

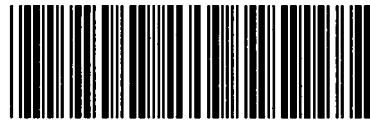
Company Registration No. 471941

WH Smith Retail Holdings Limited

Annual Report and Financial Statements

31 August 2016

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WH Smith Retail Holdings Limited

Annual report and financial statements 31 August 2016

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WH Smith Retail Holdings Limited

Annual report and financial statements 31 August 2016

Officers and professional advisers

Directors

S Clarke
R J Moorhead
I Houghton

Company Secretary

I Houghton

Registered Office

Greenbridge Road
Swindon
Wiltshire
SN3 3RX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
1 Embankment Place,
London
WC2N 6RH
United Kingdom

WH Smith Retail Holdings Limited

Directors' report

The directors present their annual report to shareholders together with the audited financial statements for the year ended 31 August 2016.

Directors

The Directors of the Company who were in office during the year and up to the date of signing are shown on page 1.

Directors' indemnities

The Company has qualifying third party indemnity provisions for the benefit of its directors which remained in force throughout the year and at the date of this report.

Results and dividends

As shown in the Company's profit and loss account on page 9, the Company's profit for the financial year to 31 August 2016 was £78,384,000 (2015: £67,585,000). The Company is expected to continue to trade profitably in the foreseeable future.

The Company paid dividends in the year amounting to £80,000,000 to its immediate parent company, WH Smith PLC (2015: £60,000,000). During the year, the Company received dividends of £85,000,000 from subsidiary undertakings (2015: £80,000,000).

Going concern and financial risk management

Disclosures in respect of going concern and financial risk management are given in the Strategic report on pages 5 and 6.

Elective resolutions

At an Extraordinary General Meeting of the Company held on 26 July 2001, Elective Resolutions were passed dispensing with:

- i) the laying of financial statements before the Company in general meeting;
- ii) the holding of Annual General Meetings; and
- iii) the obligation to appoint auditors annually.

Equal Opportunities

The Directors believe in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment and maximise their potential.

Employee involvement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, large employee events, intranet sites and regular e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development. The Company, when appropriate, consults directly with employees and/or employee representatives so that their views can be taken into account when decisions are made which are likely to affect them.

WH Smith Retail Holdings Limited

Directors' report (continued)

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

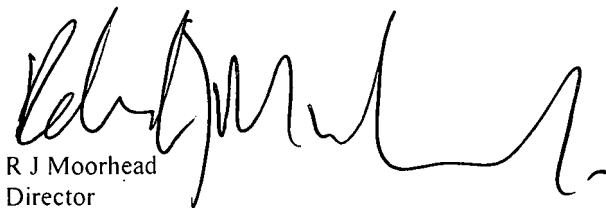
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, will continue in office as auditors to the Company.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board of Directors on 19 January 2017.

On behalf of the Board



R J Moorhead
Director

WH Smith Retail Holdings Limited

Strategic report

The Strategic report is prepared in accordance with s414(c) of the Companies Act 2006.

Business review, principal activities and key performance indicators

The Company is a holding company for a group of trading companies. In addition, the Company is the principal employer of the Group's defined benefit pension trust, WHSmith Pension Trust, and also operates central functions of the WH Smith PLC group.

As shown in the Company's profit and loss account on page 9, the Company's profit for the financial year to 31 August 2016 was £78,384,000 (2015: £67,585,000).

The balance sheet on page 10 of the financial statements shows that during the year, the Company's net assets have decreased by £9,898,000 to £462,311,000 (2015: £472,209,000). Details of the amounts owed by other Group undertakings are shown in Notes 15 and 16 on page 26.

The Company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, of which this Company is a part, is discussed in the WH Smith PLC Annual Report and Accounts 2016, which does not form part of this Report.

Environmental matters

The Group recognises that good environmental management also makes good business sense. The directors are committed to reducing the environmental impact of our business, and measure our performance each year. A copy of our Environmental Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/ and further information with regard to environmental matters is given in the WH Smith PLC Annual Report and Accounts 2016.

Employee matters

The Company employs approximately 12,000 people in the UK, and is proud of its long history of being regarded as a responsible and respected employer. Further information on equal Opportunities and employee involvement is given in the Director's report and information on the Group's Employee policies is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

Social, Community and Human rights issues

As a leading bookseller and stationer the Group focuses our community investment on supporting education and life-long learning. Over the year we invested a total of £1,602,675 into local communities (2015: £1,161,504). Included in this figure are cash donations, staff time and gifts in kind. The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report, available at www.whsmithplc.co.uk/cr.

The WHSmith Group Charitable Trust, an independent registered charity, actively supports employees that are involved with charitable organisations in their local communities, as well as working in partnership with the Group to support literacy projects.

The Group is committed to good labour standards and respecting the environment in our supply chain. Our Ethical Trading Code of Conduct and Human Rights Policy outlines our expectations of our suppliers. A copy of our Ethical Trading Code of Conduct and Human Rights Policy is available at www.whsmithplc.co.uk/corporate_responsibility/our_policies/.

WH Smith Retail Holdings Limited

Strategic report (continued)

Principal risks and uncertainties

The WH Smith PLC group manages its operations, including WH Smith Retail Holdings Limited on a divisional basis and has identified the following factors as major potential risks to the successful performance of the business of the Group. Many of these factors are applicable to WH Smith Retail Holdings Limited.

