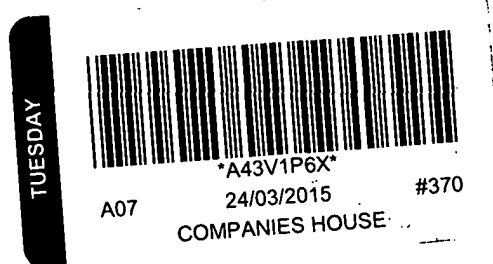


Company Registration No. 471941

WH Smith Retail Holdings Limited

Report and Financial Statements

31 August 2014



WH Smith Retail Holdings Limited

Report and financial statements 2014

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WH Smith Retail Holdings Limited

Report and financial statements 2014

Officers and professional advisers

Directors

S Clarke
R J Moorhead
I Houghton

Company Secretary

I Houghton

Registered Office

Greenbridge Road
Swindon
Wiltshire
SN3 3RX

Auditor

Deloitte LLP
Chartered Accountants and Statutory
Auditor
London
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 2014.

Results and dividends

As shown in the Company's profit and loss account on page 6, the Company's profit after tax for the year to 31 August 2014 was £107,821,000 (2013: £149,562,000).

The Company paid dividends in the year amounting to £80,000,000 to its immediate parent company, WH Smith PLC (2013: £100,000,000). During the year, the Company received dividends of £107,000,000 from subsidiary undertakings (2013: £165,000,000)

Directors

The names of the present Directors of the Company are shown on page 1. The following changes took place in the composition of the Board of Directors between 31 August 2013 and the date of this report:

S Clarke (appointed 6 September 2013)

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 accounts and reports before the Company in general meeting;
- ii) the holding of Annual General Meetings; and
- iii) the obligation to appoint auditors annually.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in 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.

WH Smith Retail Holdings Limited

Directors' report (continued)

Auditor

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 auditor is 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 auditor is aware of that information.

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 4 March 2015.

By Order of the Board

A handwritten signature in black ink, appearing to read 'R J Moorhead', written over a horizontal line.

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 6, the Company's profit after tax for the year to 31 August 2014 was £107,821,000 (2013: £149,562,000).

The balance sheet on page 7 of the financial statements shows that during the year, the Company's net assets have increased by £236,000 to £466,645,000 (2013: £466,409,000). Details of the amounts owed by other Group undertakings are shown in notes 12 and 13 on pages 18 and 19.

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 2014, which does not form part of this Report.

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
- Reliance on the WH Smith brand
- Key suppliers and supply chain management
- Store portfolio
- Business interruption
- Reliance on key personnel
- Treasury, financial and credit risk management

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 2014, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

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 2014 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 2014 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 4 March 2015.

By Order of the Board



R J Moorhead
Director

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

We have audited the financial statements of WH Smith Retail Holdings Limited for the year ended 31 August 2014 which comprise the profit and loss account, the balance sheet, the Statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2014 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.

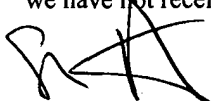
Opinion on other matter prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 March 2015

WH Smith Retail Holdings Limited

Profit and loss account Year ended 31 August 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|-------|----------------|----------------|
| Turnover | 1 | 164,447 | 169,180 |
| Cost of sales | | (162,669) | (168,575) |
| Gross profit | | 1,778 | 605 |
| Administrative expenses | | (2,987) | (23,557) |
| Other income | 5 | 981 | - |
| Income from investments in subsidiary undertakings | 7 | 107,000 | 165,000 |
| Operating profit before interest | | 106,772 | 142,048 |
| Net finance charges | 6 | (834) | (1,080) |
| Profit on ordinary activities before taxation | 2 | 105,938 | 140,968 |
| Tax credit on profit on ordinary activities | 8 | 1,883 | 8,594 |
| Profit on ordinary activities after taxation and profit for the financial year | | 107,821 | 149,562 |

All results are derived from continuing operations.

