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	2023	2022
Amounts owed to subsidiary undertakings	**129**	162
Bank overdrafts	**–**	2
Accruals and deferred income	**1**	2
	130	166

Amounts owed to subsidiary undertakings are unsecured, non-interest bearing and repayable on demand.

6. Borrowings

£m	2023	2022
Current Term loans	**–**	20
Non-current Term loans	**–**	112
Convertible bonds	**301**	292
	301	424

Term loans and revolving credit facilities

On 14 June 2023 the Group announced new financing arrangements. The Group's existing lending facilities, comprising a £250m revolving credit facility ('RCF') and a £113m term loan were cancelled and repaid.

This repayment was funded by drawings under new facilities consisting of a £400m RCF (the 'New RCF'). Alongside other Group companies, the Company is a guarantor on this facility.

The New RCF is for a five-year term due to mature on 13 June 2028, with two uncommitted extension options of one year each, which would, subject to lender approval, extend the tenor to six or seven years if exercised. The New RCF is provided by a syndicate of banks: Barclays Bank PLC, BNP Paribas, Citibank N.A. London Branch, Fifth Third Bank National Association, HSBC UK Bank PLC, JP Morgan Securities PLC, PNC Capital Markets LLC, Banco Santander SA London Branch and Skandinaviska Enskilda Banken AB (PUBL). Utilisation is interest bearing at a margin over SONIA. As at 31 August 2023, the Group has drawn down £84m on the New RCF (2022: £nil, on the RCF). The Company has not drawn on the facility.

The Company's four-year committed £133m term loan with Santander UK PLC, Barclays Bank PLC, BNP Paribas, J.P. Morgan Securities PLC and HSBC UK Bank PLC, was repaid as part of the above refinancing. Instalments of £20m were paid prior to the repayment.

Convertible bonds

The Company has 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). The conversion price at 31 August 2023 was £24.7032 (2022: £24.99). 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 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. Dividends

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

£m	2023	2022
Final dividend for the year ended 31 August 2022 of 9.1p per ordinary share (2022: nil)	**12**	–
Interim dividend for the year ended 31 August 2023 of 8.1p per ordinary share (2022: nil)	**10**	–
	22	–

The Board has proposed a final dividend of 20.8p per share, amounting to a final dividend of £27m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 1 February 2024 to shareholders registered at the close of business on 12 January 2024.

8. Contingent liabilities

Contingent liabilities of £1m (2022: £1m) are in relation to insurance standby letters of credit.

The Company will guarantee the debts and liabiliti.es 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

9. Called up share capital

Allotted and fully paid

	2023		2022	
	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, 2,019 (2022: 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 (2022: £nil).

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.

10. 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 (2022: £13m) represents the par value of shares repurchased and cancelled under the Company's share buyback programme and 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 and transformation 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 2023 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.

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–A12	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 A12.
Group profit before tax and non-underlying items	Group profit before tax	See Group income statement and Note A1	Group profit before tax and non-underlying items excludes the impact of non-underlying items as described below. A reconciliation from Group profit before tax and non-underlying items to Group profit before tax is provided on the Group income statement on page 114, and on a Headline (pre-IFRS 16) basis in Note A1.
Group profit from trading operations and segment trading profit	Group operating profit	See Note 2 and Note A2	Group profit from trading operations and segment trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit 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 per share before non-underlying items	Earnings per share	Non-underlying items, see Note 9 and Note A4	Profit for the year attributable to the equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the financial year. A reconciliation is provided on an IFRS 16 basis in Note 9 and on a Headline (pre-IFRS 16) basis in Note A4.
Headline diluted earnings per share	Earnings per share	Non-underlying items, see Note 9 and Note A4	Earnings per share before non-underlying items (defined above) on a pre-IFRS 16 basis and assuming no dilutive impact of the convertible bond. In the year ended 31 August 2023, on a statutory basis, the bond is also not dilutive.
Headline EBITDA	Group operating profit	Refer to definition	Headline EBITDA is Headline Group operating profit before non-underlying items adjusted for pre-IFRS 16 depreciation, amortisation and impairment.
Effective tax rate	None	Non-underlying items	Total income tax charge excluding the tax impact of non-underlying items divided by Group Headline profit before tax and non-underlying items. See Note 7 on an IFRS 16 basis, and Notes A3 and A6 on a Headline pre-IFRS 16 basis.