- Economic, political, competitive and market risks
- Brand and reputation
- Key suppliers and supply chain management
- Store portfolio
- Business interruption
- Reliance on key personnel
- International expansion
- Treasury, financial and credit risk management
- Cyber risk and data security

Group risks are discussed in further detail within the Principal risks and uncertainties section of the Strategic report of the Group's Annual Report and Accounts 2016, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of foreign exchange rate risk and interest rate risk. The Company is subject to the WH Smith Group policies to ensure proper monitoring and control of financial risk. The policies are set by the Group and are implemented by the Company's finance department.

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. Further information on the Group's financial risk management policies and procedures are given in the WH Smith PLC Annual Report and Accounts 2016, which does not form part of this report.

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 five-year 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 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.

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Company in relation to lending, hedging, settlement and other financial activities. The Company's principal financial assets are trade and other receivables and bank balances and cash.

The Company 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 doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. 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 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 combination of short-term credit ratings of P-1 and long-term ratings of A2 or better.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold collateral over any of these financial assets.

WH Smith Retail Holdings Limited

Strategic report (continued)

Financial Risk Management (continued)

Interest rate risk

The Company is exposed to cash flow interest rate risk on floating rate intercompany loans, bank loans and overdrafts.

At 31 August 2016, the Company had drawn down £18m (2015: £9m) from the Group's committed revolving credit facility. The Company draws down on its facility, but does not view any draw down as long-term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

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. As an intermediate holding company in a group of companies which engage in retailing with overseas operations the Company is indirectly exposed to foreign currency risk. The Group's foreign currency exposures are principally to the US dollar, euro and Australian dollar.

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 2016, the Group had no material un-hedged currency exposures.

The Group's euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in France, Ireland, Spain and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure. Forward foreign exchange contracts have been used to hedge France and Ireland retail stores purchases in GBP to minimise foreign exchange risk in movements of the GBP/EUR exchange rates. These are designated as cash flow hedges.

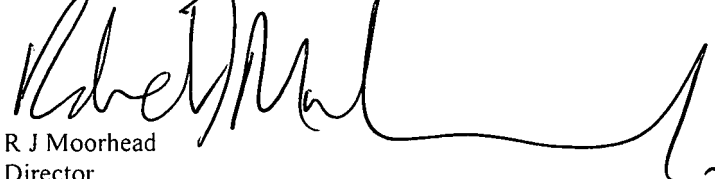
Going concern

The Company's business activities, together with factors that are likely to affect its future developments, performance and position are detailed within this Strategic Report. The financial position of the Company and its liquidity position are described in the financial statements and notes. The WH Smith PLC Annual Report and Accounts 2016 includes further information regarding the Group's financial position, cash flows and borrowing facilities, as well as its 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 of the WH Smith PLC Annual Report and Accounts 2016 also highlights the main risks and uncertainties facing the Group, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities. The directors also confirm that they have the ability to determine the timing of repayment of balances due to the Company's subsidiaries. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

This report was approved by the Board on 19 January 2017.

On behalf of the Board



R J Moorhead
Director

Independent auditors' report to the members of WH Smith Retail Holdings Limited

Report on the financial statements

Our opinion

In our opinion, WH Smith Retail Holdings Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 August 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 August 2016
- the Profit and loss account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Independent auditors' report to the members of WH Smith Retail Holdings Limited (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

19 January 2017

WH Smith Retail Holdings Limited

Profit and loss account

For the year ended 31 August 2016

	Note	2016 £'000	2015 £'000
Turnover	3	175,131	169,626
Cost of sales		(171,919)	(167,107)
Gross profit		3,212	2,519
Administrative expenses		(12,306)	(19,627)
Other operating income	7	127	296
Operating loss	4	(8,967)	(16,812)
Income from shares in group undertakings	9	85,000	80,000
Profit on ordinary activities before interest and taxation		76,033	63,188
Net interest payable and similar charges	8	(731)	(1,122)
Profit on ordinary activities before taxation		75,302	62,066
Tax on profit on ordinary activities	10	3,082	5,519
Profit for the financial year		78,384	67,585

All results are derived from continuing operations.

Statement of comprehensive income

For the year ended 31 August 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		78,384	67,585
Other comprehensive loss:			
Remeasurements of net defined benefit obligations	7	(2,761)	(4,156)
Revaluation of non-current investments		(5,521)	2,135
Other comprehensive loss for the year		(8,282)	(2,021)
Total comprehensive income for the year		70,102	65,564

WH Smith Retail Holdings Limited

Balance Sheet

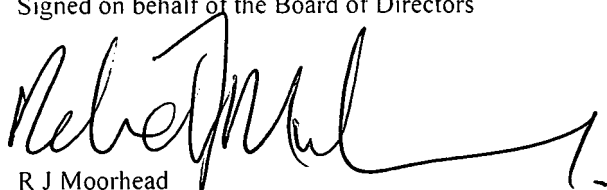
As at 31 August 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	11	1,077	1,382
Tangible assets	12	21,605	18,584
Investment in subsidiary undertakings	13	602,137	602,137
Investments	14	13,305	21,159
Deferred tax assets	10	4,423	5,060
		<u>642,547</u>	<u>648,322</u>
Current assets			
Debtors: amounts falling due within one year	15	514,888	565,965
Cash at bank and in hand		-	5,680
		<u>514,888</u>	<u>571,645</u>
Creditors: amounts falling due within one year	16	<u>(681,521)</u>	<u>(736,406)</u>
Net current liabilities		<u>(166,633)</u>	<u>(164,761)</u>
Total assets less current liabilities		<u>475,914</u>	<u>483,561</u>
Creditors: amounts falling due after more than one year	17	(9,923)	(7,867)
Provisions for liabilities	19	(3,680)	(3,485)
Net assets		<u><u>462,311</u></u>	<u><u>472,209</u></u>
Capital and reserves			
Called up share capital	21	3,952	3,952
Share premium account		22,474	22,474
Capital redemption reserve		371,423	371,423
Revaluation reserve		1,828	7,349
Merger reserve		34,000	34,000
Retained earnings		<u>28,634</u>	<u>33,011</u>
Total shareholder's funds		<u><u>462,311</u></u>	<u><u>472,209</u></u>

The notes on pages 12 to 31 are an integral part of these financial statements.