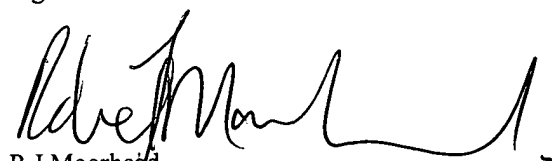
WH Smith Retail Holdings Limited

Balance Sheet 31 August 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|-------|-----------------------|-----------------------|
| Fixed assets | | | |
| Investment in subsidiary undertakings | 9 | 602,137 | 602,137 |
| Non-current investments | 10 | 20,979 | 38,415 |
| Tangible fixed assets | 11 | 10,347 | 10,221 |
| | | <u>633,463</u> | <u>650,773</u> |
| Current assets | | | |
| Debtors | 12 | 518,988 | 527,035 |
| Cash and cash equivalents | 10 | 10 | 1,754 |
| | | <u>518,998</u> | <u>528,789</u> |
| Creditors: amounts falling due within one year | 13 | <u>(682,399)</u> | <u>(708,703)</u> |
| Net current liabilities | | <u>(163,401)</u> | <u>(179,914)</u> |
| Total assets less current liabilities | | <u>470,062</u> | <u>470,859</u> |
| Provisions for liabilities and charges | 14 | <u>(3,417)</u> | <u>(4,450)</u> |
| Net assets excluding pension surplus | | <u>466,645</u> | <u>466,409</u> |
| Net pension surplus | 5 | - | - |
| Net assets | | <u><u>466,645</u></u> | <u><u>466,409</u></u> |
| Capital and reserves | | | |
| Called-up share capital | 16 | 3,952 | 3,952 |
| Share premium account | | 22,474 | 22,474 |
| Capital redemption reserve | | 371,423 | 371,423 |
| Revaluation reserve | | 5,214 | 17,948 |
| Merger reserve | | 34,000 | 34,000 |
| Profit and loss account | | 29,582 | 16,612 |
| Shareholders' funds | | <u><u>466,645</u></u> | <u><u>466,409</u></u> |

These financial statements of WH Smith Retail Holdings Limited, registered number 471941, were approved by the Board of Directors and authorised for issue on 4 March 2015.

Signed on behalf of the Board of Directors



R J Moorhead
Director

WH Smith Retail Holdings Limited

Statement of total recognised gains and losses Year ended 31 August 2014

| | Note | 2014 £'000 | 2013 £'000 |
|--|------|---------------|----------------|
| Profit on ordinary activities after taxation | | 107,821 | 149,562 |
| Actuarial loss on pension scheme | 5 | (14,851) | (12,011) |
| Total recognised gains for the financial year | | 92,970 | 137,551 |

Reconciliation of movements in shareholders' funds Year ended 31 August 2014

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Revaluation reserve £'000 | Merger reserve £'000 | Profit and loss account £'000 | Total £'000 |
|--|---------------------------|--------------------------------------|---|---------------------------------|----------------------------|--|----------------|
| At 1 September 2013 | 3,952 | 22,474 | 371,423 | 17,948 | 34,000 | 16,612 | 466,409 |
| Total recognised gains for the year | - | - | - | - | - | 92,970 | 92,970 |
| Dividends paid | - | - | - | - | - | (80,000) | (80,000) |
| Revaluation of non- current investments | - | - | - | (12,734) | - | - | (12,734) |
| At 31 August 2014 | 3,952 | 22,474 | 371,423 | 5,214 | 34,000 | 29,582 | 466,645 |

WH Smith Retail Holdings Limited

Notes to the financial statements Year ended 31 August 2014

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and are in compliance with the Companies Act 2006 and applicable United Kingdom law and accounting standards. All accounting policies have been applied consistently in the current year and the prior year.

Basis of preparation

The financial statements are for the year ended 31 August 2014.