Glossary (unaudited) continued

Definitions and reconciliations (continued)

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income statement measures (continued)			
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.
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. See Note A11.
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 to 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 27	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 27, as part of the Strategic report.
Operating cash flow	Net cash inflow from operating activities	See Strategic report page 27	Operating cash flow is defined as Headline profit before tax and non-underlying items, excluding Headline depreciation, amortisation, impairment and other non-cash items. The components of Operating cash flow are shown on page 27, as part of the Strategic report.

A1. Reconciliation of Headline to Statutory Group operating profit and Group profit before tax

	2023					
	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	IFRS 16 adjustments non-underlying items	Total
Revenue	1,793	–	1,793	–	–	1,793
Cost of sales	(682)	–	(682)	–	–	(682)
Gross profit	1,111	–	1,111	–	–	1,111
Distribution costs	(756)	–	(756)	10	–	(746)
Administrative expenses	(196)	–	(196)	(1)	–	(197)
Other income	10	–	10	4	–	14
Non-underlying items	–	(13)	(13)	–	(13)	(26)
Group operating profit/(loss)	169	(13)	156	13	(13)	156
Finance costs	(26)	(2)	(28)	(19)	1	(46)
Profit/(loss) before tax	143	(15)	128	(6)	(12)	110
Income tax (charge)/credit	(28)	2	(26)	1	3	(22)
Profit/(loss) for the year	115	(13)	102	(5)	(9)	88
Attributable to:						
Equity holders of the parent	106	(13)	93	(5)	(9)	79
Non-controlling interests	9	–	9	–	–	9
	115	(13)	102	(5)	(9)	88

	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	IFRS 16 adjustments non-underlying items	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/(loss)	98	(12)	86	19	(8)	97
Finance costs	(25)	–	(25)	(9)	–	(34)
Profit/(loss) before tax	73	(12)	61	10	(8)	63
Income tax (charge)/credit	(12)	3	(9)	(2)	1	(10)
Profit/(loss) for the year	61	(9)	52	8	(7)	53
Attributable to:						
Equity holders of the parent	55	(9)	46	8	(7)	47
Non-controlling interests	6	–	6	–	–	6
	61	(9)	52	8	(7)	53

Glossary (unaudited) continued

A2. Reconciliation of Headline to Statutory segmental trading profit/(loss) and Group profit from trading operations

	2023				
	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/(loss)	**102**	**–**	**102**	**(1)**	**101**
North America trading profit	**49**	**–**	**49**	**3**	**52**
Rest of the World trading profit	**13**	**–**	**13**	**–**	**13**
Total Travel trading profit	**164**	**–**	**164**	**2**	**166**
High Street trading profit	**32**	**–**	**32**	**11**	**43**
Group profit from trading operations	**196**	**–**	**196**	**13**	**209**
Unallocated central costs	**(27)**	**–**	**(27)**	**–**	**(27)**
Group operating profit before non-underlying items	**169**	**–**	**169**	**13**	**182**
Non-underlying items	**–**	**(13)**	**(13)**	**(13)**	**(26)**
Group operating profit/(loss)	**169**	**(13)**	**156**	**–**	**156**

	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

A3. Reconciliation of Headline to Statutory tax expense

£m	2023 Headline (pre-IFRS 16)	2023 IFRS 16 adjustments	2023 IFRS 16	2022 Headline (pre-IFRS 16)	2022 IFRS 16 adjustments	2022 IFRS 16
Profit before tax and non-underlying items	**143**	**(6)**	**137**	73	10	83
Tax on profit – Blended standard rate of UK corporation tax (21.5%; 2022: 19.0%)	**14**	**(1)**	**13**	5	1	6
Adjustment in respect of prior years	**(2)**	**–**	**(2)**	–	–	–
Total current tax charge/(credit)	**12**	**(1)**	**11**	5	1	6
Deferred tax – current year	**19**	**–**	**19**	7	1	8
Deferred tax – prior year	**(3)**	**–**	**(3)**	–	–	–
Deferred tax – adjustment in respect of change in tax rates	**–**	**–**	**–**	–	–	–
Tax charge/(credit) on Headline profit	**28**	**(1)**	**27**	12	2	14
Tax on non-underlying items – current tax	**–**	**–**	**–**	–	–	–
Tax on non-underlying items – deferred tax	**(2)**	**(3)**	**(5)**	(3)	(1)	(4)
Total tax charge/(credit) on profit	**26**	**(4)**	**22**	9	1	10