These financial statements of WH Smith Retail Holdings Limited, registered number 471941, on pages 9 to 31, were approved by the Board of Directors and authorised for issue on 19 January 2017.

Signed on behalf of the Board of Directors



R J Moorhead
Director

WH Smith Retail Holdings Limited

Statement of changes in equity Year ended 31 August 2016

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total shareholder's funds £'000
Balance as at 1 September 2014	3,952	22,474	371,423	5,214	34,000	29,582	466,645
Profit for the financial year	-	-	-	-	-	67,585	67,585
Other comprehensive income / (expense) for the year	-	-	-	2,135	-	(4,156)	(2,021)
Total comprehensive income for the year	-	-	-	2,135	-	63,429	65,564
Dividends paid (Note 20)	-	-	-	-	-	(60,000)	(60,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	(60,000)	(60,000)
Balance as at 31 August 2015	3,952	22,474	371,423	7,349	34,000	33,011	472,209
Balance as at 1 September 2015	3,952	22,474	371,423	7,349	34,000	33,011	472,209
Profit for the financial year	-	-	-	-	-	78,384	78,384
Other comprehensive expense for the year	-	-	-	(5,521)	-	(2,761)	(8,282)
Total comprehensive (expense) / income for the year	-	-	-	(5,521)	-	75,623	70,102
Dividends paid (Note 20)	-	-	-	-	-	(80,000)	(80,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	-	(80,000)	(80,000)
Balance as at 31 August 2016	3,952	22,474	371,423	1,828	34,000	28,634	462,311

WH Smith Retail Holdings Limited

Notes to the financial statements Year ended 31 August 2016

1. Accounting policies

The principal accounting policies are summarised below. All accounting policies have been applied consistently in the current year and the prior year.

General information and basis of preparation

WH Smith Retail Holdings Limited is a private limited company incorporated and domiciled in the United Kingdom. The address of the registered office is given in Note 26 on page 30.

The financial statements of WH Smith Retail Holdings Limited have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) issued by the Financial Reporting Council.

The financial statements have been prepared under the historical cost basis as modified to include the revaluation of certain fixed assets, and are in compliance with the Companies Act 2006 as applicable to companies applying FRS 102 and applicable United Kingdom law and accounting standards.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see Note 27.

The functional currency of WH Smith Retail Holdings Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company is a wholly owned subsidiary of WH Smith Retail Holdings Limited and of its ultimate parent, WH Smith PLC. It is included in the consolidated financial statements of WH Smith PLC which are publicly available. Therefore the Company is exempt from producing consolidated financial statements under section 400 of the Companies Act 2006. The financial statements have been prepared on the going concern basis as explained in the Strategic report on page 6.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following disclosure exemptions:

- (a) The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv).
- (b) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d).
- (c) The requirements of Section 11 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29 providing the equivalent disclosures required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.
- (d) The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23, provided that for a qualifying entity that is a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity, provided that the equivalent disclosures required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.
- (e) The requirement of Section 33 Related Party Disclosures paragraph 33.7.

Turnover

Turnover is measured at the fair value of the consideration received or receivable for the provision of employees and other central services to other companies within the WH Smith PLC Group.

Leases

Leases that do not transfer all of the risks and rewards of ownership are classified as operating leases. Rental costs under operating leases held in the name of WH Smith Retail Holdings Limited are settled by other Group companies over the length of the lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) **Year ended 31 August 2016**

1. Accounting policies (continued)

Leases (continued)

Leases of assets that transfer substantially all of the risk and rewards incidental to ownership are classified as finance leases. The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the Company's accounting policy for that class of asset. The capital element of future lease payments is included in creditors. The interest cost is allocated to accounting periods based on the outstanding capital element of the lease.

In accordance with the transitional provisions of FRS 102, lease incentives on operating leases which were in existence prior to the date of transition have been spread over the shorter of the lease term and the period to the first review date on which the rent is first expected to be adjusted to the prevailing market rate.

Share-based payments

Employees of the Company 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 in WH Smith PLC. These are accounted for as cash-settled share-based payments. A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Pounds Sterling (GBP), which is WH Smith High Street Limited's functional and presentation currency.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued)

Year ended 31 August 2016

1. Accounting policies (continued)

Deferred taxation (continued)

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Investments in subsidiary undertakings

Investments in equity and long terms loans in subsidiary undertakings are valued at historical cost less provision for impairments in value.

Investments

WH Smith Employee Share Trust 1999 and the WH Smith Employee Benefit Trust

As a result of the demerger of Smiths News PLC from WH Smith PLC on 1 September 2006, the WH Smith's Employees' Share Trust 1999 was split in proportion to the Trust's obligation to the Retail business and the News business. This involved segregating the assets of the trust relating to each of the Retail Group and the News Group. From 1 September 2006, WH Smith PLC has accounted for the section of the trust allocated from the segregation, which is called the WH Smith Employee Benefit Trust.