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 4. In accordance with FRS1 'Cash Flow Statements' (Revised), a statement of cash flows has not been prepared as the Company is included in the publicly available financial statements of the ultimate parent company.

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

Rental costs under operating leases held in the name of WH Smith Retail Holdings are settled by other Group companies over the length of the lease.

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 and a liability equal to the portion of services received is recognised at current fair value determined at each balance sheet date.

Depreciation

Depreciation is charged so as to write off the costs of assets over their estimated useful economic lives. Freehold and long leasehold properties are amortised on a straight-line basis over 20 years.

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

In accordance with FRS 19 'Deferred taxation' the Company provides deferred tax in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation is not provided on timing differences arising from the sale or revaluation of fixed assets unless, at the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will qualify for rollover relief. Deferred taxation is measured on a non-discounted basis.

Investments in subsidiary undertakings

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

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

1. Accounting policies (continued)

Non-current 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 2014.

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.

Tangible fixed assets

As permitted by FRS 15 "Tangible Fixed Assets", the Company has adopted a policy of not revaluing fixed assets. The carrying values of tangible fixed assets previously revalued have been retained at their book amount in accordance with the transitional provisions of FRS 15, which are reviewed on a periodic basis to ensure there is no impairment in their value.

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.

Retirement benefit costs

The Company's main UK pension fund is a defined benefit scheme. In accordance with FRS 17 "Retirement benefits", the service cost of pension provision relating to the period, together with the cost of any benefits relating to past service if the benefits have vested, is charged to the profit and loss account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Group's long-term expected return on assets (based on the market value of the scheme assets at the start of the year), are included in the profit and loss account under net finance charges.

The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax. Any differences between the actual and expected return on assets during the year are recognised in the Statement of Total Recognised Gains and Losses along with differences arising from experience or assumption changes.

Costs in respect of the Company's defined contribution pension schemes are charged to the profit and loss account on an accruals basis as contributions become payable.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates prevailing at the balance sheet date or, where applicable, at forward contracted rates. Profit and loss account items denominated in foreign currencies are translated at the average exchange rates for the year.

Financial instruments

Cash in the balance sheet comprises cash at bank and in hand and short-term deposits.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

2. Profit / (loss) on ordinary activities before taxation is stated after charging:

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Depreciation and impairment of owned fixed assets | 818 | 796 |
| Share-based payments (credit) / charge | (16,950) | 18,506 |
| Auditor's fees | | |
| - fees payable to Company's auditors for the audit of the Company's annual accounts | 2 | 2 |
| - non-audit fees including taxation and other services | 105 | 75 |
| | <u>105</u> | <u>75</u> |

3. Directors' remuneration

The remuneration of S Clarke and R J Moorhead is disclosed in the consolidated financial statements for WH Smith PLC for the year ended 31 August 2014 and no allocation of their services, as directors of WH Smith Retail Holdings Limited and other Group companies, is made.

4. Employees and staff costs

| | 2014 £'000 | 2013 £'000 |
|------------------------|----------------|----------------|
| Staff costs | | |
| Wages and salaries | 146,923 | 149,725 |
| Social security | 10,885 | 11,362 |
| Employee share schemes | (16,950) | 18,506 |
| Pension costs | 2,836 | 2,642 |
| | <u>143,694</u> | <u>182,235</u> |

| | 2014 No. | 2013 No. |
|--|---------------|---------------|
| Average number of employees | | |
| Retailing | 13,172 | 13,593 |
| Central functions | 29 | 31 |
| Total average number of employees | <u>13,201</u> | <u>13,624</u> |