A4. Calculation of Headline and Statutory earnings per share

Millions	2023 Basic EPS	2023 Diluted EPS	2022 Basic EPS	2022 Diluted EPS
Weighted average shares in issue (Note 9)	**130**	**132**	130	132

	2023 Profit for the year attributable to equity holders of the parent £m	2023 Basic EPS pence	2023 Diluted EPS pence	2022 Profit for the year attributable to equity holders of the parent £m	2022 Basic EPS pence	2022 Diluted EPS pence
Headline (pre-IFRS 16 basis)						
– Before non-underlying items	**106**	**81.5**	**80.3**	55	42.3	41.7
– Non-underlying items	**(13)**	**(10.0)**	**(9.8)**	(9)	(6.9)	(6.9)
– Total	**93**	**71.5**	**70.5**	46	35.4	34.8
IFRS 16 adjustments						
– Before non-underlying items	**(5)**	**(3.8)**	**(3.8)**	8	6.2	6.0
– Non-underlying items	**(9)**	**(6.9)**	**(6.9)**	(7)	(5.4)	(5.2)
– Total	**(14)**	**(10.7)**	**(10.7)**	1	0.8	0.8
IFRS 16 basis						
– Before non-underlying items	**101**	**77.7**	**76.5**	63	48.5	47.7
– Non-underlying items	**(22)**	**(16.9)**	**(16.7)**	(16)	(12.3)	(12.1)
– Total	**79**	**60.8**	**59.8**	47	36.2	35.6

Glossary (unaudited) continued

A5. Fixed charges cover

£m	2023	2022
Headline net finance costs (pre-IFRS 16)	26	25
Net operating lease charges (pre-IFRS 16)	326	241
Total fixed charges	**352**	266
Headline profit before tax and non-underlying items	**143**	73
Headline profit before tax, non-underlying items and fixed charges	**495**	339
Fixed charges cover – times	**1.4x**	1.3x

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

	2023		2022	
£m	Headline (pre-IFRS 16)	IFRS 16	Headline (pre-IFRS 16)	IFRS 16
Amortisation of acquired intangible assets	3	3	3	3
Impairment of assets				
– property, plant and equipment	4	4	5	5
– right-of-use assets	–	15	–	8
Provisions for onerous contracts	5	3	–	–
Costs associated with pensions	1	1	–	–
Costs related to cyber incident	–	–	4	4
Non-underlying items, included in operating profit	**13**	**26**	12	20
Finance costs associated with refinancing	1	1	–	–
Finance costs associated with onerous contracts	1	–	–	–
Non-underlying items, before tax	**15**	**27**	12	20
Tax credit on non-underlying items	(2)	(5)	(3)	(4)
Non-underlying items, after tax	**13**	**22**	9	16

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 £5m (2022: £4m) has been recognised in relation to the above items (£2m pre-IFRS 16 (2022: £3m)).

Impairment of property, plant and equipment and right-of-use assets and provisions for onerous contracts

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 13.2 per cent (2022: 11.9) and the pre-tax discount rate used in the pre-IFRS 16 calculation was 13.2 per cent (2022: 14.4).

Right-of-use assets are not recognised on a pre-IFRS 16 basis.

A charge of £5m has been recognised on a pre-IFRS 16 basis to provide for the unavoidable costs of continuing to service a non-cancellable contract. This provision will be utilised over the next three financial years.

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	2023	2022
Net cash inflow from operating activities	**251**	187
Cash flow impact of IFRS 16 (Note A9)	**(116)**	(93)
Add back:		
– Cash impact of non-underlying items	**9**	16
– Pension funding	**–**	2
– Financing arrangement fees	**3**	–
– Other non cash items	**(5)**	12
Deduct:		
– Purchase of property, plant and equipment	**(106)**	(70)
– Purchase of intangible assets	**(16)**	(13)
Free cash flow	**20**	41

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 168), but excludes additional lease liabilities recognised on application of IFRS 16.