The WH Smith Employee Benefit Trust holds ordinary shares in WH Smith PLC, which may be used to satisfy awards and options granted under the Group share schemes. Full details of the Trust and the share schemes are disclosed in the consolidated financial statements of WH Smith PLC for the year ended 31 August 2016.

After initial recognition, WH Smith PLC shares are measured at fair value with temporary gains or losses being recognised within equity until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Intangible assets

Intangible fixed assets are stated at cost, net of accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful economic life of up to five years.

Tangible assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value, of each asset over its expected useful life, as follows. Depreciation is recorded in the Profit and loss account in Distribution costs.

Freehold properties	-	20 years
Long term leasehold properties	-	20 years
Short term leasehold properties and leased assets	-	over the period of the lease
Fixtures and fittings	-	up to 10 years
Equipment	-	8 years

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

1. Accounting policies (continued)

Provisions for liabilities

Provisions are recognised in the balance sheet when the Company 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.

Onerous contracts – property provisions

The Company's property provisions represent the present value of 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 or currently not planned to be used for ongoing operations. The unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 8 as 'Unwinding of discount on provisions'.

Retirement benefit costs

The Company's main UK pension fund is a defined benefit scheme. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account.

The net interest cost on the net defined benefit liability is shown within finance costs.

Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in other comprehensive income

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

Dividends payable and receivable

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

Dividends receivable from subsidiary undertakings are recorded in profit or loss in the period in which they are received.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

1. Accounting policies (continued)

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) **Year ended 31 August 2016**

1. Accounting policies (continued)

Financial instruments (continued)

ii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

2. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumption and estimate include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and the liabilities for potential corporation tax. 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 policies in determining the financial condition and results of the Company are those requiring the greatest degree of subjective or complex judgement. These relate to valuation of provisions for taxation, onerous leases and discontinued operations exit costs, and retirement benefit obligations.

a) Provisions

Provisions have been estimated for taxation, onerous leases and discontinued operation exit costs. 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.

b) Retirement benefit obligation

The Company recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of FRS 102. The calculations include a number of judgements and estimations in respect of the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

3. Turnover

All of the Company's turnover and profit before taxation arose in the United Kingdom and from provision of services.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

4. Operating loss

Operating loss is stated after charging / (crediting):

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	3,034	1,931
Amortisation of intangible fixed assets	305	-
Share-based payments (credit) /charge	(2,985)	5,744
Auditors' fees		
- fees payable to Company's auditors for the audit of the Company's financial statements	2	2
- non-audit fees including taxation and other services	16	45
	<u>16</u>	<u>45</u>

Statutory disclosures in respect of non-audit fees are given in the consolidated financial statements of WH Smith PLC.

5. Directors' remuneration

S Clarke and R J Moorhead are directors of the parent company, WH Smith PLC, and a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. The total remuneration of S Clarke and R J Moorhead is paid by WH Smith Retail Holdings Limited and included within Staff costs. The total remuneration of S Clarke and R J Moorhead is included in the aggregate of directors' remuneration disclosed in the financial statements of the parent company.

I Houghton received no remuneration in respect of his services as a director of the Company during the year (2015: £nil).

6. Employees and staff costs

	2016 £'000	2015 £'000
Staff costs		
Wages and salaries	157,879	152,629
Social security costs	11,044	10,545
Employee share schemes	(2,895)	5,744
Other pension costs	2,984	2,912
	<u>169,012</u>	<u>171,830</u>
	2016 No.	2015 No.
Monthly average number of employees		
Retailing	12,446	12,726
Central functions	28	28
	<u>12,474</u>	<u>12,754</u>
Total average number of employees		

Employees are utilised by other Group companies for the provision of retailing services.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

7. Pension arrangements

The Company is the principal employer of the Group's defined benefit pension trust, WHSmith Pension Trust and the Group's defined contribution plan. The most significant is WHSmith Pension Trust, which is described in Note 7 (a).

(a) The WHSmith Pension Trust

The WHSmith Pension Trust is independent of the Company and is administered by a Trustee. The scheme has been closed to new members since 1996 and was closed to defined benefit service accrual on 2 April 2007. The amounts recognised in the balance sheet at 31 August 2016 in relation to the aggregate fair values of the assets and liabilities of the WHSmith Pension Trust were:

	2016 £'000	2015 £'000
LDI Cash Fund	871,909	941,307
Inflation swaps	495,419	166,160
Loan fund	56,786	54,043
Fair value of plan assets	1,424,114	1,161,510
Present value of the obligations	(1,260,393)	(948,029)
Surplus in the scheme	163,721	213,481
Amounts not recognised	(163,721)	(213,481)
Surplus recognised in the balance sheet	-	-
Related deferred tax asset	-	-
Net defined benefit scheme surplus	-	-

In accordance with FRS 102 paragraph 22.22 the defined benefit surplus has not been recognised on the balance sheet at 31 August 2016 as the Company is unable to recover the surplus through reduced contributions and does not have an unconditional right to a refund from the plan.