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 2014

5. 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 5 (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 2014 in relation to the aggregate fair values of the assets and liabilities of the WHSmith Pension Trust were:

| | 2014 £'000 | 2013 £'000 |
|--|----------------|----------------|
| LDI Cash Fund | 969,287 | 940,134 |
| Inflation swaps | 65,986 | (31,244) |
| Equity call options | - | 54,931 |
| Loan fund | 51,434 | - |
| Fair value of plan assets | 1,086,707 | 963,821 |
| Present value of the obligations | (931,492) | (856,165) |
| Surplus in the scheme | 155,215 | 107,656 |
| Amounts not recognised | (155,215) | (107,656) |
| Surplus recognised in the balance sheet | - | - |
| Related deferred tax asset | - | - |
| Net defined benefit scheme surplus | - | - |

In accordance with FRS 17 paragraph 42 and paragraph 67(d), no FRS 17 surplus has been recognised on the balance sheet at 31 August 2014.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. As at the balance sheet date on 31 August 2014, the latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2012 by independent actuaries using the projected unit credit method. The March 2012 deficit was £75m, and a revised deficit funding schedule of approximately £13m per annum (subject to indexation) over the following seven years was agreed with the Trustee. Since the balance sheet date the Trustees have completed a full actuarial valuation of the WHSmith Pension Trust as at 31 March 2014. As at 31 March 2014 the deficit was £24m. Following this valuation, a revised deficit funding schedule of approximately £3m per annum over the following nine years was agreed with the Trustee.

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

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Current service cost | (121) | (121) |
| Interest cost | (37,897) | (32,027) |
| Expected return on scheme assets | 38,018 | 32,148 |
| Settlement credit | 981 | - |
| Total recognised to profit and loss account | 981 | - |
| Actual return on plan assets | 142,951 | 90,422 |

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

5. 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 £981,000, as a result of £6,569,000 of liabilities being removed from the Trust compared to £5,558,000 of assets paid out for trivial commutation. This is disclosed in the Profit and loss account on page 6 in Other income.

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

| | 2014 £'000 | 2013 £'000 |
|---------------------------|----------------|----------------|
| At 1 September | 856,165 | 776,083 |
| Current service cost | 121 | 121 |
| Settlement of liabilities | (6,569) | - |
| Interest cost | 37,897 | 32,027 |
| Actuarial losses | 72,225 | 75,388 |
| Benefits paid | (28,347) | (27,454) |
| At 31 August | 931,492 | 856,165 |

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

| | 2014 £'000 | 2013 £'000 |
|---|------------------|----------------|
| At 1 September | 963,821 | 888,928 |
| Expected return on scheme assets | 38,018 | 32,148 |
| Settlement of liabilities | (5,588) | - |
| Actuarial gains | 104,933 | 58,274 |
| Contributions from the sponsoring companies | 13,870 | 11,925 |
| Benefits paid | (28,347) | (27,454) |
| At 31 August | 1,086,707 | 963,821 |

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

| | 2014 | 2013 |
|---|-------|-------|
| Discount rate | 3.84% | 4.50% |
| Rate of increase in pensions payments | 3.17% | 3.36% |
| Rate of increase in deferred pensions | 2.37% | 2.59% |
| RPI inflation assumptions | 3.27% | 3.49% |
| CPI inflation assumptions | 2.37% | 2.59% |
| Expected return on plan assets at 31 August | 3.35% | 4.15% |

The expected rate of return is calculated as a weighted average of the expected return on the LDI fund and the equity call option.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

5. Pension arrangements (continued)

(a) The WHSmith Pension Trust (continued)

Amounts for the current and previous years are as follows:

| | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|---------------|---------------|
| Defined benefit obligation | (931,492) | (856,165) | (776,083) | (716,151) |
| Plan assets | 1,086,707 | 963,821 | 888,928 | 785,154 |
| Surplus | 155,215 | 107,656 | 112,845 | 69,003 |
| <i>Experience adjustment on plan liabilities</i> | | | | |
| Amount (£'000) | (1,924) | 2,209 | (7,006) | 7,866 |
| Percentage of scheme liabilities | -% | -% | 1% | (1%) |
| <i>Experience adjustment on plan assets</i> | | | | |
| Amount (£'000) | 101,727 | 55,935 | 76,558 | (31,062) |
| Percentage of scheme assets | 9% | 6% | 9% | (4%) |
| <i>Total amount recognised in the statement of total recognised gains and losses</i> | | | | |
| Amount (£'000) | (14,851) | (12,011) | (13,361) | (13,509) |
| Percentage of present value of the scheme liabilities | (2%) | (1%) | (2%) | (2%) |

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is £76,629,000 (2013: £61,778,000).