£m	2023	2022
Borrowings		
– Revolving credit facility	**(84)**	–
– Convertible bonds	**(301)**	(292)
– Bank loans	**–**	(132)
– Lease liabilities (Note 15)	**(566)**	(577)
Liabilities from financing activities	**(951)**	(1,001)
Cash and cash equivalents	**56**	132
Net debt (IFRS 16) (Note 18)	**(895)**	(869)
Add back lease liabilities recognised under IFRS 16[1]	**565**	573
Headline net debt (pre-IFRS 16)	**(330)**	(296)

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.

	2023			2022		
£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	**135**	**116**	**251**	94	93	187
Net cash outflows from investing activities	**(122)**	**–**	**(122)**	(83)	–	(83)
Net cash outflows from financing activities	**(87)**	**(116)**	**(203)**	(11)	(93)	(104)
Net decrease in cash in the period	**(74)**	**–**	**(74)**	–	–	–

Glossary (unaudited) continued

A10. Balance sheet impact of IFRS 16

The balance sheet including and excluding the impact of IFRS 16 is shown below:

£m	2023 Headline (pre-IFRS 16)	2023 IFRS 16 adjustment	2023 IFRS 16	2022 Headline (pre-IFRS 16)	2022 IFRS 16 adjustment	2022 IFRS 16
Goodwill and other intangible assets	**506**	**(1)**	**505**	544	(1)	543
Property, plant and equipment	**263**	**7**	**270**	211	8	219
Right-of-use assets	**–**	**444**	**444**	–	446	446
Investments in joint ventures	**2**	**–**	**2**	2	–	2
	771	**450**	**1,221**	757	453	1,210
Inventories	**205**	**–**	**205**	198	–	198
Payables less receivables	**(216)**	**(3)**	**(219)**	(284)	15	(269)
Working capital	**(11)**	**(3)**	**(14)**	(86)	15	(71)
Net derivative financial asset	**–**	**–**	**–**	1	–	1
Net current and deferred tax assets	**45**	**–**	**45**	54	–	54
Provisions	**(26)**	**9**	**(17)**	(26)	12	(14)
Operating assets employed	**779**	**456**	**1,235**	700	480	1,180
Net debt	**(330)**	**(565)**	**(895)**	(296)	(573)	(869)
Total net assets	**449**	**(109)**	**340**	404	(93)	311

A11. Like-for-like revenue reconciliation

The reconciling items between like-for-like revenue change and total revenue change are shown below:

Per cent	Travel UK	North America	Rest of the World	Travel Total	High Street	Group
Like-for-like revenue change	30%	11%	53%	**27%**	1%	**18%**
Net space impact	6%	14%	42%	**14%**	(2)%	**8%**
Foreign exchange	–%	7%	4%	**2%**	–%	**2%**
Total revenue change	36%	32%	99%	**43%**	(1)%	**28%**

A12. Operating lease expense

Amounts recognised in Headline Group operating profit on a pre-IFRS 16 basis are as follows:

£m	2023	2022
Net operating lease charges	**326**	241

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 and profit before tax, as explained in Note 2 Segmental analysis of results.

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 168.

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 Friday 26 January 2024 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 2023
Preliminary results announced	9 November 2023
Annual report posted	December 2023
Final dividend ex-dividend date	11 January 2024
Final dividend record date	12 January 2024
AGM	26 January 2024
AGM trading update	26 January 2024
Final dividend payment date	1 February 2024
Half-year end	29 February 2024
Interim results announced	April 2024
Trading statement	June 2024
Interim dividend ex-dividend date	July 2024
Interim dividend record date	July 2024
Interim dividend payment date	August 2024
Financial year end	31 August 2024

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at sharegift.org.

Information for shareholders continued

Warning to shareholders – boiler room scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as "boiler rooms". Information on how to avoid share fraud or report a scam can be found on our website at whsmithplc.co.uk. You can also call the Financial Conduct Authority Consumer Helpline on 0800 111 6768 or go to fca.org.uk/scamsmart.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Smiths News PLC.

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2\frac{13}{81}$p (adjusted where necessary to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22\frac{6}{67}$p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2\frac{13}{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2\frac{13}{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55\frac{5}{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55\frac{5}{9}$p and redeemable ' B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55\frac{5}{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	'A' ordinary shares	Arising from an original shareholding of 'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

"Company" means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and "Group" means the Company and its subsidiaries and subsidiary undertakings.

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