A full actuarial valuation of the Scheme is carried out at least every three years with interim reviews in the intervening years. As at the balance sheet date on 31 August 2016, the latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2014 by independent actuaries using the projected unit credit method. The March 2014 deficit was £24m, and a revised deficit funding schedule of approximately £3m per annum with effect from 1 October 2014 for the following nine years, was agreed with the Trustee. With effect from 1 September 2015 the Group agreed to pay certain investment management costs on behalf of the Trustee. The annual deficit funding agreement is around £1m per annum with effect from 1 September 2015.

The amounts recognised in the profit and loss account were as follows:

	2016 £'000	2015 £'000
Current service cost	(45)	(83)
Administrative expenses	(224)	(243)
Interest cost	(34,853)	(35,086)
Interest income on scheme assets	34,853	35,086
Settlement credit	127	296
Total expense recognised to profit and loss account	(142)	(30)
Actual return on plan assets	298,813	107,654

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

7. Pension arrangements (continued)

(a) The WHSmith Pension Trust (continued)

Following a change to the trivial commutation limit from £18,000 to £30,000 announced in the 2014 Budget, members of the WHSmith Pension Trust were given the opportunity to take a trivial commutation payment. The result of this exercise was the recognition of a gain on settlement of £127,000 (2015: £296,000), as a result of £539,000 (2015: £1,768,000) of liabilities being removed from the Trust compared to £412,000 (2015: £1,472,000) of assets paid out for trivial commutation. This is disclosed in the Profit and loss account on page 9 in Other operating income.

Movements in the present value of the defined benefit scheme obligations in the current year were as follows:

	2016 £'000	2015 £'000
At 1 September	948,029	931,492
Current service cost	45	83
Settlement of liabilities	(539)	(1,768)
Interest cost	34,853	35,086
Actuarial losses	315,262	18,701
Benefits paid	(37,257)	(35,565)
At 31 August	1,260,393	948,029

Movements in the fair value of defined benefit scheme assets in the year were as follows:

	2016 £'000	2015 £'000
At 1 September	1,161,510	1,086,707
Interest income on scheme assets	34,853	35,086
Settlement of liabilities	(412)	(1,472)
Actuarial gains	263,960	72,568
Contributions from the sponsoring companies	1,460	4,186
Benefits paid	(37,257)	(35,565)
At 31 August	1,424,114	1,161,510

The weighted average principal long-term assumptions used in the actuarial valuation were:

	2016	2015
Discount rate	2.00%	3.75%
Rate of increase in pensions payments	2.91%	3.22%
Rate of increase in deferred pensions	1.85%	2.20%
RPI inflation assumptions	2.95%	3.30%
CPI inflation assumptions	1.85%	2.20%

(b) Defined contribution pension scheme

The Company's pension cost charge to its defined contribution scheme for the year amounted to £2,837,000 (2015: £2,882,000). The amount of unpaid contributions as at 31 August 2016 included in other creditors was £215,000 (2015: £215,000).

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

8. Net interest payable and similar charges

	2016 £'000	2015 £'000
Investment income:		
Interest receivable from other group companies	3,696	3,535
Other interest receivable and similar income	556	54
	<u>4,252</u>	<u>3,589</u>
Finance costs:		
Other interest payable and similar charges	(322)	(341)
Unwinding of discount on provisions (Note 19)	(29)	(67)
Finance lease interest	(272)	(138)
Interest payable to other Group companies	(4,360)	(4,165)
	<u>(4,983)</u>	<u>(4,711)</u>
Net interest payable and similar charges	<u>(731)</u>	<u>(1,122)</u>

9. Income from shares in group undertakings

During the year the Company received dividends totalling £85,000,000 (2015: £80,000,000) from other Group companies.

10. Tax on profit on ordinary activities

a) Tax on profit on ordinary activities

The tax charge comprises:

	2016 £'000	2015 £'000
Current tax on profit on ordinary activities		
Current year credit	(2,910)	(3,440)
Adjustments in respect of prior years	(705)	(1,192)
	<u>(3,615)</u>	<u>(4,632)</u>
Deferred tax: origination and reversal of timing differences		
– current year	529	(885)
– prior year	4	(2)
	<u>(3,082)</u>	<u>(5,519)</u>
Tax on profit on ordinary activities	<u>(3,082)</u>	<u>(5,519)</u>

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

10. Tax on profit on ordinary activities (continued)

a) Tax on profit on ordinary activities (continued)

Reconciliation of the tax credit

The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the UK (2016: 20.00%, 2015: 20.58%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	75,302	62,066
Tax charge on profit at UK rate of corporation tax – 20.00% (2015: 20.58%)	15,060	12,773
Effect of:		
Non-taxable income	(17,000)	(16,464)
Permanent adjustments	(441)	(634)
Adjustments in respect of prior years	(701)	(1,194)
Total tax credit for the year	(3,082)	(5,519)

The UK corporation tax rate has been 20 per cent with effect from 1 April 2015. The UK corporation tax rate will reduce to 19% from 1 April 2017 and 18% from 1st April 2020. Additional changes to the UK corporation tax rates were announced in the Chancellor's Budget on 16 March 2016. These include a reduction to the main rate to reduce the rate to 17 per cent from 1 April 2020. As the change had not been substantively enacted at the balance sheet date, their effects are not included in these financial statements.

b) Deferred tax

	2016 £'000	2015 £'000
Share-based payments	4,426	4,954
Short term timing differences	107	106
Depreciation in excess of capital allowances	(110)	-
At 31 August	4,423	5,060
	2016 £'000	2015 £'000
At 1 September	5,060	4,172
Profit and loss account	(527)	888
Offset deferred tax asset	(110)	-
At 31 August	4,423	5,060

These assets have been recognised in the financial statements as the directors are of the opinion, based on recent and forecast trading, that the level of group profits in the current and next financial year will exceed the losses arising in this entity including those arising on the reversal of these deferred tax assets, and therefore they expect those deferred tax assets to be recovered against those profits via group relief.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

11. Intangible assets

	Software £'000
Cost	
At 1 September 2015	1,524
At 31 August 2016	1,524
Accumulated amortisation	
At 1 September 2015	142
Amortisation charge	305
At 31 August 2016	447
Net book value	
At 31 August 2016	1,077
At 31 August 2015	1,382

The net book value of assets held under finance leases included above is £1,077,000 (2015: £1,382,000).