(b) Defined contribution pension scheme

The Group's pension cost charge to its defined contribution scheme for the year amounted to £2,836,000 (2013: £2,642,000). The amount of unpaid contributions as at 31 August 2014 included in other creditors was £195,000 (2013: £195,000).

6. Net finance charges

| | 2014 £'000 | 2013 £'000 |
|--|----------------|----------------|
| Investment income: | | |
| Interest receivable from other Group companies | 3,348 | 3,392 |
| Other interest receivable and similar income | 105 | 71 |
| | <u>3,453</u> | <u>3,463</u> |
| Finance charges: | | |
| Other interest payable and similar charges | (299) | (354) |
| Unwinding of discount on provisions (note 14) | (173) | (322) |
| Net credit on pension scheme (note 5) | 121 | 121 |
| Interest payable to other Group companies | (3,936) | (3,988) |
| | <u>(4,287)</u> | <u>(4,543)</u> |
| Net finance charges | <u>(834)</u> | <u>(1,080)</u> |

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

7. Income from investments in subsidiary undertakings

During the year the Company received dividends totalling £107,000,000 (2013: £165,000,000) from other Group companies.

8. Tax on profit on ordinary activities

Analysis of tax credit in the year

| | 2014 £'000 | 2013 £'000 |
|--|-----------------------|-----------------------|
| Current tax: | | |
| Current year credit | (6,276) | (3,693) |
| Prior year adjustment | (149) | (1,658) |
| | <u>(6,425)</u> | <u>(5,351)</u> |
| Deferred tax: origination and reversal of timing differences | | |
| – current year | 4,110 | (3,699) |
| – prior year | 432 | 456 |
| | <u>4,542</u> | <u>(3,243)</u> |
| Tax credit on profit on ordinary activities | <u><u>(1,883)</u></u> | <u><u>(8,594)</u></u> |

Reconciliation of the current tax credit

| | 2014 £'000 | 2013 £'000 |
|--|-----------------------|-----------------------|
| Profit on ordinary activities before tax | 105,938 | 140,968 |
| Tax charge on profit at UK rate of corporation tax – 22.16% (2013: 23.58%) | <u>23,476</u> | <u>33,240</u> |
| Effect of: | | |
| Depreciation in excess of capital allowances | - | (10) |
| Permanent adjustments | (22,498) | (35,489) |
| Timing differences | (7,254) | (1,434) |
| Prior year adjustment | (149) | (1,658) |
| Current tax credit for the year | <u><u>(6,425)</u></u> | <u><u>(5,351)</u></u> |

The UK corporation tax rate fell to 21 per cent with effect from 1 April 2014 (previously 23 per cent). The rate of corporation tax will change from 21 per cent to 20 per cent from 1 April 2015.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

9. Investment in subsidiary undertakings

| | £'000 |
|---------------------------------|------------------|
| Cost | |
| At 1 September 2013 | 706,357 |
| At 31 August 2014 | <u>706,357</u> |
| Provision for Impairment | |
| At 1 September 2013 | (104,220) |
| At 31 August 2014 | <u>(104,220)</u> |
| Net book value | |
| At 31 August 2014 | <u>602,137</u> |
| At 31 August 2013 | <u>602,137</u> |

At 31 August 2014 the Company owned the entire issued share capital of the following companies.