12. Tangible assets

	Freehold properties £'000	Long term leasehold £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost					
At 1 September 2015	26,981	4	-	9,858	36,843
Additions	-	2,144	528	3,259	5,931
Transfer from fellow subsidiary	136	-	-	-	136
Disposals	(9)	-	-	-	(9)
At 31 August 2016	27,108	2,148	528	13,117	42,901
Accumulated depreciation					
At 1 September 2015	17,347	4	-	908	18,259
Depreciation charge	898	-	-	2,136	3,034
Transfer from fellow subsidiary	3	-	-	-	3
At 31 August 2016	18,248	4	-	3,044	21,296
Net book value					
At 31 August 2016	8,860	2,144	528	10,073	21,605
At 31 August 2015	9,634	-	-	8,950	18,584

The net book value of assets held under finance leases included above is £12,745,000 (2015: £8,950,000).

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

13. Investments in subsidiary undertakings

	£'000
Cost	
At 1 September 2015	706,357
At 31 August 2016	706,357
Provision for impairment	
At 1 September 2015	(104,220)
At 31 August 2016	(104,220)
Net book value	
At 31 August 2016	602,137
At 31 August 2015	602,137

At 31 August 2016 the Company directly owned the entire issued share capital of the following companies.

Subsidiaries	Nature of business	Class of share	Country of incorporation	Registered address
WH Smith Travel Holdings Limited	Holding Company	Ordinary	England and Wales	Greenbridge Road, Swindon, Wiltshire. SN3 3RX
WH Smith High Street Holdings	Holding Company	Ordinary	England and Wales	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Jersey Limited	Retailing	Ordinary	Jersey	72/74 King Street, St Helier, Jersey. JE2 4WE
WH Smith Asia Limited	Sourcing	Ordinary	Hong Kong	Suites 13A01-04, 13th Floor South Tower, World Finance Centre, Harbour City, Tsimshatsui Kowloon, Hong Kong
WH Smith France S.A.S.	Retailing	Ordinary	France	248 rue de Rivoli, 75001 Paris, France
WH Smith Retirement Savings Plan	Dormant	Ordinary	England and Wales	Pensions Department, Greenbridge Road, Swindon, Wiltshire SN3 3LD
WH Smith 1955 Limited	Holding Company	Ordinary	England and Wales	Greenbridge Road, Swindon, Wiltshire. SN3 3RX
WH Smith Promotions Limited	Holding Company	Ordinary	England and Wales	Greenbridge Road, Swindon, Wiltshire. SN3 3RX

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued)

Year ended 31 August 2016

13. Investments in subsidiary undertakings (continued)

At 31 August 2016 the Company also indirectly owned the issued equity share capital of the following companies.

Subsidiaries	Nature of business	Class of share	Country of incorporation	Percentage owned %	Registered address
WH Smith High Street Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
funkypigeon.com Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
Modelzone Limited	Dormant	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
Card Market Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
Books & Stationers Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
Sussex Stationers Limited	Dormant	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
Lexicon Book Company Limited	Property Leasing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Travel 2008 Limited	Holding Company	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Hospitals Holdings Limited	Holding Company	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Hospitals Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Travel Limited	Retailing	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith Ireland Limited	Retailing	Ordinary	Ireland	100	6th Floor, Grand Canal Square, Dublin 2
WH Smith Singapore Pte. Limited	Dormant	Ordinary	Singapore	100	9 Battery Road #15-01, Straits Trading Building, Singapore 049910
WH Smith New Zealand Limited	Dormant	Ordinary	New Zealand	100	Minter Ellison Rudd Watts, Lumley Centre, 88 Shortland Street, Auckland Central, Auckland 1010, New Zealand
WH Smith Australia Pty Limited	Retailing	Ordinary	Australia	100	Suite 401, Level 4, 72-80 William Street, Woolloomooloo, NSW 2011 Australia
Wild Retail Group Pty Limited	Retailing	Ordinary	Australia	100	Suite 401, Level 4, 72-80 William Street, Woolloomooloo, NSW 2011 Australia
WH Smith Germany GmbH	Retailing	Ordinary	Germany	100	c/o RSM Deutschland GmbH, Wirtschaftsprüfungsgesellschaft, RSM Altavis c/o Herrn Gunnar Steffen, Martin-Luther-Platz 26, 40212 Düsseldorf, Germany
WH Smith Spain S.L.	Retailing	Ordinary	Spain	100	Paseo de Recoletos 27, 7a, 28004, Madrid, Spain
WH Smith (Qatar) Limited	Dormant	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
The Websters Group Limited	Dormant	Ordinary	England and Wales	100	Greenbridge Road, Swindon, Wiltshire, SN3 3RX
WH Smith LLC	Retailing	Ordinary	Qatar	49	Global Business Centre II, Al Hitmi Village, Bldg. no.7 Corniche Road, P.O Box 25422, Doha, Qatar
WH Smith Malaysia SDN BHD	Retailing	Ordinary	Malaysia	50	C2-6-1, Solaris Dutamas I, Jalan Dutamas I, 50480, Kuala Lumpur, Malaysia

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

14. Investments

	2016 £'000	2015 £'000
Market value		
At 1 September	21,159	20,979
Additions	7,022	5,088
Utilisation	(15,946)	(9,540)
Revaluation	1,070	4,632
At 31 August	13,305	21,159

At 31 August 2016 the number of shares held in WH Smith PLC was 873,040 (2015: 1,401,608) and the nominal value was £192,851 (2015: £311,597). The shares are held by an employee trust for the sole purpose of satisfying obligations under the parent company's Employee Share Schemes and are included in non-current investments. Details of the Employee Share Schemes are given in Note 22.

15. Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by group undertakings	509,023	560,775
Corporation tax	4,272	3,569
Other debtors	1,593	1,621
	514,888	565,965

Included within amounts owed by group undertakings is an unsecured loan of £208,000,000 which bears interest at GBP 6 month LIBOR plus 1%. All other amounts owed by group companies are non-interest bearing and repayable on demand.

16. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	47,611	9,000
Amounts owed to Group undertakings	591,293	680,986
Corporation tax	568	343
Finance leases (Note 18)	3,423	2,173
Other creditors	32,473	37,535
Other taxation and social security	6,153	6,369
	681,521	736,406

Included within amounts owed to group companies is an unsecured loan note for £4,857,430 which bears interest at GBP 6 month LIBOR; an unsecured loan note of £7,307,805 which bears interest at GBP 6 month LIBOR; an unsecured loan note of £4,895,000 which bears interest at GBP 6 month LIBOR; and an unsecured loan note of £238,000,000 which bears interest at GBP 6 month LIBOR plus 1%. None of the unsecured loan notes have a fixed repayment date. All other amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

17. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Finance leases (Note 18)	9,923	7,867
	<u>9,923</u>	<u>7,867</u>

18. Finance leases

Future minimum payments under finance leases are as follows

	2016 £'000	2015 £'000
Within one year	3,722	2,408
In more than one year, but not more than five years	10,542	8,187
After five years	-	25
	<u>14,264</u>	<u>10,620</u>
Total gross payments	14,264	10,620
Less finance charges included above	(918)	(580)
	<u>13,346</u>	<u>10,040</u>

Finance leases relate to leases of leasehold improvements, equipment, fixtures and fittings and software. The remaining lease terms are between 3 and 5 years.

19. Provisions for liabilities

	Deferred tax £'000	Disposal provisions £'000	Non trading property provisions £'000	Total £'000
At 1 September 2015	104	996	2,385	3,485
Charged during the year	6	-	271	277
Utilised during the year	-	-	(1)	(1)
Unwinding of discount on provision	-	-	29	29
Offset against deferred tax assets	(110)	-	-	(110)
	<u>-</u>	<u>996</u>	<u>2,684</u>	<u>3,680</u>
At 31 August 2016	-	996	2,684	3,680

The disposal provision arose from commitments in respect of the disposal of the USA Travel business.

The non-trading property provision is the estimated future cost of the Group's onerous leases based on known and estimated rental subleases. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls. This provision has been discounted at a risk free rate, and this discount will be unwound over the life of the leases.

A deferred tax liability of £110,000 (2015: £104,000) has been recognised at 31 August 2016, but has been offset against deferred tax assets (See Note 10). This relates to differences between accounting and tax depreciation.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

20. Dividends on equity shares

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the year	80,000	60,000
	<u>80,000</u>	<u>60,000</u>

Interim dividend for the year ended 31 August 2016 of 43.7p (2015: 32.8p) per ordinary share.

21. Called up share capital

	2016		2015	
	Number of shares	Nominal value £'000	Number of shares	Nominal value £'000
Allotted, called up and fully paid				
Ordinary shares of 2 13/81p (2015: 2 13/81p) each	182,940,721	3,952	182,940,721	3,952
Deferred shares of 2 13/81p (2015: 2 13/81p) each	1	-	1	-
	<u>182,940,722</u>	<u>3,952</u>	<u>182,940,722</u>	<u>3,952</u>

Deferred shares of 2 13/81p have no rights to receive a dividend or to attend or vote at any general meeting of the Company. Holders of the deferred shares are entitled to a return of the capital paid up on winding-up, subject to the payment of all other classes of shares of the amount paid up on such shares, but have no further rights of participation in the assets of the Company.

22. Share-based payment

As part of the Group reorganisation on 1 September 2008, the Company became the principal employer of the Group. The Company operates a number of share schemes for employees which are treated as cash-settled share-based payments in the financial statements of the Company. The schemes are treated as equity-settled share-based payments in the consolidated financial statements of WH Smith PLC, and the relevant disclosures are provided in Note 25 and the Remuneration Report of the WH Smith PLC Annual report and accounts 2016, which does not form part of this report. The amount recorded in liabilities in relation to these schemes is £22,345,000 (2015: £25,798,000) and the credit to profit and loss was £2,895,000 (2015: charge of £5,744,000). Included in this liability is £1,530,000 (2015: £1,173,130) relating to vested options.