| Subsidiaries | Nature of business | Class of share | Country of incorporation |
|----------------------------------|--------------------|----------------|--------------------------|
| WH Smith Travel Holdings Limited | Holding Company | Ordinary | England and Wales |
| WH Smith High Street Holdings | Holding Company | Ordinary | England and Wales |
| WH Smith Jersey Limited | Retailing | Ordinary | Jersey |
| WH Smith Asia Limited | Sourcing | Ordinary | Hong Kong |
| WH Smith France S.A.S. | Retailing | Ordinary | France |
| WH Smith Retirement Savings Plan | Dormant | Ordinary | England and Wales |
| WH Smith 1955 Limited | Holding Company | Ordinary | England and Wales |
| WH Smith Promotions Limited | Holding Company | Ordinary | England and Wales |

In the opinion of the Directors, the value of the Company's investments in the subsidiaries is not less than the amount at which they are stated in the balance sheet.

10. Non-current investments

| | 2014 £'000 | 2013 £'000 |
|---------------------|---------------|---------------|
| Market value | | |
| At 1 September | 38,415 | 30,220 |
| Additions | 9,850 | 2,399 |
| Utilisation | (35,824) | (5,787) |
| Revaluation | 8,538 | 11,583 |
| At 31 August | <u>20,979</u> | <u>38,415</u> |

At 31 August 2014 the nominal value of shares held in WH Smith PLC was £401,232 (2013: £1,001,252). 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.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

11. Tangible fixed assets

| | Freehold properties £'000 | Long term leasehold £'000 | Total £'000 |
|---------------------------------|---------------------------------|---------------------------------|----------------|
| Cost | | | |
| At 1 September 2013 | 25,109 | 4 | 25,113 |
| Additions | 312 | - | 312 |
| Transfer from fellow subsidiary | 782 | - | 782 |
| Disposals | (27) | - | (27) |
| At 31 August 2014 | 26,176 | 4 | 26,180 |
| Accumulated depreciation | | | |
| At 1 September 2013 | (14,888) | (4) | (14,892) |
| Depreciation charged | (818) | - | (818) |
| Transfer from fellow subsidiary | (134) | - | (134) |
| Disposals | 11 | - | 11 |
| At 31 August 2014 | (15,829) | (4) | (15,833) |
| Net book value | | | |
| At 31 August 2014 | 10,347 | - | 10,347 |
| At 31 August 2013 | 10,221 | - | 10,221 |

There were no assets held under finance leases (2013: £nil).

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

12. Debtors

| | 2014 £'000 | 2013 £'000 |
|---------------------------------|----------------|----------------|
| Other debtors | 5,321 | 9,723 |
| Corporation tax | 1,345 | 2,705 |
| Amounts owed by group companies | 512,322 | 514,607 |
| | <u>518,988</u> | <u>527,035</u> |

Included within amounts owed by group Companies 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.

Other debtors falling due within one year include a deferred tax asset of £4,171,805 (2013: £8,713,402). Deferred tax assets recognised are as follows:

| | 2014 £'000 | 2013 £'000 |
|-------------------------------|---------------|---------------|
| Share-based payments | 4,068 | 8,178 |
| Short term timing differences | 104 | 535 |
| At 31 August | <u>4,172</u> | <u>8,713</u> |

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| At 1 September | 8,713 | 5,485 |
| Profit and loss account | (4,541) | 3,943 |
| Restatement of closing deferred tax balances to 20% (2013: 23%) | - | (715) |
| At 31 August | <u>4,172</u> | <u>8,713</u> |

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.

The rate of corporation tax will change from 21 per cent to 20 per cent from 1 April 2015. The deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, we have restated all deferred tax closing balances using the appropriate rate. The change of rate in the year decreased the deferred tax asset by £nil (2013: £715,376).