All share options which have vested have been valued at WH Smith PLC's share price at year end. The share options outstanding, which have yet to vest, have been valued using a Black-Scholes model. The inputs to the Black-Scholes model for options over WH Smith PLC shares are as follows:

	2016	2015
Share price – pence	1524.00	1500.0
Exercise price – pence	Nil-1147	Nil-1147
Expected volatility – per cent	20.79-22.51	19.81-22.51
Expected life – years	0-2.22	0-2.76
Risk free rate – per cent	0.09-0.11	0.44-0.90
Dividend yield – per cent	<u>2.88</u>	<u>2.63</u>

Expected volatility was determined by calculating the historical volatility of the Group's share price

Below is a summary of the details of the share schemes.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued)

Year ended 31 August 2016

22. Share-based payment (continued)

2012 Co-Investment Plan (CIP)

Under the terms of the 2012 Co-Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith PLC and have been granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they have invested. These awards will only vest and become exercisable to the extent that the related performance target is met. Awards are exercisable between November 2015 and November 2025.

LTIP

Under the terms of the current LTIP, approved by shareholders in 2006, 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.

Awards will first become exercisable on the vesting date, which is the date (as soon as practicable after the announcement of WH Smith's results for the final year of the performance period) that participants receive notification of the number of award shares that have vested. Awards are exercisable between November 2014 and October 2025.

Sharesave Scheme

Under the terms of the current Sharesave Scheme, approved by shareholders in 2006, the Board grants options to purchase ordinary shares in the Company to employees with at least one year's 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 day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract. Options are exercisable between August 2016 and January 2019. The range of exercise prices for SAYE options outstanding at the year end was 580.80p to 1147.2p (2015: 400.4p to 1147.2p).

Performance Share Plan (PSP)

Under the terms of the Performance Share Plan, the Board may grant conditional awards to executives (in the form of nil cost options). 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. Awards are exercisable between November 2015 and November 2025.

Executive Share Option Schemes (ESOS)

Under the terms of the current Executive Share Option Scheme, approved by shareholders in 2006, the Board may grant options to executives up to an annual limit of 200 per cent of basic annual salary. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. The range of exercise prices for ESOS options outstanding at the year end was 381p to 520.17p (2015: 381p to 520.17p).

23. Related party transactions

The Company has taken advantage of the exemptions granted by paragraph 33.1A of FRS 102, not to disclose transactions with WH Smith PLC Group companies and interests of the Group who are related parties.

24. Contingent liabilities

Potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Company if the lessee defaulted. The Company's 65% share of these leases has an estimated future gross rental commitment at 31 August 2016 of £3 million (2015: £4 million). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued)

Year ended 31 August 2016

25. Total commitments under operating leases

At the year end the Company had the following future commitments in respect of operating leases for the following year:

	2016			2015		
	Land and buildings £'000	Equipment and vehicles £'000	Total £'000	Land and buildings £'000	Equipment and vehicles £'000	Total £'000
Minimum lease payments under non-cancellable operating leases are payable as follows:						
Within one year	70,969	276	71,245	76,745	306	77,051
Between two to five years	188,206	308	188,514	207,947	407	208,354
After five years	106,465	-	106,465	125,729	-	125,729
	<u>365,640</u>	<u>584</u>	<u>366,224</u>	<u>410,421</u>	<u>713</u>	<u>411,134</u>

26. Ultimate and immediate parent company

The immediate and ultimate parent company and controlling party is WH Smith PLC, a company incorporated in Great Britain and registered in England and Wales. WH Smith PLC heads the largest and smallest group of companies of which the Company is a member for which consolidated financial statements are prepared.

Copies of the Group financial statements are available from:

The Company Secretary
WH Smith PLC
Greenbridge Road
Swindon
Wiltshire
SN3 3RX

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2016

27. Transition to FRS 102

Background

This is the first year in respect of which the Company has prepared its financial statements under FRS 102. The previous financial statements for the year ended 31 August 2015 were prepared under 'old UK GAAP'. The date of transition to FRS 102 for the Company is 1 September 2014. Set out below are descriptions of the various implementation options applied by the Company in preparing the financial statements for the year ended 31 August 2016, as well as reconciliations from 'old UK GAAP' to FRS 102 for both total comprehensive income for the year ended 31 August 2015 and total equity as at 1 September 2014 and 31 August 2015.

Reconciliation of Total Equity as at 1 September 2014 and 31 August 2015

	1 September 2014 £	31 August 2015 £
UK GAAP – As previously reported	466,645	472,209
Interest on defined benefit scheme	(121)	(83)
Administrative expenses on defined benefit scheme	(300)	(243)
Actuarial losses on defined benefit scheme	421	326
FRS 102 – Restated	<u>466,645</u>	<u>472,209</u>

The method of calculating the interest charge on defined benefit pension schemes differs between old UK GAAP and FRS 102. Under old UK GAAP the interest charge on pensions is calculated as the net of the expected return on plan assets and the interest charge on defined benefit liabilities. Under FRS 102, the interest charge is calculated as the net defined benefit liability or asset multiplied by the discount rate at the beginning of the period. The method of determining the period end defined benefit asset or liability is the same under both standards, therefore the resulting change to the interest charge is offset by an equal and opposite change to the actuarial gains/losses on the scheme.

Reconciliation of Total Comprehensive Income for the year ended 31 August 2015

	31 August 2015 £
UK GAAP – As previously reported	65,564
Interest on defined benefit scheme	(83)
Administrative expenses on defined benefit scheme	(243)
Actuarial losses on defined benefit scheme	326
FRS 102 – Restated	<u>65,564</u>