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

13. Creditors: amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---------------------------------|----------------|----------------|
| Amounts owed to Group companies | 606,072 | 610,369 |
| Corporation tax | 309 | 205 |
| Bank overdraft | 38,747 | 40,440 |
| Other creditors | 37,271 | 57,689 |
| | <u>682,399</u> | <u>708,703</u> |

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 non-interest bearing and repayable on demand.

14. Provisions for liabilities and charges

| | Deferred tax £'000 | Disposal provisions £'000 | Non trading property provisions £'000 | Total £'000 |
|------------------------------------|--------------------------|---------------------------------|---|----------------|
| At 1 September 2013 | 103 | 996 | 3,351 | 4,450 |
| Utilised during the year | - | - | (1,206) | (1,206) |
| Unwinding of discount on provision | - | - | 173 | 173 |
| At 31 August 2014 | <u>103</u> | <u>996</u> | <u>2,318</u> | <u>3,417</u> |

The disposal provision arose from commitments in respect of the disposal of the USA Travel business. Utilisation during the year primarily relates to expenditure on professional fees.

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 ten per cent, and this discount will be unwound over the life of the leases. Utilisation during the year relates to settlements of certain properties and professional fees.

A deferred tax liability of £102,411 (2013: £102,553) has been recognised at 31 August 2014. This relates to differences between accounting and tax depreciation.

The rate of corporation tax will change from 21 per cent to 20 per cent from 1 April. The deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, we have restated all deferred tax closing balances using the appropriate rate. The change of rate in the decreased the deferred tax liability by £4,033 (2013: £15,242).

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

15. Dividends on equity shares

| | 2014 £'000 | 2013 £'000 |
|---|---------------|----------------|
| Amounts recognised as distributions to equity holders in the year | 80,000 | 100,000 |
| | <u>80,000</u> | <u>100,000</u> |

Interim dividend for the year ended 31 August 2014 of 43.7p (2013: 54.7p) per ordinary share.

16. Called up share capital

| | 2014 | | 2013 | |
|---|---------------------|---------------------------|---------------------|---------------------------|
| | Number of shares | Nominal value £'000 | Number of shares | Nominal value £'000 |
| Allotted, called up and fully paid | | | | |
| Ordinary shares of 2 13/81p each | 182,940,721 | 3,952 | 182,940,721 | 3,952 |
| Deferred shares of 2 13/81p each | <u>1</u> | <u>-</u> | <u>1</u> | <u>-</u> |
| | <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.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

17. 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. The amount recorded in liabilities in relation to these schemes is £20,036,000 (2013: £37,393,000) and the credit to profit and loss was £16,950,000 (2013: charge of £18,506,000). Included in this liability is £2,006,881 (2013: £1,365,079) relating to vested options.

| Number of shares | Sharesave Scheme | Executive Share Option Schemes | 2010 MIP | 2012 CIP | LTIPs | PSPs | Cash settled awards | Total |
|--|------------------|--------------------------------|-------------|----------------|------------------|----------------|---------------------|------------------|
| Balance at 1 September 2013 | 602,054 | 1,184,110 | 2,670,773 | 478,421 | 1,675,729 | 185,721 | - | 6,796,808 |
| Options and awards granted | - | - | - | 411,447 | 290,711 | 148,169 | 143,434 | 993,761 |
| Options and awards exercised | (81,965) | (881,432) | (2,670,773) | - | (580,469) | - | - | (4,214,639) |
| Options and awards lapsed | (44,345) | - | - | (59,604) | (150,332) | (6,870) | - | (261,151) |
| Balance at 31 August 2014 | 475,744 | 302,678 | - | 830,264 | 1,235,639 | 327,020 | 143,434 | 3,314,779 |
| Exercisable at 31 August 2014 | 5,009 | 260,406 | - | - | - | - | - | 265,415 |
| Balance at 1 September 2012 | 717,385 | 2,073,394 | 2,707,088 | - | 1,942,165 | - | - | 7,440,032 |
| Options and awards granted | 230,835 | - | - | 483,200 | 363,329 | 193,976 | - | 1,271,340 |
| Options and awards exercised | (285,956) | (888,904) | - | - | (479,549) | - | - | (1,654,409) |
| Options and awards lapsed | (60,210) | (380) | (36,315) | (4,779) | (150,216) | (8,255) | - | (260,155) |
| Balance at 31 August 2013 | 602,054 | 1,184,110 | 2,670,773 | 478,421 | 1,675,729 | 185,721 | - | 6,796,808 |
| Exercisable at 31 August 2013 | 52,475 | 181,794 | - | - | 28,048 | - | - | 262,317 |
| | | | | | | | 2014 | 2013 |
| Weighted average exercise price of awards: | | | | | | | | |
| - Outstanding at the beginning of the year | | | | | | | 122.66 | 169.72 |
| - Granted in the year | | | | | | | - | 105.45 |
| - Exercised in the year | | | | | | | 107.47 | 325.97 |
| - Lapsed in the year | | | | | | | 76.67 | 91.49 |
| - Outstanding at the end of the year | | | | | | | 108.83 | 122.66 |
| - Exercisable at the end of the year | | | | | | | 398.87 | 327.11 |

Below is a summary of the details of the share schemes. More detailed information relating to these schemes can be found in Note 24 and the Remuneration Report of the WH Smith PLC 2014 Annual Report and Accounts.

2010 Management Investment Plan (2010 MIP)

Under the terms of the 2010 Management Investment Plan, executive directors and key senior executives invested their own money to buy ordinary shares in WH Smith PLC and were granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount invested.

Executive Share Option Schemes

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.

WH Smith Retail Holdings Limited

Notes to the financial statements (continued) Year ended 31 August 2014

17. Share-based payment (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.

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.

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 November 2023.

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 or five 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 2014 and January 2017.

Fair value information

| | 2014 | 2013 |
|---|--------|--------|
| Weighted average share price at date of exercise of share options exercised during year – pence | 963.77 | 687.65 |
| Weighted average share price of outstanding awards at end of year - pence | 108.83 | 122.66 |
| Weighted average remaining contractual life at end of year - years | 6 | 5 |

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:

| | 2014 | 2013 |
|--------------------------------|-------------|-------------|
| Share price – pence | 1155.0 | 847.5 |
| Exercise price - pence | Nil-581 | Nil-581 |
| Expected volatility – per cent | 19.46-24.14 | 21.53-23.59 |
| Expected life – years | 0-2.22 | 0-2.75 |
| Risk free rate – per cent | 0.31-0.88 | 0.30-0.83 |
| Dividend yield – per cent | 3.03 | 3.62 |

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

WH Smith Retail Holdings Limited

Notes to the financial statements (continued)

Year ended 31 August 2014

18. Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3 of FRS 8, 'Related Party Disclosures', not to disclose transactions with WH Smith PLC Group companies and interest of the Group who are related parties.

19. 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 2014 of £7 million (2013: £12 million). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

20. Annual commitments under operating leases

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

| | 2014 | | | 2013 | | |
|---|--------------------------------|---------------------------------------|----------------|--------------------------------|---------------------------------------|----------------|
| | Land and buildings £'000 | Equipment and vehicles £'000 | Total £'000 | Land and buildings £'000 | Equipment and vehicles £'000 | Total £'000 |
| Annual net lease commitments expiring: | | | | | | |
| Within one year | 3,346 | 23 | 3,369 | 3,437 | 51 | 3,488 |
| Between two to five years | 39,198 | 171 | 39,369 | 34,673 | 179 | 34,852 |
| After five years | 37,324 | - | 37,324 | 45,189 | - | 45,189 |
| | <u>79,868</u> | <u>194</u> | <u>80,062</u> | <u>83,299</u> | <u>230</u> | <u>83,529</u> |

21. 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 accounts are prepared.

Copies of the Group financial statements are available from:

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